TRUSTING

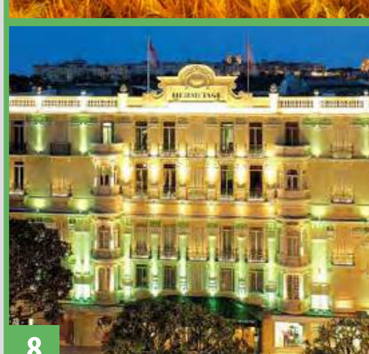
The Independent Financial Advisor

CIFA

www.cifango.org

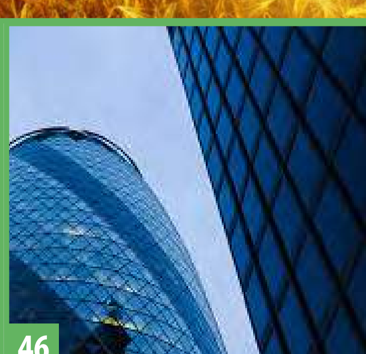
€35 – N°5 – January/June 2014

The new paradigm for Wealth Managers



8

CIFA's Forum in Monaco
April 23-25, 2014



46

The UK advice market:
still in transition

56

KYC and AML
Adapt or Disappear

74

ETFs: Reality vs Theory
in Singapore?

TRUSTING

The Independent Financial Advisor

Owner & Publisher

CIFA Foundation
Rue du Vieux Collège 3
P.O. Box 3255
CH - 1211 GENEVA 3
Switzerland
Tel: +41 22 317 11 11
Fax: +41 22 317 11 77
www.cifango.org

Editorial Board

Pierre Christodoulidis, CIFA's Executive President
Vincent J. Derudder, FECIF's Chairman
Leong Sze Hian, Former President of Society of Financial Service Professionals
Zoltan Luttenberger, PhD - RFPH**,** Zoltan Luttenberger SMLLC
Stephen B. Young, Caux Round Table

Editor in Chief

Cosima F. Barone
FINARC SA - www.finarc.ch

Contributors to this issue

S.E. Nassir Abdulaziz Al-Nasser
Cosima F. Barone
David Charlet
Pierre Christodoulidis
Vincent J. Derudder
Jean-Pierre Diserens
Vania Franceschelli
Daphne Foulkes
Germán Guevara
Diane Jacobs
Michael Lodhi
Zoltan Luttenberger PhD
Innes Miller
Axel Rason
Paul Resnik
Matthieu Ricard
Gilles-Guy de Sallins
Daniel Shillito
Leong Sze Hian
Aldo Varenna
Stephen B. Young

Photos & Images

www.fotolia.com
www.gettyimages.com
www.cifango.org

Distribution

Franco Rossi, www.privatebanking.com

CIFA's Partner Federations & Associations

70 across the globe, listed on page 95

Realized in Cooperation with

Caux Round Table
FECIF
GSCGI-SAIFA
Private Banking

CONVENTION OF INDEPENDENT FINANCIAL ADVISORS
A Non-Profit Foundation

A Non-Governmental Organization in special consultative status with the Economic and Social Council of the United Nations

GROUPEMENT SUISSE DES CONSEILS EN GESTION INDÉPENDANTS, G.S.C.G.I.

SCHWEIZERISCHE VEREINIGUNG UNABHÄNGIGER FINANZBERATER, S.V.U.F.

ASSOCIAZIONE SVIZZERA DEI CONSULENTI FINANZIARI INDIPENDENTI, A.S.C.F.I.

SWISS ASSOCIATION OF INDEPENDENT FINANCIAL ADVISORS, S.A.I.F.A.

CIFA INITIAL CONTRIBUTOR

Fédération Européenne des Conseils et Intermédiaires Financiers

Moral Capitalism *at Work*

TRUSTING
The Independent Financial Advisor
CI FA
www.cifango.org
N°5 – January/June 2014
The new paradigm for Wealth Managers
8
46
56
76
CIFA's Forum in Monaco April 23-25, 2014
The UK advice market: still in transition
KYC and AML Adapt or Disappear
ETFs: Reality vs Theory in Singapore?

CIFA INITIAL CONTRIBUTOR

A GROUP OF SWISS IFAs

... CARING ABOUT PRINCIPLED PROFESSIONALISM

AND

UNBIASED DEDICATION TO CUSTOMERS' NEEDS ...

Groupement Suisse des Conseils en Gestion Indépendants
www.gscgi.ch

3, rue du Vieux-Collège
P.O. Box 3255
1211 Geneva 3
Tel. +41 (0) 22 317 11 22
Fax +41 (0) 22 317 11 77
secretariat@gscgi.ch — wealthgram@gscgi.ch

***

All you need to know about investing and regulatory environment brought to you monthly by...

"The IFA's WEALTH GRAM"

La Morale appelle la Raison à son secours

L'homme se bat sans cesse contre les phénomènes qu'il ne peut dominer, et surtout contre le hasard. Il a développé, et continue à le faire sans relâche, des systèmes de plus en plus complexes pour prévoir un maximum d'événements en vue de réduire au minimum les effets de telles catastrophes. Curieusement, il paraît, malgré les capacités de simulation offertes par l'informatique, encore incapable de prévoir les crises économiques et financières.

Dans cette attitude obsessionnelle, notamment dans les domaines sécuritaires, nous subissons des surveillances multiples et diverses de tous et de tout. Des masses énormes de données sont surveillées, suivies, analysées par certaines agences d'Etat à notre insu.

A travers cet amalgame de peurs, une grande partie de nos libertés sont sacrifiées à l'autel d'un danger sécuritaire. Cet abus de nos valeurs est étroitement lié à l'échelle du bon ou du mauvais, découlant de nos traditions culturelles développées par les philosophies du XVIII^{ème} siècle qui ont tenté de dominer la peur par la raison.

Malheureusement, si l'intention peut paraître louable, voire justifiée dans certains cas, cette nouvelle tendance de surveillance à outrance de tous nos faits et gestes mène à des dérives et à une violation déguisée de la sphère privée et des libertés de l'individu. Ainsi, c'est au nom d'une bonne cause qu'on utilise à mauvais escient les moyens mis en commun par le citoyen, et ce contre ce dernier.

Nous constatons que nos pays, dits démocratiques et respectueux des libertés individuelles, principes que nos politiques martèlent à longueur d'année, se muent en états dictatoriaux, s'arrogeant le droit de surveiller et d'espionner non seulement leur citoyens, mais aussi un nombre infini d'individus extérieurs à leur espace national.

Pourtant le degré d'éducation dans nos pays économiquement avancés devrait faire référence à l'idée de «***common decency***», du code moral minimal mis en exergue par George Orwell. Cette décence minimale qu'on pourrait qualifier d'«***honnêteté élémentaire***» qui est à la source de la norme dominante et qui, codifiée, aboutit à la loi, est mise en danger par l'Etat lui-même.

La tentation d'utiliser de manière abusive les informations recueillies est trop grande pour l'ignorer. Nous aboutissons à une contradiction entre les principes démocratiques et les actes d'intrusion et de violation de ces mêmes libertés tant louées.

Il va sans dire que l'Etat doit assurer la sécurité et le bien-être du citoyen, c'est même son rôle principal. Mais de là à abuser de ce pouvoir délégué par le citoyen à ses dirigeants pour ensuite retourner les informations recueillies contre ce même citoyen, mène à une absurdité politique. Les régimes dictatoriaux, trop heureux, saisissent l'opportunité de se moquer de nos institutions et vont même jusqu'à justifier leurs méthodes, accusant nos régimes démocratiques d'hypocrisie.

"Le bien et le mal doivent leur origine à l'abus de quelques erreurs"

a dit Aristote il y a déjà 2400 ans.

Par une acrobatie intellectuelle, nos politiques agissent de manière cynique, essayant de camoufler leurs actes inconciliables avec les fondements de notre système qu'ils prônent et essaient de nous vendre le bien-fondé de leur comportement répréhensible. Et qu'ont-ils choisi comme prétexte pour se justifier, la soi-disant soustraction d'impôts par les citoyens, assimilant celle-ci à un délit criminel, d'une gravité égale au trafic de drogue ou autre crime organisé. Des pays tels les Etats-Unis, grands défenseurs des principes de liberté individuelle, continuent à être les plus grands blanchisseurs ***«d'argent criminel»*** du monde, sans parler des dizaines de millions de trusts qui permettent en toute quiétude à leurs détenteurs de dissimuler des centaines de milliards de dollars dans leurs juridictions bienveillantes. Mais que voulez-vous, il faut trouver un bouc émissaire, dans le cas présent la Suisse, pour s'approprier les économies de la classe moyenne, inquiète de voir les caisses de l'Etat vides.

"***Le bien et le mal doivent leur origine à l'abus de quelques erreurs***" ...a dit Aristote il y a déjà 2400 ans. Nos politiques feraient bien de méditer sur cette maxime. ■

Pierre Christodoulidis
CIFA's Président

CONVENTION OF INDEPENDENT FINANCIAL ADVISORS
A Non-Profit Foundation
A Non-Governmental Organization in special consultative status with the Economic and Social Council of the United Nations

PRELIMINARY PROGRAM
XII^TH INTERNATIONAL CIFA FORUM
MONACO, 23-25 APRIL 2014

THE NEW PARADIGM FOR WEALTH MANAGERS

Freedom, regulation, transparency, taxes, rule of law, expropriation, privacy and much more!

Wednesday 23 April

15:00 Opening Ceremony

16:00 ECOSOC Roundtable with UN High representatives and the Civil Society:

Addressing ongoing and emerging challenges for meeting the Millennium Development Goals in 2015 and for sustaining development gains in the future.

Moderator: Hanifa D. Mezoui, Ph.D., Senior Advisor, Humanitarian Affairs and Civil Society, Office of the United Nations High Representative for the Alliance of Civilizations, New York

Confirmed Speakers:

Me François Loriot, President Bar Association for Inter-Governmental Organizations and Vice-President AIFOMD (UN-MDG training)

Ruth Engo Bamela, President, African Action on AIDS (AAA)

Pamela Bernabei, Secretary General, International Ontopsychology Association

Andrei Abramov, Chief, DESA NGO Branch

Steve Young, Global Executive Director, Caux Round Table, St. Paul, Minnesota, USA

17:30 Protection of the private sphere, fight against terrorism and internet surveillance: how to reconcile these priorities?

• Fight against terrorism / does the endeavor towards security require the total destruction of the private sphere, public freedom and economic liberties?

• Is the protection of the private sphere compatible with internet?

• Uncertainties over the ownership of data on the internet: consumer/individual ownership or bank/corporation ownership?

Moderator:

Pierre Christodoulidis, President, CIFA, Geneva, Switzerland

Confirmed Speakers:

Hans Geiger, Dr. oec. publ., Prof. Emeritus University of Zurich, Switzerland

Raegan MacDonald, Senior Policy Analyst, Access, Brussels, Belgium

Daniel Cooper, Partner, Covington & Burling, London, UK

18:15 End of the first day

19:30 Cocktail

Thursday 24 April

8.55 Welcome address by the Day Chairman

Myret Zaki, Deputy Editor in Chief, Bilan Magazine, Geneva, Switzerland

9:00 THEME 1

World growth: After the Crisis, the Recovery? Is the liquidity created by central banks sufficient to create growth?

• How sustainable is the recovery in the U.S. and Japan?
• How serious are deflation risks in the Euro zone?
• Can emerging markets save the world economy?
• The new engines for growth:
  – NBIC : Nano Bio Information Communication
  – Green growth
  – Sustainable economy
  – From "Baby boom" to "Grandpa boom"
  – After the BRICs, Africa?

Confirmed Speakers:

Michel Girardin, Founder of MacroGuide, Professor at the University of Lausanne and Geneva, Switzerland

Olivier Ferrari, Founder and CEO, CONINCO Explorers in finance SA, Vevey, Switzerland

10:30 Coffee Break

11:00 THEME 2

SME financing and large enterprises: What challenges and innovative solutions for the future?

Confirmed Speakers:

Steve Young, Global Executive Director, Caux Round Table, St. Paul, Minnesota, USA

Jean Rognetta, President, PME Finance, Paris, France

12:30 Networking Lunch

14:00 Luxembourg for Finance

www.cifango.org

CI FA CONVENTION OF INDEPENDENT FINANCIAL ADVISORS
A Non-Profit Foundation
A Non-Governmental Organization in special consultative status with the Economic and Social Council of the United Nations

PRELIMINARY PROGRAM
XIITH INTERNATIONAL CIFA FORUM
MONACO, 23-25 APRIL 2014

15:00 THEME 3

Liberal economy and taxes: two incompatible notions?

• What lies behind the fight against tax evasion? What are the real (non-fiscal) issues of the fight against tax havens and tax fraud (controls of capital movements, infringements on private/economic liberties and to the private sphere, US attempts to control the management of offshore funds in the US, competition with other financial centers such as Switzerland, double standard policies)

• Is a worldwide fiscal state compatible with the preservation of the economic liberties of the investor and the individual saver?

• Global economies and national taxes: what would be the principles for fair and efficient tax regimes / incentives for work income (risk based approach), capital, and its revenues?

Confirmed Speakers:

Daniel Mitchell, Senior Fellow, Cato Institute, Washington, USA

William K. Black, Member of the Advisory Board, Associate Professor of Economics and Law, University of Missouri, Kansas City, USA

Vincent Bénard, Former president of the Hayek Institute in Brussels, Senior Analyst at the Turgot Institute, Paris, France

Lord Daniel Brennan, Co-chairman the advisory board of the Washington-based think-tank Global Financial Integrity, Bar representative on the Council of the International Bar Association

16:30 Coffee Break

17:00 THEME 4

Real economy and « financialized » economy: which one is the right model?

• Globalization or de-globalization?

• Growth or negative growth?

• Financial engine failure of the bank credit: what are the alternatives to continue financing the real economy?

Confirmed Speakers:

Leong Sze Hian, Past President, Society of Financial Service Professionals, Singapore

Louise C. Bennetts, Associate Director of Financial Regulation Studies, Cato Institute, Washington, D.C., USA

Roger Nightingale, Economist, RDN Associates Ltd, London, UK

Gretchen Morgenson, Assistant business and financial editor, The New York Times, USA

Lenore Elle Hawkins, MBA, Partner, Meritas Advisors, San Diego, USA

18:30 End of the second day

20.00 Patrons' Dinner at the Hotel Hermitage by invitation only (Black tie suggested)

Friday 25 April - Association Day

9:45 Day's chairmen Welcome Address

Vincent Derudder, President of FECIF

Zoltan Luttenberger PhD

10:00 The six historical forms of liberalism

Confirmed Speaker: Philippe Poirier, Associated Professor (Political Science), Team leader (political studies) of the Luxembourg Parliament, Luxembourg

10:30 New Trends in Financial Advise.

• FLP Financial Life Planning: What makes the difference?

• Cross Border Planning - a challenge?

Confirmed Speakers:

Shawn Brayman, FPA (US) Board member, President of Planplus Inc., Canada

Michael Lodhi, Chairman, The Spectrum IFA Group, Luxembourg

Thomas Abel CFP, President, NFPB Network Financial Planners, Germany

Marta Gellova, FECIF Board Member, Czech Republic

11:20 Links between Corruption and Organized Crime

Confirmed Speaker: Gilles Duteil, Director of CETFI, Aix-Marseille University, Aix-en-Provence, France

12:00 Coffee break

12:20 The World after Commissions - From Sales to Advice

Confirmed Speakers:

Daniel Nicolaes, Chairman, BzB, Belgium

Martin Klein, CEO, VOTUM, Germany

David Charlet, Chairman, ANACOFI, France

Vania Franceschelli, Responsible Foreign Affaires, ANASF, Italy

Aldo Varenna, FECIF Board Member, Italy

13:10 The Suitability and Fiduciary standards

Confirmed Speakers:

Paul Resnik, Co-Founder, FinaMetrica, Australia

Tobias Maag CFP, Board member, FPSB, Brazil

Tony Mahabir, Chair, CIFPs, Canada

Robert van Beek, Chair, FPA Belgium, Board member, FPSB Netherlands

Susan Jordan BSc, Director, PBP, England

14:00 End of the Forum

www.cifango.org

C I F A CONVENTION OF INDEPENDENT FINANCIAL ADVISORS
A Non-Profit Foundation
A Non-Governmental Organization in special consultative status with the Economic and Social Council of the United Nations

REGISTRATION FORM
XIITH INTERNATIONAL CIFA FORUM
MONACO, 23-25 APRIL 2014

INFORMATION AND REGISTRATION

CIFA (Convention of Independent Financial Advisors)
Rue du Vieux-Collège 3
P.O. Box 3255, 1211 Geneva 3
Tel: +33 9 82 46 34 66
Fax: +41 22 786 34 35
Mob: +33 6 80 65 95 23
Email: alaugier@cifango.org
www.cifango.org

REGISTRATION POLICY AND PAYMENT

When your registration form is received, your credit card will be charged for your registration fees and an invoice will be sent to you by Aurore Laugier EURL, in charge of the management of the CIFA Forum. Substitutions within the same company are accepted with CIFA's agreement.

FEES (VAT INCLUDED)

Forum 23-24-25 April	1,500 €
Forum 23 & 24 April	1,200 €
Forum 25 April	300 €

Active members of partner associations: 50% discount

The donors dinner of April 24th will be reserved for the donors and their guests.

REFUND POLICY

A cancellation fee of 50 % of the invoiced amount applies for all cancellations. No refunds for any cancellation received after 31 March 2014.

HOTEL RESERVATIONS

CIFA has arranged for group rate bookings of rooms at preferential prices.

CONGRESS' DATES AND VENUE

Wednesday 23, Thursday 24
and Friday 25 April 2014
Hôtel Hermitage, Square Beaumarchais
98000 Monaco
Tel : + 377 98 06 40 00

CIFA reserves the right to change the programme or the hotel reservation if, despite their best efforts, circumstances force them to do so.

Are you an active member of one of CIFA's partner associations? ☐ Yes ☐ No

If yes, which one? ____________________

Last name ____________________ First name ____________________

Function ____________________ Company ____________________

Address ____________________

Postal Code ____________ City ____________ Country ____________

Tel. ____________ Fax ____________ E-mail ____________

Date ____________ Signature ____________

YES I wish to register for the XIIth International Forum of the Convention of Independent Financial Advisors (CIFA) and I choose:

☐ Forum 23-24-25 April ☐ Forum 23 & 24 April ☐ Forum 25 April

ACCOMMODATION

Hôtel Hermitage

Room Classic Single breakfast included per night	230 €
Room Classic Double breakfast included per night	255 €
Suites (price communicated on request)	

To make your hotel reservation at the Hôtel Hermitage, please click the link below:

http://cifa2014.resa.sbm.mc

After 23 March 2014, reservations will be made subject to availability and current prices.
After 23 March 2014, it will not be possible to cancel your reservation.

☐ I do not need a Hotel reservation.

PAYMENT

Your credit card number and expiration date must be given as a warrantee of payment.

I wish to pay by: ☐ Credit card ☐ Bank Transfer

Credit card payments will be debited immediately upon receipt of card details.

PAYMENT BY CREDIT CARD

☐ Mastercard ☐ VISA ☐ AMEX

Card No ____________________ Expiry Date ____________

Name of card holder ____________________

Address of AMEX card holder ____________________

www.cifango.org

Can the World Financial System be Reformed?

Monaco, April 24-26, 2013

CIFA FORUM 2013

One can never assume that, having attended once a CIFA Forum, he/she has seen them all! Every year, CIFA has the ability to surprise with (a) the accurate selection of topics to be debated during the event, (b) the distinctive selection of speakers, and (c) the creative angle from which the world of finance should best approach suggested solutions to the problems that it is either currently facing or about to face.

Transcript of the INFERENTIAL FOCUS #223 article as of May 27, 2013. Author: Cosima F. BARONE www.finarc.ch

Again this year, CIFA – ***Convention of Independent Financial Advisors*** -- gathered in Monaco *(April 24-26)* for its XIth International Forum around the major question: ***Can the World Financial System be Reformed?*** The title alone infers that: (a) the world financial system needs major care, and (b) questions the very feasibility of the most needed reforms, provided that they are correctly identified. Confident that the eminent speakers invited to this year's Forum would provide effective insights to guide the world's future, CIFA aligned a vast and ambitious program, therefore, offered to participants. CIFA has been consistent throughout the years, since its foundation over a decade ago in Geneva, in identifying the problems bugging the world of finance and in attempting courageously to find solutions.

Pierre Christodoulidis

CIFA's
Executive Committee
President

In his opening speech of the 2013 three-day conference, CIFA's President Mr. Pierre Christodoulidis, began by drawing the audience's attention to the fact that CIFA had asked all the right questions since its inception in 2003.

A glance at the Forums' main topics -- *the most recent are shown in the top-right picture* -- fully highlights that the crises eroding the global financial system have been around for quite some time. After focusing in 2003 on **"What Challenges for Independent Financial Advisers"**, CIFA's Forum went on with provocative topics, such as **"Let's provoke a dialogue with the regulators"** in 2005, **"Investor's freedom or consumer's protection?"** in 2008, **"Financial Bubbles and Regulatory Bubbles"** in 2010 during the annual event held in Madrid, Spain, and this year's again very challenging question **"Can the World Financial System be Reformed?"** in Monaco -- *more information on www.cifango.org.* Through the years, CIFA Forums were held in Geneva *(2003 through 2007)*, Prague *(2008)*, Paris *(2009)*, Madrid *(2010)* and Monaco since 2011 to present.

For readers not familiar with CIFA, here is some basic information.

CIFA, a non-profit Swiss foundation, was setup in Geneva, Switzerland, in December 2001, aiming to become the ideal contact point for financial advisors and wealth managers, as well as legislators and regulators. With individual investors' needs in mind, CIFA chose to focus on enhancing the basic status *(the very foundations of their independent businesses)* of IFAs around the globe, by promoting the highest professional standards, best-practice rules and ethical rules. These specific goals have been pursued relentlessly by CIFA, which has the highly impressive ability to approach them from several interesting angles through the intelligent selection of renowned international speakers. Each year, I have been pleasantly surprised by the appropriateness of topics discussed, the excellence of presentations and relative roundtable discussions.

By 2007, CIFA had already become an NGO *(non-governmental-organization)* in special consultative status with UN's ECOSOC, the United Nations' Economic and Social Council.

A year later, in 2008, **"THE CHARTER OF INVESTORS' RIGHTS"** *(www.cifango.org)*, developed under the supervision of UN's ECOSOC, was introduced during the CIFA's VI^th^ Forum held in Prague, The Czech Republic.

This was the first time, to my knowledge, that anyone around the globe focused on the basic rights of investors! Having been around the financial industry for over four decades, I observed through various cycles how the industry morphed without ever taking into serious consideration the

"individual investor". Isn't the individual investor who provides the very basis for finance? How could a stock market, a bank, etc., ever exist "without" the individual investor?

Nowadays and for too long, modern finance gives a disproportionate importance to algorithm-based trading platforms. Blue-suited engineers have built a world of "computers trading with computers", where there is no room for the individual investor.

But, guess what?

At some point, even the most sophisticated algorithms are bound to fail if the individual investors are not there, with their daily trading activities, to provide the indispensable background for the sophisticated trading strategies to be effectively implemented in order to deliver the projected returns on investment.

Going back to the April 2013 Forum, CIFA's President Mr. Pierre Christodoulidis underlined how chronic financial crises of recent years did not truly just appear on the horizon on a specific time. Signs were evident well before! CIFA has relentlessly alerted investors and regulators of what was coming.

All these crises -- *namely LTCM, dotcom bubble, Enron, subprimes, Madoff, Libor* -- resulted in great losses in the range of thousand billion Dollars across the globe, high unemployment and, finally, governments suffering the pain of uncontrollable public debt. Regulators, always invited to attend CIFA's events, have not been able to spot these crises on time and even less to stop the resulting destructive trends.

Unfortunately, the world of finance has embarked in strategies which deeply damage the "trust" of people. Worse, government debt in most nations has run through the roof, so heavy was the effort to "bail" banks across the globe during the 2008 crisis.

Finance seems to be in command nowadays, not the people, not governments. It's time, therefore, to quit individualism and to embrace moral behavior instead! And, finance must be at the service of the economy and of the people, not the other way around! This is what CIFA defends!

U.N. and Monaco's officials expressed similar concerns. H.E. Nestor Osorio, President of ECOSOC, although mentioning the devastating effects of the 2008 crisis on the world economy, especially in emerging countries, more specifically looked forward to "innovation through science", that should be widely adopted in order to achieve soundly competitive and sustainable growth. Education,

skilled labor, ethics and especially continued corporate social responsibility, all well anchored pillars of UN-ECOSOC principles, must be favored in order to achieve economic and social balance around the world. He lauded the actions of CIFA, whose ambitious goals are so rightly aligned with the United Nations' ECOSOC most pressing concerns.

H.E. Jean Castellini, Minister of Finance and Economy in Monaco, went at length to describe how seriously the Principality has been tackling for decades the issue of providing laws aimed at fighting terrorism, money-laundering and other criminogenic financial issues, even though Monaco's approach remains highly pragmatic. Speaking about IFAs *(Independent Financial Advisors)*, he lauded in particular the "I" as he believes that the very independence of the financial advisor –- *he/she is normally not the issuer of financial products, but banks are* -- acts as a potent repellent against "conflicts of interest" unfortunately ever dominating in modern finance. Investor protection, therefore, is best assured by IFAs!

Aside from historic events to which speakers referred to, here and there, when pertinent to illustrate and enhance the roundtables' discussion, following are the most salient principles which emerged during this year's conference, that I wish to highlight in particular in this paper:

Africa is finally invited at an international discussion table, affirmed Mr. Jean Ping, Former President of the African Union *(he also presided, a few years ago, the 59th Session of the UN General Assembly and OPEC)*. Africa was unfortunately misguided in the past by Western powers' good intentions.

This pressing influence was instrumental for a devastating dismantling of existing state authorities, defense structures and economic policies across the African continent. The resulting consequences speak of the failure of these policies implemented under heavy pressure from the West. Africa was left in catastrophic poverty.

But, by including Africa in the discussion, around the systemic crises currently affecting the world and on how to reform the international financial system, is not only laudable, but it proves that the world is finally waking up to comprehending that Africa is part of this world, even though it was never invited to the G-20 gatherings.

Yet, Africa represents 54 countries within the 193 UN-recognized countries, or about 1 billion people today *(2 billion in 2050)*. Evidently, the UN-ECOSOC has still to emerge as the UN "security council" to tackle effectively world economic and finance matters!

Andrei Abramov, Chief of DESA NGO Branch, generally alert to major UN priorities but particularly to the need to lower the overall poverty level around the world, deplored the great divide of modern times between finance and the real economy. The people on the street can hardly comprehend why tons of money are thrown at bailing out financial institutions and how this could aid their lives.

How is it possible that for every Dollar deriving from goods-producing efforts, no less that 40 Dollars exchange hands in merely financial transactions unrelated to the real economy? Why are banks allowed to gamble with their depositors' money? Why do financial crimes remain unpunished?

Technology, science and innovation should be used to erase global inequality!

Yet, misallocation of financial assets and the resulting sovereign debt crises are, in the end, weighing heavily on the shoulders of taxpayers. Economy and finance should work hand on hand from now on for the good of "all" the people of our planet. Yes, the global financial system must be reformed ...urgently! CIFA has demonstrated its great experience and ability on several instances by helping the United Nations' ECOSOC initiatives

around innovative ideas about how to reform effectively the global financial system.

William H. Black, white-collar criminologist and former senior financial regulator, addressed the specific goal of reducing extreme poverty by stating very clearly the centrality that "women" have in the success of whatever efforts are deployed.

Education, for instance, always delivers unsuspected positive outcomes, especially when governments concentrate on educating "women" first. Water availability and sanitation are also essential to eradicate extreme poverty across the globe.

Results achieved globally so far in the eradication of extreme poverty show notable diverse features, at least geographically. China and India, for instance, saw a massive reduction in poverty in recent years to the expense of great pollution.

In Africa and Latin America, however, said Prof. William Black, the problem goes beyond what has been discussed in this panel.

Under the guidance of supranational institutions, such as the IMF and the World Bank, all these countries were locked into

unsustainable debt for over twenty years, a situation that prevented meaningful growth to develop, for instance, across the African continent.

Luca Fantacci, Associate Professor of Economic History at Bocconi University in Milano *(Italy)*, focused his works on the history of financial systems. Furthermore, he researched the idea of "complementary currencies" along with Massimo Amato, with whom he co-authored a book heralding "The End of Finance" *(a book review has been published in the Wealth Gram's May edition -- www.gscgi.ch)*. Reforming the international monetary system is essential in order to overcome the repetitive pattern of crises that the world is experiencing. Prof. Amato believes that a "truly" international currency should be considered, such as the famous "BANCOR" type of currency fathered in the old days by Keynes. Readers might recall that I briefly mentioned in the INFERENTIAL FOCUS *(issue #200 of August 2011; 3rd section, on pages 16-17, dealing with "Is an International Reserve Fund the Solution? ...from the speech I delivered in August 2011 at the Banco del Uruguay's annual economic conference in Montevideo)* the following:

The IMF proposed to adopt its SDRs unit *(Special Drawing Rights, created in 1969 to support the Bretton Woods fixed exchange rate system)* as a global reserve currency. Hence, China seems to favour this idea. Incidentally, Madame Christine Lagarde, Managing Director of the IMF, nominated Mr. Zhu Min, the first Chinese Vice-President Special Advisor at the IMF. Are these two events related? Do they infer future intense work for a "BANCOR" type supranational currency *(idea fathered by John Maynard Keynes)*? Will a supranational currency be the solution?

As most readers recall, the IMF proposed a global currency in honour of the father of Keynesian economics, John Maynard Keynes, who had suggested the creation of a supranational currency called the "BANCOR" decades ago. BANCOR would be used in international trade as a unit of account within a multilateral "barter" clearing system.

BANCOR would be a "fiat" currency.

A global fiat currency would extend huge power into the hands of whichever international entity *(IMF, BIS, G-20, etc. ???)* would be empowered *(by whom?)* to create and manage it.

A key feature of Keynes' BANCOR was that, in order to encourage a balance of trade, both debtor and creditor nations would share some responsibility: (a) debtor nations would pay interest on their overdrawn account, and (b) creditor nations would be charged interest for their surplus account and eventually gradually lose that surplus if not spent back to debtor nations *(in plain English, BANCOR being "fiat" money, if not used in international trade, it would be destroyed; essentially it would eliminate imbalances between surplus/nations and deficit/nations)*.

In other words, BANCOR would be a truly international currency, distinct from national currencies, aiming at the expansion of international trade *(from which balance of payments' incongruence would be banned)*. Finally, I found absolutely interesting the fact that Prof. Amato raised this subject, since the major need nowadays for the world is to re-link finance to the real economy.

Dan Mitchell, Senior Fellow at the CATO Institute in Washington, D.C., who has long focused on researching tax reform, international tax competition and the economics of fiscal policy, expressed great concerns about government finance/debt across the globe.

He warned that we could go from one crisis to another, who is responsible *(politicians and governments will continue to kick the can down the road and pass on the problems to someone else)* won't pay, and the world is sliding unrelentingly into more fiscal crises and widespread civil unrest in various countries.

Dan was critical as well on the accumulation of global regulation, applying to all *(rather, he favors competition of various national systems, which would make single governments responsible and accountable for their policies)*, without ever any govern-

ment drawing the line on which regulation was truly effective for the problem it was designed to solve.

At the roundtable question "Did the banking regulation solve the problems after the 2008 financial crisis, or did it create new ones?" ...

Louise C. Bennetts, Associate Director of financial regulation at the CATO Institute in Washington, D.C., offered first an extensive analysis of how various countries tackled the crises.

She particularly pointed out to the fact that in America, no public funds are allowed to be used in a bailout, while in Europe governments quickly proclaimed that "no bank would be allowed to fail", which in itself involved that public money would bail out failing financial institutions.

She also expressed criticism at the U.S. Fed designed rules for foreign banks' branches in the U.S., which in the end create huge regulatory duplications mostly inapplicable, therefore, ineffective.

In plain English, local initiatives most often clash when a "global problem" needs to be solved in a "global way". Regulating globally, for instance, the complex derivative products' system is an uphill struggle. U.S. regulators can, by law, impose quite draconian rules *(also deemed stringent)* to U.S. branches of non-U.S. companies dealing in the derivatives' market in the United States. Recently, an absurd set of rules was imposed, which caused the ire of many Finance Ministers across the globe, including Michel Barnier (EU). Foreign authorities appealed for help to Jack Lew *(U.S. Treasury Secretary)* only to realize how impotent the Treasury Secretary *(i.e., the U.S. government)* is in matters involving U.S. regulators *(namely, the CFTC in this particular case)*.

Massimo Amato, Associate Professor of Economic History at Bocconi University in Milano *(Italy)*, introduced CIFA's audience to the principle of "complementary currencies", a project he has been working on for quite a while and which is being tested already.

In fact, since 2011, a private clearing house based on a complementary currency has been set up in Nantes *(France)* and officially launched by the former Mayor of Nantes, Jean-Marc Ayrault *(currently France's Prime Minister)*.

The system aims at providing liquidity to local businesses whenever it is needed without having to seek a banking credit line or else.

People and businesses, therefore, are debtors/creditors of services, not of money!

The advantages of such a system are various. Businesses would not go bankrupt for lack of liquidity. Jobs would be preserved. Moreover, there would be a healthy link/equilibrium between production and demand of manufactured goods.

The plan exposed by Prof. Amato represented a creative attempt to answer one of CIFA's Forum main topics of 2013: reforming the international financial system and who will have to pay for it.

I will stop here my extended discussion about the 2013 CIFA Forum, but not without apologizing to all other distinguished speakers who offered extensive analyses and creative ideas during the three-day event.

I strongly encourage readers to attend each year this annual event in order to truly capture the value-added content that cannot be faithfully described in only a few pages. ■

Note: All pictures in this section are courtesy of CIFA – www.cifango.org

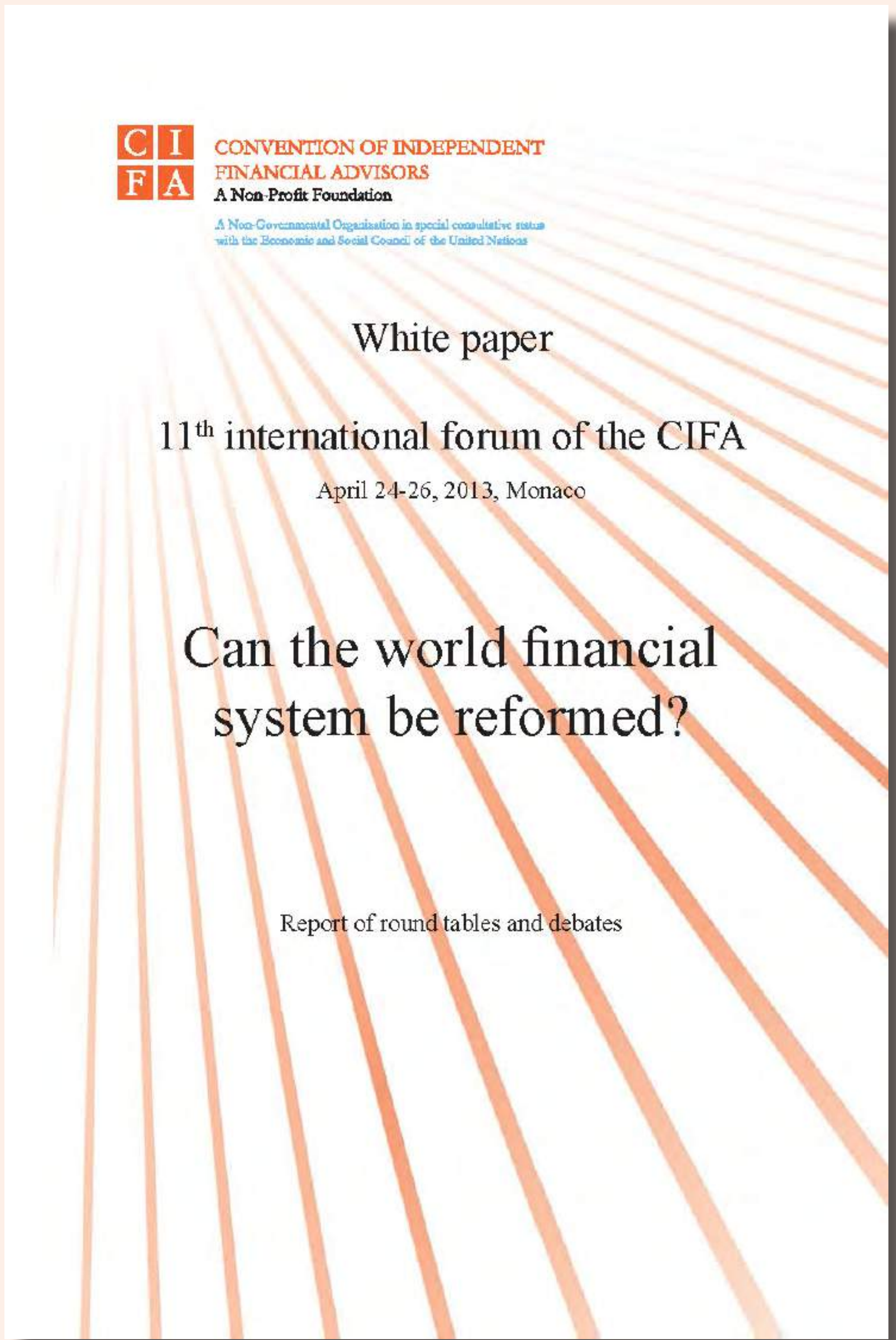
Cosima F. BARONE
FINARC SA
www.finarc.ch
c.barone@finarc.ch


WELCOME
TO
MONACO









CONVENTION OF INDEPENDENT FINANCIAL ADVISORS
A Non-Profit Foundation

A Non-Governmental Organization in special consultative status with the Economic and Social Council of the United Nations

White paper

11th international forum of the CIFA

April 24-26, 2013, Monaco

Can the world financial system be reformed?

Report of round tables and debates

STATEMENT IN CELEBRATION OF THE **INTERNATIONAL DAY OF HAPPINESS**

BY NASSIR ABDULAZIZ AL-NASSER
UN HIGH REPRESENTATIVE FOR THE ALLIANCE OF CIVILIZATIONS

The new International Day of Happiness has several important associations with the Caux Round Table. The CRT Global Executive Director was present at a dinner in Monaco during the 2012 annual meeting of the Convention of Independent Financial Advisors when the then President of the UN General Assembly, H.E. Amb. Nassir Abdulaziz Al-Nasser of Qatar, decided to seek UN adoption of an international day of happiness.

Present at the dinner and encouraging General Assembly President Al-Nasser was Matthieu Ricard, a Buddhist priest and colleague of the Dalai Lama. Matthieu spoke to the point that human happiness depends on more than material wealth. If our standard of "the good" is happiness more than wealth, we can be more successful in promoting human well-being.

Matthieu echoed to me, then sitting across from him, the teachings of Jesus Christ that we "do not live by bread alone" and the Qur'anic guidance that our alignment with the most high comes from "having faith and doing good works".

That launch of the International Day of Happiness is now commemorated with a plaque at the Hotel Hermitage in Monaco.

The International Day of Happiness is celebrated throughout the world on 20 March. It was established by the United Nations General Assembly on 28 June 2012. Assembly Resolution A/RES/66/281 states in pertinent part:

The General Assembly,[…] Conscious that the pursuit of happiness is a fundamental human goal,[…] Recognizing also the need for a more inclusive, equitable and balanced approach to economic growth that promotes sustainable development, poverty eradication, happiness and the well-being of all peoples, Decides to proclaim 20 March the International Day of Happiness, Invites all Member States, organizations of the United Nations system and other international and regional organizations, as well as civil society, including nongovernmental organizations and individuals, to observe the International Day of Happiness in an appropriate manner, including through education and public awareness-raising activities[…]

Speaking at the High Level Meeting on "Happiness and Well-Being: Defining a New Economic Paradigm," convened during the sixty-sixth session of the General Assembly, the Secretary General Ban Ki-moon stated that the world "needs a new economic paradigm that recognizes the parity between the three pillars of sustainable development. Social, economic and environmental well-being are indivisible. Together they define gross global happiness." The meeting was convened at an

H. E. Nassir Abdulaziz Al-Nasser, High Representative of the UN Alliance of Civilizations initiative of Bhutan, a country which recognized the supremacy of national happiness over national income since the early 1970s and famously adopted the goal of Gross National Happiness over Gross National Product.

Marking the first ever International Day of Happiness, Secretary-General Ban Ki-moon called on the international community to commit to an inclusive and sustainable human development that will improve the well-being of those who lack the basic services needed to pursue happiness.

"People around the world aspire to lead happy and fulfilling lives free from fear and want, and in harmony with nature," Mr. Ban said in his message for the Day.

"Yet, basic material well-being is still elusive for far too many living in extreme poverty. For many more, recurring socio-economic crises, violence and crime, environmental degradation and increasing threats of climate change are an everpresent threat."

"When we contribute to the common good, we ourselves are enriched. Compassion promotes happiness and will help build the future we want."

Happiness rather than material wealth as a goal of social justice is a constructive evolution in civilization, befitting the emergence of a more compassionate consciousness among all peoples and religions that human dignity is to be validated by all of us.

In its own small way, the CRT has always sought to contribute to this vision of a culture that puts materialism in its proper place – vital yet not by any means the summum bonum of human striving.

To reflect again for a moment on the New Testament teachings of Jesus Christ, while we do not live by "bread alone', it is meet that we pray each day for our "daily bread."

Happiness is therefore a blend of the material and the spiritual, the real and the aspirational, worldly power and the more transcendental vision of justice.

Aristotle advised that happiness is not possible without the possession of virtue. Happiness cannot flow from selfishness alone. Happiness is not indulgence; nor is it satiation of the senses or giving in to our fears. Happiness is finding connection where the self lives within a calling of higher purpose; happiness is finding our special place in our time for making our lives more worthwhile in the mind of eternity.

For business, corporate social responsibility, or business ethics, mediates between the material and the aspirational in the space we call happiness. CSR seeks to bridge the gap between what is and what might be better. Good stewardship of economic power and resources leads to happiness for the steward and his or her beneficiaries.

Stephen B. Young

Global Executive Director

Caux Round Table

(From Left) Hoa Pham Young, Stephen B. Young, H.E. Nassir Abdulaziz Al-Nasser

ALTRUISM & HAPPINESS

BY MATTHIEU RICARD
FRENCH BUDDHIST MONK

Modern life confronts us with a number of unique challenges, each with its own temporality and priority. There is a vital thread that links the economy in the shortterm, life satisfaction in the midterm, and the environment in the longterm. That thread is altruism.

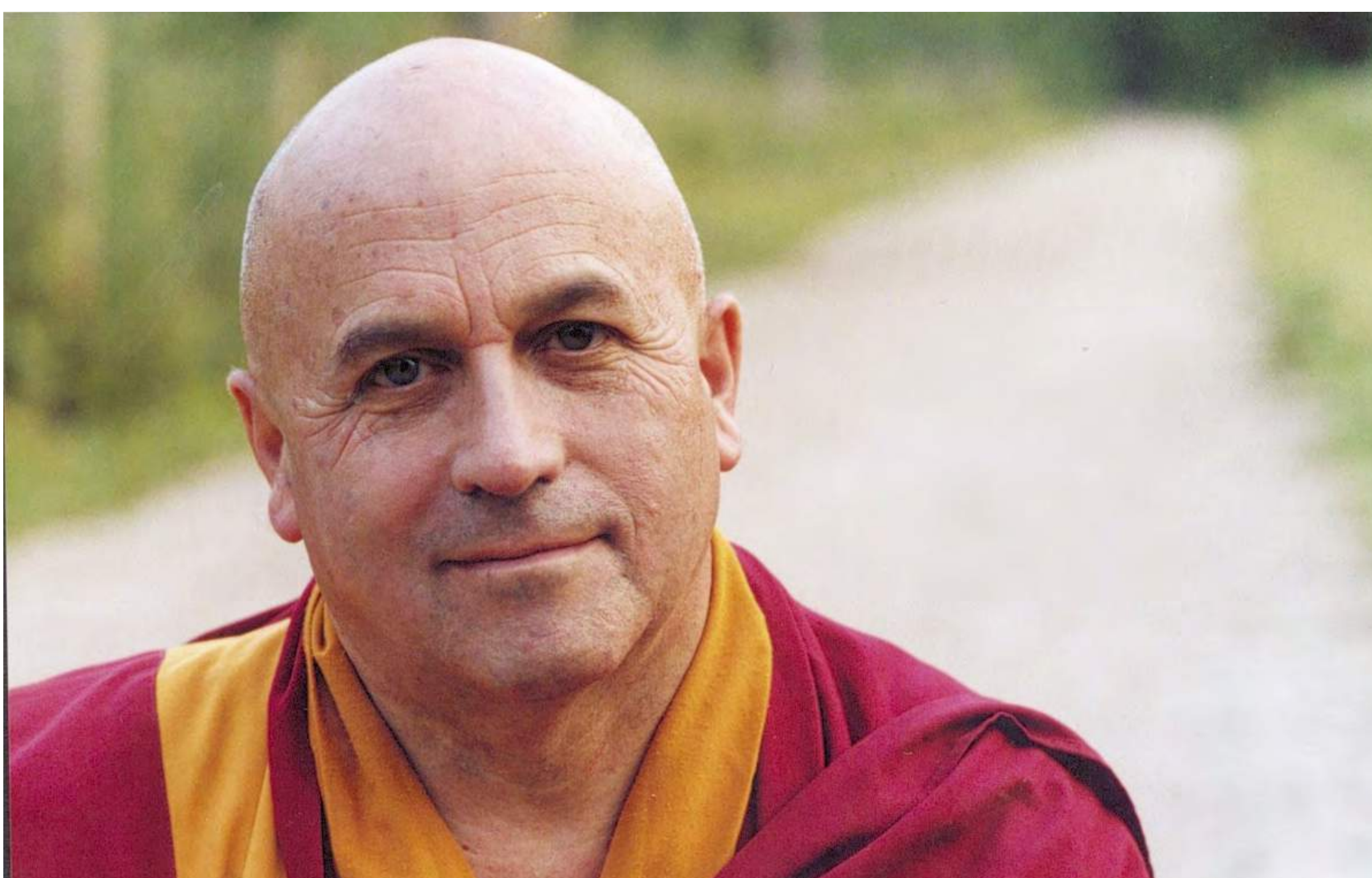
Altruism is not just a noble, somewhat naïve ideal or a luxury only the affluent can afford. Now, more than ever, altruism is a necessity for the well-being of all.

If we were more altruistic, if we were more considerate of others, we would not indulge in wild speculations with the savings of investors who placed their trust in us.

If we were more altruistic, if we were more considerate of others, we would not indulge in wild speculations with the savings of investors who placed their trust in us.

If we were more considerate of the quality of life of those around us, we would make sure that working conditions, family of life, and many other aspects of society were improved.

Finally, if we were more considerate of future generations, we would not blindly sacrifice the environment they are inheriting from us in favor of our shortlived wants and needs.



Matthieu Ricard. Source: TED.com

Economists have based their theories on the assumption that human beings exclusively follow their own personal interest. Although this hypothesis is mistaken, it has been for too long the foundation of the current economic systems. Modern economists are now increasingly calling for acknowledging the role altruistic propensities in every aspects of human life, including economy. For example, Dennis Snower, the founder of the GES *(Global Economic Symposium)* has stressed that along the "voice of reason," economists, politician, and individuals alike must now also speak with the "voice of care".

Evolutionists also remind us that we should not forget the emphasis placed by Darwin on the vital importance of cooperation in the world of living beings. Evolutionists and Harvard professor Martin Nowak, among other, reminds us: "Cooperation is the architect of creativity throughout evolution. Without cooperation there can be neither construction nor complexity in evolution. Cooperation — not competition — underpins innovation."

Goodness is not a doctrine or a principle. It is a way of living. Biological altruism is inherited from evolution. It is based on the parental care and is inherent to our nature and needs no instruction. But it is limited and partial. At the opposite, extended altruism that is directed to all beings is free from such bias. However, for most of us, this is not instinctive and requires some instruction and training.

The research in neuroscience and psychology also indicates that loving-kindness and compassion are among the most positive of all positive emotions or mental states and can be trained as skills.

Many studies have also highlighted the link that exists between altruism and well-being and have shown that the joy of undertaking an act of disinterested kindness provides profound satisfaction.

Altruism, thus, appears to be most direct way to accomplish both the happiness of other and ones own. It, therefore, seems that promoting altruism and compassion not only in one's personal life, but also within education and in society at large is a much needed and direct way to address the challenges of the modern world.

Let's remember the words of Albert Schweitzer: "Every person I have known who has been truly happy has learned how to serve others." ■

(From Left)

Jean-Pierre Diserens
CIFA's Secretary-General

Pierre Christodoulidis
CIFA's President

H.E. Nassir Abdulaziz Al-Nasser
President of UN Alliance of Civilisations

Pascal Camia
General Director of Hôtel Hermitage, Monaco

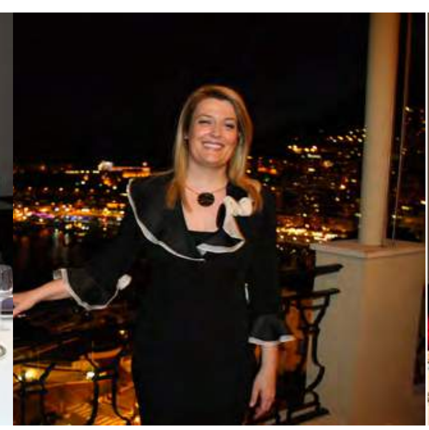














CIFA'S ADDRESS AT JULY 2013
ECOSOC HIGH LEVEL SEGMENT SUMMIT

BY JEAN-PIERRE DISERENS
CIFA'S SECRETARY-GENERAL

Jean-Pierre DISERENS

Secretary-General

www.cifango.org

CIFA and ECOSOC share common goals and visions. As such, the 2013 ECOSOC Annual Ministerial Review allows CIFA to reaffirm its role and capacity to protect consumers' and investors' rights in the financial market. Our 11th Forum of the Convention of Independent Financial Advisors on "Can the world financial system be reformed?" considered ECOSOC's High Level Segment Theme and confirmed the role of Science, Technology and Innovation in CIFA's global work. In the future, CIFA will continue to involve itself in the discussions on the Post-2015 development agenda and on a new global economic model.

ECOSOC's President H.E. Nestor Osorio opened the meeting with a video message. Almost 500 financial experts participated to the various workshops designed to update on the financial crisis and economic situation. The UN Alliance of Civilizations (UNAOC), launched under the theme of the AMR 2013, the opening Round Table where panellists expressed their views on how the MDGs and sustainable development could still be promoted and achieved using Science, Technology, Innovation and Culture, in the context of the current financial crisis and economic situation.

The deliberations of this CIFA XIth Forum have outlined the urgency for governments and civil society to reform the current financial system before it leads to a worldwide economic collapse and another recession. Participants recognized that if no concrete solutions were applied soon, it would increase tensions between the regions of the world, and create a context propitious to more conflicts. Therefore, progress achieved for human civilization in recent years, through globalization, IT and STI could seriously be compromised. Participants concluded to the urgency to create a climate favourable to new investments and targeting job creation for future generations. For this purpose, CIFA participants have proposed various tools and approaches to improve the controls and monitoring of the world financial markets, in order to avoid abuses, unfair losses for investors, corruptions and manipulation by major players and governments in the global markets.

This will, in turn, support CIFA's Charter of Investor Rights. This charter was deposited with the UN in 2008 and reiterated at the Forum. It defines 10 points of what is required, by the governments and investment-seeking institutions, to create and maintain the trust needed to become the motor of development to renew global prosperity. This will promote ethics in the financial sector and improve the understanding of financial product by the public at large.

Protection of investor's rights will ensure freedom of entrepreneurship, which remains the biggest stimulus for creativity in science, technology and innovation for a healthy cultural environment. In considering the Post 2015 Agenda, it is necessary to ensure this in our new economic order because it is a basic step in the direction of promotion of sustainable development. CIFA continues to defend the Charter of Investors Rights that advocates the freedom for investors. That way, private investors can be the motor that supports creativity in a free entrepreneurial environment. To bring back a positive outlook for the young generation they need to be able to use and develop, with a maximum of freedom, their creativity and education – be it science, technology, or any other field of the economy. Without discouraging administrative restraints or regulations, young people attain skills and readiness to take risk to promote new ideas, which stimulates innovation.

Furthermore, CIFA promotes the idea that developing countries, landlocked countries, and all small countries are entitled to excellence in financial services that do respect their culture and tradition. They do have the right, in conformity with their own culture, to adopt their own standards of accountability and transparency. The Charter of Investors Rights does encourage such freedom, to guarantee diversity that is the motor of creativity and development. That way, they can reinforce their position as valid partners in global financial markets.

CIFA also considers MDG 8 in its work. It promotes the idea that STI capacity building is about building the technical vocation, engineering, entrepreneurial, managerial and scientific capacity to solve country's pressing social and economic problems.

1. Calls for an open, rule-based trading and financial system, more efficient aid to countries committed to poverty reduction, and rethinking of the debt problems of developing countries in relation to the debt problems of the developed countries.

2. Draws attention to the problems of the least developed countries and of landlocked countries and small islands as well as developing and developed small states, which have greater difficulty to impose their right to sovereignty in the global economy.

3. Calls for active cooperation with the private sector to address unemployment, ensure access to affordable, essential drugs, and make available the benefits of new technology by protecting creativity through intellectual property rights.

Last but not least, a new link between CIFA and the UN Alliance of Civilizations has been created. In considering investor protection, cultural differences cannot be ignored when examining conflicting policies across countries. Culture is also helpful in understanding how investor rights are enforced across countries and countries are fully entitled to century old traditions that are part of their culture. The UNAOC and CIFA have a mutual mission to protect the gains of diverse civilizations. It is based on the certainty that Finance and Culture have to be reassessed in terms of sustainability and development to improve globalization of financial markets in a multi-cultural environment.

Over the past year, CIFA improved cooperation amongst nations and inspired financial and economic leaders and practitioners in searching for innovative solutions to current economic and financial challenges. It will continue to contribute to the High Level Panel's recommendations for the world's next Post-2015 development agenda.

CIBJO AND CIFA COOPERATE IN RESPONSIBLE BUSINESS PRACTICES

BY JEAN-PIERRE DISERENS
CIFA'S SECRETARY-GENERAL

GENEVA/MILAN: July 15, 2013 – CIBJO, the World Jewellery Confederation, has reached an understanding with the Convention of Independent Financial Advisors (CIFA), according to which the two bodies will cooperate in enhancing responsible business practices and sustainability in their respective business sectors.

The understanding was reached at the High Level Segment of the United Nation's Economic and Social Council (ECOSOC) between Gaetano Cavalieri, CIBJO President, and Jean-Pierre Diserens, Secretary-General of CIFA. CIFA, like CIBJO, has special consultative status with ECOSOC.

The organisations agreed to conclude a formal cooperation agreement at a meeting of their joint leadership later this year. In the meantime, they will begin sharing information and expertise.

CIFA, which is headquartered in Geneva, is an NGO whose goals are to defend the investors' interests and right to privacy and the financial advisors' independence on national and international level. It also endeavours to combat harmful practices in financial markets, while promoting strong ethical values and a sensible and sane regulation. CIFA is the possessor and custodian of the Charter of Investors' Rights, which it deposited with the United Nations in 2008. CIFA federates worldwide 70 national associations and international federations. CIFA has held its Annual Forum in Monaco during the last week of April since 2011.

CIBJO represents the interests of all individuals, organisations and companies earning their livelihoods from jewellery, gemstones and precious metals. With its membership made up largely by national jewellery trade organizations from more than 40 countries around the world, as well as by commercial members, it covers the sector vertically, from mine to marketplace, and geographically. CIBJO's mission is to encourage harmonisation, promote international cooperation and to consider issues that concern the trade worldwide. Foremost among these is the protection of consumer confidence.

"Gold, platinum, palladium and silver have long been considered instruments of investment, and the same is increasingly true of diamonds, coloured gemstones and pearls, not to mention finished jewellery,"* said Dr. Cavalieri. *"Proper business principles defend the integrity and reputation of the product, whether it is sold primarily as an item of jewellery or as a unit of investment."

"Furthermore, as CIBJO and CIFA have affirmed in their association with ECOSOC, both our business sectors have responsibility to society in general, and by extension to promoting the development programme of the United Nations. This also will be addressed jointly by our two organizations," the CIBJO President said.









UNITED NATIONS' HIGH LEVEL THEMATIC DEBATE ON THE STATE OF THE WORLD ECONOMY

BY STEPHEN B. YOUNG

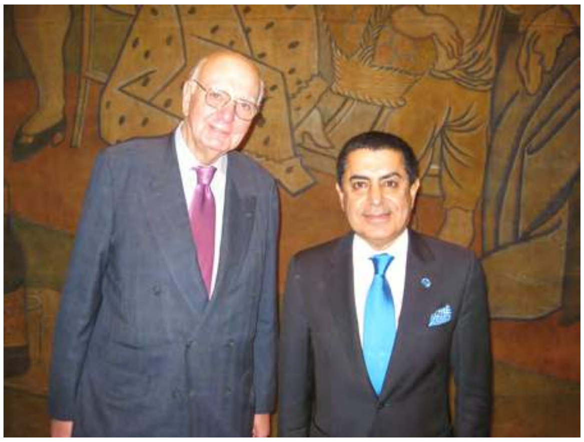
CAUX ROUND TABLE'S GLOBAL EXECUTIVE DIRECTOR

On May 17th and 18th, 2012, the President of the United Nation's (UN) General Assembly and Secretary General jointly convened a High Level Thematic Dialogue on the State of the World Economy. High level thematic dialogues are used by the UN to address important challenges that are not being thoroughly addressed conceptually by standing departments and committees of the UN. In his remarks, Secretary General Ban Ki-moon called for a "conceptual revolution" in addressing what was wrong with the world economy.

Other speakers insisted it was time to "think outside the box" or that "business as usual" will not trigger enhanced, economic growth. The old model is believed broken: it is four years from the 2008 collapse of credit markets and no real reforms have been put in place.

I believe it was a moment for innovation – ***a perfect environment in which the Caux Round Table (CRT) and our partner, the Convention of Independent Financial Advisors (CIFA)*** – should step forward and lead.

The dialogue was called by the majority of member states who are left out of G8 and G20 discussions on global financial architecture. Their perceptions were that the strong economies failed in the 2008 collapse, the ongoing crisis of Eurozone finances and in tolerating systemic imbalances in current accounts and financial reserves, which led to unsustainable swings in global finance. The majority of these countries view themselves as dependent on the wealthy ones for investment, absorption of exports, steady currency values and reasonable prices for energy and food. They believe they suffer most when the global financial system performs poorly. These countries voiced three main concerns: 1) growth to create jobs; 2) moderation in the prices of energy and food; and 3) investment in their economies.



The perception was that the world economy has not delivered on these essential outputs. Growth has not resumed sufficiently to make up for the losses in employment, income and production caused by the 2008 collapse.

Qatari Ambassador, Nassir Abdulaziz Al-Nasser, President of the General Assembly, stated that the pressing issue was global recovery – escalating inclusive development to reduce poverty, while sustaining the environment and its future fecundity. The role of the UN, as compared to the G8 and G20, was to be the only inclusive,

CIFA

conveyed at UN's 2012 HIGH LEVEL THEMATIC DEBATE

multi-lateral forum, where a common vocabulary and agenda for real action could emerge. A system is needed which can provide sufficient jobs under conditions of climate change and growing resource scarcity. On May 19th, G8 leaders met at Camp David with President Barack Obama and declared that "Our imperative is to promote growth and jobs." But, how is this going to be accomplished? Therein, lies the rub.

Paul Volcker, former Chairman of the Federal Reserve, reminded participants that only private sector trade and finance lead to growth. Imbalances and speculation lead to financial strains. He said we are faced with no intellectual or political consensus on what is to be done, which has produced a paralysis of will and contributed to policy stagnation. The need, therefore, is to think well before acting – to arrive at a consistent set of rules for bank capital requirements and accounting conventions and a commitment to open markets. He called for a partnership between private capital, business and national public responsibility.

José Manuel Barroso, President of the European Commission, said that irresponsible, private behavior, coupled with lax regulation, led to the misallocation of capital, which added to public expenditures, which increased public debt levels, producing the current crisis in the European Union (EU). The EU governments, he affirmed, have delivered a robust response of creating firewalls between unsustainable financial practices, reforms of government programs and help to vulnerable, member states. The EU now recognizes that debt-fueled demand to stimulate growth is unsustainable. Fiscal consolidation is needed to cut borrowing costs and provide confidence for financial markets. New infrastructure projects will be financed with bonds secured by such projects. More capital has been contributed to the European Development Bank to finance new loans. The EU is a political process, not just a source of monetary advantage. It is facing up to its internal needs and international obligations.

(From Left) ***Mr. A.J. Dowd,*** *Assistant to Mr. Paul Volker ,* ***Ms. Maha Bahamoud,*** *Senior Advisor on Second Committee and Sustainable Developmenr,* ***Mr. Paul S. VOLKER,*** *Former Fed Chairman and U.S. President's Personal Advisor ,* ***H.E. Nassir Abdulaziz Al-Nasser****, President of UN Alliance of Civilisations,* ***Mr. Steve Young,****Global Executive Director at Caux Round Table,* ***Mr. Jean-Pierre Diserens,*** *CIFA's Secretary-General,* ***Ms. Hanifa Mezoui****, Special Coordinator Third Committee and Civil Society Office of the General Assembly' President.*

Leaders and ambassadors, from a variety of countries, spoke to the common theme: the financial system must be placed in service of the real global economy. This high level dialogue was far better at defining the problem than in providing specific guidelines for actions that would accomplish that objective.

In the subsequent dialogue sessions, I was made aware of how ahead of the curve the 2008 recommendations of the CRT's Global Governing Board had been. The CRT's understanding of the ethical responsibilities on the respective parts of business and government is still cutting edge, with 4 years of hindsight now available – a most credible record of intellectual leadership, but a poor reflection on the actual leadership which has been confronting our global economic shortfalls. The CRT's ideas, along with the insights provided by our colleagues from CIFA, were very welcome. Jean-Pierre Diserens, Secretary General of CIFA, expressed his belief that private investors now have little to no trust in great financial houses, regulators or in sovereign responsibility. Without trust, markets stagnate and investment-driven growth is fitful. Professor William Black of the University of Missouri-Kansas City reminded participants that criminality is a constant in private affairs; no system of private ordering is entirely free from predators. In financial intermediation and corporate profit-seeking, it is often "control fraud" – providing misleading information that permits executives to "loot" companies of current income, as was the case with Enron. Under these procedures, current income is privatized and long-term losses are socialized to owners or the public.

Revitalizing the World Economy: an action agenda

The state of the world economy is disappointing and a cause for global concern. Without economic growth what real hope do we have for social justice and what real hope do we have for combating unemployment, creating jobs and addressing poverty when the gap between the haves and have-nots continues to grow? Who has disappointed us? In three words: Wall Street and governments. And in this fourth year since the great self-destruction of financial markets, financial leaders and governments have yet to find a way back from that debacle of hubris and greed, on the one side, and failure of prudential regulation on the other. This is no time for finance as usual; this is no time for governing as usual.

We are reminded of Cicero's outrage when those responsible for public harm show no remorse: "Quo usque tandem abutere patentia nostra?"

First, two parties - governments and owners of private capital - must be mobilized to work together enthusiastically in charting, and then following, a new path to sustainable growth and the advancement of prosperity and social justice for all. Owners of private capital must be at the table because it is the private sector that creates sustainable wealth, not governments. Wealth arises from our labor, our imagination and aspirations for the future, our desires for self-improvement, our willingness to collaborate, our savings, our skills in organization, our dedication. Governments may attempt to command these attributes into being, but they will fail. If we need wealth, we must therefore motivate and support those who create wealth.

To insure a constant flow of wealth creation, our Convention Of Independent Financial Advisers has adopted the Charter of Investor's Rights, which has been filed with the United Nations. The private investor has a right to use his or her best judgment in finding the most appropriate way to invest and earn profits. He or she has the right to freely choose the structures and institutions that he or she judges will more adequately accommodate the modalities of his or her property as well as the revenue that results from its use by others.

The Universal Declaration of Human Rights provides further directive guidance to sovereign states as to their obligations and responsibilities to individuals:

Article 17.

(1) Everyone has the right to own property alone as well as in association with others.

(2) No one shall be arbitrarily deprived of his property.

But to affirm that wealth creation is fundamentally a process for the private sector enhancing the value of private goods is not to say that private property is immune from responsibility. No, wealth is a social product and must respond to the social requirements that permit it to exist and to grow. It is not removed from the ethical demands of human intercourse just because it may be at the disposition and under the dominion of a single individual at any given time. Wealth has its own special office, a set of peculiar duties, to perform that society may benefit. Wealth is our best tool for building a better future. The Caux Round Table, an international NGO, has advocated a moral capitalism for 25 years. The Caux Round Table ethical principles for business provide a road map for the responsible creation of private wealth. Recently our distinguished membership was consulted via a survey as to what steps are needed now to improve the state of the world economy.

Integrity in governance was recommended as having highest priority in the effort to rejuvenate global capitalism. The four priorities most advised for immediate attention were: addressing inequality, more discipline in public finances, separating banking from proprietary firm trading, and improvement in corporate governance. In short, the considered judgment of these professionals in business and corporate social responsibility looked to the fundamental quality of stewardship responsibility for the common good as the foundation for enhanced world economic outcomes. They placed that responsibility primarily with public officials to provide for responsibility in public spending, in management of credit markets, in redressing unbalanced wealth accumulation in the hands of a few, and in private sector leadership of wealth creating institutions.

This is a powerful insight that strategic values matter in the long run and a telling reminder that unrelenting and unconstrained self-interest is not seen as being in the best interest of the community at large. It is not therefore an argument between austerity or deficit spending on entitlements that should be paramount, but rather selection of leaders – both public and private - committed to a stewardship ethic that will make for changes. Additional steps recommended by survey responses for high priority attention turned more to incentives in the private sector that can be skewed towards mis-management of wealth creation. These secondary recommendations are predicting systemic risk in financial intermediation, setting compensation incentives to favor long-term growth, and reducing outflows of illicit capital from poor and developing countries. It is the private sector that creates systemic risk in financial markets; it is the private sector that puts a bias for short-term results in compensation packages; and it is private individuals in poor and developing countries who abuse their status and illicitly divert financial resources out of their country, denying it capital for investment.

In the next rank of recommendations came more technical concerns: liquidity provision by central banks, predicting systemic risks in financial intermediation, improving valuation formulas and more reliable pricing by markets, adoption of CSR standards by firms. On the third level of recommended action items was a hefty preference for increasing competition among rating agencies, again echoing a theme of responsibility to serve a common good by providing information that influences investment decisions. Efficient financial markets require quality information as a public good. The quality of market information confers reliability on prices set by free competition. Providing this public good on a global basis is an immediate need. On this third tier of recommended actions, survey respondents also focused on decision-making conditions within private firms: increasing capital requirements for all financial institutions, adoption of CSR standards by firms, compensation incentives for long term growth and improved valuation formulas and more reliable pricing by markets. The financial system, all CRT survey respondents agreed, must be reformed so as to restore its integrity, strength and resilience. Wealth flows from people when they are rightly inspired. Because wealth is an economic and social outcome as well as an input into economic growth and social well-being, it cannot thrive all on its own. It is not autonomous but dependent on prior conditions. Securing that necessary inspiration is the task and duty of government. Establishing correct conditions for sustainable financial intermediation is a sovereign responsibility that may not be delegated to private firms.

Today, to renew global economic growth, the first action step must be taken by governments. The foundation of economic growth in today's global economy is financial intermediation. The access to spendable liquidity either in the form of equity investment or repayable debt permits the commencement of business ventures and sustains operating businesses of all sizes and varieties. Where access to such liquidity is limited, economic growth stagnates; where excessive liquidity is made available, asset prices become distorted, unsustainable price bubbles emerge, and financial collapse occur, damaging to economic activity and lowering living standards. Thus, the sovereign responsibility to promote economic growth calls forth a subordinate responsibility to provide optimum conditions for private sector financial intermediation. Institutions of financial intermediation consist of banks, securities underwriters, insurance and reinsurance companies, broker/dealers, financial advisers, investment banks, accountants, legal counsel.

Governments and private property must be put in a collaborative balance if wealth is to flow forth from the people and fuel global economic growth. Today the state of the world economy needs a partnership between governments and private capital. It needs interdependence, a duality of function, an interaction of public and private with each respecting the respective contributions of the other. Should government fail to meet its responsibilities in this collaboration, the private sector cannot and will not make up its shortcomings. On the other side of the partnership, the duties of the private sector are, roughly, to conduct business as an office subject to the standards of corporate social responsibility with respect for stakeholder interests. Private profit is the reward for private services well done.

The duties of governments are to provide protection for private property and the legitimate expectations of private persons to improve their stations in life, law and order for society, and checks and balances on abusive use of private power. Sovereign states have a responsibility to promote economic growth. They are trustees for those under their authority. In particular it is the duty of governments to provide for liquidity to finance private sector wealth creation. Liquidity – money if you will – though it is most creative and powerful when held in private hands, is a public commodity protected in circulation ultimately by the state.

The Preamble to the Charter of the United Nations recognizes that nations should "promote social progress and better standards of life in larger freedom" and "employ international machinery for the promotion of the economic and social advancement of all peoples". Article 55 of the UN Charter imposes on sovereign authorities responsibility for the promotion of economic growth:

With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and selfdetermination of peoples, the United Nations shall promote:

1. Higher standards of living, full employment, and conditions of economic and social progress and development;

This profound and fundamental responsibility of states was acknowledged by governments subscribing to the Millennium Declaration of 2000 which says: " We resolve therefore to create an environment – at the national and global levels alike – which is conducive to development and to the elimination of poverty."

It was further noted by states signatory to the 2002 Monterrey Consensus that:

3. … Our goal is to eradicate poverty, achieve sustained economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economic system.

4. … We commit ourselves to sound policies, good

governance at all levels and the rule of law. We also commit ourselves to mobilizing domestic resources, attracting international flows, promoting international trade as an engine for development, increasing international financial and technical cooperation for development, sustainable debt financing and external debt relief, and enhancing the coherence and consistency of the international monetary, financial and trading systems.

10. In our common pursuit of growth, poverty eradication and sustainable development, a critical challenge is to ensure the necessary internal conditions for mobilizing domestic savings, both public and private, sustaining adequate levels of productive investment and increasing human capacity. A crucial task is to enhance the efficacy, coherence and consistency of macroeconomic policies. An enabling domestic environment is vital for mobilizing domestic resources, increasing productivity, reducing capital flight, encouraging the private sector, and attracting and making effective use of international investment and assistance. Efforts to create such an environment should be supported by the international community.

11. Good governance is essential for sustainable development. Sound economic policies, solid democratic institutions responsive to the needs of the people and improved infrastructure are the basis for sustained economic growth, poverty eradication and employment creation. Freedom, peace and security, domestic stability, respect for human rights, including the right to development, and the rule of law, gender equality, market-oriented policies, and an overall commitment to just and democratic societies are also essential and mutually reinforcing.

12. We will pursue appropriate policy and regulatory frameworks at our respective national levels and in a manner consistent with national laws to encourage public and private initiatives, including at the local level, and foster a dynamic and well functioning business sector, while improving income growth and distribution, raising productivity, empowering women and protecting labor rights and the environment. We recognize that the appropriate role of government in market-oriented economies will vary from country to country.

When the governments signatory to the Monterrey Consensus agreed that mobilization of domestic resources under conditions of good governance, they accepted the duty to properly encourage financial intermediation. The first requirement of sovereign management of financial intermediation is to keep asset values – both public and private - within a range of prudent expectations. This will stimulate and reward private economic activity. The Financial Stability Board has issued standards which provide for transparency of the monetary and financial policies of sovereign states. These standards are supplemented by the Caux Round Table's recommended ethical principles for government. The Financial Stability Board's standards permit assessment of the responsibility exercised by sovereign authorities in their management of key components of private sector financial intermediation. These standards are:

FINANCIAL REGULATION AND SUPERVISION

Banking Supervision: *Core Principles for Effective Banking Supervision*

Securities Regulation: *Objectives and Principles of Securities Regulation*

Insurance Supervision: *Insurance Core Principles*

INSTITUTIONAL AND MARKET INFRASTRUCTURE

Crisis Resolution and Deposit Insurance: *Core Principles for Effective Deposit Insurance Systems*

Insolvency: *Insolvency and Creditor Rights 10 11*

Corporate Governance: *Principles of Corporate Governance*

Accounting and Auditing: *International Financial Reporting Standards and International Standards on Auditing*

Payment, Clearing and Settlement: *Core Principles for Systemically Important Payment Systems, Recommendations for Securities Settlement Systems, Recommendations for Central Counterparties*

Recommendation:

The General Assembly of the United Nations should adopt a charter of Responsible Practices for Sovereign Nations incorporating the standards recommended by the Financial Stability Board with respect to financial intermediation to promote sound and sustained global economic growth.

In the fall of 2008 it became an unavoidable truth that global capitalism's so called immune system of laissez-faire market discipline failed the test of practical success and the underlying causes of this systemic failure - greed and narrow self interest - must be addressed by the global community. Failures to properly assess risk and a dysfunctional and shortsighted system of incentives and remuneration have been at the heart of the problem and have subjected the global economy to too little growth in assets and incomes. Also at the core of the problem has been a failure of governance. Boards of directors were not sufficiently encased in an environment of sound risk management, responsibility, transparency and ultimate accountability. And financial regulation failed to offset the inherent dysfunctionality of the markets. Despite the need for urgent action to address the underlying causes, there are inadequate reforms on the table.

The following reforms will restore growth to the world economy and bring about the right balance of innovation between the private sector and governments:

(1) Require board directors to consider interests beyond shareholders, which may affect the company's success, by codifying the principle of "enlightened shareholder value" in company law.

(2) Require minimum standards of corporate governance knowledge and expertise for corporate board directors.

(3) Require corporate boards to have a dedicated board committee responsible for risk oversight across the full spectrum of risks - financial, governance, social, environmental.

(4) Regulate executive remuneration structures to ensure that they are consistent with prudent risk management, align with long-term wealth creation, and do not reward poor performance.

(5) Implement stronger and globally co-ordinated financial and banking regulatory reforms to prevent systemic risk build-up or market manipulation.

(6) Regulate all financial markets instruments and investment activities that materially impact on financial system stability and on superannuation and pension system viability.

(7) Reform and adequately resource the IMF and other multilateral institutions to ensure they are effective forces for economic and social justice globally.

CIFA'S MEETING AT DEC. 2013
UN FORUM OF SMALL STATES (FOSS)

BY JEAN-PIERRE DISERENS
CIFA'S SECRETARY-GENERAL

Jean-Pierre Diserens
Secretary-General

www.cifango.org

Pierre Christodoulidis
President

Date:	10 December 2013 (from 16h00 to 18h00)
Venue:	Permanent Mission of the Republic of Singapore to the United Nations, 231 East 51 Street, New York, NY 10022
Topic:	"A private sector perspective on the UN Post-2015 Development Agenda, global partnerships and innovative financing."
Chair:	H. E. Ms. Karen Tan, Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Permanent Mission of the Republic of Singapore to the United Nations.
FOSS participants:	20 Members States Delegates
Panelists:	Mssrs. Pierre Christodoulidis, President of CIFA, Jean Pierre Diserens, Secretary-General CIFA and Me François Loriot, Senior Advisor CIFA.

At the initiative of Ms Hanifa D. Mezoui, Senior Advisor, Humanitarian Affairs and Civil Society, United Nations Alliance of Civilizations *(UNAOC)*, H.E. Ms. Isabelle F. Picco, Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Permanent Mission of the Principality of Monaco to the UN and Mrs. Valerie S. Bruel-Melchior, First Counsellor, Deputy Permanent Representative of the Permanent Mission of the Principality of Monaco to the UN, and Mr. Mark Neo, FOSS Cordinator, Deputy Permanent Representative and Minister-Counsellor of the Permanent Mission of the Republic of Singapore to the UN, the representatives of the Convention of Independent Financial Investors *(CIFA)* were invited to address FOSS members on the above topic, which is currently on the General Assembly and ECOSOC agenda.

The Ambassador of Singapore, H.E. Ms Karen Tan, acting as Moderator, introduced the panelists mentioning the opportunity to listen to an innovative presentation in a field not open to all, which is pro-market and pro-investors perspective with great assurance of a fruitful discussion.

The Secretary-General of CIFA, Mr. Jean Pierre Diserens first explained that CIFA, a Swiss Foundation created in 2001 was the only global investment organization with special consultative status at the ECOSOC, representing 20% of worldwide investments, with a network of over 750,000 financial advisors. The voice of CIFA is meant to offer an alternative view on the resolution and solutions to the current world financial crisis, with an emphasis on ethical financial markets and ethical investments.

Mr. Pierre Christodoulidis, President of CIFA, described the consecutive financial crisis during the last twenty years always starting in the large developed economies. First the savings and loans debacle in the 90's, then the emerging market crisis provoked by LTCM in 1998, the dotcom bubble in 2000, the ENRON scandal in 2003 and the final meltdown 2008 stemming from excessive speculation by the large banking institutions which would be bankrupt if not bailed by the States through the citizens' money.

CIFA wishes to play a role of an advanced alarms' organization to avoid such disaster plunging again economies into depression and throwing millions of people into unemployment. It also vies to spot future major socio-economic conflicts which constitute a systemic threat to the world economy. One of them of particular concern is the looming clash between generations, in developed markets. It was observed that distortion in financial markets often lead to imbalance in World trade, thus defeating the UN Development Agenda and the MDGs.

Me. François Loriot, Senior Advisor CIFA and specialist in humanitarian law, commented on the 14 year MDG achievements where, despite a few encouraging numbers, 842 M° people are still suffering from hunger; child labor and slavery numbers remain extremely preoccupying. The GINI coefficient, a measurement of inequality, improved by a mere 1.4 points from 2002 to 2010. Me. Loriot recalled that MDG#8 aimed to promote partnerships with civil society and the private sector, but its achievements have remained overall quite modest.

A series of slides were presented on CIFA's positions on the MDGs, on the UN post-2015 Agenda, on the sovereign debt problems and its ratings worldwide, as well as on the basic conditions for sustainable economic growth leading to wealth creation and the fair sharing of its benefits with local communities.

The President of CIFA gave a presentation on how excessive regulations and taxation have become dispiriting factors for investors, as well as a job-killer, with a conclusion by Mr. Diserens on the Charter of Investors Rights which CIFA has developed since 2005, in order to encourage new ethical investments in developing countries. He also pointed out how Finance and Culture influence each other since cultural differences contrive the investor behavior.

The panelists expressed the view that the Post-2015 Agenda should encourage basic values for the young generations of investors, such as Honesty, as well as Entrepreneurial, Risk-oriented and Work-Oriented spirit. The panelists concluded by offering their support for the UN Post-2015 Agenda, with the expectation that there will be genuine and PRIOR grass-root consultations with civil society organizations, with the young generation, with the private sector, failing which the partnerships promoted by MDG#8 will remain meaningless. It was observed that the United

“ The President of CIFA gave a presentation on how excessive regulations and taxation have become dispiriting factors for investors, as well as a job-killer. ”

Nations 2014 calendar for the finalization of the Post-2015 Agenda remains unclear, with no provision for consultations with CSO and the private sector.

CIFA is offering its support and assistance to help ensure that the Post-2015 Agenda is responsive to the needs and reality of civil society, and to ensure that the Post-2015 keyword "SMART" truly reflects "specific, measurable, attainable, realistic and time-bound quantitative targets" agreed with all stakeholders. The president of CIFA invited FOSS members to participate to the next CIFA Forum convened for 23-25 April 2014 in Monaco, which will address in its program the UN Post-2015 Development Agenda.

The Moderator, invited questions from the participants: Delegates from Monaco, Palau, Papua New Guinea, and New Zealand submitted remarks and questions for the panelists.

The CIFA presentation was found both challenging, refreshing and alarming, with support for the idea of a 2014 forum at the UN convening civil society organizations and the private sector. It was observed that this would help involve them more closely in the Post-2015 Agenda. It was suggested that the new ECOSOC President should become involved in such a Forum, and that it was essential to articulate ways and means to better involve the private sector.

It was also mentioned during the meeting that the Opening Ceremony of the next CIFA FORUM to be held in Monaco, 23-25 April 2014, will be dedicated to the ECOSOC theme 2014; "Addressing ongoing and emerging challenges for meeting the Millennium Development Goals in 2015 and for sustaining development gains in the future". It will be done in partnership with ECOSOC and UNAOC. ■

The United Nations' Corner

April 15th 2013: CIFA was invited by the President of the 67th session of the UN General Assembly to assist in the debate on Global Economic Governance. The goal of the thematic debate was to help enhance communication between international financial institutions, the G20 and the rest of the world by providing a platform to reflect on common concerns, exchange views and share information. Building on the G20's outreach efforts and those of the 3G, as well as other informal groups, the thematic debate examined various forms of interaction between the G20 and the rest of the world.

September 26th 2013: CIFA participated to the exhibition by REZA, a dedicated humanitarian and photographer, on the subject of "Azerbaijan, Land of Tolerance" *(picture above)*

September 27th 2013: CIFA was invited by the High Representative for the Alliance of Civilizations to participate to UNAOC Group of Friends Meeting - Ministerial level.

Finra Wants to Get Too Invasive for Some Members

...now Finra is being perceived in whole new light by some. Its efforts to improve the data it wants to collect, in order to become a more effective regulator, have turned it into something akin to the NSA in some of its members' eyes...

"We have enough gathering of data by the NSA to last a lifetime," one comment posted anonymously on Finra's website about Finra's data idea...

Finra says it needs more, and particularly better formatted, data... It proposed the creation of a Comprehensive Automated Risk Data System (CARDS), through which it would collect account information and activity...

CARDS would complement the Risk Control Assessment, a voluntary survey that broker-dealers and investment advisory firms submit directly to Finra and that provides the agency with firms specific rather than broader industry data...

WSJ, Feb. 20, 2014

Risks remain in G20 clearing plan

Is central clearing for OTC markets a Schlieffen plan for global capital markets, asks Thomas Krantz .

...The Schlieffen plan of 1905 suited German defence: in the middle of Europe, success required not splitting military resources between east and west...

...We are no longer theorising; the financial services industry is advancing into plan execution. We hope that the authorities and market participants will remain adaptable, and that they will watch over infrastructure risk profiles...

Financial Times, Jan. 29, 2014

Banks face forex legal battle

The banks could be liable for up to $10bn of damages to the asset management industry, according to an analyst specialising in complex financial losses, who asked to remain anonymous...

Large investors are increasingly seeking damages from financial institutions as a global investigation into the alleged rigging of the $5.3tn a day spot market gathers pace.

Financial Times, Feb. 9, 2014

Apple Repurchases $14 Billion of Own Shares in 2 Weeks

Apple has bought $14 billion of its own shares in the two weeks since reporting financial results that disappointed Wall Street, Chief Executive Tim Cook said.

Mr. Cook said Apple was "surprised" by the 8% decline in its shares on Jan. 28... ...projected and warned that revenue in the current quarter might decline from the same period a year ago. Mr. Cook said he wanted to be "aggressive" and "opportunistic."

WSJ, Feb. 6, 2014

Bank of England faces scrutiny over forex

The Bank of England is facing scrutiny over whether officials there knew and tacitly approved of the behaviour of traders who now face allegations that they rigged key foreign exchange benchmarks...

A BoE spokesperson said: "The Bank of England has already released its record of the April 2012 meeting and we are continuing to support the FCA in its investigations"...

Financial Times, Feb. 7, 2014

Investors Bolt From Stock Funds Into Bonds

Money Began to Flow Back Into Bond Funds in January after Seven Straight Weeks of Outflows.

Traditional U.S. stock mutual funds and exchange-traded funds together saw withdrawals of $18.8 billion in the week ended Feb. 5, their biggest weekly withdrawals on record. The abrupt reversal, led by ETFs, comes after U.S. stock funds attracted $172 billion in 2013, the biggest inflow since the financial crisis...

...taxable bond mutual funds and ETFs soaked up $10.7 billion, their biggest intake on record, Lipper's data showed...

WSJ, Feb. 6, 2014

The History of the IMF and Greece's Bailout

While euro zone and International Monetary Fund officials secretly debate how to deal with Greece's ever-controversial bailout, it might prove instructive to go back to the genesis of the program...

WSJ, Jan. 29, 2014

Europe money market funds hit by outflows

...The funds, which control about €1tn in assets, saw net outflows nearly double last year to €69.2bn, the highest figure since €158.7bn was pulled out by investors in 2010, according to figures from Fitch, the rating agency...

Financial Times, Feb. 4, 2014

Governance watchdog accused of bad governance

Quis custodiet ipsos custodes? Who watches the watchmen? Arbiters of behaviour or morality are notoriously prone to falling foul of their own codes, so perhaps it comes as no surprise that the UN Principles for Responsible Investment initiative, set up to promote sustainable investment, is in a bit of a pickle over governance issues...

Financial Times, Feb. 2, 2014

Heading Off Privacy Problems—Before They Arise

With 'privacy-impact assessments,' companies understand how regulators and consumers will react to new products and services .

WSJ, Feb. 7, 2014

Rising Coal Use Clouds Europe's Future

Turn Away From Gas Seen Impacting Continent's Industrial Base... ...That is hardly what the climate doctor ordered—and it is part of what many experts see as an energy-policy mess...

WSJ, Feb. 6, 2014

Hedge funds: Mediocre performance fails to stop gush of new money

"There's something happening here. What it is ain't exactly clear."

Buffalo Springfield, the 1960s rock group that penned these words, was certainly not writing about hedge funds in 2013. But they could have been...

...The least likely strategies are seeing strong asset growth. And 100 companies now control 61 per cent of all assets...

Financial Times, Jan. 5, 2014

Mifid II complexity label threatens synthetic ETFs

...A complexity label that will be assigned to certain Ucits products as part of the delayed Mifid II directive could add another nail in the coffin of synthetic exchange traded funds, according to experts... ...As a result, retail investors will no longer be able to access structured Ucits directly without having received financial advice... ...A number of ETF providers have already scaled back their involvement with synthetic products, instead favouring physical replication...

Financial Times, Jan. 2, 2014

Unbundling the nation state

Countries have started to outsource public services to each other.

..."G2G" trade is not new, though the name may be. After the Ottoman empire defaulted on its debt in 1875 foreign lenders set up an "Ottoman Public Debt Administration", its governing council packed with European government officials...

...The most radical form of G2G is the delegation agreement: the government of one country providing a public service in another, which in effect cedes part of its sovereignty...

...No one knows the size of the G2G market. Governments rarely publicise deals, not least because they fear looking weak. And there are formidable barriers to trade. The biggest is the "Westphalian" view of sovereignty, says Stephen Krasner of Stanford University: that states should run their own affairs without foreign interference...

The Economist, Feb. 8, 2014

Exchange Halts Bitcoin Withdrawals; Prices Drop

The move, due to an increase in withdrawals, by the Mt. Gox exchange underscored the hurdles facing the fledgling virtual currency....

WSJ, Feb. 7, 2014

Brokers, fiduciaries romp in muddy middle

...Confusion over the roles that financial professionals play is rampant. A nominal line separates brokers ... from advisers, who as fiduciaries should act in an investor's "best interests" and avoid conflicts in their dealings...

Financial Times, Jan. 2, 2014

Co-Régulation:
le modèle français

L'ANACOFI a fêté le 13 mars dernier son dixième anniversaire.

La première association française d'IFAs, forte de plusieurs milliers d'entreprises et disposant d'une position unique en Europe de ***co-régulateur*** *de fait, offre ici une lecture de la situation de nos professions en France.*

Quoi de neuf sur le marché des IFAs français?

2013 aura été l'occasion de voir déployer le nouveau format de notre fichier national.

Toutes les entreprises du conseil et de l'intermédiation en finance, banque ou assurance sont maintenant inscrites sur un registre selon des standards comparables.

Nous avons donc aujourd'hui environ 75 000 agréments d'entreprises actifs pour un peu plus de 45 000 entreprises différentes. On peut considérer que les courtiers ou conseillers *(non agents liés)* représentent un tiers de ce chiffre.

Si on regarde les chiffres plus finement, ce nombre pourrait être porté au-delà de 45% mais une fraction de ces non liés est, en fait, filiale d'agents liés, ce qui n'est pas sans soulever des interrogations.

La mise en place des nouveaux fichiers découle d'une réforme votée en 2010 dite **LRBF** *(Loi de Régulation Bancaire et Financière)*.

Ce texte avait entre autre, la volonté d'anticiper la Directive MIF, mais aussi de corriger les aberrations d'une situation dans laquelle coexistaient des statuts professionnels récents et modernes et d'autres, régissant des métiers connexes ou complémentaires, imaginés à l'époque de la très ancienne Loi bancaire du début des années 90 voir … à celle de textes des années 70.

Le nettoyage s'est donc accompagné du transfert de fichiers légaux, qui n'a pas été de tout repos pour les professionnels concernés, et d'une vérification des compétences de certains dirigeants ou conseillers.

Si le texte et le système ont été activés début 2013, les courtiers en bancaire *(appelés* ***IOBSP*** *pour Intermédiaires en Opérations de Banque et Services de paiement)* avaient jusqu'au début de 2014 pour prouver la réalité de leur compétence. La date fatidique passée, ce sont 26% des professionnels qui viennent de perdre leur agrément.

Dans le même temps, nos deux autorités de tutelle, que sont l'**AMF** *(Autorité des Marchés Financiers)* et l'**ACPR** *(Autorité de Contrôle Prudentiel et de Résolution),* ont produit durant l'été une mise à jour très complète de la doctrine qui s'attache aux conseils financiers et à l'intermédiation en assurance.

Ces textes majeurs, sortis en pleine réorganisation de toute la sphère, ont contribué certes à clarifier le marché, mais également à rendre l'année très lourde pour les professionnels obligés de gérer de front des évolutions dans tous les domaines relatifs à leur organisation.

Du côté de la clientèle et des marchés traités, nous n'avons pas pâti d'un affai-

David Charlet
Président

blissement de l'intérêt des clients, mais d'un coup de frein sur l'activité de ces derniers.

Nous devrons attendre quelques mois pour que notre enquête annuelle soit terminée. Cependant, nous savons déjà que l'accompagnement sur les actifs fonciers a diminué, descendant vers 23%-24%, alors qu'il représentait il y a peu presque 30% de nos chiffres d'affaire. Un autre élément notable est l'accroissement de l'activité sur les produits purement financiers et dans tout ce qui touche à l'accompagnement de l'entreprise *(son financement)* ou de ceux qui investissent en elle.

Pour conclure ce tableau rapide, il faut encore noter que nous assistons à une accélération des disparitions et des regroupements d'entreprises, tout en bénéficiant toujours d'une image qui génère un niveau très élevé de création d'entreprises.

On ne peut donc pas parler d'une baisse du nombre de nos entreprises, mais d'une moindre croissance que par le passé.

Le phénomène des produits atypiques est perçu comme une caractéristique du marché français de l'épargne. Alors … Mythe ou réalité?

En France, ces dernières années, il se dit que les IFAs *(en français CIF / CIOB et CIAs ou encore CGP)* ont été les principaux prescripteurs de ce que nous avons appelé les produits atypiques.

Si certains y voient de potentielles arnaques, d'autres pensent simplement qu'avec ces supports il est possible de retrouver un peu de cette rentabilité que nos placements «classiques» ne savent plus servir. De fait, certains ont été des embryons de solutions devenues plus classiques puisque rentrées dans la nouvelle réglementation dite FIA *(Fonds d'Investissement Alternatifs)*.

Outre le problème de la baisse de rentabilité des actifs non risqués, ces produits sont apparus au départ du fait de la diversité historique des solutions qui existent dans notre pays et, plus tard, des niches fiscales que notre système a généré.

Ces solutions occupent le devant de la scène médiatique depuis assez peu de temps et enflamment les débats entre confrères et autorités. Tant et si bien que, dans notre étude 2013 sur 2012, nous avons essayé d'identifier la masse que cela représentait. Il ne semble pas que sur 2013 les volumes aient été augmentés. En revanche, le risque s'est matérialisé puisque des incidents ont été répertoriés par nos organisations.

> *« Nous assistons à une accélération des disparitions et des regroupements d'entreprises, tout en bénéficiant toujours d'une image qui génère un niveau très élevé de création d'entreprises. »*

Une vraie surprise pour nous aura été que ces solutions représentent moins de 0.5% du Chiffre d'Affaires de nos entreprises. Pour autant, celles nées dans cette sphère particulière et passées dans le domaine du «presque classique» avoisineraient les 3% de ce même Chiffre d'Affaires. Or, on se rapprocherait alors de ce que représente les revenus tirés du Crédit, prestation très classique de nos entreprises, bien que marginale.

Enseignant et soutenant également un mémoire sur un sujet de recherche cette même année, je décidais l'année dernière de développer une méthode d'analyse des solutions atypiques, permettant de faire apparaître un niveau d'atypicité et un niveau de risque des solutions d'investissement.

Le présent article n'a pas pour vocation de détailler mes conclusions, mais il est un fait étonnant que je soumets à votre réflexion: il apparaît que la définition en droit français du produit atypique n'existe pas et ne peut même pas se construire simplement!

Cette mode française ne serait-elle pas alors tout simplement un engouement pour ce qui n'est pas un produit régulé? S'agirait-il de parler d'investissement dans les entreprises, dans des actifs relevant de ce que l'on appelle «les droits réels», mais aussi de l'univers des arnaques? Bref, serions-nous en train de parler du monde réel tout simplement?

Cette mode supposée et les dernières évolutions doctrinales auront amené au rappel de ce que nos professionnels doivent garder en tête chez nous comme ailleurs: leur responsabilité et la nécessité qu'ils ont d'analyser ce qu'ils proposent à un client qui n'est pas un professionnel.

Là est bien non pas une mode, mais la prise de conscience principale actuellement en cours de nos IFAs.

A mon avis, et autant que la crise toujours perceptible, cela va changer fondamentalement notre marché, nos modèles économiques, tout autant que la forme et l'organisation de nos entreprises dans les 3 ans à venir. ■

David Charlet

The UK advice market: still in transition

The market for financial advice in the UK has been in transition since The Retail Distribution Review (RDR) was announced in 2006. It's not over yet with more significant changes to come between now and 2016. But the value of advice is growing, and through greater transparency and sector consolidation we are seeing a shift in power towards financial advisors.

In the UK retail investment advisors (RIAs) no longer accept commission as payment for a product sale and/or the provision of financial advice. The number of RIAs has reduced by 50%, from around 40,000 to just over 20,000 in ten years *(2003-2013)*. Retirement, the need to sit exams to achieve new minimum qualification requirements and unsustainable business models are some of the reasons why there has been such a dramatic reduction. The regulatory definition of 'independence' has changed and additional terms have been introduced to define the type of advice on offer: 'restricted' and 'simplified'.

These are some of the recent changes that have taken place in the UK following RDR, the outcome of which came into effect 1 January 2013. These changes are redefining the UK advice market and placing product charges and margins under pressure at almost every level. Many advisors argue that the changes have left some previously served segments of the UK market without access to advice, leaving them worse off. On this basis some believe RDR has not been a success. But is this the case?

10 years ago the UK market was still largely dominated by advisors selling products and receiving payment in the form of up-front or 'initial commission'. This often meant that advisors were incentivised to sell as many products as they could to achieve their sales targets. Understandably, many sold products that paid the highest levels of commission *(for example, bonds paying between 7-9% initial commission)*. But often, limited attention was paid to their clients overall personal circumstances, current financial position or financial goals over the short, medium and long term.

Every few years their client portfolios would be reviewed and to maintain levels of revenue, advisors could be tempted to recommend their clients switch assets from one product to another. At this time, the share price of life companies in the UK market was heavily influenced by 'new business' so they had good reason to offer high levels of commission that wrongly encouraged this kind of behaviour. Incidentally, there was very little actual new business. It was largely the same money moving every few years from one life company to another and for this reason asset retention was a significant issue.

Although many of these firms were operating as 'independent' it was not uncommon to find the majority of client assets held with a small number of providers. This was a natural consequence of the commission structure and did not always benefit the client. They believed their advisors were acting in their best interests and in many cases had no idea how much they were paying for 'advice'. In fact, most believed it was free.

Innes Miller

Head of

Business Services

Standard life

Innes Miller is Head of Business Services for Standard Life. He joined in 2012 to establish a business support services capability for financial advisors and wealth managers.

Prior to that, Innes spent four and half years with EY (Ernst & Young) in their Insurance sector team, which included 18 months as Head of Business Development for Central, Southern and Eastern Europe where he also spent time speaking to local regulators and industry groups about the Retail Distribution Review.

But around 10 years ago things began to change. A small, influential group of advisors realised that building a business where income was derived from initial commission meant that the business itself was not worth as much as it could be. And they had a choice. Instead of taking initial commission, they could accept trail commission where each year they would be paid around 0.5% by providing an ongoing service. By doing so they would build a recurring income stream which would dramatically increase the value of their business.

At this time, there was a growing interest in wrap platforms and how they were changing the Australian advice market. Over the next two to three years a growing number of UK firms started to think about how, by placing wrap at the core of their business they could move away from selling products to delivering a financial planning service where they received payment on an ongoing basis. These firms were typically described as 'new model'. A number of the life companies and new market entrants started developing these platforms to meet growing interest and demand.

Recognising the positive change that was taking place across the market, the Financial Services Authority (FSA) launched RDR which sought to build on this positive change and accelerate the market towards being more client centric, whereby they would know exactly how much they were paying for advice, platforms and funds - the standards of which would be driven higher through improved levels of professionalism. This has led to perhaps the most significant period of change the UK advice market has seen, and it's only the beginning.

Under what some describe as 'RDR II' further changes are in progress or on their way. There have been changes to the way wrap platforms and fund supermarkets are paid by fund managers. To date, fund

managers would offer their funds through a single share class and differentiate pricing by platform or distributer by offering rebates. As part of RDR, from 6 April 2014 this practice will no longer be allowed for any new investments. Where an investment has made before this date via a platform, the rebates on these will come to an end in April 2016. By this time, advisors should have moved clients to a new more transparent fee arrangement.

In response to this change in regulation, fund managers are moving to 'clean share pricing' where the rebate is removed. The implications are profound and the changes more wide-reaching than RDR. Through the unbundling of charges, fund management fees will become far more transparent and already we are seeing leading platforms and distributors applying their buying power to secure the best terms for their customers knowing that it will become easier to compare fund pricing on a one-to-one basis. *(Forthcoming EU legislation in the form of PRIPs and MiFID II seek similar outcomes)*.

Since the beginning of 2014, there has been a flurry of activity as a number of platforms have announced their new pricing structures. Already we have seen a reaction from some investors who are moving assets from one platform to another in search of lower fees.

Fund managers are being exposed to increasing pricing pressure, which is good news for retail investors. It also means the reforms will make active management less expensive, closing the gap on passive management. This all has some important implications for financial planners who must decide on their approach to investment management and clearly define their business model - and where they add most value.

Consequently, firms are choosing in many cases to focus on either financial planning or wealth/investment management. Their decision is being determined by their client needs, the level of risk they are prepared to accept within their business, and the level of resource and capability within their firms required to deliver the service.

Among the financial planning community we have seen an increasing move towards the outsourcing of investment management to fund managers offering risk rated portfolio's, managed portfolio services and full blown discretionary fund management. We have also seen some firms move entirely towards the use of passive investments. But as the pricing differential between active and passive closes, we may see more firms adopting a hybrid approach.

We may also see a shift towards 'restricted', away from independence. Restricted models will be less costly to run and require less compliance rigour. However, the regulatory definition of business models is perhaps one of the most contentious and confusing areas post-RDR. MiFID II may have an influence on what they mean in the UK and there is an outside chance their definitions may have to change depending on whether or not the UK chooses to opt out of certain parts of the legislation.

But increasingly advisors are dropping the regulatory definitions as part of their brand and referring to them only as part of the disclosure requirements. Fewer firms refer to themselves as being 'independent' or 'restricted' instead adopting terms such as 'financial planner' or 'wealth manager'. Significant debate remains around fee structures as they continue to evolve. While the majority of firms continue to charge clients on a percentage of assets under management basis, more firms are introducing fixed fees for certain types of work, such as reviewing existing arrangements, or setting up a financial plan or cash flow projection.

Taking this a step further, we are seeing a small but growing number of firms move away altogether from charging fees on a percentage basis, to flat fee retainers and fees for discrete pieces of work. These fees are calculated on the basis of hourly rates *(although the hourly fee should not be presented to the client, only the total cost)* where advisors are required to use timesheets. Similar to the approach taken by the regulator with RDR, some believe that in time *(but probably not within the next three years)* the regulator may seek to ban fees derived on a percentage of assets basis for two reasons. One is that the fee is still linked to a product sale and two, cross subsidisation can still exist. Advisors in the UK are extremely nervous about this possibility and the regulator probably accepts the challenges it could bring so soon after RDR. But if it happens it will push financial advisory firms to operate in the same way as lawyers and accountants.

So has RDR been a success? On the whole yes. Firms have moved from selling products to delivering a service. The quality of advice has improved and the behaviours and actions are driven less by product providers and the commission lever. There is pricing pressure that is benefiting the end client and perhaps most importantly, we are seeing value shift towards advice. And the demand for good quality advice is growing with many firms reporting improvements in client acquisition, revenue and profits during the last 12 months.

Last year there was an expectation that firms would suffer as a result of the transition. But many firms have demonstrated their ability to adapt and have taken the opportunity to create vastly improved service propositions they now charge a premium for. It was not uncommon to see ongoing fees increase from 0.5% to 1%. There is an expectation that at some point pricing pressure will see this falling back to around 0.75%, but I am less sure.

> *“ So has RDR been a success? On the whole yes. Firms have moved from selling products to delivering a service. ”*

Firms have become increasingly skilled at articulating and selling the real value of what they do and clients are rightly buying it. Financial advice is not a price sensitive in the way that execution only is and for this reason margins will be retained.

The key to a successful transition for firms has been to in the first instance to really understand who they are serving. Who are their clients, what do they do, what do they want and how can we as advisors best serve them? How should the service be structured and what is the value it will deliver? The firms that have been the ones to develop a clear, robust and repeatable service proposition are the ones now in a strong position. The structure of these firms has followed their strategy – in that they have defined their service and strategy and changed their business model accordingly. They have invested in marketing and their brand. They have given careful consideration to the end client experience that encapsulates the initial contact, quality of written materials and their website through to the décor in their office. All contribute to defining an authentic brand and experience that clients buy in to.

Scale is also becoming more important as the costs involved in running an advice business rise. This in, turn is driving consolidation. Many firms operating at the lower end of the market are for sale. As firms become bigger, they are introducing processes that you would expect to find in any well run medium sized business covering business planning, financial management, people and talent management, marketing and business development and compliance management. In late 2013, Standard Life published research *(A Measure of Success: Business management best practice for advisory firms*)* that looked at business management best practice among leading UK advice businesses. While there was nothing that could be considered to be that new, it did demonstrate that firms have made significant progress in their development and should be commended for doing so.

So what lies ahead? Consolidation is set to continue. The level of assets on wrap platforms *(currently sitting at around £270bn from a standing start around 10 years ago)* will continue to rise. Advisors will further refine their service offerings. Price pressure for platform and fund managers will continue to grow, while the value and power shifts towards advice. All of this change will lead a greater focus on the lifetime needs of clients, and to better outcomes. Given the challenges faced by the regulator in changing a sector with long standing practices, all in it can be considered to be a success with the advisor and end client set to gain. ■

** Standard Life: '**A Measure of Success**' can be found at http://library.adviserzone.com/gen1967.pdf*

Innes Miller

EU POLICY BRIEF

The EU is committed to actively work for strengthening the regulation and supervision of the financial sector, in ensuring the proper and sound functioning of the financial institutions and financial markets.

In particular, attention is given to the revision of the Markets in Financial Instruments Directive, the Crisis Management and Bank Resolution Framework, the revision of the Credit Rating Agencies Regulation, the Omnibus II Directive and the Capital Requirements Directive and Regulation.

MiFID II: In October 2011 the Commission has tabled proposals to revise the Markets in Financial Instruments Directive. The Directive and the Regulation aim to make financial markets more efficient, resilient and transparent; to strengthen the protection of investors; to increase the supervisory powers of regulators; and to provide clear operating rules for all trading activities. The European Parliament's ECON Committee has voted on the proposals on 26 September 2012, with the Plenary adopting them on 23 October.

At the beginning of July 2012 the European Commission has presented a three-pillar legislative package dedicated to rebuilding consumer trust in financial markets:

1. IMD II: The aim of the revision of the Insurance Mediation Directive is to improve harmonisation and legal certainty; to facilitate cross-border provision of insurance mediation services; and to reduce existing difficulties in the application of the current IMD at national level. The Rapporteur in ECON is Werner Langen *(EPP, Germany)*. I MCO and JURI Committees are associated to the process as 'for opinion'.

2. KID PRIPs: The Regulation proposal aims to improve the quality of information that is provided to consumers when considering investments. The Rapporteur in ECON is Pervenche Berès *(S&D, France)*. LIBE and JURI Committees are associated to the process as 'for opinion'.

3. UCITS V Directive: The Directive proposal amends the UCITS Directive with regard to depositaries by prescribing precise rules related to the safekeeping of securities by depositary institutions. The Rapporteur in ECON is Sven Giegold *(Greens, Germany)*. JURI Committee is associated to the process as 'for opinion'. ECON Committee has voted on 21 January 2013. The adoption by the Plenary was scheduled on 12 March. ■

www.fecif.org

Other issues for the Financial Services Industry...

Mortgage Directive: The complexity of the issues at stake and the large number of amendments tabled required more time for deliberation. The vote in ECON has been postponed several times, amidst the unease of some of the Shadow Rapporteurs with the timetable proposed and the compromise amendments proposed by the Rapporteur, as well as the contrasts with the IMCO Committee. ECON Committee voted in June. The adoption by the Plenary was scheduled on 10 December 2012.

CRD IV: In July 2011 the Commission adopted a legislative package to strengthen the regulation of the banking sector. The Directive governs the access to deposit-taking activities and the Regulation establishes the prudential requirements institutions need to respect. The package has been adopted by the Plenary on 21 November 2012.

Forthcoming EU initiatives...

Directive on Insurance Guarantee Schemes: The Commission has published a proposal for a Directive to harmonise insurance guarantee schemes by the end of 2012.

Securities Law Directive (SLD): The Commission has published a proposal for a Directive on legal certainty of securities holding and transactions by the end of the year 2013.

IORP Directive: The Commission has announced an extension to the timetable for overhauling the Directive on the activities and supervision of institutions for occupational retirement provision to allow more time for preparing the necessary impact assessments.

The interest of a few versus global economic interest?

Pierre Christodoulidis

Co-Founder & President

of

CIFA

www.cifango.org

From the 80's on, several major events shocked global finance. From the Gordon Gekko caricatural figure to the mortgage/subprime meltdown, regular flash alarms occurred, such as the bankruptcy of the Continental Bank in the 80's, the LTCM speculative hedge fund in 1997 and the Asian countries meltdown as well as the ENRON and AIG scandals. It seems, however, that none of these giant failures could derail the financial industry's rise. Financial market places across the world attracted astronomic amounts of capital, especially thanks to their frenetic trading techniques without any economic justification.

The 2008 collapse obliged the governments to bail out, with the citizens' money, several of these institutions leaving millions of people in poverty and unemployment.

Some say: ***"the future's going to be different"*** as Mr. R. Fisher, President of the Federal Reserve of Dallas and a former Wall Street banker and hedge fund manager. He says: ***"the big complex banks have been chastened"*** and ***"there will be more hitting of singles and swinging for the fences".***

Only few people agree totally with this statement. On the contrary, the prevailing consensus tends to consider that very few bankers and speculators have been punished for misgivings, easily identified as closer to criminal behaviour than mere greed or cupidity.

From the depth of the crisis, banks have continued to pile up profits every year *(after being bailed out by their respective governments)* to the record highs after the 2nd quarter of this year when large banks in US declared an aggregate profit of over $42 billion.

The largest financial institutions were left untouched globally *(with the exception of the UK)* yet with nearly no criminal charges against the managers and their accomplices responsible of the financial debacle. The notion of **"too big to fail"** was also put aside, bringing the feeling that governments want to avoid addressing this systemically dangerous notion.

Despite a few inroads through a plethoric regulation created since 2008, it is hard to measure the impact of new regulation on the large players. Some numbers suggest that banks do not any longer enjoy the free ride of the past, but the real impact is still hard to evaluate.

In the EU, with few exceptions, no apparent sign of political pressure on the "too big to fail" is even perceptible. In the US, both big parties sustained bills in Congress aiming to make the banking overhaul stricter. How efficiently they will be enforced remains to be seen.

Mr. Phil Lamberts, a former IBM executive and presently a euro-deputy fights for a stricter supervision on the role of banks in the economy, declared ***"Everything that can be done to bring the financial industry back to what it's supposed to do, should be done".***

Banking lobbyists warn politicians that too much regulatory restrain within a shrinking economy might derail economic recovery. However, they bring no evidence that banks truly fulfil their main role of credit providers to the SMEs, which would help the economy to recover.

The authorities themselves are not immune to criticism. Which policies did they draft in order to stimulate the real economy? Which incentives did they grant to newly created enterprises? None.

Regulation might be one of the parameters of such a reform and the Basle Committee is at its third set of regulations. But, this is a one sided approach which has to be accompanied by plans which encourage the creation of new businesses.

From the "Junk bond" wave of the 80s to the "derivatives follies" of the 90s, profits *(and risk)* have grown exponentially. This trend was followed by the "liar loans" and subprime mortgages/requiring little documentation. We know how it ended. Many banks have leveraged the use of their proprietary capital *(within a low interest rate environment)* up to dangerous levels.

Let's take an example: a company like Walmart was borrowing \$59 to finance every \$100 in assets in its balance sheet. Citigroup, in contrast, was at \$94 to satisfy the same needs. UK banks were even higher.

With all that money that banks had at their disposal to gamble, the temptation was too good ...irresistible.

In 1990, global Financial assets *(bonds, loans, stocks)* were reaching \$56 trillion *(263% of the gross world product)*. In 2007, the numbers ballooned to \$206 trillion, equivalent to 355% of the gross world product according to McKinsey Global Institute.

In its last quarterly report, the Bank of International Settlements (BIS) mentioned ***"… the extraordinary measures by Central Banks - i.e., the unrestrained printing had awakened in the markets the illusion that the massive liquidity pumped into the market could solve the fundamental problems"***.

William White, former BIS Chief Economist, warned about an enormous credit bubble. His speech was nothing less than an "announcement of the big crash". ***"All imbalances he announced then have not gone away. Total public and private debt is 30% as measured by the GNP of developed countries. And, we have a whole new problem with bubbles in emerging markets which will end in a boom bust cycle"*** ...writes White in the British Telegraph.

Of course such "casino-like" excesses through financial leverage led to the

natural outcome which fatally had to happen. Hence, banks did not have the financial surface to absorb losses caused by the enormous level of leverage.

The healthy side of this outcome might be **(a)** more regulatory restrain, **and (b)** banks abandoning progressively a number of low profit activities. But, nobody tells us if and how these financial behemoths will return to their basic tasks: financing real economy and consequently growth.

To the opinion of many banking specialists: the process led to the creation of an elite club of banks designated by the term "too big to fail", whose dominance will tend to destroy hundreds of smaller competitors. Let's take an example: the independent financial advisors who open accounts for their clients with many banks *(as per their clients' wishes)* might face in the near future a very concrete risk. Large banks may decide, for these small operators, that their clients' holdings do not represent an interesting source of profit forcing them to transfer their clients' somewhere else or ... abandon them.

"They have created even larger institutions that, in the eyes of the marketplace, are even more assuredly back-stopped by government" ...says Kevin S. Warsh, a former Federal Reserve Governor during the crisis and presently a visiting fellow at the Hoover Institution at Stanford University, ... ***"that is bad news for the real economy".***

Unfortunately, this is bad news not only for the real economy, but for the entire capitalist system which, in order to survive, needs a large number of participants ensuring that a competitive environment prevails for the good of the investing/customer. In any economic activity, it must be guaranted the freedom of enterprise, the only principle protecting liberal society from drifts towards dangerous oligopolistic temptations. Will the interest of **"the few continue to prevail over the global economic interest?"** This remains to be seen. ■

Pierre Christodoulidis

100 milliards de dollars

Pierre Christodoulidis

Co-Founder & President

of

CIFA

www.cifango.org

C'est à ce jour la facture que les colosses bancaires américains ont déboursé à leurs avocats. La facture est salée et vise à couvrir des agissements à la limite des pratiques délictueuses.

Le montant est supérieur au total des dividendes servis ces cinq dernières années aux actionnaires des six banques concernées et dépasse les profits cumulés de celles-ci pour l'année 2012.

Selon des informations récentes publiées par Bloomberg, JP Morgan, Bank of Amercia, Citigroup, Goldman Sachs, Morgan Stanley et Wells Fargo ont dépensé les cinq dernières années en frais d'avocats, procédures légales, accords de compensation et provisions pour règlement de futures poursuites, liées à des pratiques délictueuses dans les marchés financiers — 103 milliards de US$.

Le prix de cette hémorragie ne semble pas cesser de sitôt *(dernier cas: JP Morgan qui a transigé pour 13 milliards de $)*. Après leur sauvetage extrêmement coûteux de la faillite, et après avoir éloigné le risque systémique et bancaire de l'économie, les autorités de supervision US se montrent plus à l'aise à enquêter et mener un nombre croissant de cas de pratiques délictueuses de ces banques devant la justice ou les forcer à des accords de compensation onéreux.

Il n'est pas du tout étonnant ni dû au hasard que le 40% des frais juridiques et de procédures surviennent après janvier 2012.

La majorité des poursuites concentrent:

a) La vente mensongère de papiers soi-disant sécurisés mais en réalité couverts par des hypothèques à hauts risques désormais connus sous le terme de «subprime»

b) La manipulation des taux interbancaires — Libor et Euribor qui servent à la fixation des taux de crédit correspondant à des milliards de dollars

c) La manipulation des prix des contrats des matières premières et des dérivés qui s'y rattachent et qui ont conduit les prix du pétrole, du gaz, de l'électricité ainsi que des soft commodities durant la décennie écoulée à des niveaux inquiétants.

FINMA *(Swiss Financial Market Supervisory Authority)* a introduit une action en justice contre JP Morgan et 17 autres banques les accusant d'avoir vendu des CDO et CDS *(à hauteur de 33 milliards de dollars à Freddie Mack et Fannie Mae)* prétendant que la qualité de ces créances était conforme aux critères couramment admis.

La réalité a prouvé que les emprunteurs de tels crédits n'avaient aucune capacité réelle de remboursement et que les banques ont surévalué la qualité de tels prêts en vue de les vendre sur les marchés.

Dans cette spirale de spéculation infernale qu'ont favorisée les pratiques illégales des banques ce ne sont pas seulement les cabinets d'avocats qui en profitent mais aussi une foule de lobbyistes, de conseillers juridiques et de juges. Des politiciens et les lobbyistes retirent de beaux revenus de l'énorme gâteau de la cupidité des banques.

Il est par contre curieux de constater que les co-auteurs de cette supercherie désastreuse et qui ont contribué par leurs agissements délictueux à tromper les investisseurs — *à savoir les fameuses agences de notation* — ne soient pour l'instant ni visées ni inquiétées dans ce contexte alors même qu'elles ont agi de concert avec leurs clients bancaires. ■

Pierre Christodoulidis

EU Financial Services legislation

The European Parliament published its draft report on enhancing the coherence of EU Financial Services legislation.

Two CIFA partners — FECIF and ANASF — participated to this very important consultation.

The results are frightening and demonstrate the level of "lack of realism" of the European Union.

Below, some extracts of this report:

1. ***Are there specific areas of EU financial services legislation which contain overlapping requirements? If so, please provide references to the relevant legislation and explain the nature of the overlap, who is affected and the impact.***

A number of respondents gave examples of specific areas of overlapping requirements in EU legislation already adopted. For example, Insurance Europe argued that there is duplication in, among other areas, the requirements for conglomerates in the Financial Conglomerates Directive *(FICOD)* and Solvency II, and between EMIR and Solvency II.

The Financial Conduct Authority gave examples of conflicting requirements in relation to the definition and responsibilities of home/host regulators across directives including the Prospectus Directive, Transparency Directive, UCITS *(Directive 2009/65/EC)*, AIFMD, MiFID, IMD, PSD and 2EMD which could all apply to the same firm.

However, most gave example of concerns related to legislation currently under negotiation. Frequently mentioned examples include:

— the relationship between the PRIPS regulation and the Prospectus Directive, MiFID 2, IMD2

— duplication of reporting requirements, in particular transaction reporting requirements under MiFID2 and EMIR

— rules on remuneration in AIFMD, UCITS V proposal, CRDIV, MiFID 2 which could differ but all apply simultaneously to the management of some investment firms

Some respondents were concerned that the problem would go beyond overlap into actually conflicting requirements which would make it impossible for firms to comply with all their obligations. The Association of British Insurers and European Payment Institutions Federation gave the example of potential contradictions between new proposals on anti-money laundering and on data protection.

Some respondents also emphasised the need to consider not only overlap within EU legislation, but overlap between the requirements imposed under EU law and those imposed by other jurisdictions. Examples given included any structural reforms of banks and rules applicable to derivatives…

2. ***Are there specific areas of EU financial services legislation in which activities/products/services which have an equivalent use or effect but a different form are regulated differently or not regulated at all? If so, please provide references to the relevant legislation and explain the nature of the difference, who is affected and the impact..***

Some respondents identified specific situations where like activities, products or services were regulated differently for reasons which were unclear. For example, the Autorité des Marchés Financiers *(AMF)* noted that while UCITS funds are required to use a depositary in order to protect client assets there is no such requirement for either EU Social Enterprise Funds or Venture Capital Funds even though these are available to retail

investors. The AMF identified cases – as in the differences between regulation of insurance-related investments and non-insurance investments which created opportunities for regulatory arbitrage which distorted competition and were not good for investors. These concerns were echoed by, among others, both the German Insurance Association *(GDV)* and the German Investment Funds Association *(BVI)*.

Others gave examples of difficulties which arose when horizontal issues were regulated in multiple pieces of legislation. For example, HM Treasury argued that dealing with the sanctions and powers of competent authorities horizontally would both save time in negotiations and also avoids discrepancies arising which made the provisions inconsistent and unnecessarily complex to apply…

3. ***Do you consider that the way EU financial services legislation has been transposed or implemented has given rise to overlaps or incoherence? If so, please explain the issue and where it has arisen, giving specific examples of EU financial services legislation where applicable.***

Some respondents gave specific examples of inconsistencies in implementation which gave rise to difficulties, whether in the specific information to be reported under the Short Selling Regulation *(Alternative Investment Management Association)*, the application of market abuse legislation in relation to the definition of "inside information" or in relation to market rumours *(Assonime)*, or the removal of flexibility in relation to tied agents through the transposition of MiFID in one Member State *(Fédération Européenne des Conseils et Intermédiaires Financiers "FECIF" and Associazione nazionale promotori finanziari)*. Some, such as State Street and the Association Française de la Gestion Financière *(AFG)* saw the problem arising in part from differences between language versions of the legislation which gave

Member States some scope to choose the interpretation they liked best.

Numerous respondents had concerns about the interaction between level 1 legislation and level 2 measures and guidelines developed by the ESAs and in some cases by national authorities. Allianz, among others, raised concerns about new concepts being introduced in Level 2 or even Level 3 measures and was concerned at the lack of a mechanism to appeal against ESA opinions and guidelines which constrained competent authorities. The National Association of German Cooperative Banks *(BVR)* argued that in EMIR there had been conflicts between the interpretative FAQs issued by the Commission and those issued by ESMA.

However, some saw positive aspects from the involvement of the ESAs. Amundi saw benefits arising from peer review by ESMA and the possibility to ask for a common interpretation of concepts, such as the UCITS free investment ratio. The AFG thought it would be a good idea to give ESMA additional powers to carry out direct enforcement.

A number of respondents had concerns not necessarily about the role of Level 2 as such but about the fact that the necessary measures had been prepared so late that it was extremely difficult to implement on time. The Swedish Bankers' Association and Swedish Securities Dealers Association and British Bankers' Association, among many others, gave the example of the late delivery of Level 2 measures on the Short Selling Regulation, a case the Association of Danish Mortgage Banks referred to as "horrific", while the Federation of Finnish Financial Services gave examples in relation to AIFMD. The Financial Conduct Authority underlined that regulators as well as firms face challenges in implementing the many new pieces of legislation. They were concerned that if insufficient time was given to implementation it could be wrongly assumed if problems persisted that the rules needed to be changed again when in fact what was needed was effective application of them.

Some respondents highlighted the difficulties caused by Member States failing to implement on time. Payments Council Limited gave the example of cross-border credit transfers taking place between a bank in a Member State which had transposed, and thus required the sending bank to ensure the full amount was received at the other end, and a receiving bank in a Member State which had not, allowing the bank to deduct charges. ■

fecif www.fecif.org

KYC and AML regulatory requirements
Adapt or disappear, this could be the question!

Financial advisors are not supposed to become Police investigators and even less computer specialists...

Who is the European financial advisor who does not complain about the regulatory landscape that is constantly changing? The reasons may vary from one country to another: England suffered the brunt of over-regulation heavily affecting existing business models and thereby destroying thousands of jobs, thus impacting negatively the interests of investors; France, awash in new regulations, had to adapt and cooperate with local regulators...

In short, too much regulation tends to ruin permanently the morale of all actors. A notorious difference, however, is observed among lawyers who are rejoycing about the new regulatory environment...

Believe that things might improve thanks to a Brussels' impulse is totally unrealistic. The most recent financial crises *(2008 and 2011)* have left too many scars in the collective memory. In particular, investors' protection and traceability have become a real obsession of the European super-regulator.

The professional financial advisory industry needs, however, to concentrate on growth, to devote enough time to clients and their needs, as well as to focus on new business development.

Within the advisory industry, if one looks more closely, the decisions taken to strengthen the protection of investors is a unique opportunity to restructure the business process and to stand out with a more professional and qualitative approach.

Obviously, this requires also an educational approach towards prospects and existing customers. It does highlight as well the increased benefits that can be delivered, in advising matter, thanks to a more rigorous business process and more regular updates.

Finally and most importantly: each actor must perform his job!

Financial advisors must not constantly have to fear of not being in compliance with rules and regulations. And, there is no need to become a computer specialist either.

KYC and AML: turn your weak points into competitive advantages, equip yourself!

KYC processes and customer AML mapping risks requirements are binding, but certainly not insurmountable.

In the short term, there will be an impact on the organization, as the new requirements will be perceived as constraints. Ultimately, the general organization is optimized for the greater good of all.

Tools should adapt to provide a guarantee of full compliance to regulation and must be designed to achieve significant productivity gains for professional users.

This will necessarily imply fine computing, and process support.

Without IT tools, no salvation

Two important examples highlight how regulation impact daily the financial advisors' work: KYC and AML. They are more

Axel Rason

Graduate: business school *(ISTEC Paris)* and Master 2 wealth managment specialisation *(Clermont Ferrand University)*

Co founder of IFAs' department - ODDO & Cie - Paris

Manager of IFAs' department - UBS France - Paris

CEO and co founder IFAs' platform - Cholet Dupond Partenaires - Paris

CEO and co founder IFAs' platform - FINAVEO & Associés - Paris

CEO and co founder of financial software company - UPSIDEO -Paris

relevant than ever and are also a source of great worry because regulatory constraints are numerous. Moreover, in order to ensure full compliance, implementing the required changes might be costly.

How to ensure that financial advisors, networks, brokers fully comply with the required due diligence in terms of clients data updates?

How to effectively update AML mapping for each client and for the entire company?

It goes without saying that those who continue to violate regulations, or attempt to comply with a hazardous manual organization, will tend to disappear ... or they will need at some point to get rid of their businesses at depressed value prices.

Salvation could come from providers capable to deliver simple and effective solutions, easily available and inexpensive ...

Essential features — Regulatory dashboards' edges in real time and tracking KYC/AML risks should easily be available through comprehensible regulatory tools. Alerts and automated emails, within required customers' updates, are also essential features to keep in mind when selecting future IT Regulatory Tools.

Dematerialization: issue for today, not tomorrow.

The financial advising profession must stay focused on what made its success for decades: being constantly available.

Today, it is no longer necessary to have mumerous meetings with clients in order to work effectively or to have them sign the required forms.

Again, technology can save time throughout regulatory processes while conveying as well a modern image.

Paperless, electronic signature, legal archiving, are all solutions that should be taken into account in the choice of tools, in order to provide evidence traceability

and enable very important productivity gains.

Enhance your goodwill and convey a modern image

Changing his organization to bear less regulatory risk and, therefore, have more time to devote to customers, inevitably enhances the value of your company ... or, at least, diminishes the risk of being forced to sell it at a deep discount.

Adapt: the winning bet!

Financial advisors cannot ignore this common sense rule: swimming against the current is useless.

Financial advisors, fully aware of the great challenge ahead due to a changing market environment, will come out even stronger if they get ready to comply with new regulations. The general organization of their firms must be optimized, the image conveyed could be improved as a result, regulatory risks are thus mastered and customers are better monitored. ■

Axel Rason


Diane Jacobs
Head of Business Development
www.nucleus.lu
Sheltering your Assets
Asset protection planning through Insurance solutions: protecting wealth in a highly uncertain economic climate.
Contact Nucleus today and explore the options available to build a wall around your assets.
NUCLEUS
Fresh ideas for your business
Member of
fecif
www.fecif.eu
Nucleus (Holdings) S.C.A. - 19 Rue Eugène Ruppert - L-2453 Luxembourg
Tel // +352 26 89 82 28 - Fax // +352 26 89 82 40 - info@nucleus.lu

Would Life Insurance be the best vehicle for Asset Protection?

This kind of life insurance policy has distinct attractions for those seeking a tax-efficient investment vehicle. Particularly in light of the EU Savings Tax Directive that impacts holders of offshore bank accounts.

However, the potential benefits are considerably broader in scope than simple tax savings: Asset Protector Insurance Bonds provide for tax benefits in most countries to varying degrees and for most EU taxpayers, the Asset Protector Insurance Bond offers a legitimate and tax efficient investment option:

- ***for assets invested within such a policy, no income taxes, capital gains taxes or other taxes will apply;***
- ***with proper planning, additional tax breaks can be enjoyed as well as benefits regarding asset protection, privacy and investment freedom.***

Nucleus (Holdings) SCA — *www.nea.lu*

Nucleus (Holdings) SCA has been structured as a private equity financial services investment holding company in which its management invests alongside investors in a number of insurance ventures across Europe.

Nucleus (Holdings) SCA (Nucleus), through its subsidiaries and associates, assists its partners by providing access comprehensive range of financial products and services, including: Life insurance products, Reinsurance services, Captive insurance company formation, Enhanced Annuities. etc.

What is Asset Protector Insurance Bond?

Portfolio bonds are at times referred to as ***"insurance wrappers"***. This stems from the fact that a portfolio bond literally "wraps" the protective legal shield of a variable life insurance policy around an investment portfolio. ***The structure thus combines a life insurance contract and a bank account to create a holding vehicle through which investors can allocate and manage their funds in many different investment strategies.***

Given it is a life assurance policy; there is a value payable on death. Though, this is usually a mere reflection of the value of the underlying investments. Generally, Asset Protector Insurance Bond secures only a minimum of life cover amounting to 101% of the value of the underlying account. This is paid out on the death of the last insured person included in the policy.

Most portfolio bonds available today allow the policyholder to choose investments from a selection of funds approved by the insurance carrier. The more advanced products, such as the Asset Protector Insurance Bond, have extended the level of investment flexibility substantially.

Asset Protector Insurance Bond gives the policyholder a broader choice including selecting a preferred private bank and asset manager to work with. These policies in essence have merged the benefits of personalized private banking services and wealth management with the legal benefits of life insurance.

Within Asset Protector Insurance Bond, the asset manager could invest for instance in:

— the client's own real estate

— stocks & bonds

— private equity

— gold

— art

— classic cars

— cash

The fee structures of an Asset Protector Insurance Bond bonds vary considerably. For an investment of €1,000,000 the one-time set-up fee will generally be around 1% of the premium invested. Total annual expenses, including all insurance administration and investment management fees, will range anywhere from 1% to 2.5% per annum, depending largely on the investment strategy selected. Interestingly, it is the more flexible and personally tailored products that can be obtained at the most interesting terms.

What is the tax treatment of Asset Protector Insurance Bond?

The payment of the premium by an EU resident or domiciled individual policyholder does not give rise to any EU tax consequences, and it is not reportable to the tax authority in most EU Member States. Furthermore, all income and capital profits attributed to Liechtenstein Asset Protector Bonds grow free of any income and capital gains taxes.

In contrast, income and capital profits of investments held within some other EU Member States life insurance policies issued by local carriers are subject to taxation in the hands of the life insurance company, generally at the lower rate of tax (20%). Therefore, monies invested in Asset Protector Insurance Bonds work harder than those issued by some EU Member States resident insurance companies.

Here it is important to know that the anti-avoidance rules do not apply to life insurance policies. ***The income and capital profits attributed to life insurance policies are not deemed to be the income and capital profits of the EU policyholder.***

When will the EU tax trigger?

As long as the funds are held in the portfolio bond, no taxes are levied. However, on or following the occurrence of a "chargeable event" a charge to income tax will arise. The primary chargeable events are:

- the death of the insured person
- the maturity of the life insurance policy *(if it is a term policy, as opposed to a whole of life policy)*
- a complete surrender. Upon these events, the growth portion *(value received minus original premium)* of the benefits paid out is taxed as ordinary income

Furthermore, partial withdrawals from the policy of up to 5% of the total premium are permitted. This provides the policyholder effectively with "tax-free income" for up to 20 years.

However, one needs to beware that any withdrawal above the 5% allowance is considered a chargeable event. Moreover, if the 5% allowance is exceeded in any one year, the entire withdrawal will be taxed, not just the growth portion.

Finally, life insurance policies may be assigned in whole or in part for no consideration without a chargeable event occurring; this is helpful in the context of inheritance tax planning.

Why is there an increased investment choice?

Most Portfolio Bonds offered to EU persons are tax efficient, but the policyholder is restricted to investments into so-called "prescribed property".

By law, this means the investments must be in open-ended investment structures. Closed funds and other "private" investments are not allowed. Based on these requirements most insurance companies limit their customers' investment choices to a pre-defined list of insurer-approved investment funds, typically unit trusts and OEICs.

Asset Protector Insurance Bond provides a more personalized service to affluent investors. This policy, while still tax compliant, allow for far more advanced and specialized asset classes and investments, thus hopefully providing more opportunities to secure better returns.

As a matter of example real estate *(residential, commercial, etc.)*, patents & other intellectual property rights, fine arts *(paintings, sculptures, etc.)*, horses, securities *(stocks or bonds)* listed and/or non-listed, gold, funds, etc. are acceptable as underlying assets.

What are the further attractions?

1. Asset protection

Litigation is on the rise, not just in America.

Therefore, protecting one's assets from potential exposure to lawsuits, malpractice charges, nervous creditors or unhappy ex-spouses, is a key consideration of sound wealth management.

A multi-jurisdictional structure will afford a higher level of asset protection than structures with assets held onshore. In addition, Asset Protector Insurance Bond is protected on the basis of the fundamental life insurance laws. The assets held in the Asset Protector Insurance Bond are protected from creditors and plaintiffs. They cannot be seized or included in any bankruptcy proceedings.

Properly structured portfolio bonds protect your assets even if there is a judgment or court order against you.

2. Confidentiality and safety

Based on current EU rules, Asset Protector Insurance Bonds are not reportable to EU authorities. And, as long as the assets are held within the policies and no chargeable events *(as discussed on previous page)* are triggered, the Asset Protector Insurance Bond can be owned in full privacy and complete compliance with EU law.

Furthermore, the unique structure of a portfolio bond adds to its confidentiality and safety. Contrary to an offshore bank account or trust, the structure of a portfolio bond is such that the beneficial owner of the policy account is not the policyholder but the insurance company. Therefore, all transactions and investments are made in the name of the insurance company.

The custodian bank does not know the identity of the policyholder. This has tremendous implications on confidentiality. Ideally, one should only work with institutions that are domiciled in jurisdictions with a long-term record of watertight confidentiality rules.

Moreover, one should select jurisdictions that are not exposed and will not easily bend to the pressures and whims of one's home country. In this context, one might prioritize jurisdictions such as Switzerland, Luxembourg or Liechtenstein *(Civil Law)* over jurisdictions such as the Isle of Man or Jersey *(Common Law)*.

3. Fast payout in the event of death

Asset Protector Insurance Bond allows for assets to be inherited before probate is established. Asset Protector Insurance Bond will pay the cash value to designated beneficiaries without delay upon receipt of the death certificate.

4. Planning opportunities if you are going to live abroad...

As financial planners and wealth managers seek compliant offshore planning solutions and they recognize the unique benefits of Asset Protector Insurance Bonds, they are starting to replace the former champions of international tax and estate planning – trusts, foundations, international business companies (IBC's) and the like. In most jurisdictions, including the EU, trusts and foundations cannot offer the legal benefits afforded by adequately structured life insurance policies.

In particular, where clients are exposed to the tax rules of more than one country, sophisticated planners have started to employ portfolio bonds. A few examples of situations where creative planning and the advantages obtained with Asset Protector Insurance Bonds will help the reader to better recognize the possibilities:

(a) EU citizens frequently acquire property and retire abroad, in France or Spain. Often they are unpleasantly surprised by the very unfriendly Spanish inheritance tax rules for instance. Depending on the value of the property inherited and the relationship to the heirs, the Spanish inheritance tax rate can be as high as 82%! What's more, the Spanish authorities will not allow the heirs to sell or pledge the house before the tax is paid. Obviously, this may create a severe liquidity issue. A well-structured equity release plan in conjunction with a portfolio bond can make a big difference.

(b) another prominent holiday/retirement jurisdiction for EU persons is South Africa. On the same token, a large South African contingency lives in the EU. In South Africa, portfolio bonds benefit from similar tax benefits as in the EU. By combining these tax advantages with the privacy and asset protection advantages discussed above, one can create excellent structures for EU persons with effective or potential residency status in South Africa, or for EU persons immigrating to South Africa.

(c) EU residents have many ways to avoid income tax in the EU. However, they cannot invest in EU quoted investment trusts or unit trusts without becoming subject to taxation. This, however, is not the case when such investments are made from the protective shield of Asset Protector Insurance Bond.

Furthermore, due to the fact that similar tax benefits exist in other countries, Asset Protector Insurance Bonds make for excellent planning tools in cross-border situations, addressing the needs of mobile "world citizens". ■

Diane Jacobs
Business Development Director

Risk Profiling Solutions

Psychometric risk profiling is the cornerstone of investment suitability regulation and best practice fiduciary advice worldwide. FinaMetrica has been the pioneer of the scientific approach to risk profiling since its launch in 1998. It is now widely recognised as the progenitor and global bench mark for the matching of investments to the needs of investors.

The FinaMetrica Risk Profiling system comprises three tools plus procedures for their use in the investment planning process. The tools are:

- a psychometric risk tolerance test,
- a calculator mapping risk tolerance scores to portfolio risk using proprietary methodology, and
- a unique explanation of portfolio risk and return from a sophisticated modeling engine

The system is designed to be used in conjunction with wealth manager's/financial planner's investment planning software and has three aims:

- ensuring that investment strategies recommended to clients are consistent with their risk tolerance and that the risks are understood, *(so minimizing the likelihood of unpleasantly surprising a client and of a client making a legal claim for unsuitable advice with regard to risk)*,
- enabling clients to give their properly informed consent to the risks in their investment strategies and the investments themselves, and
- facilitating strong client relationships based on mutual clarity and understanding.

Risk Tolerance

Dealing with the client's risk tolerance is, in many ways, the most difficult challenge in the risk profiling process.

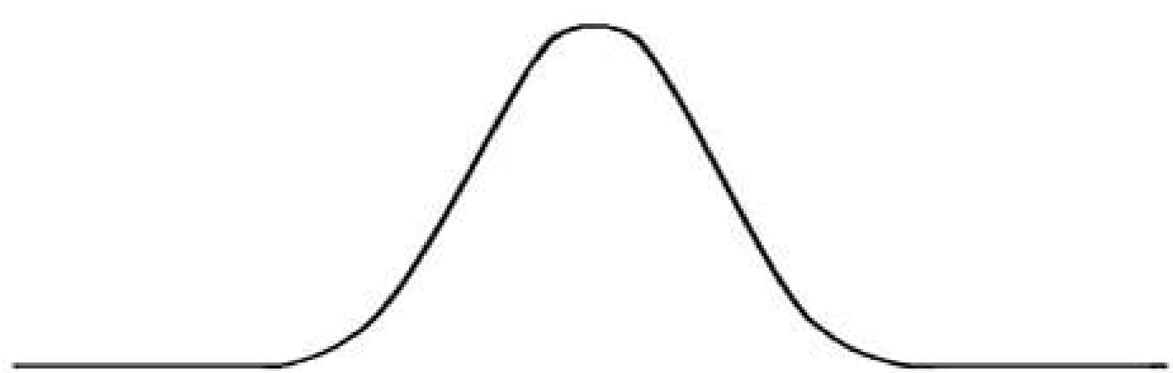
Risk tolerance is a psychological trait, a relatively enduring way one individual differs from another. As with other aspects of personality, assessing it is not easy, particularly with a new client.

It is 'soft' information, quite different in character from information about circumstances and aspirations, and it calls for quite different measurement methods.

Measuring Risk Tolerance

Psychometrics, a blending of psychology and statistics, is the scientific discipline for measuring attributes like risk tolerance. Psychometrics provides techniques for developing a valid and reliable test.

Our test developed over two years and since maintained by the University of New South Wales' School of Psychology, exceeds psychometric standards. We



Risk Group	1	2	3	4	5	6	7
Score Range	Less than 25	25-34	35-44	45-54	55-64	65-74	75 or more
No in Group	1%	6%	24%	38%	24%	6%	1%

have a 25-question test and a 12-question subset version.

Clients describe it as a worthwhile experience because they learn more about financial risk and themselves *(and, in couples, about one another)*. For our licensees it's both a marketing point of difference and the starting point for many important client conversations.

Risk tolerance is normally distributed. Our 0-100 scale - mean 50, standard deviation 10 - is divided statistically into seven risk groups.

The report's quantitative information includes the client's score, risk group number, percentage of the population who are more *(or less)* risk tolerant and a measure of the accuracy of the client's self-assessment. *(The last question in the questionnaire asks the respondent to estimate their score.)*

Clients do not necessarily answer the questions consistently. Usually 3 to 5 answers will be inconsistent with those typical for their risk group. People within a risk group, while similar, are not clones. In the report, inconsistent answers are highlighted below the relevant topic.

Our solutions integrate with other solutions

We provide our solutions in three different ways:

- stand-alone from our service delivery website *(includes detailed instructions on use with the other solutions)*,
- seamless third party investment planning software integrations, and
- seamless proprietary software integrations.

Each is designed to match particular needs and circumstances of our clients.

There is a growing demand to integrate with cash flow based financial planning systems with particular emphasis on the development of comprehensive and client focused Investment Policy Statements.

Assessing Risk Tolerance

Psychology tells us that, while test-based assessment is more accurate than interview-based assessment, the best assessments are made when psychometric test results become an objective input to an interview. Our test is the starting point for, and facilitator of, the critical conversation about suitable levels of risk. The structure of our report provides up to 18 discussion points for the wealth manager to use to enhance the conversation and enhance Trust in the relationship.

Our system includes comprehensive guidance on:

- discussing the report with the client,
- dealing with inconsistencies and, where required, making an adjusted assessment,
- dealing with differences within couples, and
- getting client sign off on the assessment as instructions about their preferred risk level.

The Risk Profiling Process

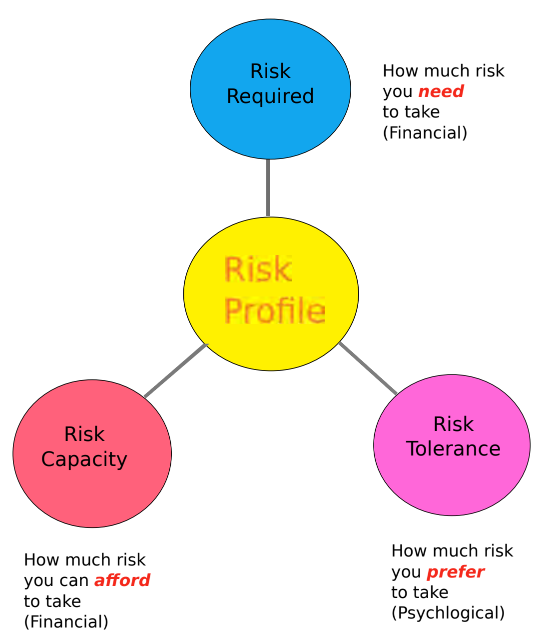
Assessing risk tolerance is usually the first step in a risk profiling process which determines the client's appetite for risk. A client's risk profile is the appropriate level of risk taking into account risk required, risk capacity and risk tolerance.

Risk required and risk capacity are financial, and risk tolerance is psychological, but with financial implications.

In the risk profiling process a wealth manager:

- assesses these three aspects of risk,
- identifies any conflicts between them, and
- guides the client through the necessary trade-off decisions to an optimal solution.

Investment planning software is used to determine risk required and risk capacity. Once an investment strategy to achieve



the client's goals *(risk required)* with sufficient certainty *(risk capacity)* has been identified, the risk in this strategy needs to be compared with risk tolerance.

The wealth manager guides the client through trade-off decision-making - suggesting alternatives and illustrating consequences in What-If scenarios using investment planning software.

Mapping Risk Scores to Portfolios

We provide an evidence based methodology to map risk scores to indicative multi-asset portfolios. These in turn can be compared to portfolios consistent with Risk Required and Risk Capacity. We also regularly update (11) Risk and Return guides each showing forty year plus portfolio histories illustrating ten per cent increments in growth asset exposures form nil to one hundred per cent. These have been designed to show comparative returns and volatilities benchmark against client preferences. The guides have proven effective both in engaging clients in the risk profiling trade-off decisions and in framing their investment expectations.

Our solutions have been developed in association with wealth management clients?

FinaMetrica's cofounders started with more than 40 years of wealth management experience - one as the founder of a wealth management firm and the other in providing services to wealth managers.

Our system has evolved constantly for 15 years in response to technical advances and client feedback from more than 5000 wealth managers.

Our system is available in English, *(Canadian)* French, German, Swedish, Finnish, Afrikaans and Simplified Chinese. We have licensees in 23 countries. ■

Paul Resnik

Paul Resnik

Paul Resnik is the Co-founder of FinaMetrica which provides best practice psychometric risk tolerance testing tools and investment suitability methodologies to financial advisers in 23 countries. Initial and ongoing test development was and is with the University of NSW Applied Psychology Unit. Since its 1998 Australian launch FinaMetrica has completed more than 630,000 risk profiles for in excess of 5,500 advisers. Data generated by the tests has been used in 23 published university papers. FinaMetrica is regarded by many as the world's pre-eminent independent supplier of investment risk profilers.

Paul has been in the financial services industry for more than 40 years. He founded financial planning, asset management, life insurance, consulting, recruitment, conference, wrap account software and financial planning software businesses. He has a detailed understanding of the financial services industry supply chain and personal financial planning. He believes that comprehensive financial advice must take into account client's risk capacities and resolve any conflicting goals through collaborative decision making.

Paul is an engaging public presenter and has spoken from industry podiums in Australia, the USA, Singapore, the UK, India, Malaysia, New Zealand and Germany. His current enthusiasms centre around the matching of investments to the needs of clients to meet both regulatory and best practice objectives.

FinaMetrica®

The Risk Tolerance Experts

FinaMetrica Pty Limited Contact Details

Please visit *www.riskprofiling.com* there is a comprehensive set of risk profiling materials to access and take a free test.

Paul Resnik, co-founder, FinaMetrica

paul.resnik@finametrica.com

FinaMetrica Pty Limited

Tel: +61 2 8668 9270 Fax: +61 2 9283 2395

Suite 703, Level 7, 31 Market Street Sydney, NSW, Australia, 2000

The Investment Policy Statement: A Survivor's Guide for Private Investors

What is an Investment Policy Statement?

We call the Plan or Guidance for an Investment Process "Investment Policy Statement" (IPS). It looks like the circuit design of a Black Box called Investing. It has multiple objectives like assessing the risk profile of the client *(cp. the current article from Paul Resnik)*, evaluating the life and financial goals of the mandator, designing and maintaining portfolios, implementing them and meeting compliance requirements like the Suitability one laid out by the different regulators. This regulations look worldwide quite similarly and aim at an "informed consent" between the investment service provider and the client. This is because there are obviously general rules how an investment service provider shall address his mandator's needs and *(best)* interests: s/he shall act in a professional ***(prudent)*** and ethical ***(fiduciary)*** way. These are generic requirements based on universal **human values** and more thousand years old behavior patterns for any kind of investment services from any providers in any field like advice, funds, insurance, property or venture capital.

An IPS can be a sizeable formal document with several links to other instances like the custodians' or tax reports or just a series of discussions and sketches. Regulators or market convenience can ask for specific *(written)* evidences of and a standard process for an IPS. Often the term IPS not even used just an equal scope defined in the law. However, a good IPS **qualified** first of all by the process how it created and not how many page it is or

what color graphs or how many "scientific referrals" inserted or what model or statistics it is based on. Below we explain the key ("mandatory") parts of an IPS. **Buyer beware**: if your advisor did not bring up these, you might be better off with a new advisor...

How to create an IPS *(advisor view)*

Creating an IPS for the client should be an elementary step in financial planning. Put it simple, **there is no financial** planning *(financial **advice**)* **without** providing the client with a proper/comprehensive **IPS** evaluating the investment profile by risk profiling, measuring the client's assets, creating portfolios for various *(life and)* financial goals, linking the assets to portfolios, allocating assets accordingly and picking investment vehicles needed for the implementation along predefined rules. This is also the foundation for any other planning activities like Retirement Planning or Insurance and Estate Planning etc. Awareness of the current investment profile of a client and the real impacts of his actions on his portfolio and the related Life Goals are very basics of any financial plan and critical to the financial fortune of the client.

There shall be an investment planning **engagement letter** outlining the scope, the roles, the process and the price of the mandate.

The IPS can be developed as a collection of client talks and documents like account statements, spreadsheets or risk questionnaires. Formal layout of an IPS is not decisive, again. A **trust based informed consent** between the professional advisor and the client outweighs any written proofs. A one or two pages sketch can be more useful than a 50 pages "Investment Plan" relying on incomplete assumptions or data or failing to address conflict of interests which usually stops the advisor to do the right job *(from the client's point of view at least)*. However, using a proper tool like investment or financial planning softwares covering one or more parts of an IPS can help, especially for advisors working with the mass affluent or HNWI or high end DIY clients.

An IPS is a must for every investor, from the small private one with a few *(tens of)* thousands to the large institutional funds with *(tens of)* billions of dollars. It is not sector specific either. Unit Linked wrappers, closed end funds or direct investments like property or venture capital or commodity still can *(shall)* use an IPS well.

Life Goals and Financial Status

There shouldn't be any investment advice without a clear evaluation of the client's financial goals, assets and liabilities, and his cash flow together with the risks which can have an impact on that. Just at the beginning of this overview shall be stated, that an IPS shall consist of as many portfolios as goals the client has or apply another method for managing the often concurring and different funding needs of the client's goals.

Financial Life Planning goes even further and includes the psychology of money, Natural Medicine and more in the discussions to outline future scenarios and the possible paths to reach the goals of the client.

Risk Profile

Senior planners say, there shall be a **fifty-fifty** balance between "scientific tools" and client talks to reach a reliable risk profile. Both parts help to meet the requirement summarized as "**Know your client**". Some regulators suggest certain criteria how to select the risk profil-

Figure: Model Portfolio configuration in PlanPlus-Planit

These rates of return are based on an inflation assumption of 2.25%

(Country or Region or Corp.)

Asset Class	Risk	Return	Minimum	Maximum	Model
Cash	0.50%	2.34%	0.0%	100.0%	5.0%
Fixed Income	0.86%	4.55%	0.0%	100.0%	25.0%
International Fixed Income	18.78%	5.30%	0.0%	100.0%	10.0%
Domestic Equity	26.93%	7.82%	0.0%	100.0%	10.0%
European Equity	21.84%	7.99%	0.0%	100.0%	10.0%
Global Equity	20.22%	6.83%	0.0%	100.0%	10.0%
Emerging Equity	38.41%	8.24%	0.0%	100.0%	10.0%
Global real estate	28.81%	8.33%	0.0%	100.0%	10.0%
Gold	14.10%	8.68%	0.0%	100.0%	10.0%

Model Portfolios	Risk	Return
All Income	1.18%	4.52%
Very Conservative	3.03%	4.85%
Conservative	5.45%	5.47%
Moderate	12.23%	6.57%
Aggressive	16.48%	7.07%
Very Aggressive	18.66%	7.49%
All Equity	21.94%	7.82%

Save Model As

Moderate

ing tool or qualify questionnaires or their vendors. The Risk Profile consists of the risk tolerance evaluation *(the risk you prefer to take - psychological)* and the risk capacity *(the risk you can afford to take - financial)* cp. the FinaMetrica approach. Later we will add the term "Risk Required".

Building and Mapping Model Portfolios

Model Portfolios (MP) are different mixes from a set of Asset Classes like Cash, Fixed Income, Stocks, Real Estate, Precious Metal, Commodities and more.

They are characterized by *(broad)* indices and demonstrate the theoretically achievable best combination of risk and return *(Efficient Frontier)*. The **historical view** shall help to understand their rp. behavior over time like returns and volatility for the client. Also projections shaping client expectations use this past data. Reports like "Global Investment Returns" from Credit Suisse presents this on a period of time more than 100 years. However, relying on this data *(only)* is less comprehensive. Most models refer to Markowitz's *(Post)* Modern Portfolio Theory or the CAPM with clean functions and nice graphs with heavy underlying assumptions like the EMH Efficient Market Hypothesis. **A model is as good as** its input and embedded functions. Model assumptions shall be disclosed to the client supposed s/he can understand them. The ultimate method to work with *(Model)* Portfolios still called Common Sense... like past data do not guarantee future returns, models don't either.

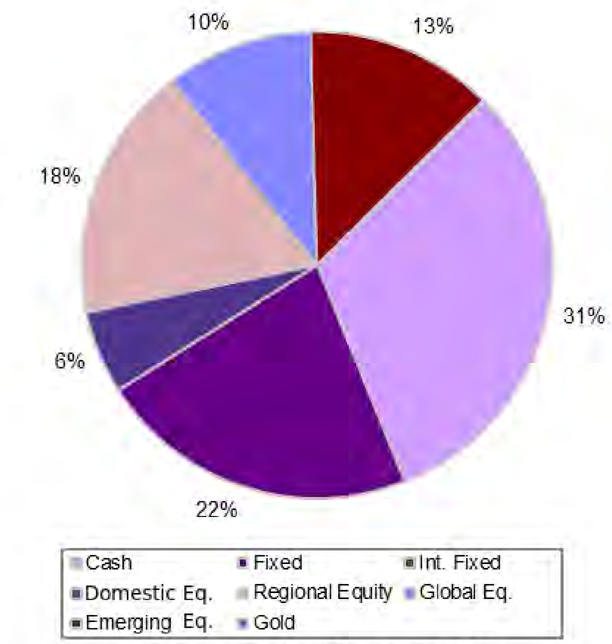
Mapping the Risk Profile of a client to a certain Model Portfolio is a function of risk profile, the investment horizon of the portfolio and secondary funds available to fund the portfolio's goal. The result of this mapping function is then a recommended particular investment portfolio, one of the Model Portfolios, to the client. The function, as special and critical part of the advice, has to be disclosed to the client again. It is important to understand, that MPs measured by a benchmark index but do NOT refer to any particular investment vehicle. E.g. "US Equity" is an Asset Class but VOO in spite of tracking S&P and having 150b in AUM is a product not an asset class.

Implementing the New Asset Allocation

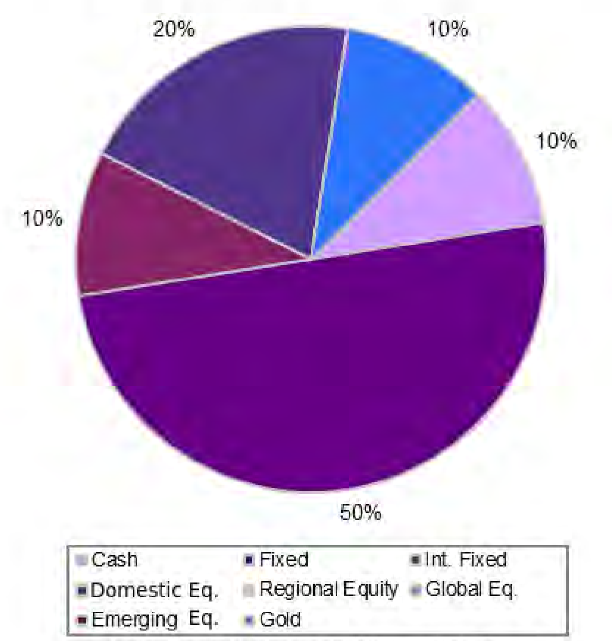
Clients often have bias or misconceptions about investing *(first they have to admit this is a complex matter)*. As a consequence of cognitive dissonance clients often stick to a desired portfolio somewhere between the current and the recommended *(target)* portfolio. This residuals sound like "I particularly prefer this or dislike that" or appear as "transactional detours" from the path outlined in the IPS. Keeping records and control asks for further efforts from the advisor.

Depending on the scope of the mandate *(IPS for a DIY, Picking and Implementation included or discretionary)* the next is to select or qualify the *(existing)* broker-dealers or trading platforms and cus-

Figure: Portfolio graphs, Current Portfolio above, recommended Target Portfolio below



Long-Term Historical Return: 4.11%
Long-Term Historical Risk: 11.36%



Long-Term Historical Return: 4.22%
Long-Term Historical Risk: 5.45%

Figure: Cut from a Mapping Table

Average	10 years or more	Little or no flexibility	Conservative
Average	10 years or more	Little to moderate flexibility to adapt	Moderate
Average	10 years or more	Moderate ability to adapt	Moderate
Average	10 years or more	Moderate to significant ability to adapt	Aggressive
Average	10 years or more	Significant ability to adjust	Aggressive
High	Within the next year	Little or no flexibility	All Income
High	Within the next year	Little to moderate flexibility to adapt	All Income

todians and to pick the securities *(generally: the investment vehicles)* covering the asset classes where rebalancing needed. For the selection you can use aggregators and filters, but the actually critical part, especially for small advisory businesses is to profile the target products like introduced in the article ***"Practice Guidance: IPS Implementation by using ETF portfolios"***.

Scenarios

Scenarios for the portfolio projections like a 2nd one with a real inflation *(cp. http://www.shadowstats.com)* or shock scenarios where asset classes change their historical trends and correlations build the basis for a broader portfolio immunization. One of the reasons to draw scenarios is globalization rp. the obvious sustainability issues with the "modern" global financial system. Another one is improving client awareness of the limits of modeling and possible future outcomes and potential shortfalls like a long term depression or local crises or Black Swan events. Scenarios shall address also contemporary and regional or local issues like QE or a currency crisis or regulatory burdens. Clients facing these optional views often change their portfolios according their actual risk tolerance and capacity in favor of a more balanced mix taking more and different possible future investment outcomes into account. There also are "forbidden" scenarios like increasing the expected returns by manipulating model assumptions like benchmarks to get a "beautiful" projection to impress the client *(cp. policy illustrations)* or in a more generic way to push for riskier investments to meet the "Risk Required" which is a rate of return the client would need to meet his dreams or too optimistic goals w/o awareness of the risks and any adjustments of the unrealistic goals.

Technical

The IPS shall explain all parts of the investment process like basic investment terms, the asset classes and their benchmarks, the model assumptions and limitations, the full delivery cost and risks of the investments and transactional rules *("Tactical Implementation")* to the client in a clear and understandable way. It has to be connected to other systems like the custodians and other planning fields

Figure: Proposed changes of the Asset Classes, Plus means Buy, Minus Sell.

Asset Category	Current %	Current Value (€)	Target %	Target Value (€)	Reposition %	Reposition Value (€)
Cash	24.15	64,700	9.72	26,030	-14.43	-38,669
Fixed Income	30.27	81,100	36.28	97,202	6.01	16,102
International Fixed Income	0.00	0	5.80	15,553	5.80	15,553
Domestic Equity	16.98	45,500	15.81	42,346	-1.18	-3,154
European Equity	6.32	16,930	4.48	12,000	-1.84	-4,930
Global Equity	3.60	9,650	4.48	12,000	0.88	2,349
Emerging	5.99	16,044	6.72	18,000	0.73	1,955
Global Real Estate	2.99	8,000	6.72	18,000	3.73	10,000
Gold	9.70	26,000	10.00	26,793	0.30	793
Totals	**100%**	**267,924**	**100%**	**267,924**	**N/A**	**N/A**

like insurance, tax and estate planning. It isn't a technical question, but has several impacts on it, whether the client goes for a passive or active approach or a mix of them.

Maintenance

Annual or on demand rebalancing asks for an IPS Update. Live events, market or regulatory changes can also trigger changes in the IPS. However, updating a well done IPS where all the critical discussions took place with the client and a proper investment system has been built, is a little challenge. Software tools can help, however the advisor shall be aware of the warranty illusion, that software itself with preset default configurations would deliver the "right solution" or guarantee that. ■

Further References

As further reference with useful links you can check the multilingual Planipedia pages on IPS.

Morningstar gives a free basic overview and Bogleheads a more sophisticated one on the IPS.

As for IPS software vendors check e.g. *www.planplus.com* or *http://www.ipsadvisorpro.com/*

Zoltan Luttenberger PhD

UK: così vicino, così lontano

In economia la Gran Bretagna con una marcia in più.

Così vicina e cosi lontana. Parliamo della Gran Bretagna, divenuta modello pressoché irraggiungibile di economia finanziaria per la cara e vecchia Europa *(Italia in primis)*, tanto vicina geograficamente quanto lontana per capacità di logiche vincenti e politiche economiche al servizio dei mercati, degli investimenti e della ripresa.

Qualche esempio? Nel 2013, nel settore immobiliare, Londra ha registrato un +47% rispetto al 2012 del numero di compravendite, per un ammontare di 19,9 miliardi di sterline investiti da gruppi stranieri; un trend che continuerà a salire e che, stando alle previsioni, nel corso del 2014 porterà a superare il livello di 20,54 miliardi di sterline, quota record risalente al 2007, prima dello scoppio della crisi.

In campo energetico è di un mese fa l'annuncio della francese Total che, per la prima volta, investirà nel Regno Unito per un progetto esplorativo alla ricerca dello shale gas nelle Midlands. Si parla di benefici economici per l'intera nazione: investimenti per 3,7 miliardi di sterline e 74mila posti di lavoro. Il governo Cameron ha previsto anche incentivi economici a chi consentirà l'effettuazione dei test sui propri terreni, siano essi privati o amministrazioni locali.

All'inizio del 2014 è nata nella City una nuova scommessa: il gioco è indovinare quante società britanniche saranno "corteggiate" nel 2014. Ad esempio il fondo sovrano del Qatar che detiene il 26% di Sainsbury, seconda catena di supermercati in UK, potrebbe riversare milioni di sterline nel Regno Unito per rilevare l'intero gruppo *(ne aveva già offerti invano 10,6 nel 2007)*.

Infine, con molto pragmatismo è arrivata da Londra, sul finire del 2013, uno strumento di politica economica per la crescita: il Funding for Lending Scheme. Il FLS si basa su un semplice principio rivolto alle banche UK: più prestiti concedi, meno ti costa il denaro.

La logica vincente della Bank of England e del Governo di David Cameron è stata quella di favorire chi aiuta la ripresa economica.

In base all'accordo, Bank of England presta denaro agli istituti che sottoscrivono il programma ricevendo in garanzia i prestiti fatti alle imprese dalle banche stesse.

Il programma, nato a Londra a metà del 2012, ha prodotto i suoi effetti positivi proprio con il rilancio del mercato immobiliare inglese *(già visto sopra)* ma benefici sono previsti anche per le Pmi e per le famiglie.

Il mondo anglosassone ancora una volta un passo avanti nel rilanciare la propria economia.

Aldo Varenna

Aldo Varenna

Aldo Varenna svolge l'attività di Private Banker a Milano e hinterland; da 30 anni e opera professionalmente in Banca Edmond de Rothschild Milano.

Professionista certificato EFA *(European Finance Association)* dal 2002, è membro del CdA di Efpa Italia *(European Financial Planning Association con sede a Rotterdam)*.

Componente dell'Executive Board di CIFA *(Convention of Indipendent Financial Advisors)* con sede a Ginevra, dal luglio 2011 ricopre la carica di Segretario Generale di Fecif *(European Federation of Financial Advisors and Financial Intermediaries)* con sede a Bruxelles.

Nell'ottobre 2009, Aldo Varenna ha aperto a Monza il suo ufficio personale in qualità di Private Banker di Banca Edmond De Rothschild, operando direttamente sul territorio della provincia di Monza e Brianza.

Reshaping Capitalism
to ensure sustainability

2013 Caux Round Table Global Dialogue

We, the participants in the 2013 Caux Round Table Global Dialogue held in Bangkok, believe that:

Our global future is being threatened by large and unsustainable imbalances in our free market economic system. The current unacceptably high levels of debt, unemployment, inequality, and environmental degradation are simply not acceptable. Despite significant recent progress in promoting corporate social responsibility and better governance, we face these unsustainable shortcomings in our global economy.

Poor governance, short-term strategic thinking and a widespread leadership vacuum, combined with an ongoing tolerance of crony capitalism and even corrupt practices, lie at the heart of the problem. And if our longer-term prosperity and well-being are to be secured, these shortcomings must be offset and the serious imbalances they cause corrected.

What then must be done? What steps must be taken? How do we fully capture the proven and unique capacity of free and fair markets to create wealth, deliver fulfilling employment, promote true justice, and lift the level of prosperity for all? How can we inform, energize and support policy and community efforts to bring about the needed positive change? How can we best harness the innovation and passion of the global business community to deliver these goals?

First and foremost, government, business and civil society must fully embrace the reality that their prospects are fundamentally interrelated and mutually dependent. Business, for example, can't be a power unto itself – autonomous from considerations of community and ecological well-being. And ethical and moral values cannot simply be subordinated to short-term interests and profits.

Even Adam Smith recognized that free markets do not automatically deliver effective mechanisms of good governance and accountability. Put simply, free markets by and in themselves do not always serve the common good, nor prevent corrupt behavior.

The solution to these shortcomings and imbalances is not to simply jettison the modern free market economy itself, but to re-institutionalize the values that made this system so successful in the first place. This means ensuring that wise stewardship, good governance, and concern for all stakeholders again become the core values that drive market behaviors and dynamics.

Ensuring that all market, financial intermediation and business activities are underpinned and guided by a rich set of ethical principles is critical to this. For the business world, the Universal Principles for Responsible Business[1] provides a comprehensive set of such principles.

With business holding many of the keys to the needed rebalancing, it is also critical that the barriers to more enlightened and long-term value creation be addressed. In particular, executive incentives must be re-aligned so that the full spectrum of business externalities and longer-term risks and opportunities are recognized and managed. After all, the real prospects and hence the true value of any company necessarily includes not just its relevant tangible assets and liabilities but also the intangible ones – such as customer loyalty, employee productivity,

CAUX ROUND TABLE

Moral Capitalism *at Work*

[1] *The Universal Principles for Responsible Business originated as a Caux Round Table initiative and were developed to be consistent with and adaptable to all cultural and religious traditions.*

supplier quality, credit worthiness, community approval, and environmental externalities.

Hence, the narrow financial view of value that prevails across business must move to one that embraces a true 'sustainability' balance sheet view. In other words, the full footprint of business, including that of their stakeholders and in the broadest societal and environmental sense, must be factored into their policy and decision making, and into their performance score cards.

Additionally, the relentless and ultimately unsustainable pursuit of compound growth for growth sake needs to be offset with broader considerations of value. Political, business and community mindsets must therefore shift from a near total pre-occupation with compound quantitative growth to ones equally concerned over the quality and sustainability of the growth. Perhaps the equilibrium of sufficiency rather than excess must be our goal.

This reshaping of the free market economy, however, leaves many practical challenges which the wider political, business and civil society communities will need to embrace together. Key amongst these challenges is a number of fundamental and interrelated questions:

- **How can** the management of sustainability issues, and hence the full spectrum of stakeholder risks, be reinforced on the part of boards as essential fiduciary duties?
- **How can** ethics and social, environment and governance (ESG) risk management become mainstream topics in the education of current and future business and political leaders?
- **How can** equity and other financial markets be reformed so that long-term value creation, rather than short-term speculation, is supported and encouraged?

" How do we fully capture the proven and unique capacity of free and fair markets to create wealth, deliver fulfilling employment, promote true justice, and lift the level of prosperity for all? "

- **How can** reward structures be reshaped to avoid rewards for failure and the incentivizing of short-term and narrow self- interested management and behaviors?
- **How can** consumers shift their purchasing power away from unsustainable acquisition so that the pursuit of sustainable growth, incorporating principles of sufficiency, becomes the norm for business and society?

The stark reality is that if our modern free market economic system is not rebalanced to deliver more equitable, moral and sustainable outcomes, the clock will continue to tick towards the next global crisis. Every such crisis ultimately undermines the credibility of free market mechanisms and submerges them under inefficient politically driven regulation, with the consequent loss of cultural creativity, social dynamism, and wealth.

To address and answer these profound challenges and questions, major business, civil society, academics, policymaking and regulatory groups must work together.

We therefore propose to initiate a global process of consultation towards this end, leading to a global summit to map out the needed policy and reform steps to reshape the global market economy. ■

CAUX ROUND TABLE

Moral Capitalism *at Work*

Stephen B. Young
Global Executive Director

ETFs: Reality vs theory in Singapore?

ETFs' counter-party and collateral risks!

The Financial Stability Board (FSB) which was set up after the last 2008 financial crisis, and which represents central banks and regulators has said that the increased popularity of synthetic ETFs, as well as the more intensive recourse to securities lending by providers of physical ETFs raises new challenges in terms of counter-party and collateral risks.

Singapore ETFs mostly synthetic ETFs

Thus, Singapore investors need to be aware that about 80 per cent of the ETFs in Singapore are syntheticETFs.

Why ETFs?

The systemic risks not withstanding, let's take a look at why some investors may prefer using ETFs as their preferred investment vehicle in the first place.

Index investing is better?

… Passive index investing is better than using actively managed funds like unit trusts *(mutual funds)* and investment-linked products *(ILPs with no insurance)* – because most studies have shown that about 80 per cent of index funds tend to out-perform active fund managers.

However, you may also need to be aware that the above generally holds true for the developed markets, and that most studies have found that generally active fund managers tend to out-perform index funds in the emerging markets.

Lower costs?

… The cost of investing is lower because the expense ratio of ETFs are much lower than actively managed investment funds.

In the Singapore context, if you try to structure a globally diversified portfolio of about 10 ETFs of about 30% equities, 30% bonds, 20% commodities and 20% property – the expense ratio may likely be around just below one per cent.

So, compared to an investment funds portfolio of typically an expense ratio of say around 1.5 per cent, the expense ratio difference in the Singapore context may not be as large as in other countries.

Also, if you use an investment arrangement whereby you pay say a typical extra one per cent advisory fee per annum – your ETF portfolio's total expense ratio may become close to 2 per cent.

Structuring a globally diversified portfolio of equity, bond, commodities and property using ETFs?

… Given the limited range of ETFs in Singapore, are you able to structure a globally diversified a 30 30 20 20 portfolio described above?

The answer is not so easy, unless you sacrifice global diversification particularly in the bond and global property asset classes.

… The up-front costs of ETFs are much lower than investment funds – as low as about 0.35 per cent trading costs of buying an ETF, similar to buying a stock.

However, to achieve this optimum low entry costs, the investor may need to invest about $100,000 in say about 10 ETFs.

The lower your total investment funds available to set up your ETF portfolio, the higher may be your entry cost.

For example, generally a $10,000 investment into 10 investment funds is the minimum amount required to structure a globally diversified portfolio using funds in Singapore.

However, the entry costs of a $10,000 10 ETFS portfolio may be around 3.5 per cent.

A $20,000 10 ETFs portfolio may be around 1.75 per cent, and so on – up to about $100,000 in order to achieve the optimum lowest entry cost.

The retail layman investor with a small amount to invest?

Compared to say a no front-end load *(back-end load for early redemption)* investment funds portfolio, the supposedly lower-cost entry of an ETF portfolio may be less evident for smaller investors.

Redemption costs?

… Whilst investment funds have typically no redemption costs, the redemption costs of ETFs is the trading cost like selling a stock. So, particularly for long term ETF investors, the redemption cost may be a percentage of your original invested amount which may have increased many times in the future.

Re-balancing costs?

… Whilst generally investment funds may have say a free quarterly re-balancing feature, it would incur trading costs for the ETFs portfolio investor if he or she wants to re-balance the portfolio.

The theory behind the desirability of re-balancing may be that the longer a market has gone up and the higher the quantum – the higher may be the historical and statistical probability of a correction relative to the longer and greater a market may have gone down, and vice versa.

Also, particularly for smaller investors, the trading costs of re-balancing may be quite high given that the typical amounts invoked may be quite small.

Practical execution vs theory?

The computation and mechanics of re-balancing may also have to be done manually, unlike free auto re-balancing in an investment funds portfolio – which may be quite a daunting task for the less savvy or sophisticated investor.

In the final analysis, the theory of investing using a globally diversified ETFs portfolio, particularly in the Singapore context, may be somewhat different from its practical execution. ■

Leong Sze Hian

Leong Sze Hian

Leong is the Past President of the Society of Financial Service Professionals, an alumnus of Harvard University, has authored 4 books *(quoted over 1500 times in the media)*, has been host of a money radio show, a daily newspaper column, Wharton Fellow, SEACeM Fellow, a Member on the CIFA Advisory Board, executive producer of the movie Ilo Ilo *(21 international awards)*, and invited to speak more than 100 times in more than 25 countries on 5 continents. He has served as Honorary Consul of Jamaica and founding advisor to the Financial Planning Associations of Brunei and Indonesia. He has 3 Masters, 2 Bachelors degrees and 13 professional qualifications.

Practice Guidance: IPS Implementation by using ETF portfolios

Product Suitability, Transparency and Independent Advice have become key requirements in many jurisdictions.

Leading regulatory bodies like ESMA, FCA or FINRA expect financial advisors to provide comprehensive investment advice. The Investment Policy Statement (IPS) is a standardized best practice framework to meet regulatory requirements and to address the need for a high quality client service at the same time. This article offers a technical Guidance for ETF selection to implement the target portfolios designed and recommended in the client's IPS.

CETFs Exchange Traded Funds are a securitization technique, no primary investment type or asset class. Investing in ETFs itself does not replace

- Knowledge about the underlying investments held by the fund and the fund's investment strategy *(Investment Policy)*,
- Investment decisions, to be made based on the fund information,
- Investment planning and investment advisory work, which shall constitute your Investment Policy Statement,
- and the required *(basic/minimum)* investment knowledge for DIY Do It Yourself investors, or rather for any clients not giving a discretionary mandate to their investment service provider *(see also end notes)*.

You find the concrete values for specific criteria of a particular fund in the KIID Key Investment Information Document or other publications of the fund/manager, on the trading platform *(Bank, BrokerDealer versus MTF Multilateral Trading Facility)* and on the websites of the financial data providers and the stock exchange where the ETF traded. You shall set up your checklist or search profiles like this to filter and select ETFs to cover the asset classes you use in the IPS *(software)*.

1. Passive Index ETF *(nonactive ETF /non actively managed, nonstrategic, no niche ETF etc)*. This ensures:
   a. that the investment vehicle able to meet requirements defined by your Investment Policy Statement, can be precisely mapped to the given asset class(es) or in other words to the portfoliomixes of the given target portfolios the client seeks to own,
   b. the fund performance is genuinely measurable and verifiable by a well known public index,
   c. so you need to know the market indices you consider for investing and benchmarking and the first step of the implementation is to pick your preferred indices from index families like FTSE, Eurostoxx, S&P, MSCI etc. based on their geographical *(country, region)*, industry, currency, company size, maturity *(bonds)*, etc. characteristics. All this in line with the asset classes and benchmark indices used in the IPS.

2. Full/Physical replica or optimized Index ETF: no swap, no ETN, no leverage, no lending.
   a. That means that the fund puts your money exactly in that securities and in such proportions which the particular reference index of this ETF consists of. Optimized means the ETF holdings do not fully mirror the index for cost or other reasons, but in x% only. This needs further investigation again.
   b. If you don't buy a full replica index ETF, you just get a promise that the fund will pay off the index value. There is absolutely no guarantee that the fund actually invests your money in the particular titles represented by the index and you will bear the third party risks of the fund as well *(e.g. swap or lending counterparty)*, which is limited to transactional and fraud risks in case of full replica index ETFs, and may be a credit risk *(if the fund does security lending, which risk is again lower if guaranteed e.g. mortgage backed)*.

3. Total cost *(TER Total Expense Ratio, the international measure of investment cost: the fund's total annual cost as a percentage of the money invested)* to be low. 1020 basis points *(0.1-0.2%)* considered as good, 3040 *(0.3-0.4%)* is moderate/acceptable. Do not mix it up:
   a. with the management fee, which is usually only a part of the TER
   b. with any other marketing values, which are as good as ever useless and misleading data,
   c. calculating your return is easy: take the benchmark performance (return) minus TER! For example, the benchmark rose 8% last year, TER of your ETF is 0.4%, your return is 7.6% which is the value increase of your fund.

4. Spread *(the difference between buying and selling price, bid/ask spread)* to be low. 1% considered as acceptable *(maximum)*. Lower is better. The same logic to apply to trades on the exchange, OTC, direct fund redemption *(if available)* or unit redemption or switch *(UL wrappers)*.

5. The size of the fund to be big. Leading ETFs have a value *(NAV: Net Asset Value)* of billions of USD or EUR, which means a high liquidity and helps keeping costs down.

6. High turnover/ liquidity: can be critical if the paper quickly to sell or if the portfolio actively managed with frequent trading or rebalancing.

7. The unit price of the fund shall be not too big compared to the money to invest else rebalancing may suffer. Take care of this when giving the transaction order *(number x unit price = money to invest)*.

8. Are the ETFs you're going to buy available on the platform you use and are the trading conditions *(technical, financial, legal and more like available reports or user interface languages)* fine for you?

9. Does the fund fit for your Investment Policy Statement, that is meets the particular target asset class / fits into the portfolio mix you're picking ETFs for?

10. Does the fund reinvest dividends or interest payments or pay them off? This may affect your cash flow and tax position.

11. Does the fund do security lending, if yes, is there a collateral covering the credit risk?

12. Does the fund track the benchmark index well *(tracking error)*?

13. Are you clear about the profiles of the financial service providers involved in fund transactions *(e.g. historically reliable, no bailout records, good reputation, good indicators, etc.)*, are this profiles acceptable for you? Evaluate the Fund manager, the Custodian, the Sponsors / Authorized Participants of the ETF. Also the trading platforms and exchanges, where a particular ETF available need to be assessed, especially if you do cross border.

14. Is the basic investment (the index) in the currency you seek, which can be different from the currency which the fund nominated/listed in. For example, an S&P ETF invests in US dollars, but can be listed in Euro on Xetra Frankfurt. On the other hand, the fund's currency or domicile does not mean the same regional exposure, in our example S&P companies do a considerable part of their business outside the US but also hedged against the dollar.

15. Has the fund sound historical track records *(not new)*?

16. Are payments like dividends or interests or capital gains subject to special *(personal income)* tax rules *(investor's domicil, market place tax law, DTA)*?

17. Compare fund data shown on the fund's website, your financial data provider, the trading platform you use and the exchange the fund traded on. There might be differences. Screen for ETFs on aggregator websites like http://www.etfinfo.com/ or http://screen.morningstar.com/etfselector/

18. Prior to your transactions set up and observe/monitor simulated portfolios and start with small(er) amounts and rather with well known funds *(e.g. S&P 500, FTSE, DAX etc.)* or funds you feel yourself familiar with.

19. Be aware, your broker/advisor/planner might be no fiduciary …

20. ...

The above criteria are not exhaustive and comparing particular ETFs is a complex process: usually we aren't looking for the "best" *(often there is no "best")*, but for one or more funds fitting for the target portfolios in your client's IPS well. ■

Zoltan Luttenberger PhD

End Notes

General information on (passive) investing with ETFs:
http://www.indexuniverse.com/webinars/ondemandwebinarplayback.html

"A story your banker will never tell you" http://www.healyourinvestments.com/

For your general investment knowledge consider this worldclass sources:

TER Total Expense Ratio:
http://www.telegraph.co.uk/finance/personalfinance/investing/7923367/Morethanmeetstheeyetofundcharges.html

CMH The Cost Matters Hypothesis:
http://www.vanguard.com/bogle_site/sp2004AIMRefficientMrkts.html

Passive investing: http://www.portfoliosolutions.com/benefitstoyou2/ourphilosophy/

MSN Investment pages: http://money.msn.com/howtoinvest/

Morningstar Investing Classroom: http://www.morningstar.com/Cover/Classroom.html

Time Hale: http://www.amazon.co.uk/SmarterInvestingSimplerDecisionsResults/dp/0273722077

If you only ever read one book on Investing should be this the one: Book Review of "Smarter Investing", by Tim Hale.

Inheritance Planning in France

If you are resident in France, you are considered also to be domiciled in France for inheritance purposes and your worldwide estate becomes taxable in France, where the tax rates depend upon the relationship to your beneficiaries.

There are strict rules on succession and children are 'protected heirs' and so are entitled to inherit a proportion of each of their parents' estates. For example, if you have one child, the proportion is half; two children, one-third each; and if you have three or more children, then three-quarters of your estate must be divided equally between them.

You are free to pass on the rest of your estate *(the disposable part)* to whoever you wish, through a French will and in the absence of making a will, if you have a surviving spouse, he/she would be entitled to 25% of your estate.

If you are not French resident, but own property in France, the same French inheritance rules and tax rates will apply in respect of that property – in effect, as if you were French resident.

You may also be considered domiciled in your 'home country' and if so, this could cause some confusion, since your home country may also have the right to charge succession taxes on your death. However, France has a number of Double Taxation Treaties *(DTT)* with other countries covering inheritance. In such a case, the DTT will set out the rules that apply *(basically, 'which' country has the right to tax 'what' assets)*.

For example, 1963 DTT between France and the UK, specifies that the deceased's total estate will be devolved and taxed in accordance with the person's place of residence at the time of death, with the exception of any property assets that are sited in the other country.

Therefore, for a UK national who is resident in France, who has retained a property in the UK *(and does not own any other property outside of France)*, the situation would be that:

— any French property, plus his/her total financial assets, would be devolved and taxed in accordance with French law; and

— the UK property would be devolved and taxed in accordance with UK law, although in theory, the French Notaire can take this asset into account when considering the fair distribution of all other assets to any 'protected heirs' *(i.e. children)*.

If a DTT covering inheritance does not exist between France and the other country, with which the French resident person has an interest, this could result in double taxation, if the 'home' country also has the right to tax the person's estate.

Hence, when people become French resident *(or own French property)*, therefore, there are usually two issues:

— how to protect the survivor; and

— how to mitigate the potential French inheritance taxes for other beneficiaries.

At this point, there are probably many people saying ***"but the law has changed and now I can leave my assets to whoever I wish"***.

This, of course, refers to the fact that legislation has been passed by the European

Daphne Foulkes

SIRET 522 658 194 00017
Numéro d'immatriculation ORIAS 10 056 800

Daphne is a partner with The Spectrum IFA Group. She entered financial services in 1975, initially in the UK. Before coming to France, she was at the European Central Bank in Frankfurt, responsible for advising staff from all States of the European Union on the subject of retirement planning. Since 2008, she has been providing individual financial planning advice to clients in France. She has detailed knowledge of tax-efficient structures that can assist in asset building, asset protection and, ultimately, retirement and estate planning. She holds the Chartered Institute of Insurers Financial Planning Certificate and Advanced Financial Planning Certificates in "Pensions" and "Taxation and Trusts", Daphne is also an Associate of the Pensions Management Institute (PMI).

Union, which will give non-French nationals, who are resident in France, the ability to choose the succession rules of their country of nationality, rather than being subject to the French rules. However, this will not be effective until 17th August 2015 and even at this stage, following analysis by the international legal profession, certain difficulties with the practical application have already been identified.

A big issue, however, is that when the EU legislation is in effect, this will not change the inheritance tax rules that apply. Therefore, even if we have the freedom to decide who inherits our estates, this will not reduce the potential inheritance tax liability. Hence, there will still be a need to shelter financial assets from French inheritance taxes.

As concerns protecting the survivor, currently, there are a number of solutions that exist in France. For example:

— You can change your marriage regime to one of ***"Communauté Universelle avec une clause d'attribution intégrale de la communauté au conjoint survivant"***, so that all of your combined assets are held within a 'community pot'. Subsequently, on the death of the first person, the assets in the 'community pot' are transferred to the survivor with little administration, thus, providing full protection for the survivor.

However, the downside of taking such a course of action is that your children will only have one set of inheritance allowances from the surviving parent *(€100,000 per child)* and so depending upon the value of your combined estates, this could result in a potential French inheritance tax bill. Therefore, an extra solution may be needed for financial assets, in order to mitigate the potential inheritance tax bill for your children or other beneficiaries.

In any event, this possibility is not open to couples who have children from previous relationships, since step-children may challenge such an arrangement.

— When purchasing property, it is possible to do this ***'en tontine'.*** Subsequently, on the death of the first person, it will be considered that the property has been owned by the

survivor since the outset. However, this does not provide protection for financial assets and so an additional solution is needed.

Furthermore, a potential disadvantage of purchasing a property ***en tontine*** exists, if either *(or both)* of the couple have children and the natural parent of those children is not the survivor. This is because the step-children will no longer be protected heirs and so will not have any right to inherit a share of the property. Should the step-parent subsequently leave the disposable part of his/her estate to the step-children, they will be faced with a French inheritance tax bill of 60% above an allowance of €1,594 *(2014 rate)*.

— You can make a ***'donation entre epoux'***, which provides for the survivor to have outright ownership of the disposable part of the deceased's estate and ***usufruit*** *(life use)* of the remainder.

For property, the 'right of use' is easily definable, since the survivor can live in the property, receive any rental income and make any alterations necessary. However, he/she cannot sell the property, without the agreement of the other 'shareholders' and would have to distribute their share of the proceeds to them, when the property is sold.

For financial investments, keeping the ***'right of use'*** is complicated and often creates problems. There is always a doubt as to whether the survivor can draw capital as well as income and what the 'income' actually signifies. Hence, it is preferable to find another solution for financial assets.

— It is possible to enter into a 'family pact' with your children. This is a complex arrangement, whereby the children effectively agree to give up their French inheritance rights, at least until the death of the survivor. However, this gives the survivor greater control over assets and keeps the step-children's potential inheritance tax bill to a minimum.

Since giving up inheritance rights is considered to be such a serious matter in France, two Notaires would be involved in this process – one of whom would represent the children and thus, would be appointed by the Association of Notaires.

Whether or not any of the above solutions is the right one for you will depend upon your personal situation and, in effect, the value of your combined estates. In any event, all of the above must be carried out at the Notaire's office and so it is very important to take the Notaire's advice on the solution that is best for your particular situation.

As concerns potential inheritance taxes, fortunately, French inheritance tax between spouses *(and partners who have entered into a **Pacte Civil de Solidarité**, commonly known as a PACS)* was abolished in 2007, and so this is not an issue for the survivor.

Furthermore, the allowance between a parent and a child is reasonably generous at €100,000. However, at the other end of the scale, i.e. for 'non-related persons' *(which includes step-children)*, the tax rate is 60% on anything inherited above €1,594.

In reality, there is little that can be done to mitigate any potential French inheritance tax bill in respect of property assets, once the standard French allowances have been used up. Hence, in such a situation, it becomes very important to shelter financial assets, as part of the inheritance planning solution.

This is done by using ***Assurance Vie***, which is highly beneficial for:

— protecting the survivor;

— mitigating the potential French inheritance taxes for your beneficiaries; and

— providing you with control over who receives your financial assets after death.

For a quirk of historical reasoning, the benefits payable on death from an ***Assurance Vie*** investment, fall outside of your estate. For amounts invested before age 70, each beneficiary *(whatever their relationship to you)* is entitled to a tax-free allowance of €152,500 and taxation is limited to 20% on any benefit paid above this amount *(although a higher tax rate of 31.25% applies for amounts exceeding €700,000 per beneficiary)*.

There is no limit to the number of beneficiaries that you can name. Hence, whatever your family situation, it is possible to pass on your capital to whoever you like, without them suffering excessive rates of French inheritance tax. Thus, the survivor can be protected and the capital can subsequently pass to your other beneficiaries, following the death of the survivor.

For amounts invested after age 70, the inheritance allowance for all of your beneficiaries is reduced to a total of €30,500 *(plus the investment return on the total amount invested)*. In effect, therefore, it is only the amount invested that exceeds €30,500 that would be taxed at standard French inheritance tax rates.

Sadly, social contributions are now chargeable on any gain in the policy paid out as a death benefit. Despite this charge, this type of investment is still highly effective for inheritance planning, particularly since Assurance Vie is also personally tax-efficient, since the tax treatment is more favourable than most other types of French investments.

Inheritance planning is a highly specialised and complicated subject. Everyone's family situation and level of wealth is different and it is very important to seek professional advice, so that the best course of action for you can be established.

If you would like to discuss your situation, in confidence, please contact me by e-mail at:

daphne.foulkes@spectrum-ifa.com

or by telephone on +33 (0)4 68 20 30 17 ■

Daphne Foulkes

The above outline is provided for information purposes only and does not constitute advice or a recommendation from The Spectrum IFA Group to take any particular action to mitigate the effects of French taxes.

The Spectrum IFA Group advisers do not charge any fees for their time or for advice given, as can be seen from our Client Charter at:
http://www.spectrum-ifa.com/spectrum-ifa-client-charter/

A tale of two countries: Italy vs. Australia
Comparing the personal financial challenges and concerns ... of two different worlds

The contrasting challenges presented here for Australian and Italian citizens are a reminder perhaps of the quite varied fiscal challenges, cultural norms, and political and economic situations in which both countries find themselves today.

When it comes to personal financial planning, there are fundamental and common challenges for the citizens of all countries. Here is just one:

How to prepare, provide and plan for the retirement years.

At the heart of personal financial planning is the need for individuals and families to budget and manage their financial resources over essentially a long timeframe, to provide adequate income and support for living costs when the day arrives when employment or business income ceases or we choose *(or are forced)* to retire. These resources *(or assets including savings for retirement)* will more or less supplement any support that citizens can expect to receive from the governments of the countries in which they live.

The reality of our world today is that many if not all countries face significant and well-documented challenges in meeting the pension income requirements of their citizens who have no retirement provisions for the future — however, the policy responses and ultimately the actions taken to address these challenges will no doubt differ significantly between various countries.

It's these actions and responses that can directly impact upon and determine the most critical financial challenges facing families in every part of the world.

The environment and contrasting taxation and social security structures of the two countries cannot be overlooked when it comes to comparing financial planning concerns and issues for their residents.

So let's look at the financial environment of these two countries and some of the unique challenges, and characteristics affecting citizens from a financial planning perspective.

Italy

Income Tax: Italians pay a progressive rate of taxation on personal employment income, with the lowest rate being 23% payable from 1 euro with no amount free of tax; up to the highest marginal tax rate of 43% on incomes above €75,000 plus a small percentage of regional income tax applies.

Daniel Shillito

Having lived in 5 different countries on 3 continents before settling in Italy, Daniel Shillito appreciates the challenges of starting out in business and in life in a new country. He provides personal financial planning assistance for professionals, business owners and expatriates some with cross-border assets and complex situations.

Daniel is member of The Spectrum IFA Group and is licensed in both Europe and Australia to provide individual personal financial planning assistance and advice.

He holds a Diploma in Financial Services *(Financial Planning)* from CPA Australia and a Diploma in Financial Services *(Finance/Mortgage Broking Management)*. Also an Australian Credit License *(Australian company My Financial Life Pty Ltd)* and is a Certified Practising Accountant with CPA Australia.

**investment income is taxed differently. Generally dividends and interest and capital gains are taxed today at a 20% flat rate.*

Social contributions tax: Employers and employees in Italy are obliged to contribute together another 33% of gross income approximately for social security contributions; with employers deducting approximately 10% from employee gross pay for the employees' contribution *(this deduction funds the government's unemployment and disability payments budget and a portion for the State pension).*

The State pension is only available for those who have worked in Italy contributing to the social security charges above, for 35 years, and there is no minimum pension guaranteed payment. Average pension payments today are approximately €24,000 in 2009, before income taxes are deducted.

Planning for Investment: The asset management industry's ownership structure features a prevalence of players belonging to the banking sector, with regard to production and distribution.

Bank-owned asset management companies handle more than 60% of mutual fund assets and 75% of asset management product distribution in Italy. In fact, 93% of retail financial investment products are distributed through bank proprietary networks. These numbers are high compared to Europe and certainly versus the Australian experience.

In fact, since the financial crisis of 2000, household investment in mutual funds in Italy has been steadily falling *(insurance companies and pension funds has increased slightly)* and the proportion of households investing in managed financial assets has fallen between 2000 and 2010 despite increasing across Europe in general *(from Banca D'Italia annual reports)*.

Why highlight these industry statistics when talking about personal planning issues?

What this environment reveals is a culture of Italian investor activity characterised by relying on local relationships with a banking partner *(and a high degree of trust)*, and there has been scarce investor education or developed understanding about investing directly. Investment is still framed today by a widespread traditional preference for direct non-financial assets *(property)*, and where financial assets exist beyond deposits, a preference for government bonds and fixed interest products.

Let's look at the financial environment and some of the characteristics and features for Australian citizens from a financial planning perspective.

In Australia

Income tax: Australians are subject to a progressive tax rate system also, with a tax free income on employment up to $18,200 annually and the lowest tax rate of 19% applies on income higher than $18,200. The highest tax rate is 45% which is payable on incomes above $180,000. There is a health system additional charge of 1.5% on income, and no separate social security charges on income. There is no distinction in tax rates between investment income and employment income, all is taxed progressively.

State Pension: Australia has a public pension called the "Age pension" for retirement aged retirees, which is subject to income tests and assets tests for applicants. For those eligible for the pension,

maximum pensions are approximately AUD $22,000 per year in 2014.

Planning for Investment: Australia's investment and financial markets are large, mature and innovative, operating in an efficient regulatory environment alongside a compulsory retirement income planning system.

Australia's $1.7 trillion (AUD) investment fund asset pool is the largest in the APAC region and the fourth largest worldwide. This pool of funds attracts the world's largest investment managers, with 17 of the world's top 20 managers having an established presence.

The personal financial planning industry in Australia is a competitive one, where investment products and services are distributed by many varied organisations *(the level of concentration of control in distribution is much less versus the Italian experience)* providing various innovative products and services, and product niches.

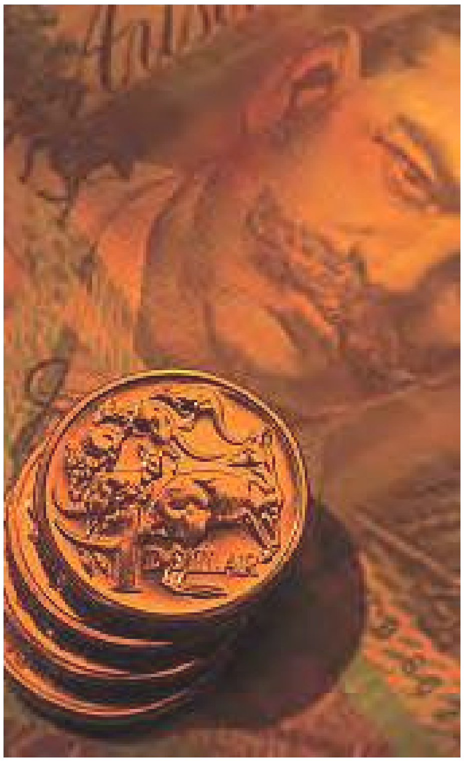
Pension funds are major institutional investors in Australia and by size one of the largest investing groups in the region and in the world. Superannuation or pension funds contribute approximately 50% of the investment funds marketplace, followed by retail investors and Life Insurance companies.

Distribution of financial products and services is through many established investment management firms and retail channels including the asset management divisions of Australia's major retail banks.

'Superannuation' in Australia is the term used to describe the setting aside of income for retirement otherwise known as a pension in other markets. Australia introduced a compulsory "superannuation guarantee charge " on employers, in July 1992, requiring all employers to make tax deductible superannuation contributions on behalf of their employees. *(This employer contribution has increased from its original 3% in 1992 to 9.25% today and is forecasted to increase to 12% of all employee gross remuneration, by 2020)*. The funds set aside however are not pad to any government, and are under the investor's own control in many respects. Investors can withdraw capital and income in various proportions once they attain retirement age.

Other aspects of the Australian system include:

- the ability for employees and small business to sacrifice regular salary for tax-effective additional contributions to superannuation to build additional reserves for future retirement needs;
- the ability to receive pension transfers from other countries;
- the ability to develop and manage by choice a self-managed superannuation *(or pension)* fund which enables investors and retirees to invest in a whole range of assets including many considered only available to wholesale investors or private banking clients in other countries.



* OECD 2009 Helgi Analytics – Australia households 129% of GDP invested in managed financial assets, excluding deposits. Italy households financial assets under management 48% of GDP, Banca D'Italia annual report 2010.

Australian workers contributing to superannuation also have the flexibility of funding the cost of protecting their assets and incomes within this pension structure. Regulations allow for the payment of sickness and accident, permanent disability and life insurance premiums from the pool of funds collected within superannuation. Such policies and packages are personally tailored to the individual who can choose from a range of providers. There are important considerations to take into account. However, this is one attractive planning strategy for clients who need to protect their family during periods of life when household mortgage debts and education costs are high, and cash flow is particularly strained.

These features are indicators of a mature investment market and a financial system managed by a consistent government culture prepared to innovate and reform when considering current and future public pension liabilities. It also indicates a culture prepared to empower the investing individual and retiree to consider and look after an increasing portion of their own retirement needs.

The Australian citizen is more likely to have more personal funds in managed financial investments* and has been used to investing in this way and hence advice in Australia is centred around specific investing goals, the ongoing management of assets for retirement, balancing the superannuation and non-superannuation investment mix and considering tax effective structures for income in retirement. It is important to note that income from superannuation fund investments is taxed more favourably than income drawn from investments outside superannuation, including tax-free withdrawals after age 60.

Considering Italian citizens generally have fewer assets in managed investments and a greater proportion of assets held directly *(property for example, and bank account deposits and family business assets)* their needs are better met with advice about how to create an income stream in retirement when managed financial assets are not enough or do not exist, as well as business succession issues and property management concerns.

As mentioned at the outset the fiscal environment and the economic situation of the two countries cannot be overlooked when it comes to comparing financial planning concerns. Australia has enjoyed 22 consecutive years of economic growth, and is enjoying low stable unemployment rates and has a flexible labour market *(which for example provides for and encourages working mothers to participate and maintain employer-funded pension contributions)* and no current inflation rate concerns.

Conversely Italy has suffered high and persistent unemployment and has struggled to overcome the impacts of the most recent global and European financial crises. The Italian economy has reached its highest levels of unemployment ever recorded in official statistics. The government and its people are facing the urgent need for significant structural reforms in an environment of political upheaval and instability.

Taking into account the comparative fiscal and economic environments of the two countries in the present day *(and considering many of the superannuation or pension features do not exist in the Italian system)*, the issues and concerns for working Italians are much more fundamental.

Concerns about job security; career development and flexibility, and thereafter identifying a suitable savings structure for retirement planning or looking for ways to minimise tax to facilitate greater saving *(especially considering such a large proportion of employee gross income is taxed and subject to government deductions for social security)* are the key challenges facing many in the workforce today.

Whilst the working Italian's mantra is ***"I work for the government from January to August... and from September to December*** *(after summer holidays)* ***I work for my family!"*** ...the retired Italian can rest a little easier knowing his income is more or less favourably treated in comparison to many other countries, and so income tax planning becomes less significant in retirement *(Taxes on invested capital like dividends, capital gains and interest is a flat 20% and in 2011 tax on unrealised gains was removed for mutual funds in Italy)*.

One noticeable difference in planning needs surrounds the home mortgage. Australia has embraced buying property with mortgaged funds, and hence preretirees are much more likely to have a larger house mortgage remaining at retirement age. This creates the need for careful planning in the years leading up to retirement, balancing the needs for growing a future income stream whilst at the same time managing outstanding debt and its drain in servicing regular repayment commitments. Contrast this to the Italian experience, where there exists a much lower average household debt level.

Italian financial planning rarely needs to consider mortgage repayment issues as conservative bank lending policies *(and customer borrowing practices)* reduce the risk that Italian residents will have a large accumulated debt on their home at retirement *(for example Italian lenders typically do not provide loans to allow property owners to access equity in their properties, as opposed to banks in Australia and other markets like the UK and the US)*. This article does not propose to debate the merits or limitations of such borrowing!

As opposed to the Italian tax challenges and "working for the government," perhaps the Australian resident is much more likely to be "working for the mortgage" as continued economic growth and a high demand for property leads to larger mortgages to service over time. ■

Daniel Shillito

This is not investment or financial advice, but general information only. The above is not meant to be an exhaustive comparison of all the attributes, characteristics, benefits or features of both countries pension, retirement or tax or fiscal systems but rather a brief comparison of some of the various personal financial issues that are likely to concern residents of the two respective countries in the context of their surroundings and their country's economic situation.

FECIF KEY MESSAGE

www.fecif.org

fecif
Fédération Européenne des Conseils et Intermédiaires Financiers

What is an Intermediary?

There is a need to clarify who are the financial intermediaries dealing with the Public: there are within the EU four types of intermediaries providing mediation between banks, investment firms and/or insurance companies, and the consumers *(final retail customer)*.

The table on right clarifies the status of each intermediary with its own mode of remuneration.

The last survey carried on 1,245 intermediaries and 3,124 investors *(existing and/or potential clients of intermediary's member of FECIF)* across ten EU Member States indicates that:

— 37% of the total number of investors contacted prefer to deal through an intermediary because of the personal attention they received at the occasion of a face-to-face meeting

— 30% better trust an institution to handle their financial affairs, feeling secured by the size of the bank and/or the insurance company

— 18% prefer to rely on the assistance of a friend or a member of the family

— 12% refer their queries to another professional *(accountant, tax adviser, lawyer, etc.)*

— 3% handle their affairs directly through the Internet for instance

TYPE	REMUNERATION	STATUS
Tied agents	salary and/or commission	may be financially independent *(self employed)* but has always an exclusive link to one product or service supplier
Multi tied agent	Commission	is always financially independent *(self employed)* and has several TOB's *(distribution agreement)* with product or service supplier
Broker	Commission and/or fee	Independent – is not supposed to have entered into TOB's
Consultant/Adviser	Fee only	Independent

Who are the Intermediaries?

— 62% had a between 6 and 8 years as an average professional experience with an institution before choosing an independent status

— European intermediaries employ as an average 1.35 people *(secretary, accountant, etc.)*

— 66% of their time is devoted to professional activity against 41% for a civil servant

— In case of bankruptcy, an independent intermediary is not entitled to social benefit

— Ten years ago, 90% of the time of an intermediary was devoted to research and handling of clients affairs; today only 50% - the rest of the time being devoted to regulatory issues

— 92% of intermediaries are not interested in charging fees to their client because of the VAT impact *(no VAT on commission)* and fees are not tax deductible for the client

Main pending issues at the EU level

— MiFID II
— IMD II
— KID-PRIPs
— UCITS V
— CRD IV
— AIFMD

FECIF Key Message

FECIF believes that the costs of a product or service should be fully transparent and presented to potential clients in a clear, easy to understand, written document. Such a document should clearly show all costs. There is no reason to identify which party *(intermediary, insurer and/or re-insurer, actuary, custodian bank or asset manager, etc.)* receives which element of the total costs. The client needs to be able to compare service levels and costs with other propositions hence a uniform "KIID" type document will assist clients.

Clients are less likely to pay fees than to buy financial services where the distributor receives a commission. This is evidenced by a recent survey, carried out by Deloitte on the impact of the UK's Retail Distribution Review, which revealed that 54% of people interviewed will not pay fees for advice. Clearly an intermediary or direct distributor needs to clarify to the client whether they operate on a "commission only" basis, a "fee only basis" or a combination of both.

FECIF trusts intermediaries to treat customers fairly, transparently, without conflicts of interest. In this field it fears that unnecessary regulation can limit clients' choice by reducing the number of active intermediaries. FECIF believes treating clients in this way will improve industry standards at both intermediary levels as well as at the Financial Institution level *(Large Banks, Insurance Companies etc.)*.

FECIF as representative of the 500,000 individual intermediaries in Europe is ready and willing to engage with EU institutions on behalf of its membership to ensure that all parties to this debate are represented.

WWW.FECIF.ORG

About FECIF

The European Federation of Financial Advisers and Financial Intermediaries (FECIF) was chartered in June 1999 for the defence and promotion of the role of financial advisers and intermediaries in Europe.

FECIF is an independent and non-profit-making organisation at the exclusive service of its financial adviser and intermediary members from the 28 European Union member states, plus Switzerland and Norway; it is the only European body representing European financial advisers and intermediaries, and it is based in Brussels, the heart of Europe.

The European financial adviser and intermediary community is made approximately of 500,000 private individuals exercising this profession as a main occupation *(representing approximately 26,000 legal entities including 45 networks)*, about 280,000 are members of national professional associations *(51 at today's count)*.

Scope

The professional activities of advice and mediation are heavily penalised by extremely constraining regulations, the soaring cost of compliance procedures, the development of often unreliable new technologies, and the demands of generally distressed and ill- informed consumers. The European legislation for financial services whilst being done for the protection of consumer's interests must be applicable without pointless restraints for practitioners. It remains a hard task in view of the paltry enthusiasm of national bureaucrats for anything that might represent the slightest change in their narrow vision of society. The "time bomb", which in the very short term is constituted by the pensions problem, reinforces the political need to attack the ensuing problems sooner than later, even if the national governments are showing reluctance for European harmonisation of legislation, that would take a more pragmatic direction, and be more genuinely concerned with consumer interests. The failure of the state pension systems opens unprecedented prospects for European financial advisers and intermediaries to assist the anxious consumer in the right choice of options and alternatives for the sound management of his or her wealth.

Situation

The lack of adequate training and organisation of most financial advisers and intermediaries can create problems, and FECIF must tackle the provision of quality training courses and ensure proper assistance to the advisers and intermediaries, in close co-operation with the national member associations. FECIF shows determination in its representation of the fundamental interests of its members by advocating the principle of co-regulation of the profession in an environment excessively regulated - to the detriment not only of consumers' interests, but also of the European economy. As a non-profit-making association, FECIF is an independent organisation at the exclusive service of its members from the 28 European economic area member states, plus Switzerland.

ANASF
ASSOCIAZIONE NAZIONALE PROMOTORI FINANZIARI

CONSULENTIA 2014
PROFESSIONISTI IN CAPITALE

ROMA, 6 e 7 febbraio 2014
Auditorium Parco della Musica

Due giorni di lavori dedicati ai promotori finanziari. Un punto di riferimento per le realtà del settore
Un ponte verso il futuro della professione

Giovedì 6 febbraio
CONVEGNO INAUGURALE
"Il ruolo del promotore finanziario: oltre la crisi del modello di distribuzione bancaria"
RICERCA ANASF A CURA DELL'UNIVERSITÀ BOCCONI

Venerdì 7 febbraio
"Il promotore finanziario nella percezione dei risparmiatori"
RICERCA ANASF A CURA DI ISPO

DURANTE LA DUE GIORNI ALCUNE DELLE PIÙ IMPORTANTI SGR PRESENTERANNO LE LORO STRATEGIE DI MERCATO

MEDIA PARTNER
A&F Affari & Finanza

PARTNER TECNICO
FinanciaLounge

Hanno già aderito

AllianceBernstein, Anima, AXA Investment Managers, Gruppo Azimut, Banca Fideuram, Sanpaolo Invest, BlackRock, BNP Paribas Investment Partners, Credit Suisse, Fidelity Worldwide Investment, Finanza & Futuro Gruppo Deutsche Bank, Fineco The New Bank, Franklin Templeton Investments, Goldman Sachs Asset Management, Invesco, J.P.Morgan Asset Management, Natixis Global Asset Management, Pictet, Schroders, Vontobel, Zenit SGR

INGRESSO GRATUITO - LE ISCRIZIONI SI APRIRANNO IL 18 DICEMBRE SU www.anasf.it

Un'ampia area espositiva allestita all'interno dell'Auditorium accoglierà società prodotto e reti di promotori finanziari
VUOI OPZIONARE UNO STAND? CHIAMA LO 02.67382939 - OPPURE SCRIVI A eventi@anasf.it

June 5th & 6th - Lecce (Italy)

€uropean Financial Planning Association

EFPA Italia
MEETING 2014
Lecce · 5-6 Giugno

Since its introduction, MiFID has increased the relevance of the financial advice activities. Will such revision be able to enhance the value for investors, for intermediaries and for the market as a whole? What are the new frontiers of risk? Are forecasting and planning - in the savings and investments sector - able to coexist? *For more information: www.efpa-italia.it*

€uropean Financial Planning Association

EFPA – Board of Directors meeting
Barcelona, Spain.
June 17th, 2014

€uropean Financial Planning Association

EFPA SPAIN CONGRESS
Santiago de Compostela
October 9th & 10th, 2014

"It's very cold out there"

"It's very cold out there"... This is the phrase with which I could sum up a recent conversation I had with a financial advisor *(we will call him Peter)*, whose situation is more and more commonplace and has led me to write this article. As we all know, the forced streamlining of the financial institutions *(large, medium-sized and small, national or transnational)* and also the merger processes we have experienced in the sector, have given rise to a large number of dismissals.

Like many others, Peter had been working in banking for more than 20 years and for 15 as a financial advisor, and the direct contact with the customers was what he most liked. Six months ago, following a merger process, his bank informed him that he and another two people in his team would be dismissed.

One of his colleagues agreed on early retirement with the company and the other, after seeking alternatives for a couple of months, went back to the family business, more through obligation than conviction. Finally, with 15-20 years of working life ahead of him, Peter realised that he couldn't improvise and had to continue doing what he did best, giving customers financial solutions to help them achieve their life goals.

He therefore gritted his teeth and with his family's support set up as an independent financial advisor. Telling me all the details of this experience, he said that the most difficult thing was no longer having the backing of a large financial institution as he used to be. Sometimes he felt very isolated, and even missing the arguments and discussions he had with his colleagues over the decisions of the central banks, the market movements or a customer's real estate business. It was precisely in this context where he said, "it's very cold out there". For someone used to working within a structure and with a team, it is very difficult to get used to such a drastic change; and it is precisely here where professional associations must attend this new associate profile, as they have very different needs and requirements from many other members. I do not mean simply the independent consultants, but also the "new" independent advisors convinced of what they are doing, but who would have preferred to continue working in their company. It is obvious that many independent financial advisors have freely come down on this form of doing their profession and obviously they too have specific needs that must be covered, but in this article I refer to those independent financial advisors who are so more by "accident" than by vocation.

In some EFPA affiliates, we have detected this situation and have seen that we must make a particular effort for this group in several respects:

— **On-going education:** not only to do the hours or credits they require to maintain their certification, but also to ensure that these are quality training hours.

> *"For someone used to working within a structure and with a team, it is very difficult to get used to such a drastic change; and it is precisely here where professional associations must attend this new associate profile."*

Germán Guevara

Germán Guevara is currently EFPA Executive Manager. He studied law in Bogotá, Colombia, graduating in 1998. After his graduation, he studied economics and finance in Bogotá and Barcelona, Spain. He has been lecturer in finance for a long time and consultant on financial related projects.

Generally, when you belong to a large institution, you have access to a lot of training activities *(though recently with tighter budgets)*. In the associations we must answer this need by facilitating access to quality refresher training, either in person or on-line.

— **Networking:** not only as a tool for generating professional contacts *(which is fundamental for the "new independent professionals")*, but also as a forum of debate for them to discuss current situations or to share experiences of how to deal with a certain case or client's specific situation.

— **Regulation:** obviously the huge amount of regulation produced as a result of the financial crisis means that there is a growing burden on this profession with respect to the processes, management and storage of documentation. Without a structure behind them, the independent advisors need a lot of support in this sense not only to understand the regulations, but also to meet them faithfully and avoid problems with the regulator. Associations must also help them in this sense.

It is very important to provide a good service to this group of "new independent consultant", for as they expand their market share, they will very often be covering clients who simply received no advice before. Many others clients simply lost their trust in big financial institutions and prefer to get advise from independents *(firms or individuals)*. Peter explains some cases of former bank clients who are now working with him, whose portfolios have not significantly changed but who, as he no longer is "linked" to an institution, feel better advised.

“ Certify entities have a fiduciary duty to the client, as we are tacitly saying that if their consultant has a certain certification, the service provided is better quality. ”

Professional certification plays an important role on this point, since though not yet generally identified by clients *(although many have begun to wonder what the letters behind the surname are all about)*, it is a guarantee that the consultant has the necessary skills to give suitable advice and is subject to a code of ethics and to continuing training. Certify entities have a fiduciary duty to the client, as we are tacitly saying that if their consultant has a certain certification, the service provided is better quality. As a result, correct monitoring *(and not just fulfilment)* of continuing training is even more important. It must be focused on relevant matters, avoiding overlapping with previous training. People cannot be allowed to "do" their hours of continuing education by simply attending seminars about the financial markets.

As a conclusion, in recent years a new kind of independent financial adviser has been appearing in the sector with their own needs and interests, which must be attended by the associations to which they belong to strengthen the links between the sector's professionals.

Germán Guevara

Die Weltorganisation unabhängiger Finanzberater

Viele legen einen besonderen Wert auf Unabhängigkeit und unabhängige (Finanz) Beratung. Ehrliche und unvoreingenommene Meinung soll sich für den Kunden auch finanziell bezahlt machen und der Ausgestaltung einer "Orwells'chen Welt" generell entgegenwirken. Dabei soll — wenn es um rationale Entscheidungen geht — auch auf unabhängige Informationsquellen zurückgegriffen werden. *"Source: www.financialplanningmagazin.de"*

Dies gilt in der Praxis vor allem, wenn der Finanzberater als echter Treuhänder handelt, unabhängig von seinem Geschäftsmodell sowie Kundenzielsegment und davon ob er im Anlage-, Versicherungs- oder in einem anderen Bereich tätig ist. Als Treuhänder handelt er per Definitionem im besten Interesse des Kunden. So kommt die Frage des Vergütungssystems nicht einmal auf. Intransparente und weniger solide Geschäftsmodelle bzw. Geschäftspraktiken trüben dieses ideale Bild.

Die zweite Generation von MiFID *(Markets in Financial Instruments Directive)* sieht das in einem etwas anderen Blickwinkel. Denn, derjenige der Provisionen *(im Allgemeinen: irgendeine Form materieller Vergütung von dritten Parteien)* annimmt, gilt per Gesetz nicht mehr als unabhängig. Diese Auffassung geht weit über die Transparenzregeln hinaus, da sie explizit annimmt, dass nur Honorarberater ihrer Vergütung wegen unabhängige Ratschläge geben können. Drastischer ausgedrückt: Diese Vereinfachung schaltet Unabhängigkeit der Honorarberatung gleich.

Nun, die Welt ist nicht ganz so schwarzweiß. Es gibt viele Berater, die auf Provisionsbasis arbeiten und trotzdem einen unabhängigen und qualitativ hochwertigen, in einigen wenigen Fällen sogar treuhänderischen Rat geben. Trotzdem ist die reine Honorarberatung *(fee only)* an sich keine Garantie für ein positives Verhalten. Der explosive Mix von beiden - Provisionen plus Honorar, "fee based" - stellt jedoch eine besondere Gefahr für Kunden dar. Vielerorts ist diese Vorgehensweise sogar gesetzlich verboten. Ein bekannter Trick die Vorschriften zu umgehen, sind kostenpflichtige Finanzpläne oder "Bedarfsanalysen" die üblicherweise nichts anderes tun, als **den Weg zum** Verkauf teurer Fonds oder Lebensversicherungen zu "ebnen".

Die Auswirkungen eines radikalen Provisionsverbots ist von der Landeskultur abhängig: In Ländern wie Großbritannien hat sich das System bewährt und führt zu keiner großen Versorgungslücke in der Beratung. Im Gegensatz dazu hat diese Entwicklung in Skandinavien einen Wandel zu einer Oligopolstruktur auf den Finanzmärkten angestoßen.

Im Anlagebereich kann die treuhänderische Pflicht des Beraters auf einige wenige Pflichten zurückgeführt werden *(s.Infobox)*. Um es noch einfacher darzustellen: Der Treuhänder soll immer im besten Interesse des Kunden handeln. Er kann nicht „der Diener zweier Herren" sein, wie Produkthersteller oder Verkaufsorganisationen.

Guter Rat heißt keineswegs billiger Rat. Man kann natürlich passive Portfolios mit Kosten im Promillebereich bauen *(hi-*

Dr. Zoltan Luttenberger

...ist seit 1989 in der Finanzbranche und als unabhängiger Finanz-planer, EDV-Experte und Managementberater international tätig.

- *Serve the client's best interest*
- *Act in utmost good faith*
- *Act prudently – with the care, skill and judgment of a professional*
- *Avoid conflicts of interest*
- *Disclose all material facts*
- *Control investment expenses*

Quelle: www.thefiduciaryinstitute.org

erzu s. www.portfoliosolutions.com), aber dafür ist ein anderer "Preis" zu zahlen, nämlich die Annahme, dass das Markowitz-Modell generell gilt. Das ist aber nicht immer der Fall. Es lässt sich aber sehr elegant in Diagrammen und Zeitreihen abbilden, wie es viele Berater, Fondsgesellschaften und Handelsplattformen darstellen, um sich die Diskussionen über zukünftige Wertentwicklungen und Portfolioimmunisierungsmaßnahmen zu ersparen.

Die zunehmende Regulierung und Automatisierung, bei gleichzeitig verstärktem Wettbewerb und abnehmenden Margen, kennzeichneten die in den letzten Jahren immer wiederkehrenden Finanz und Wirtschaftskrisen. Das schwierige Umfeld hat unabhängige Berater *(größtenteils KMU und Einzelkämpfer)* nun vor neue Herausforderungen gestellt und den Bedarf nach Interessenvertretung und "Best Practice Tools" erhöht.

Compliance, Administration und vor allem Informationsmanagement, um die relevanten Informationen schnell, einfach und kostengünstig zu beschaffen, stellen eine immer größere Herausforderung dar. Daher haben auch die Verbände an Bedeutung gewonnen. Mit der Globalisierung der Finanzwirtschaft und dem Europäischen Gemeinschaftsmarkt wurde die grenzüberschreitende Interessenvertretung und Zusammenarbeit immer wichtiger.

Die "Convention of Independent Financial Advisors" (CIFA), ein Dachverband von zurzeit 70 Verbänden von unabhängigen Finanzberatern und Vermögensverwaltern mit mehr als 700.000 Mitgliedern weltweit, nimmt eine Beratungsrolle bei der UNO Fachinstitution „Economic and Social Council" (ECOSEC) ein. Die CIFA hat auch in Deutschland Mitglieder bzw. Unterstützer, so unter anderem network financial planner e.V., VOTUM, AfW, BSI, Deutsche Gesellschaft für Finanzplanung, usw.

CIFA

CONVENTION OF INDEPENDENT FINANCIAL ADVISORS

A Non-Profit Foundation

A Non-Governmental Organization in special consultative status with the Economic and Social Council of the United Nations

THE CHARTER OF INVESTORS' RIGHTS - das Statut von CIFA – ist auf den Schutz der Anlegerrechte fokussiert, eine der wichtigsten Bedingungen für solide Finanzplanung. So soll der Anleger über die Entscheidungsfreiheit verfügen. Die Beratung soll mit gesellschaftlicher Verantwortung verbunden werden. Die Anleger sollen dabei nicht enteignet werden, das heißt die Investitionen sollen keine unfairen Kosten in sich tragen.

Die Anleger *(und deren Berater)* sollen die UNO-Menschenrechtskonvention beachten. Allerdings gilt dieser Anlegerschutz nur für das Vermögen, welches im Einklang mit universellen ethischen Normen erworben bzw. entstanden ist. Keine Neuigkeiten aber höchst aktuelle Prinzipien in einer Zeit die von Schuldenkrise, "Toxic assets", "Rettungsfonds" und Zypernabgabe geprägt ist.

Die CIFA veranstaltet jedes Jahr ein dreitägiges Forum mit namhaften Sprechern aus sechs Kontinenten, aus dem Bereich Regulierung, Wissenschaft, Finanzberatung, Finanzplanung und Wealth Management. Als Co-Chair des dritten Veranstaltungstages, dem "Association Day" beim diesjährigen Forum und Redaktionsmitglied von "Trusting", der Globalen Zeitschrift für unabhängige Finanzberater, lade ich Sie herzlich ein, im April nach Monaco zu kommen. Hören Sie die Beiträge und Diskussionsrunden über Makrofinanzen, weltweite Best Practices in der Finanzberatung, grenzüberschreitende Finanzplanung und Financial Life Planning, den RDR Erfahrungsbericht aus erster Hand über die Auswirkungen auf die Geschäftsmodelle von MiFID und IMD II. Weitere Informationen wie den Volltext der Anlegercharta und das detaillierte Programm des CIFA Forums finden Sie unter www.cifango.org. ■

Zoltan Luttenberger PhD

Fee Based: *Mischform die sowohl Provisionen (inkl. Courtage) und andere Vergütungsformen (z.B. Incentives) als auch "Service Fee" d.h. direkte Kundenzahlungen beinhaltet. Wird als intransparent und irreführend erachtet und an manchen Orten verboten.*

Fee Only: *Honorarberatung, die eine Vergütung ausschließlich vom Kunden zulässt.*

Fiduciary: *Treuhänder, der im besten Interesse des Kunden handeln soll.*

IFA: *Independent Financial Advisor, unabhängiger Finanzberater.*

Mifid II: *Die zweite Generation der Anlegerrichtlinie der EU, die weitgehende Transparenz sowohl im Beratungsprozess als auch bezüglich den Vergütungsmodellen einführt.*

Restricted advice: *Jede Beraterleistung laut britischer Regulierung, die den Gesamtmarkt nicht in Betracht zieht. Deckt etwa Bankberater, Ausschließlichkeits- und Mehrfachagenten ab.*

RDR: *Retail Distribution Review, die umfassende Reform der englischen Finanzmärkte, die u.a. strengste Regel für den Beratungsprozess und die Unabhängigkeit eingeführt hat.*

Simplified Advice: *Beratung, die sich auf eine bestimmte Lebenssituation bezieht und die finanzielle Gesamtlage des Kunden nicht oder nur beschränkt in Betracht zieht.*

CONVENTION OF INDEPENDENT FINANCIAL ADVISORS
A Non-Profit Foundation
A Non-Governmental Organization in special consultative status with the Economic and Social Council of the United Nations

ASSOCIATIONS MEMBERS OF CIFA

ADVOCIS, Canada
http://www.advocis.ca
AFG, France
http://www.afg.asso.fr
AFIZ, Czech Republic
http://www.afiz.cz
AFPA, Austria
http://www.afpa.at/cms12/
AfW, Germany
http://www.afw-verband.de
AIF, Spain
http://aif.es
ALPP, Luxembourg
http://www.alpp.lu
AMAF, Monaco
http://www.amaf.mc
ANACOFI, France
http://www.anacofi.asso.fr
ANAF, Spain,
http://www.anaf.es
ANASF, Italy
http://www.anasf.it
ANBIMA, Brazil
http://investors.anbima.com.br/Pages/Home.aspx
ANCDGP, France
http://www.ancdgp.net
APFA, UK
http://www.apfa.net
APFIPP, Portugal
http://www.apfipp.pt/index.aspx?MenuCode=bottomHomePage
BVI, Germany
http://www.bvi.de/start/
BZB, Belgium
http://www.bzb.be
CAPS, Argentina
http://www.caps-financialplan.org.ar
CCEF, France
http://www.ccef.net
CFSFA, Cyprus
http://www.cfsfa.org.cy
CGPC, France
http://www.cgpc.fr
CIFPs, Canada
https://www.cifps.ca/Public/default.aspx
CIFSA, Cyprus
http://www.cifsa.org
CISI, UK
http://www.cisi.org/bookmark/genericform.aspx?form=29848780&url=index
CNCEF, France
http://www.cncef.org
CNCFA, France
http://www.cncfa.fr
CRT, USA
http://www.cauxroundtable.org
EFAMA, Belgium
http://www.efama.org/SitePages/Home.aspx
EFFAS, Belgium
http://effas.net
EFFP, Germany
http://www.effp-online.de/front_content.php
EFFP, Poland
http://www.effp.pl
EFPA, Europe
http://www.efpa-eu.org
EFPA, Italy
http://www.efpa-italia.it
EFPA, Spain
http://www.efpa.es/efpa_espana
FECIF, Belgium
http://www.fecif.org
FEDAFIN, Belgium
http://www.fedafin.be
FPA, USA
http://www.fpanet.org
FPSB, Indonesia
http://www.fpsbindonesia.net
FPSB, USA
https://www.fpsb.org
GSCGI/SAIFA, Switzerland
http://www.gscgi.ch
HAQFP, Hungary
http://mptsz.org
IFMA, Switzerland
http://www.ifma-net.ch
IFP, UK
http://www.financialplanning.org.uk
LATIBEX, Spain
http://www.latibex.com/ing/mercado/Latibexadvantages.htm
Network financial planner e.V., Germany
www.network-financial-planner.de
ONIIP, France
http://www.oniip.fr
OVB, Slovakia
http://www.ovb.sk
PMAC, Canada
http://www.portfoliomanagement.org
SFAA, Switzerland
http://www.sfaa.ch/fr/welcome.asp
SFOA, Switzerland
http://www.sfoa.org
SFSP, Singapore
http://sfsp.org.sg
SPAA, Australia
http://www.spaa.asn.au
USFCR, Czech Republic
http://www.usfcr.cz/cs/
VGF, Germany
http://www.vgf-online.de
VOTUM, Germany
http://www.votum-verband.de
VV&A, Netherland
http://www.vvenc.nl
WMA, UK
www.thewma.co.uk

www.cifango.org


PLACE
YOUR ADVERTISEMENT
HERE