The Worshipful Company of World Traders

The XXVth annual Tacitus Lecture to be given at Guildhall

By

Mr Terry Smith on 16th February 2012

“Is Occupy right?”

Master, Wardens, Your Excellencies, My Lords, Aldermen, Sheriff, Ladies and Gentlemen, it gives me great pleasure to have been asked to deliver this the 25th Tacitus Lecture to you.

Like Tacitus I am by training a historian. In his "Life of Agricola", Tacitus described "Londinium" as "*a town of highest repute and a busy emporium for trade and traders*", and it is with maintaining that very valuable status that I am concerned in my lecture tonight.

To those of you who know me, the title I have chosen for this lecture must have come as a shock. You may find it unlikely that I would sympathise with the Occupy movement. To declare my position at the outset, I am a supporter of the market economy, small government and I’m a climate change sceptic so I would not really be the obvious profile for this subject.

Even if it were not for those views, taken quite literally I could answer the question which my title poses by saying “How could you know?” It is really very difficult to identify a clear, coherent, unified goal for the protest movements which began to receive wide coverage as Occupy Wall Street occupied New York’s Zuccotti Park on 17th September 2011.

I became well aware of the Occupy protest early in its life because the news and Police helicopters hovered over Zuccotti Park at first light since I have an apartment nearby. So it made certain I was in work early.

And of course, we have our own branch of Occupy in nearby St Paul’s churchyard.

Attempts to analyse the protesters aims, taken literally, seem likely to fail to me. I think I just about understand the point about the ‘99%’ and inequality of wealth, but what is the actual demand behind it? What action do the protesters want as a result? A so-called “Robin Hood” tax? Some of the protests seemed to confuse even this by talk of a “Robin Hood transaction tax”- progressive and/or capital taxation and a financial transaction tax are quite separate subjects and would be likely to achieve equally different objectives.

Apart from this lack of a clear goal it is easy to pour scorn on Occupy as a sort of “Swampy does capital or financial markets”, to focus on the lack of hygiene in some cases or the “champagne socialist” nature of protesters who are busy drinking frappuccinos from Starbucks whilst communicating on their iPads and protesting about inequality.

It is so very very easy to knock.

Easy, but perhaps not right.

One of the things which occurred to me about Occupy in the United States in particular was that it received very similar treatment from the media to that accorded to the Tea Party movement and the Republican Presidential candidate Ron Paul. This struck me as unlikely given they occupy opposing places on the political spectrum of Occupy and Ron Paul and the Tea Party. What could they possibly have in common?

I first became interested in Ron Paul prior to the 2008 presidential election. I took a simple online test - about 20 multiple choice questions about your attitudes to a wide range of topics - welfare, Medicaid, foreign policy, defence, gun control, the Federal budget deficit etc. Then it told you which candidate you were closest to in terms of policy and which you were furthest away from.

No prizes for guessing which I was furthest from, but I was closest to a man I had not even heard of - Ron Paul. Since then he has come in for vilification from the media rather as Occupy has. 'Unelectable' is one of the kinder media descriptions of Ron Paul in the current presidential candidate selection process for the Republican Party. As I was watching the Iowa caucus of the Republican Party in January in my somewhat quieter New York apartment because Occupy Wall Street had been moved on by the forces of law and order, I heard a TV commentator describe Ron Paul as 'mad'. I have not heard this type of reference to any other candidate. Similarly, on listening to the media commentary on the Tea Party movement it would be tempting for the proverbial Man From Mars to conclude that they not Barack Obama were in charge of the executive arm of government and responsible or America's current plight and policies.

It seems to be what Occupy, Ron Paul and the Tea Party all have in common is that they challenge the status quo, what is described as the "accepted wisdom" which is surely an oxymoron. The commentators' approach to Occupy, Ron Paul and the Tea Party are all attempts to play the man, not the ball. Criticising the social background and personal hygiene of Occupy's supporters is an attempt to deflect attention from the fact that they may have a serious point about the way in which financial markets have operated, including the City of London in its widest sense - taking in Canary Wharf and Mayfair and St James where the hedge fund, oil and private equity crowd work.

What are some of those problems?

It is hard to approach this subject without mentioning the ills of the banking system so I may as well start there if I may.

Splitting banks

One of the major points of debate which resulted from the financial crisis has been whether or not retail banking should be split from investment banking.

Governments across the Western world felt the need to save banks from the impact of the credit crisis. I think they correctly judged that not to save major banks which were central to the payment system and the process of credit creation would reduce their economies back to the use of cowry shells. The great problem is that the evolution of banking over the past 25 years

had led to investment and retail banking becoming inextricably intertwined so that it was not possible to save one without saving the other.

This process of convergence of investment and retail banking included the repeal of the Banking Act of 1933 more commonly known as the Glass-Steagall Act by a law signed by Bill Clinton in 1999. This Act was already being largely by-passed and, as a result, banks' investment banking operations have been able to rely upon the implicit and eventually explicit government guarantee of their retail operations in order to secure funding at lower rates for their trading operations than would otherwise be the case. Without this guarantee, most standalone investment banking and trading operations should be rated closer to Triple Z than Triple A. Isn't it a strange coincidence how the Glass-Steagall Act was passed in the aftermath of the Great Crash and Depression - similar events to those we have experienced since 2007 - but we had not had a repeat of such events until after it was repealed?

It is therefore not surprising that there should be calls to split banks retail and investment banking operations as a result of the financial crisis. In the United Sates we have the Volcker Rule, named after former Chairman of the Federal Reserve Paul Volcker, which attempts to proscribe the scope of banks proprietary trading activities. In the UK we have the recommendations of the Vickers Commission on banking which recommended so-called "ring fencing" of banks retail operations from their investment banking activities.

I do not wish to criticise the intentions of either Volcker or Vickers. On the contrary, Paul Volcker strikes me as the extant central banker with the greatest integrity. What I think is that their reforms do not go far enough.

Whenever I have heard the term "ring-fencing" in my career it has always proven to be ineffective as a barrier to prevent disaster. For example:

- In 1987 we were told that TSB was "ring-fenced" from the losses of Hill Samuel which it had agreed to buy before the Stock Market Crash. It wasn't.
- In 1990 we were told that British & Commonwealth was "ring-fenced' from the losses at its computer leasing subsidiary Atlantic Computers. It wasn't and it went bust as a result.
- Then we were told that the Mirror Group Pension Fund was ring-fenced from Robert Maxwell, and we all know the outcome of that.

What is needed is the full separation of retail and investment banking. The Volcker rule is bogged down in the minutiae of the definition of proprietary trading and Vickers is so far off from implementation of even ring fencing that it will have no impact at least for many years. What I would suggest is just simply undo the repeal of Glass-Steagall and introduce the same restrictions on this side of the Atlantic.

I know that the bankers operating in banks which combine retail and investment banking will threaten to leave the UK as a result. But why we should listen to the opinions of people who have got things so disastrously wrong is beyond me. And where will they go? Neither Paris, Frankfurt nor Berlin look very banker friendly to me and neither does New York. It would be very nice if instead of threatening to leave one of them would actually engage in what I will call for the sake of this speech is the intellectual argument on this subject - "I am leaving" strikes me as a playground argument. Can we have a reasoned argument from somebody. In any event, politicians and regulators, and those of you involved in governing our city, should have the courage of their convictions. If, as I

suggest, they conclude that the combination of retail and investment banking has produced nothing but disaster, if banks which wish to conduct themselves in this way choose to leave, good riddance.

Securitisation

On the subject of banking, it is clear that securitisation played a major role in the genesis of the credit crisis.

When I last worked in a bank and you made a loan, both the banker and the borrower were concerned about its servicing and repayment. All of this changed when securitisation was invented. Banks generated loans but these were then on-sold to other banks, hedge funds, fixed income investors, and others. With the advent of the credit derivative market, the bank could still hold the asset on its balance sheet and hedge the risk of default with someone else.

These developments may have originally had a positive impact on the efficiency of banks' balance sheets and loan markets, but as with every financial innovation they were taken to extreme with the advent of structured products in which purchasers of such assets were offered assets which should have been rated as triple Z but which were dressed up as Tripe A by the structure, all disguised in an alphabet soup of acronyms – CDOs, CLOs, CDOs squared etc, etc.

The net result was a disastrous mispricing of risk as banks generated subprime assets that they would never have held themselves but which they knew, as a result of the low interest rate environment, they could on sell in the "dash for trash" that ensued in the low interest rate environment. In a particularly bizarre twist some of the banks who generated and sold these toxic assets also bought some from other banks through their trading operations. In this respect they remind me of the story about the oil man who died and went to the pearly gates:

St Peter reviews his record - he has led a good life - but St Peter informs him that he can't enter Heaven because there are already many oil men in Heaven and God is bored with them, so he must go to Hell. The oilman protests that this is unfair but St Peter is unmoved and points out that God can decide anything he likes. So the oilman asks if this means that most of his deceased friends are in Heaven and whether he might visit them for a drink before he goes to Hell for all eternity. St Peter says he can but there is to be no lingering and he must be back at the pearly gates in an hour ready to descend into Hell. So the oilman sets off and finds the bar where all the oilmen in Heaven meet for a drink and walks in. Immediately his friends all shout greetings and say how good it is that he is joining them in Heaven. "*Actually I'm not*" he says. "*I just came for one drink and I'm not staying because oil has been discovered in Hell*." With that announcement all the other oilmen put down their drinks and stampede off down to Hell. The oilman finishes his drink and strolls back out to the pearly gates. "*Well you're a clever one*" says St Peter. "*You can stay in Heaven now*". "*No thanks*" replies the oilman. "*I think I'll go to Hell still. After all, there might be some truth in the rumour*."

The banks believed their own spiel!

The severance of the link between lender and borrower which existed when I was in banking led to a mispricing of risk with catastrophic consequences. Historically, lenders exercised caution because eventual repayment depended upon the viability of the borrower. Securitisation not only broke this

all-important link. Now, lenders could issue mortgages in the comforting knowledge that, if the borrower failed to meet his commitments, someone else would bear the loss. This distortion of the relationship between lender and borrower led not just to the mispricing but to the *reverse* pricing of risk, such that lending to the riskiest borrowers became a high-returns process because risk could be unloaded. This process ran its wholly predictable course in the subprime disaster.

Securitization should be banned. People should have to hold assets they are responsible for until maturity.

Big Bang

2011 saw the 25th anniversary of Big Bang. In 1986 the way in which shares were traded in the UK changed. In particular, there were no longer any fixed commissions for share trading and brokers and market makers were allowed to combine in so-called dual capacity firms.

To recap for those of you who are under 50, the background to this was that shares had been traded on the London Stock Exchange which was literally a mutually owned private members club. The members were firms - brokers who dealt with investors and who charged commissions for doing so and jobbers or market makers who provided liquidity for dealing and in return took a spread between the buying and selling price - the bid-offer spread.Prior to Big Bang commissions on dealing were fixed: all brokers charged the same rate of commission and did not compete on price. Investors could therefore not shop around and get the best deal. But at least investors were protected in the sense that the brokers' relationship with the jobbers was an adversarial one - the broker would try to get the best price obtainable from the jobber when dealing.

This structure had made London increasingly uncompetitive as a venue for share trading, particularly when compared with New York which had its own version of Big Bang, known as May Day as it happened on 1st May 1975 when it scrapped fixed commissions. Trading in large international company shares had begun to migrate to New York because investors could deal more cheaply there.

The Big Bang reforms were negotiated between Trade Secretary Cecil Parkinson and Sir Nicholas Goodison the then Chairman of the Stock Exchange.

Big Bang not only removed fixed commissions, it also allowed brokers and jobbers to combine. At Big Bang we also went from a world in which:

- People came into work at 9.30am, went for a long, often liquid lunch, and left at 4.30pm to one in which work started at 7.00am and lunch became something you ate at your desk. By the way, there is no evidence that investment returns have been improved by this more Spartan regime.
- Client orders were done by a dealer on the Stock Exchange floor to one where share prices were displayed on screens and dealing required only the click of a mouse, or computer algorithm, as the electronic order book replaced the Stock Exchange floor.
- Firms dealing in shares were mostly partnerships to one in which they were mostly owned by banks.

In my view Big Bang was a colossal mistake. The basic motivation for it was correct. Fixed commissions were a barrier to competition and London was losing out as a centre for share trading as a result. But Parkinson and Goodison made an incorrect assumption. They correctly foresaw that an end to fixed commissions would lead to a radical cut in commission rates. But they went on to reason that this fall in commission rates would render stockbroking unprofitable. As a result they accepted a quid pro quo that brokers should be allowed to combine with jobbers (to use the jargon, they should switch from being single capacity firms which either did broking or jobbing to dual capacity firms which did both).

This assumption ignored a simple law of economics - elasticity of demand. They failed to recognise that the reduction in commissions would lead to an upsurge in the volume of shares traded.

These Big Bang changes also introduced insuperable conflicts of interest. No longer were investors protected by a broker acting as their agent and trying to get them the best price. Instead they were dealing with integrated firms which maximised profits by giving investors the worst deal they could as they were principals on the other side of every transaction. And these were not the only conflicts of interest which arose from Big Bang. Integrated securities businesses also provided Merger & Acquisition advice to companies - formerly the domain of independent merchant banks, as well as providing research on those companies' shares for investors in those shares, trading in those shares as principals and raising equity or lending money to fund the deals. The potential for conflict of interest and for profit at the expense of investors as a result were manifold.

These conflicts are supposedly policed by so-called Chinese Walls which keep these functions separate within banks but the long line of scandals on both sides of the Atlantic in the securities markets over the past two decades show that this has unsurprisingly proven to be ineffective. A regulatory concept like Chinese Walls is no match for greed.

It may seem inconceivable that any of the Big Bang reforms will ever be repealed but until they are I think we will be condemned to suffer the sort of mistakes, malpractice and calamities which helped to cause the current financial crisis.

The Bonus Culture

We are told that the bonus culture was one of the factors which contributed to the financial crisis. The "poster child" for this is the bank trader who gets paid a cash bonus which takes little or no account of the amount of the institution's capital which is put at risk and has the amount determined by either a "mark to model" calculation, rather than on a "marked to market" basis, for which he or his cronies supply the key inputs, and/or an upfront cash bonus for a position which matures over years if not decades.

I think it is true that bonuses have long since ceased to align the interests of employees and shareholders, if they ever did, as the downside risks are not evenly shared.

However, what I disagree with is that the reform of this situation is a matter for government, legislation or regulation. It is a matter for shareholders or owners. Tacitus, the inspiration for these lectures, also had something relevant to say about this: "*The more corrupt the state, the more numerous the laws*". If he had lived in the 21st Century he would no doubt have added the word

"regulate". To attempt to regulate remuneration as the FSA has through the Remuneration Code is certain to produce unpleasant and unintended consequences.

The regulatory bias against a large proportion of remuneration being variable i.e. bonus has simply led many banks and other institutions to raise their basic pay levels in order to remain competitive. It is worth bearing in mind that the FSA's remuneration Code does not apply to anywhere other than London. These organisations are competing in other cities with other organisations which are not subject to these rules, and that they have to accommodate that in a competitive market. It has also led to the point now where banks that are attempting to downsize their operations have got higher fixed costs that they have to deal with. There is nothing wrong with a very large proportion, preferable all, of people's remuneration being variable so long as it's variable on something which it is right to vary on such as the realised cash profits of the organisation after taking account of the risk of capital that was being taken on. It is the one protection you have got against cyclical downturns. It illustrates why Ronald Reagan said that the most frightening words in the English language are "I'm from the government and I'm here to help".

It is a matter for the owners of a business to decide how and how much their staff should be paid. The political interference in the bonus for Mr Stephen Hester as CEO of the Royal Bank of Scotland is particularly reprehensible. Mr Hester was forced by political pressure to forego a bonus which was part of the contractual package which he agreed when he took the CEO role and Royal Bank was already government controlled. No one with any ability and in their right mind would now take on such a job in the future and we need them to.

Nor do I have any sympathy for those institutional investors and proxy voting agencies whom I suspect are trying to make a political or social engineering point and who are fixated not on how people are paid but on how much bankers, or traders or executives are paid. On one occasion one of these institutions which shall remain nameless but which manages pensions for those in the educational sector admitted that they had voted against my company's remuneration report without having read it - in other words on purely doctrinaire grounds. This is not an exercise of fiduciary duty - it is abusing pensioners' assets for political aims.

As an investor I have no interest in how much a manager is paid but I have a great deal of interest in how that pay is calculated so that I can be assured that he or she is motivated to behave in ways which are aligned with my interests.

Fund management and performance fees

Whilst I am on the subject of pay, I cannot allow this opportunity to pass without saying something about fees in fund management. There are several points I would like to make:

1. Leaving aside the fact that the hedge fund industry has largely failed to deliver on the promise suggested by its name or its alternative of "absolute return" funds, there can be no justification for the fee structure adopted by the majority of the industry - the infamous two and twenty - 2% of assets under management and 20% of any gains. If any of you think that this fee structure helps to align the interests of investors and fund managers, I suggest you give me the cash you have on you. On my way home, I will drop into the casino and play blackjack and send you 80% of any winnings. If there are any.

The example which I use to illustrate the inequity of these fees is Berkshire Hathaway, Warren Buffett's investment vehicle. If you had invested $1,000 in Berkshire's shares in June 1965 when Warren took control and held onto them you would have enjoyed one of if not the greatest investment performance of all time. Your stake would have compounded in value by over 20% p.a. Your stake would now be worth some $4.4m.

But what if instead of being a co-investor Warren was a hedge fund manager who charged two and twenty? Of that $4.4m, $4m would belong to him and just $400,000 would belong to you. This cannot ever be considered a reasonable division of the gains, especially since the manager has risked no capital.

In short, "hedge fund" no longer defines an asset class or an investment strategy. It merely describes a fee structure, and an unsupportable one at that.

2. I cannot mention the hedge fund industry without a word about its cousin: private equity. Again I intend to leave aside the fact that some studies show that private equity funds have generally underperformed quoted equity markets, especially if equivalent leverage is applied, and simply observe that fees in the private equity industry have had a marked similarity to those in the hedge fund sector with two percent of assets and twenty percent of gains being the common structure until recently. The same criticism can be levelled against this as against hedge fund fee structures in terms of its failure to align interests and relieving investors of too much of the returns, but the private equity sector has added an extra twist. Private equity funds convinced investors to measure returns from the moment the fund invests in an investee company until it exits. What's wrong with that? Typically an investor has to make a commitment to a private equity fund often for periods of ten years, and for the funds to fulfil those commitments they have to be held in liquid assets ready to be called, but the returns are not measured including the low returns in this waiting period. If anyone thinks this is fair, they can subscribe cash to my fund and we will only measure returns from when I choose to invest it in some shares. This is clearly overstates the returns which investors can obtain from the funds they allocate to private equity funds.

3. Disclosure of fees: Mutual funds regulated in the UK are required to disclose their TER or Total Expense Ratio. The trouble is that this is more than a little misleadingly named. It includes the annual management charge and the administration costs but commonly excludes the cost of dealing including stamp duty. To compound this problem, FSA statistics show that on average, UK mutual fund managers turn over their portfolio 80-90% p.a. Leaving aside the question of whether any positive performance is gained from this frenetic activity, if these dealing costs are included it would roughly double the charges applied to the fund. The approach of the fund management industry in disclosing fees is close to that of well-known discount airlines which quote a "come on" price for a ticket which excludes items most of us would regard as essentials like luggage or involves arriving nowhere in the vicinity of your named destination with the extra time and ground transportation costs that involves. What is needed is consistent and mandatory disclosure of all costs applied in running a fund to enable investors to make a valid comparison.

4. Platforms: Recent years have seen fund platforms become the dominant distributors in UK retail fund management. Investors use these platforms for ease of administration - holding all their funds in a single place for example and making it easier to switch between funds - not that there is any evidence that this makes a positive contribution to their returns. Many investors are under the mistaken impression that using a platform enables them to get a better deal on fees from the fund manager. If so, this would be a rare or even possibly a unique example in life in which adding an extra layer of intermediation between a customer and a product provider reduces costs rather than adding to them.
   Fund management fees are too high in the UK. One of the reasons is the advent of fund platforms. The platforms get their revenue from trail fees paid from a proportion of the funds' management fees. They therefore have a vested interest in management fees remaining high enough to pay their trail fees. The need to pay these trail fees means that fund managers have to charge enough to cover their own costs and profit margins plus the trail fees to the platforms. The UK's leading fund platform is sometimes referred to as the Tesco of the UK fund management industry, but it has operating profit margins of 60%. Tesco's margins are under 8%. The platforms are adding to costs not reducing them.

   For those who are arithmetically challenged, 60% margins imply the following structure:

Revenue	100
Costs	40
Profit	60

   In other words, the platform could halve its charges to investors and still make a 20% profit margin:

Revenue	50
Costs	40
Profit	10

   Major businesses like Nestle and Procter & Gamble, the world's leading consumer goods companies, would die for 20% margins so something is plainly wrong here just as it is in exchanges with 50-70% margins - in their case because they are mostly demutualised monopolies.

   In its last set of results the UK's leading funds platform stated "*We will continue to promote our view that "bundled" models have value for retail investors".* This is almost funny. Almost but not quite.

   The payment of trail fees also introduces an insuperable conflict of interest. Will a platform carry a fund which does not pay trail fees, or sufficient trail fees, no matter how good its performance? The answer is of course not.

   This problem is supposed to be solved by the forthcoming Retail Distribution Review or RDR by the FSA, although I remain wary because of those words of Ronald Reagan's which I quoted earlier. To be effective, RDR would need to ban the payment of all trail fees, with the

platforms being paid by charging investors for administration and advice. Any bending of that principle would leave in place conflicts of interest which will serve investors badly.

The EU

I thought I would finish by saying something about the EU, the Eurozone and the City of London, and the UK's financial services industry. Let me start by observing that the predictions of the Europhile doomsters who predicted that the City and indeed swathes of British industry would be marginalized if the UK did not join the Euro have proven to be comprehensively wrong. Why we continue to listen to these false prophets is beyond me, yet at every twist and turn in the Eurozone crisis they are wheeled out to comment. We should have no more regard for their views than we would for an investment adviser who constantly lost you money.

The Eurozone crisis has revealed a great deal about the EU's attitude to the financial services industry in general and the UK, the "City" and money and capital markets in particular. We have seen the Eurozone governments ban naked short selling in the form of credit insurance on Eurozone bonds. When this did not produce the desired result, and the desired result by the way was to enable them to continue to borrow the amount of money that they wanted for their social engineering experiments at a rate they deemed capable of servicing, their move then was to move on to ban short selling even by those who owned the bonds. There has even been a proposal to ban selling. Eurozone politicians have railed against the markets which have closed to many Eurozone banks and governments perhaps most distinctly in the case of Francois Hollande French Socialist challenger who said: "*My true adversary does not have a name face or party. He never puts forward his candidacy but nevertheless, he governs. My true adversary is the world of finance.*" Monsieur Hollande is right - the market is his enemy, which is why it should be our friend.

There are also the EU proposals for the introduction of a financial transaction tax or so-called Tobin Tax.

Proponents of such a transaction tax, which include Occupy, might care to bear in mind a few points:

1) James Tobin may have won a Nobel Prize for Economics but it was for his Q Ratio - the relationship of market value to replacement cost - not for the transaction tax idea;

2) When such a tax was tried in Sweden, some 60% of trading in Swedish securities left Sweden and the tax raised one thirtieth of the amount estimated; and

3) Like so many government actions such as the Remuneration Code, it is likely to be ineffective at best and cause unintended and adverse consequences at worst unless it is widely adopted internationally and by that I mean beyond Europe.

But the very proposal for a tax and the other measures and proposals which have emanated from the EU during the crisis show you that the EU both envies the UK in having the City of London and it also fears the free markets in money and capital which operate from here. That the EU should envy

the City of London is easy to see given the source of employment and tax revenues which it provides. But they would like to see it shifted to Frankfurt and Paris not only for those revenues, but also so that they could control it more easily. The free markets in the City are feared because they are the last thing which holds politicians to account as they need an outside source of funds. At the beginning of the Clinton administration in the early 1990s, adviser James Carville was stunned at the power the bond market had over the government. Carville said: *"I used to think if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter.* [He wanted to come back as someone powerful.] *But now I want to come back as the bond market. You can intimidate everybody.*"

The people of Greece and Italy can no longer hold their politicians to account. But the markets can and we need to keep them free. Last week Lucas Papademos, the unelected so-called "technocrat" imposed on the Greek people commenting on the riots which greeted the austerity package accepted as part of the latest bailout said without any hint of irony: "*Vandalism, violence and destruction have no place in a democratic country and won't be tolerated*". It seems not to have occurred to him that in a democracy, leaders are elected.

So is Occupy right?

Returning to the central question with which I started "Is Occupy right?", yes in the sense that there is much which is wrong with the functioning of financial markets and they require radical reform if they are to be fit for purpose once again.

But Occupy is wrong insofar as we need markets which are more not less free. It was the interference with free markets by policies aimed at preventing the business and financial cycle from taking their natural course which stored up the problems which have led to this crisis. We need to allow the creative destruction of capitalism to take its course and wash the beach clean whether it is with failing airlines, or car companies, or banks, or even governments.

Finally Occupy is wrong to blame "bankers" for this crisis. There is no shortage of stupid and greedy bankers, and traders and brokers to blame but what they did was simply supply the means for us all individually and collectively as governments to live beyond our means. Blaming them will not solve our problems.

"We" are all to blame. And we all have a responsibility to put this right.

Terry Smith MNZM

Chief Executive, Tullett Prebon PLC

Chief Executive, Fundsmith LLP