The Akhtar & Hasan *letter*

No. 88 | **Oct 2009**

The importance of exercise: London's bus drivers had twice the rate of heart disease, compared with bus conductors

The link between physical exercise and heart disease was studied 60 years ago by Jerry Morris, using London Transport data.

In those days, conductors on London's double decker buses were constantly hopping up and down the stairs, issuing tickets from machines they carried. Each ticket required them to set a lever for the fare, and then crank out the ticket. They climbed up or down 500 to 750 steps a day, and turned their wrists thousands of times.

Bus drivers sat in their cabins all the way.

Both came from the same social class. But bus drivers had twice the rate of heart disease.

This research was reported more than 40 years ago in the Journal of the Institute of Actuaries Students' Society. But it surfaced again in the Financial Times of 13 Sep 2009, in a fascinating full page article on Jerry Morris, now aged 99. The article is well worth reading in full.

Financial earthquake of 2008: Samee-ul-Hasan's talk to accountants' conference

On 20 Aug 2009, the Institute of Chartered Accountants of Pakistan (ICAP) held a conference on the subject "Financial Meltdown - Crisis of Governance ?"

Samee-ul-Hasan of Akhtar & Hasan discussed four causes of the financial earthquake of 2008:

(1) High leverage. In future, leverage must be carefully watched. The ICAP should lead the way by developing reporting standards on this.

(2) Faulty management incentive schemes. Incentive schemes should be re-designed.

(3) Business models based on high defaults offset by high returns. Financial institutions should not be allowed to use such models for any class of business, including credit cards.

(4) A major insurer insured lenders against the mortgage default risk. This risk is inherently un-insurable, and the insurer suffered a loss of about US $ 100 billion.

A transcript of his remarks is on our web-site.

1 Oct 2009 was our 34th anniversary

Alhamdulillah, 1 Oct 2009 was the 34th anniversary of the founding of Akhtar, Hasan & Co, which became Akhtar & Hasan (Pvt) Ltd.

"Annual fees on a pension fund of 1.5% a year can reduce its value by nearly 40%"

In Sep 2009, the BBC reported a finding that if a pension fund manager charges fees of 1.5% pa, a pension of £ 16,000 pa would be reduced to £ 9,900 pa, a loss of about 38%. The link to the report is http://news.bbc.co.uk/go/em/fr/-/2/hi/business/8276369.stm

"The report's author - founder of Hermes Equity Ownership Service, David Pitt-Watson - told Radio 4's Money Box what a difference charges could make".

John Lawson, representing one of the UK's biggest pension providers, Standard Life, disputed this. "With our typical pension charge at 0.7%, you would lose about 14% of your fund over a 40 year period". But he said that fees of some other fund managers could go up to 2%.

In the UK, charges can range from 0.3% pa to almost 3% pa. The lowest charges are for index tracker funds, where the asset manager does not actively select which investments to buy or sell, but simply tracks a specified index.

Σ *Akhtar & Hasan (Pvt) Ltd* **Actuaries**
3rd Floor (Annexe), State Life No 1 Building, Chundrigar Road, Karachi 74000, Pakistan
Phones + 92 (0) 21 111-00-00-53 Fax + 92 (0) 21 3241-7810 E-Mail actuaries@akhasan.com
www.akhasan.com

Actively managed funds' total charges, including their management fees, brokerage and other costs, typically range from 2% to 3% pa. If the dividend yield is 5%, charges would consume 40% to 60% of the dividend income.

Highly defective law on investment advisers should be amended

The current law on investment advisers is contained in S. 282A and S.282K(3) of the Companies Ordinance, 1984, and Rule 2 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

It prevents highly qualified financial professionals like Actuaries, Chartered Accountants, Cost and Management Accountants, and Chartered Financial Analysts from giving investment advice, even if incidental to the practice of their profession.

If they do so, they can be sent to prison for 7 years. This is similar to the punishment provided in the Penal Code for harbouring dacoits, fraud under S.420 and other serious offences.

These draconian provisions deprive the public of impartial professional advice on investment policy. They discourage the development of Pakistan's human resource of individuals who acquire investment expertise by study and examination. They inhibit financial journalism.

Only licensed NBFC's with a Paid Up Capital of Rs 30 million or more can provide investment advice. Also, stock-brokers who were providing such services on 15 Nov 2002, and who hold licenses under Rule 5 of the NBFC Rules, 2003, read with S.282C(3) of the Companies Ordinance, 1984, may give investment advice, if they applied to the SECP by 15 May 2003.

Events after 2003 indicate that this law has been somewhat less than outstandingly successful.

Has the 2003 law delivered unbiased professional investment advice to the public?

The Securities and Exchange Ordinance, 1969, was more rational. It permitted certain professionals to give investment advice without registering as investment advisers, provided "such [investment advice] is solely incidental to the practice of his profession".

This was very much in the public interest.

For example, actuaries study the liabilities of insurance companies, and pension, gratuity and other funds. They are uniquely qualified to advise on investment policy. This should be a part of their report. Liabilities and investments must be considered together. The risks and rewards of various classes, like fixed return investments and ordinary shares, must be assessed with regard to the nature of liabilities.

The 1969 Ordinance also wisely permitted "the publisher of any newspaper, news magazine, or other publication of general and regular circulation" to publish articles on investment matters, without registering as an investment adviser. This left room for financial journalism.

The highly defective law of 2003 should be drastically amended.

Wasim A. Rahim becomes an ACMA

We congratulate Wasim on qualifying as an Associate of the Institute of Cost & Management Accountants of Pakistan. He and his colleagues handle the administration of Provident, Pension and Gratuity Funds, out-sourced to us.

KLB: un-informed or mis-informed?

The recent brouhaha in our media on the Kerry-Lugar Bill has probably confused most people. Perhaps Mark Twain was right to say "If you don't read newspapers, you are un-informed. If you do, you are mis-informed."