

detailed definition of the two types of final salary scheme which is done by reference to 15 key points applicable to final pay schemes.

The author believes that thinking about final pay schemes in these ways leads to useful conclusions about such things as how the employer should communicate the schemes to members, accounting for pension costs in company accounts and the issues involved in mergers and take-overs.

## ***THE EXPANDING UNIVERSE***

BY A. J. FROST

*(Synopsis of a paper presented to the Society on 17 February 1987)*

IN February 1987 I led a discussion at a meeting of the Staple Inn Actuarial Society on 'The Expanding Universe'. This was an oblique reference to the Big Bang that had engulfed the City and on which I had written intermittently since late 1985. After referring briefly to the history leading to the changes I wrote some thoughts on the new groupings in the City, the conflicts likely to arise, the changes in practice, the changes to remuneration of the various parties, the technological requirements, and the growing internationalization of the financial market place. On each occasion that I have written, events have occurred afterwards with bewildering speed. In a synopsis such as this (written in July 1987) it would be fruitless to attempt to summarize developments in any detail.

Even now the rule books of the new regulatory bodies such as LAUTRO, IMRO and FIMBRA are being written. These organizations, and their rule books, are the product of a revolution in the financial services market which has been proceeding in parallel with changes to the Stock Exchange. The latter has transmogrified during the past few years in seeking to retain its position on the world financial stage. The consequence of the changes to its own code of practice is manifested in the new conglomerates now scattered across London—no longer just the City of London. A number of players have, however, already withdrawn from gilt and equity market making. Foreign ownership and access to a greater capital base seems to be the end result for a number of traditionally British niche businesses.

One of the new roles to emerge as a result of the legislation has been that of the compliance officer. There has been need of them already. Let us hope the expanding universe of players and products does not produce a steady stream of causes célèbres. Changes in practice have been extensive and no more so than in the gilt market where the basis of issuing stock has been enlarged to include an auction system. Pressures on costs have become apparent in the new groupings as expected which help to explain the scaling down of several operations established within the last year.

For the reader wishing to keep up with events the pages of financial journals will, I am sure, continue to contain the best and worst of the changes wrought over the last few years. The young market-maker of 1987 earning a small fortune and driving a Porsche, the ultimate yuppie, may seem an illusory and transient being. Who knows? Perhaps some of those who started the process of 'deregulation' and liberalization of financial markets were true visionaries. For most of us the pace has been staggering. The objective for us all should be the preservation of standards in order to protect the hard-earned savings or premiums of the millions of policy-holders, unitholders or pension fund members entrusted to our industry.

### ***THE FINANCIAL SERVICES ACT***

BY J. P. BANNON, B.Sc., F.I.A. AND M. D. MOULE, B.Sc., F.I.A.

*(Synopsis of a paper presented to the Society on 17 March, 1987)*

THIS paper discusses the Financial Services Act, 1986 (the Act). The Act has major implications for many within the actuarial profession since it regulates many of the areas with which actuaries have traditionally been concerned.

The Act regulates investment business, including life assurance business. Most of the provisions of the Act are to be brought into force by regulation, by one or more 'Designated Agencies'. In practice there is to be one Designated Agency—the Securities and Investments Board (SIB).

Under the Act no one may carry on investment business unless authorized, or exempted. Authorization will normally be obtained by being a member of a Self Regulatory Organization (SRO) or by being registered as a friendly society or by being an insurance company transacting long-term business. Certain institutions such as the Bank of England and Lloyds are classed as exempt. Company representatives who work for companies already authorized are also classed as exempt.

SRO's include LAUTRO (Life Assurance and Unit Trust Regulatory Organization) covering retail marketing by life companies, friendly societies and unit trusts, and FIMBRA (Financial Intermediaries Managers and Brokers Regulatory Association) covering independent intermediaries giving life insurance and unit trust advice.

In order to obtain authorization from the SIB an SRO must show that its rules and regulations are at least as rigorous as those of the SIB. In particular an SRO's rules must include detailed conduct of business rules.

An important feature of the SIB's policy is polarization. This term refers to the fact that under the SIB rules an authorized person giving investment advice must be *either* an independent intermediary *or* a company representative. An