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CIFA

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€35 – N°7 – January/June 2015

Join CIFA's
XIIIth International Forum
in Monaco
on April 22-24, 2015


TO BREAK THE RULES, YOU MUST FIRST MASTER THEM.
THE VALLÉE DE JOUX. FOR MILLENNIA A HARSH, UNYIELDING ENVIRONMENT; AND SINCE 1875 THE HOME OF AUDEMARS PIGUET, IN THE VILLAGE OF LE BRASSUS. THE EARLY WATCHMAKERS WERE SHAPED HERE, IN AWE OF THE FORCE OF NATURE YET DRIVEN TO MASTER ITS MYSTERIES THROUGH THE COMPLEX MECHANICS OF THEIR CRAFT. STILL TODAY THIS PIONEERING SPIRIT INSPIRES US TO CONSTANTLY CHALLENGE THE CONVENTIONS OF FINE WATCHMAKING.
ROYAL OAK OFFSHORE
IN PINK GOLD. CHRONOGRAPH.
AUDEMARS PIGUET
Le Brassus

TRUSTING

The Independent Financial Advisor

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CIFA's Partner Federations & Associations
70 across the globe, listed on page 113

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fecif
Fédération Européenne des Conseils et Intermédiaires Financiers

CAUX ROUND TABLE
Moral Capitalism *at Work*

Private BANKING

FROM FOUNDATION TO PRESENT

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, the appropriateness of topics discussed, the excellence of presentations and relative roundtable discussions have been remarkable.

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. CIFA attends and speaks at several UN gatherings organized at the initiative of the General Assembly, ECOSOC, UNCTAD, UNITAR, FOSS, etc.

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 VIth Forum held in Prague, The Czech Republic. Finally, the basic rights of investors were taken into account in finance!

In February 2005, The **United Nations** reclassified CIFA to the "**general consultative status**" with the **UN-ECOSOC**. As a result, CIFA joined the select UN club of 150 NGOs accredited to interact during UN thematic debates.

CIFA'S INTERNATIONAL FORUMS IN PAST YEARS

Through the years, CIFA Forums were held in Geneva *(2003 through 2007)*, Prague *(2008)*, Paris *(2009)*, Madrid *(2010)* and Monaco since 2011 to present.

2003 — WHAT CHALLENGES FOR INDEPENDENT FINANCIAL ADVISERS?

2004 — REINVENTING TRUST

2005 — LET'S PROVOKE A DIALOGUE WITH THE REGULATORS

2006 — LEGISLATION AND REGULATION: REAL PROBLEMS, POOR SOLUTIONS!

2007 — LET'S FACE THE FUTURE!

2008 — INVESTOR'S FREEDOM OR CONSUMER'S PROTECTION?

2009 — RECURRING FINANCING JOLTS & CRISES - Advance warning signs of a New Economic World Order

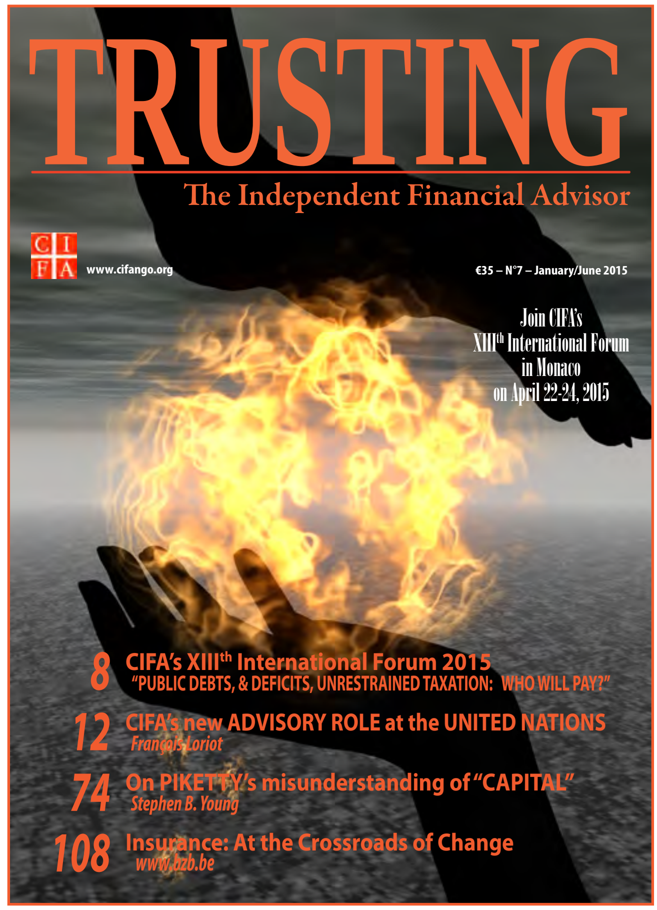
2010 — FINANCIAL BUBBLES AND REGULATORY BUBBLES

2011 — ETHICS AND GOVERNANCE IN FINANCIAL MARKETS FINANCIAL SERVICES - Reform or Die?

2012 — 2012, ELECTION YEAR: WHAT CHALLENGES FOR THE INTERNATIONAL FINANCIAL SYSTEM? Ethics, Politics and Finance

2013 — CAN THE WORLD FINANCIAL SYSTEM BE REFORMED?

2014 — THE NEW PARADIGM FOR WEALTH MANAGERS Freedom, Regulation, Transparency, Taxes, Rule of Law, Expropriation, Privacy and much more!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"The IFA's WEALTH GRAM"

La Pauvreté peut être battue, pas la Haine

Le titre est volontairement provocateur. Le Financial Times, symbole du capitalisme intelligent analysait fin 2012 l'état de l'économie de marché. Dirigeants d'entreprises, commentateurs spécialisés, économistes, élus politiques, entrepreneurs des quatre coins du monde, commentent la santé de notre système économique. Titre choisi de cette longue série d'articles ***«Le Capitalisme en Crise»***. Le jugement d'ensemble est sévère, on peut le résumer ainsi: la formule «ultra-libérale-dérégulée» du capitalisme héritée des années 1980 a échoué. Sous cette forme, l'économie de marché s'est avérée non seulement instable mais, et de manière importante, aussi injuste. "Nous vivons dans un système qui a collectivisé les pertes et privatisé les gains", dit Joseph Stiglitz. Les physiocrates voulaient **réduire la dette**, les classiques **accélérer la croissance**, les Keynésiens **diminuer la chômage**. En l'occurrence, dans la crise actuelle, nous devrions réaliser les trois buts énumérés ci-haut.

Dans son livre récent **Thomas Picketty *«Le Capital au XXIe siècle»*** n'examine pas en profondeur un des facteurs qui préoccupe de plus en plus les chercheurs et économistes, et notamment ceux qui ont reçu un prix Nobel, à savoir l'augmentation des inégalités des divers intervenants de la vie économique. Lors de la 64è rencontre des lauréats de prix Nobel de Lindau *(ce sont des réunions qui ont été organisées à partir de 1951 après la guerre entre les lauréats de Nobel)*, le thème central était précisément **"L'inégalité".** Dans son livre, Picketty s'inquiète ouvertement des inégalités croissantes, qui mènent immanquablement vers moins de démocratie car elles peuvent créer des tensions fortes sur le plan social et politique, et souligne que la domination d'inégalités "héritées" peut conduire à une destruction du capitalisme.

Il est clair que plus le cercle des dominants se réduit par concentration et se transmet à un nombre de plus en plus réduit de mains, plus le système encourt des risques de dérapage. Joseph Stiglitz a exposé durant les rencontres de Lindau les forces qui mènent à une augmentation des inégalités alors que Eric Maskin *(autre prix Nobel d'économie)* exposait pourquoi les marchés globalisés n'ont pas réduit les inégalités dans les pays émergents. "En effet, pourquoi respecter les règles du système ...*s'interrogent les protestataires*... si le système produit de manière régulière des crises sans punir les responsables?" A notre sens, la constante est là et les politiques doivent avoir le courage d'y faire face: la création de richesse qui procède de la création de nouvelles entreprises ou techniques de financiarisation dépendent de l'information détenue entre peu de mains. Le nombre de détenteurs de ces informations s'est naturellement réduit par la consolidation constante des acteurs de la finance et ceci peut mener *(va mener?)* immanquablement à une réaction dont on ne connaît pas encore ni la nature ni l'ampleur. Il est par contre certain que le nombre de pauvres résultant de pratiques financières criminogènes augmente et cela dans les strates de population essentiellement citadines et, souvent, bien éduquées qui ne trouvent plus de débouchés de travail. Dans le même ordre d'idées, les ressources financières tendent à se concentrer sur les désormais bien connus **"TBTF-ou acteurs financiers systémiques"** menant inexorablement à une déchirure sociale profonde entre ces deux groupes sociaux riches/nouveaux pauvres. Le mécontentement et la frustration de ces derniers, par définition les plus nombreux, génèrent une haine envers les possédants qui risque de se traduire par un affrontement d'une violence proportionnelle à la durée et à l'intensité de ce phénomène. L'opacité et la taille vont de pair. La taille génère l'opacité qui à son tour incite à la prédation, plus on devient gros plus on a tendance à s'approprier des entreprises dans le même domaine. Ce **gigantisme**, contraire à l'esprit même du capitalisme, étouffe les nouvelles initiatives entrepreneuriales et condamne le système à un appauvrissement certain et à une spirale de la haine.

Pour l'instant, il y a peu de signes chez les politiques qui montrent la volonté de ces derniers de combattre cette tendance du gigantisme, quoique les récentes déclarations du gouverneur de la Bank of England, tendent à indiquer une prise de conscience de certains dirigeants vis-à-vis de ce phénomène. Ce gigantisme procède de deux logiques cohérentes: d'abord on constate une concentration de richesse, et donc de puissance, entre un nombre de plus en plus réduit de possédants qui a comme corollaire une réduction évidente de la responsabilité pénale de ses représentants. Ensuite on assiste de plus en plus à des règlements de tels cas sous forme d'accords transactionnels, le dernier en date étant celui du Crédit Suisse pour 2.6Mrds de US$.

Oui, mais voilà, Mr. Carney (BOE) n'est pas un politique. Il peut introduire certains garde-fous, mais c'est aux politiques et à leurs nombreuses commissions d'experts de lancer/formuler les processus judiciaires qui s'imposent avant qu'il ne soit trop tard.

Pierre Christodoulidis

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PRELIMINARY PROGRAM
XIII[TH] INTERNATIONAL CIFA FORUM
MONACO, 22-24 APRIL 2015

PUBLIC DEBTS, & DEFICITS, UNRESTRAINED TAXATION: WHO WILL PAY?

Wednesday 22 April

14:00 Official opening ceremony

15:00 ECOSOC Roundtable with UN High representatives and the Civil Society.

Moderator: **Hanifa D. Mezoui,** Ph.D., Senior Advisor Humanitarian Affairs and Civil Society, United Nations Alliance of Civilizations (UNAOC), New York

Confirmed Speakers:

Navid Hanif, Director, Office For ECOSOC Support and Coordination, Department of Economic and Social Affairs (DESA) United Nations

Fabienne Guien, Secretary General, Economic and Social Council, Monaco

H.E. Amb. Elshad Iskandarov, President, ICYF-DC, Istanbul, Turkey

Me Francois Loriot, President, Bar Association for Inter Governmental Organizations

Dr. S. William Gunn, International Association For Humanitarian Medicine Brock Chisholm, Geneva, Switzerland

Ruth Bamela Engo, President, African Action AIDS (AAA), Yaoundé, Cameroon

16:00 Taxation and automatic exchange of information: what's left of our privacy?

Confirmed Speakers:

Adolfo Enrique Linares Franco, Partner, Tapia, Linares & Alfaro; President Aegist Asset Advisors Inc; President Chambers of Commerce, Industries and Agriculture of Panama; Vice Minister of Education from July 1, 2001 to January 1, 2004

Alexis Lautenberg, Chairman of the Swiss Finance Council, Senior Policy Advisor at Steptoe & Johnson, Brussels, Belgium

Xavier Oberson, Professor of Swiss and international tax law at the University of Geneva, Partner at Oberson Avocats, Geneva, Switzerland

Stephanie Jarrett, Partner, Baker & McKenzie, Geneva, Switzerland

16:45 The fiscal equity principle and the legal adviser in this new context

Confirmed Speaker: **Amel Merabet,** Corporate Jurist

17:15 Is altruism compatible with mordern economic systems?

Confirmed Speaker: **Matthieu Ricard,** Buddhist monk, photographer and author

18:00 End of the first day

19:30 Cocktail

Thursday 23 April

8:55 Welcome address by the Day Chairperson

Afaf Konja, Spokesperson for the President of the United Nations General Assembly 68th Session, New York, USA

9:00 THEME 1 Are capitalists about to kill capitalism? Is finance killing off capitalism?

- Too Big to fail. Most can fail but some can't: An injustice at the core of global capitalism?
- Can Moral Capitalism exist?
- Can wealth management survive in the market of only the top 1% HNWI?
- Does too much financialism kill capitalism?
- Will banks ever get back to supporting capitalism with business loans? If they don't, then who needs banks?
- If banks won't support economic growth, who will? Mutual Funds? Crowd Funding?

Confirmed Speakers:

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

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

Marc Roche, Foreign correspondent in London for the French weekly magazine Le Point and economic specialist, Author of the best-sellers Bank: How Goldman Sachs Rules the World, Outlaw Capitalism, and Banksters

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

10:30 Coffee Break

11:00 THEME 2 Financialization and speculative bubbles, deepening of inequalities, economic stagnation: how to stop the deflationary spiral?

- A crisis of confidence triggered by unconscionable behaviors is pushing savings into institutional networks (pension funds, insurances, etc...) instead of into real economy growth. Who will reverse this trend?
- Which economic engines for the future: innovation, solidarity, fight against tax optimization? What can start the engines of economic growth? Innovation, solidarity, middle class entitlements, lower taxes?
- Can moderate inflation restart consumer demand?

Confirmed Speakers:

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

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

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

Markus P. Grimm, Managing Director, Special Investment Situations, Hermes Partners International Ltd, Hong Kong

12:30 Networking Lunch

14:00 Solutions made in Luxembourg in an international unstable environment

Zulmiro Da Costa, Relationship Manager France, Lombard International Assurance

Christian Eilert, Director, ACA

Paula Leite, Head of Markets Development, Cardif Lux Vie

Marc Nicolas, International Sales Manager, Vitis Life

15:00 THEME 3 Debt or growth?

- Was it a mistake to grow debts after 2008?
- Federalism, regionalism, decentralization: which of these models are better fit to trigger world growth?
- Public debts and bankruptcies: which remaining public assets can be put on sale? Should everything be privatized?

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PRELIMINARY PROGRAM
XIIITH INTERNATIONAL CIFA FORUM
MONACO, 22-24 APRIL 2015

- To pay off public debts will we need to confiscate savings through inflation or taxation?
- Stagnation, deflation: deeds not words from the decision makers

Confirmed Speakers:

Werner Eichhorst, Director of Labor Policy Europe, Institute for the Study of Labor (IZA), Bonn, Germany

David Cayla, Academic teacher's/researcher, University of Angers, France; member of Les Economistes atterrés

Aymo Brunetti, Professor for Economics at the University of Bern, Switzerland

Louise C. Bennetts, Executive Director, J.P. Morgan, London, UK

16:00 Monaco for Finance

Confirmed Speaker: Hervé Ordioni, President - Committee for Promotion of Monaco as Financial Center, Monaco Association for Financial Activities, Monaco

16:30 Coffee Break

17:00 THEME 4 Western economies against a multipolar world: which model will prevail?

- The uprising of emerging countries against the grip of western economies?
- Tertiarization, financialization against productive economies: who will arbitrate the debate?

Confirmed Speakers:

Francisco Alvarez De Soto, Managing Partner, Alves & Co. Attorneys at Law; former Minister of Foreign Affairs, former Deputy Minister of Foreign Affairs and former Deputy Minister of International Trade Negotiations of Panama

Henri Sterdyniak, Director of the Economics Department of the globalization of the French Economic Observatory (OFCE), Paris, France

18:00 End of the second day

20:00 Patrons' Dinner at the Hotel Hermitage by invitation only (Black tie suggested)

Friday 24 April - Association Day

9:45 Day's chairmen Welcome Address

Vincent Derudder, Honorary Chairman of FECIF

Zoltan Luttenberger PhD

10:00 Client decisions on Investment Strategies during the «New Normal»: Active or Passive, DIY or Advised or Discretionary?

- Fiat money system, Product Transparency

Confirmed Speakers:

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

Peter Brooke, Financial Planner and Investment Team Strategist, The Spectrum IFA Group

Jens Brunke, Director for Portfolio Management & Compliance, CM Equity AG, Germany

Giorgio Canella, EFA, Fee for Service Financial Life planner, Italy

Tino Leukhardt, Precious Metal specialist, Ophirum Group, Germany

Johannes Muschik, Chairman AFPA, Austria

10:50 Self Managed Superannuation Funds in Australia

- The Australian Pension System
- The success of the «super funds»

Confirmed Speaker:

Andrea Slattery, CEO, SMSF Association, Australia

11:20 Coffee break

11:40 From Sales to Advice: What can we learn from RDR? What trade offs and trends?

- What changed the best advisory businesses to adapt?
- How reacted the clients and the platforms?
- Can we close the advisory gap?
- What challenges still ahead?

Confirmed Speakers:

Phil Billingham CFP, Transition Expert, UK

Garry Heath, Editor, The Heath Report

Gilles-Guy de Salins, Vice-President of ANCDGP, France

Paul Stanfield, CEO, FEIFA, England

12:30 Networking Lunch

14:00 Behavioral Finance: Searching for the Holy Grail... we didn't find the Best Product.

- So we try to pick the Best Tool instead?
- Softwares, Platforms, Best practices:
- How to navigate?
- How can help Behavioral Finance?

Confirmed Speakers:

Robert van Beek CFP, President of FPA Belgium, European Representative of Behaviorgap.eu

Henry Cobbe CFA, Managing Director, Target Date Fund Expert, Elstonconsulting UK

Richard Crotty FMII MIITD QFA APA, Expectation Management Expert, Ireland

Paul Resnik, Co-Founder, FinaMetrica, Australia

14:40 ID theft: a major threat for the coming years

Confirmed Speaker:

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

15:20 Coffee break

15:40 Women in Global Finance

- Do women have a different view on Finance or Economy?
- Are there special attributes distinguishing female financial advisors?

Confirmed Speakers:

Vania Franceschelli, Executive Committee Member of ANASF,Italy

Marta Gellova, EFPA Czech Republic, Prague

Susan Jordan BSc, Transition Expert, UK

Andrea Slattery, CEO, SMSF Association, Australia

16:30 What can financial advisors expect from their associations to support them in turbulent times?

Confirmed Speakers:

David Charlet, Chairman ANACOFI, France

Lubomir Christoff PhD, ChFC, Member of the Securities Markets Stakeholder Group at ESMA

Martin Klein, CEO VOTUM, Germany

Josep Soler-Albertí, EFPA Chairman, Spain

17:20 Summary of the Day

17:30 End of the Forum

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REGISTRATION FORM
XIIITH INTERNATIONAL CIFA FORUM
MONACO, 22-24 APRIL 2015

INFORMATION AND REGISTRATION

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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 22-23-24 April	1,500 €
Forum 22 & 23 April	1,200 €
Forum 24 April	300 €

Active members of partner associations: 50% discount

The donors dinner of April 23rd 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 2015.

HOTEL RESERVATIONS

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

CONGRESS' DATES AND VENUE

Wednesday 22, Thursday 23
and Friday 24 April 2015
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 XIIIth International Forum of the Convention of Independent Financial Advisors (CIFA) and I choose:
☐ Forum 22-23-24 April ☐ Forum 22 & 23 April ☐ Forum 24 April

ACCOMMODATION

Hôtel Hermitage

Room Classic Single breakfast included per night	240 €
Room Classic Double breakfast included per night	267 €
Suites (price communicated on request)	

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

https://resa.mci.mc/cifa2015/

After 22 March 2015, reservations will be made subject to availability and current prices.
After 22 March 2015, 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 ____________________

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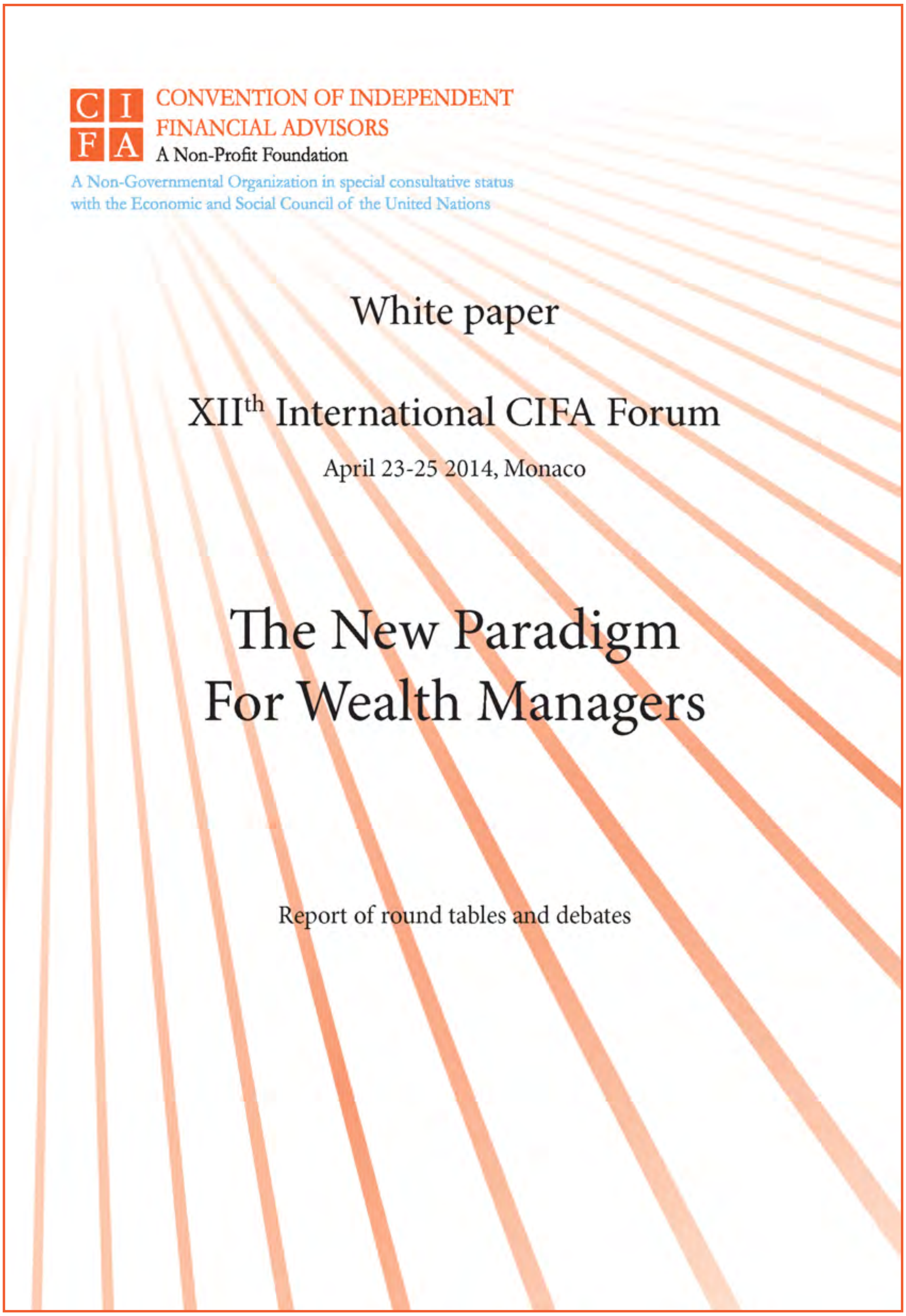

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White paper

XIIth International CIFA Forum

April 23-25 2014, Monaco

The New Paradigm For Wealth Managers

Report of round tables and debates

CIFA's NEW ADVISORY ROLE AT THE **UNITED NATIONS**

By Me François LORIOT

In January 2015, the UN/ECOSOC recommended elevating CIFA's consultative status to the Category I (General), a prestigious level which is granted to only a handful of international organizations worldwide.

This article describes the context and rationale which led to this important recognition of CIFA's contribution to the United Nations' work and objectives.

The 1945 Charter of the United Nations called on competent international non governmental organizations (NGO) to make ***"arrangements for consultation"*** with the ECOSOC on ***"solutions of international economic, social problem… on standards of living, full employment and conditions of economic and social progress and development … with a view to the creation of stability and well-being which are necessary for peaceful and friendly relations between nations"*** *(art. 55 and 71)*.

In 1946, it will be noted that the first international organization to be accredited with a general consultative status by the UN/ECOSOC was the ***International Chamber of Commerce***. In the United Nations' first decades civil society organizations and NGOs where less involved in the Organization's activities. Since the 90's, NGOs became more active at the international level and sought an increased participation in the UN decision-making processes and conferences. In 1996, with more NGO's expressing interest for UN conference and project participation, and for operational purposes, the ECOSOC/UN has decided to create 3 groups of NGOs for accreditation purposes:

— **Category I (General)**,
— **Category II (Special),** and
— **Category III (Roster)**.

In early 2014, there was a total of 3900 NGOs which had then received ECOSOC accreditation in its 70 years of existence, but **only 147 organizations had a Category I accreditation**, which we now refer to as the **"General consultative status"** *(source: E/2013/INF/6)*.

The meaning of *"General"* consultative status at ECOSOC/UN (Category I)

In 1996, in order to clarify its different consultative status, the ECOSOC adopted a resolution which established the conditions required for each category, and it specified for its Category I ***"General"*** consultative status:

> 22. Organizations that are concerned with most of the activities of the Council and its subsidiary bodies and can demonstrate to the satisfaction of the Council that they have substantive and sustained contributions to make to the achievement of the objectives of the United Nations in fields set out in paragraph 1 above, and are closely involved with the economic and social life of the peoples of the areas they represent and whose membership, which should be considerable, is broadly representative of major segments of society in a large number of countries in different regions of the world shall be known as organizations in General consultative status.
>
> *(ECOSOC/Res/1996/31)*

In articles 23-24 of the same 1996 ECOSOC resolution were described the conditions for NGOs with ***"Special"*** and with ***"Roster"*** status which carried less stringent requirements, weight and prestige *(formerly called Category II and Category III)*.

In 2007, CIFA was accredited in Category II (***"Special"*** consultative status).

CIFA's advocacy role since its 2007 accreditation with UN/ECOSOC

During the last 8 years since 2007, CIFA was very active at ECOSOC and worldwide by supporting and promoting within the financial community the 8 ***Millennium Development Goals*** (MDG), as well as the ***UN Development Agenda***. In addition, CIFA prepared and submitted consultative reports, organized international forums on finance and held meetings with UN delegates in New York and Geneva on partnership initiatives aiming to increase the involvement of the financial community in the preparation of the new ***Sustainable Development Goals*** and of the ***Post-2015 UN Development Agenda***. In November 2013, to further these partnership initiatives with the UN, a joint work session was held at UN headquarter with members of the **UN Forum for Small States** (FOSS), followed in April 2014 by CIFA's conference held during the **Joint ECOSOC-General Assembly Session on SDGs** aiming to promote ***"Partnerships for Development".*** In August 2014, at the 6th Annual Forum of the **UN Alliance of Civilizations** (UNAOC), CIFA organized in Asia a roundtable of experts to exchange on the ***"Contribution of investors and of the financial sector to sustainable development, in a context of cultural diversity"*** which recommended a greater involvement of the private sector in achieving the new ***Sustainable Development Goals*** (SDGs) of the United Nations.

In January 2015, in Geneva, together with Members of the Board of "**Groupement Suisse des Conseils en Gestion Indépendants**" (GSCGI) and "**Fédération Européenne des Conseils et intermédiaires Financiers**" (FECIF), CIFA organized another work session with UN High officials at the Palais des Nations in Geneva on the topic of ***"The Financial Sector's Partnership and Contributions to the Post 2015 Development Agenda and Strategies".*** Recommendations on how to increase Public-Private-Partnerships (PPPs) with the UN in order to be able to implement the SDGs were suggested and invitations to attend the ***World Investment Forum*** (Geneva) and the ***Third Conference on Investing for Development*** (Addis Ababa) were made by **UNCTAD** and **ECE,** respectively.

As required by its "Special" consultative status, CIFA has also produced quadrennial reports to the ECOSOC where it described the substance of each of its ***Annual Forum*** held in Monaco. Every year, CIFA also contributed a position paper on the selected themes of the **ECOSOC's Annual Ministerial Review** (AMR).

Why would CIFA feel the need to change its category of consultative status from "Special" to "General"?

Unfortunately, under ECOSOC rules, these CIFA reports and documents to the UN/ECOSOC were constrained by a statutory 500-word limit imposed on NGOs holding ***"Special consultative status"***. Although CIFA representatives participated each year to the ECOSOC annual sessions, CIFA's "***Special***" status did not allow substantive contributions and interventions during ECOSOC sessions and debates where key financial and economic issues were raised. CIFA position papers with their <u>500 words</u> limitation could barely cover the complex agenda of issues of interest for ECOSOC members.

In 2013, in view of the foregoing restrictions on NGOs with "***Special consultative status***" and considering CIFA's availability to produce more substantive contributions to the United Nations and ECOSOC debates, CIFA decided to submit a 14-page proposal to the ECOSOC seeking a Category I status (General). ECOSOC's NGO Committee initially reviewed CIFA application during its 19-24 May 2014 resumed session, where all CIFA activities, objectives, budget and reports were carefully scrutinized, in order to ensure that it met conditions for a Category I status (General). At the conclusion of these deliberations, the NGO Committee raised three (3) questions for CIFA:

1- Why would CIFA feel the need to change its category of consultative status from "***Special***" to "***General***"?

2-Why did the current specialized status prevent CIFA from carrying out its activities further with ECOSOC?

3-Does CIFA limits its work only to certain specialized area?

Before answering these questions, CIFA observed that in its 70 years of existence the UN/ECOSOC had granted the Category I ***(General)*** status to <u>only 147</u> organizations worldwide. Hence, CIFA leadership undertook with external experts familiar with the United Nations a thorough analysis of the UN legal framework and of the context in which ECOSOC had been operating in past decades, including under which substantive and political circumstances the UN/ECOSOC had granted so few Category I (***General***) accreditations.

Through its preliminary review and analysis, CIFA realised that it was essential to convince and demonstrate clearly to UN Member-States that the following basic criteria were met, as required for a Category I (***General***) accreditation:

a- CIFA's legal, independent and non-profit operational status

b- Worldwide Networking and Membership by CIFA

c- General contributions and activities linked with UN & ECOSOC

d- Substantive studies and publications of general interest by CIFA

e- CIFA's linkage with some specific UN/ECOSOC agenda items

f- Multi-sectorial nature of CIFA's activities and programmes

On 20 September 2014, after thorough analysis and consultations, the CIFA secretary-general submitted a new report responding to ECOSOC queries. This CIFA submission to ECOSOC was complemented with various studies and publications, such as CIFA annual Forum reports, its TRUSTING magazine, etc. The main lines of arguments and the rationale to justify awarding CIFA with "***General consultative status***" were developed around the following features:

The rationale for upgrading CIFA status at the UN to Category I (general)

CIFA was described as a worldwide network of partners involved in global trade, an organization tantamount to a union of development bankers, with responsibility for over 20% of global investments, invested in a MDG and CSR ethical context. This unique feature of CIFA's partnership worldwide distinguishes it from other private banking unions, which often operate without any humanitarian reference. In addition, CIFA is composite by nature complementing the role of traditional International Chambers of Commerce as well as that of an international association of economists. All CIFA worldwide partners are actively involved in concrete economic investment decision-making worldwide.

CIFA explained that its current "***Special***" consultative status currently allows only for a limited contribution to ECOSOC's ***Annual Program of Work***, with no possibility to adduce CIFA's substantive reports and interventions which could enlighten ECOSOC members on the current world investment environment and problems. If CIFA was to be granted with a Category I ***"General"*** consultative status, CIFA would aim to:

– Discharge a more significant and proactive role within ECOSOC ***Plan of Work***, including in its ***High Level Policy Committee***, and therefore...

– Propose relevant work Items for the ECOSOC Agenda related to trends and threats facing the social and economic environment as it relates to global investments

– Submit substantive 2000-word reports to ECOSOC on the general economic and social issues *(instead of 500-word)*, which would be of direct interest to the ***Post-2015 UN Development Agenda***

– Provide support, agenda items and technical assistance to the ECOSOC for its annual ***Joint Session with Bretton Wood*** institutions, concerning urgent social and macro-economic global issues related to investments in developing countries

– Participate to the substantive ECOSOC sessions where CIFA representatives would be allowed to propose Agenda items and speak on priority economic, social, financial and investment issues.

The Convention of Independent Financial Advisors (CIFA)

a Swiss incorporated non-profit Foundation

actively provides global financing counseling

in all social and economic sectors

The "universal" nature of CIFA's activities as its key feature

The ***Convention of Independent Financial Advisors*** (CIFA) was presented as a Swiss incorporated non-profit Foundation, which actively provides global financing counseling in all social and economic sectors, with its network of 70 national, supranational or international Associations or Federations, representing an excess of 750,000 financial advisors, which represent 20% of worldwide investments. The CIFA global financing counseling is governed by and aligned on the ***Basic ECOSOC Program of Work*** *(UN doc: E/2013/1 of 21-12-2012)*. To this end, the investment guidance and counseling offered in social and economic fields by CIFA to its network, draws on the whole ***UN Development Agenda***, on the ***UN Millennium Development Goals*** (MDGs) and on major research studies from the United Nations' 5 Economic Commissions (ECE, ECLAC, ECA, ESCWA and ESCAP) as well as from UNCTAD, from WTO and from the Bretton Woods institutions. CIFA also champions with other regional research institutions world economic growth based on youth job creation, on social development, on wealth benefits for the whole community, with a special emphasis on Corporate Social Responsibility (CSR).

By their very nature, and as a matter of efficiency, it was explained to ECOSOC/NGO Committee, that world investors will usually privilege a global approach on mankind's problems, including a universal vision of current political, social and economic issues. In our current global economy and social context, a narrow approach in financial investments would be counterproductive and risky for both society and for investors. Hence, financial advisors and decision-makers are usually compelled to maintain a holistic approach for investments which takes into account the community benefits, their environmental impact, the social ethics, public health, the corporate social responsibilities, including human rights, justice and peace, such as mandated by the ***2000 UN Millennium Declaration***.

The missions and objectives of CIFA are general and universal in nature. Its membership's investments cover all aspects of the world economy and human challenges, including major geopolitical considerations.

As a result of the above features, CIFA's work, studies and recommendations are of general and universal interest, as they address in the first place Mankind's progress and wellbeing issues within the larger scope proposed in ECOSOC ***Program of Work*** and by articles 55 & 71 of the UN Charter. In such general and holistic context, CIFA's mission does not limit itself to a specific sector of financial investments or in the defense of some "specialized" interests or of individual profits. Instead, CIFA's network actions and decision-making aim to benefit Society and Humanity as a whole, through job creation, women and youth empowerment, community enrichment, entrepreneurial spirit, innovative technologies, ecological protection, rule of law and capital safeguards.

In its 2014 report to ECOSOC's NGO Committee, CIFA also recalled that during the 2000 bubble as well as in the recent financial crisis of 2008-9, one of the main criticism addressed against the economic and financial sectors where their secrecy and individualistic profit-minded approaches. One of CIFA's objective is precisely to encourage financial decision-makers to reach beyond these traditionally individualistic and narrow approaches, and to open their minds and actions to the larger UN social and economic Agenda proposed by the ***ECOSOC Program of Work***, by the MDGs, including corporate social responsibility and/or community investments through the promotion of entrepreneurship and private initiative.

Such a change of mindset in the global investor world proposed by CIFA can only be achieved through an overhaul of past financial practices, and by the recognition that investors must develop an overall view of societal and of macroeconomic challenges in their larger general significance for Humanity; financial advisors are, therefore, reminded by CIFA to expand beyond the micromanagement of enterprises and of micro-economics, and to become active partners with the ECOSOC and in the ***UN Post 2015 Development Agenda***.

What obstacles have been preventing CIFA from fully carrying out its current activities with ECOSOC/UN?

In its 2014 submission to ECOSOC NGO Committee, the CIFA report proposed to bring a more efficient support to the ECOSOC ***Program of Work***, to the ***Annual Ministerial Review*** (AMR) and to the ***UN Development Agenda***, by providing studies and reports of up to 2000 words, instead of the current 500-word limit imposed by its "***Special consultative status***".

As explained above, the missions and objectives of CIFA are general and universal in nature, and its membership's investments cover all aspects of the world economy and human challenges, including major geopolitical considerations. In such context, a 500-word limit imposed for specialized NGOs did not suit the wider fields of interests covered by CIFA, and did not lend themselves to substantive submissions which can properly enlighten the ECOSOC members. Hence, it was submitted to ECOSOC's NGO Committee that should CIFA be authorized to submit 2000-word reports, it would then be able to provide more significant and substantive contributions to the ECOSOC ***Program of Work*** and activities.

Through its huge global network, CIFA is in a unique position to offer exceptional economic data and social information to ECOSOC on the approaches and impact of financial investments in the world's different regions, in the global economy's different sectors and on their social benefits for all the communities involved. Such CIFA reports could also take the form of economic and business statistics which are unavailable elsewhere, and they will shed more light on the social and economic progress or problems facing the world. In view of its general insider knowledge on global investments, CIFA is also in a position to propose in the ECOSOC Agenda the insertion of new priority Items which, besides being very informative, will contribute to ECOSOC's ***Program of Work*** and to a better knowledge of what are the new prospects and perspectives in world finance and investments. This option is currently not available under CIFA's current "***Special***" consultative status at ECOSOC which, in addition, does not allow CIFA to speak and to contribute agenda Items as an observer during the ECOSOC meetings.

In conclusion, CIFA's work is not confined in its purpose, but multi-sectorial, which explains why it should have general consultative status.

CIFA cannot be characterized as a "***specialized***" NGO, in view of the general nature of its network's investments and of the global partnerships in which it is involved in all regions of the world. CIFA is involved in all aspects of contemporary social issues and macro-economic problems, including their geopolitical aspects.

UN deliberations on CIFA's application for "general" consultative status

The UN/ECOSOC's NGO Committee met at New York Headquarters from 26 January to 5 February 2015 to consider the CIFA application. The CIFA Secretary General, Mr. J.P. Diserens attended the NGO Committee session, assisted by experts who were familiar with the UN/ECOSOC legal framework, proceedings and procedures. Copies of the recent ***TRUSTING*** magazines were distributed to the NGO Committee members, and web access was provided to them on various CIFA documents and studies. Information contacts were also made with some NGO Committee members to ensure that they possessed all key data.

During its January 2015 session, the NGO Committee operated under refined working methods, in a very professional fashion considering its very heavy agenda, which included 177 new applications for "***Special***" status, plus 153 other applications deferred from previous sessions and a review of 210 quadrennial reports. During the NGO Committee session, while its agenda was upset by heavy snowstorms which shut the whole city and UN headquarters in New York for one day, informal deliberations nevertheless continued with the remarkable support of the UNDESA/NGO Branch officials who remained very active.

It is worth noting that, on this NGO Committee session's Agenda, only 3 applications sought a reclassification from "***Special***" to "***General***" status, including CIFA's application.

On 2 February 2015, after a thorough review of the CIFA Application, the NGO Committee unanimously recommended that ***CIFA be granted Category I status (General)***, and this recommendation is tabled for endorsement at the ECOSOC Coordination Segment and Management session scheduled for 8-10 April 2015.

On 2 February 2015, after a thorough review of the CIFA Application, the NGO Committee unanimously recommended that CIFA be granted Category I status (General)

Impact & follow up on CIFA's new General consultative status at ECOSOC

With its Category I General consultative status, CIFA has the outstanding privilege to sit at the same table and to participate with other world major players to the solution of global financial, social and economic problems. In this Category I General consultative status we find other distinguished international organizations, such as the ***International Chamber of Commerce***, the ***Union of Arab Banks***, the ***International Economists Association***, and many others with whom CIFA will be able to share valuable expertise and information in the future.

CIFA's oncoming 2015 Forum in Monaco will constitute an excellent opportunity for its participants to celebrate this new "***General***" consultative status at the United Nations, by proposing and adopting various measures which will outline CIFA's contributions towards ***"solutions of international economic, social problem…on standards of living, full employment and conditions of economic and social progress and development …with a view to the creation of stability and well-being which are necessary for peaceful and friendly relations between nations"*** *(UN Charter art. 55 and 71)*. In this context, the following proposals should be considered for future action by CIFA:

a- CIFA must actively define its contributions and activities linked with the UN & ECOSOC programmes and objectives, such as the new ***Sustainable Development Goals*** (SDGs) and the ***Post 2015-Development Agenda*** which will replace the 8 MDGs adopted in 2001. Of particular importance and interest for CIFA are the new SDG number 9, 12 and 17:

9. Promote sustainable industrialization
12. Promote sustainable consumption and production patterns
17. Strengthen and enhance the means of implementation and global partnership for sustainable development

b- Likewise CIFA should identify and propose specific linkages with Items on the UN/ECOSOC Agenda for the next Biennium, where it could contribute its own specific items on the Agenda, interventions, position papers and studies.

c- CIFA will now be allowed to actively participate and speak at the annual ECOSOC work sessions, including at its ministerial ***High Level Policy Committee*** and at the annual ***IMF-WBk-ECOSOC Joint Session*** with Bretton Woods institutions *(scheduled this year on 20-21 April 2015)*. CIFA should identify and propose select items for these annual meetings' agendas where it can submit substantive finance and economic reports and position papers, and speak on select items on their Agendas.

d- CIFA's reports and submissions will no longer be limited to 500 words, but will be extended to 2000 words.

e- CIFA must continue to actively develop and support its worldwide network of financial advisors at the regional level, in order to draw from these regions valuable data and information on their prevailing economic and financial situations which, in return, will feed CIFA's contributions to the ECOSOC.

CONCLUSION

The CIFA Leadership and the CIFA Member of the Executive Committee heading the Commission on UN-ECOSOC and Agency Liaison, must be commended for their present and past contributions in helping resolve major financial, social and economic problems confronting the world. It must also be congratulated for accepting to cope with the huge challenge, which its new "General" consultative status will represent in the future for all Humanity.

We also wish to thank the 19 Member-States Delegates and the Chairperson, participating to the ECOSOC NGO Committee and the UNDESA/NGO Branch staff members and the OIC, for their dedication and professionalism in facilitating the access of and welcoming civil society participation at the United Nations, such as that of the ***"Convention of Independent Financial Advisors"***.

Me François LORIOT

Me François LORIOT, Member of the Bar, Docteur d'État in International Law (Paris), Attorney active before the United Nations Tribunals and Appeals Court. Legal Advisor to various international NGOs with observer or consultative status at the United Nations and in International Organizations.

Former Principal Legal Advisor on Justice and Accountability at the United Nations, and Chief of Legal Sector at UNDP, UNFPA, UNOPS, UNV.


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The Financial Sector's Partnership and Contributions to the Post 2015 Development Agenda and Strategies

Thursday, January 15, 2015: UNOG day
hosted by CIFA (www.cifango.org),
Venue: Palais des Nations, Geneva. Room XXIII, E Building / 10:00am to 12:30pm

FECIF—(www.fecif.org) and GSCGI-SAIFA –(www.gscgi.ch) are invited by CIFA (www.cifango.org) to attend a meeting at the United Nations in Geneva with UNOG's High Officials

PRELIMINARY PROGRAM

Main Topics:

Along with UN post-2015 development agenda and ECOSOC 2015 themes:

I. Managing Goals to sustainable development goals: What will it take?
II. Strengthening integration implementation and review — the high-level political forum on sustainable development after 2015.

Following topics will be addressed:

- World economic institutions and prospects;
- Preparation for ECOSOC's 2015 meeting with Bretton Wood institutions, WTO & UNCTAD;
- How independent financial advisors (IFAs) can help in mobilization of financial resources and their effective use for partnerships in sustainable development.

The event includes a UN visit and a Luncheon.

UNOG's High Officials

- **Mr. Christian Friis Bach,** Under Secretary General, Executive Secretary UNECE *(confirmed)*
- **Mr. Joerg Weber,** Deputy Director, Investment and Enterprise Division, UNCTAD *(confirmed)*

* * *

Event moderated by:

- **Hanifa Mezoui,** PhD, Chairperson UN Affairs, ECOSOC and UNCTAD

CIFA's Speakers

- **Collaboration of the Private sector in achieving the SDG's 17 points**
  Jean-Pierre Diserens, CIFA's Secretary-General, FECIF's Board Member
- **Poverty can be beaten, not Hatred**
  Pierre Christodoulidis, President of CIFA, Founder, Honorary President and Board Member of GSCGI-SAIFA
- **The EU and the Financial Services – 15 years after the launch of the EU Financial Services Action Plan**
  Vincent J. Derudder, Founder & Honorary Chairman of FECIF, Chairman of FECIF Consultative Committee
- **Private means to public aims**
  Yves Nidegger, Conseiller National, Membre de la Commission Juridique et de la Commission Judiciaire au Parlement à Berne
- **How a Universal Fiduciary Duty of Financial Advisors helps building a Better World?**
  Zoltan Luttenberger, PhD, CIFA's Executive Board Member, Founding Chairman & Member of the Board of HAQFP (Hungarian Association of Qualified Financial Planners)
- **Closing Remarks**
  Cosima F. Barone, CIFA's Executive Board Member, Board Member & Director of GSCGI-SAIFA

UNOG's High Officials

Mr. Christian Friis Bach (right)

Mr. Joerg Weber (left)

In her opening remarks, **Hanifa MEZOUI** *(PhD, Chairperson UN Affairs, ECOSOC and UNCTAD)* updated the audience about the UN 2015 agenda, having already announced three main priorities:

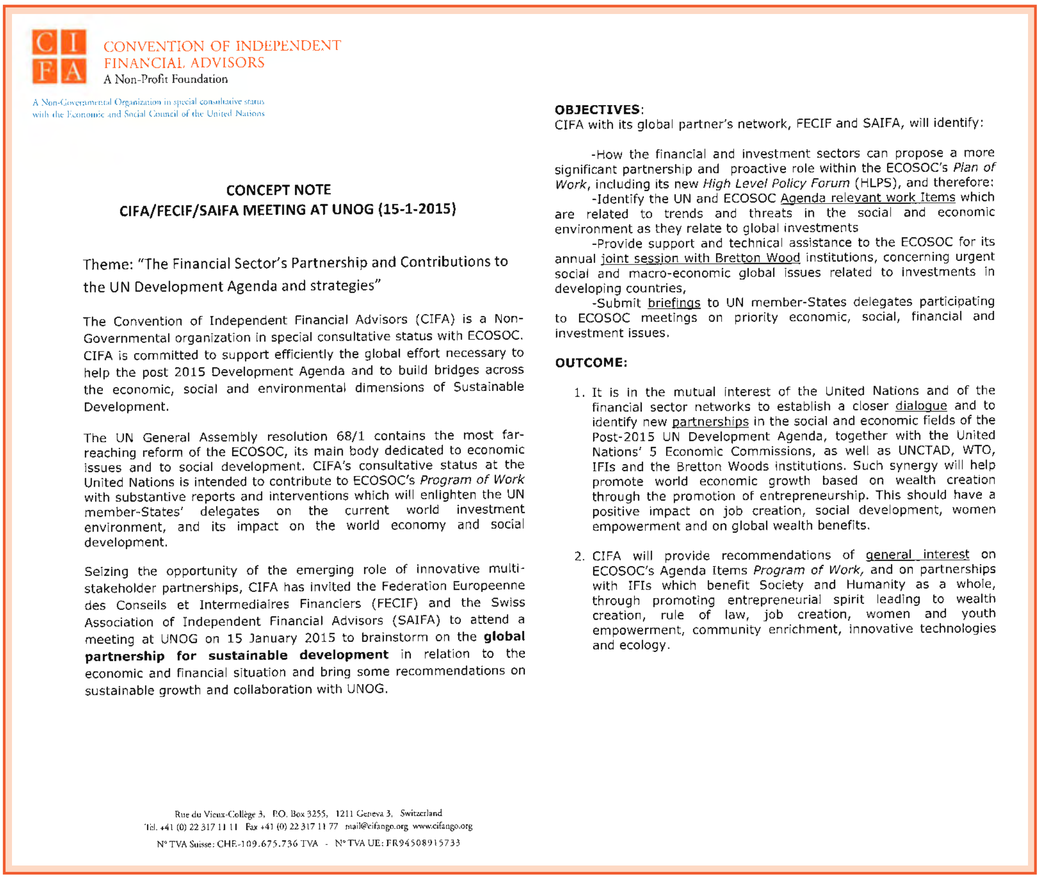
1. Final push to achieve the MDGs
2. New Development Agenda SDGs
3. Climate Change

In fact, the 69th Session will be about: "Delivering on and implementing a transformative Post 2015 Development Agenda"

Therefore, 2015 will be a very important year for the UN in many ways:

- 70th anniversary of the UN

- 15 years of the MDG



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

CONCEPT NOTE
CIFA/FECIF/SAIFA MEETING AT UNOG (15-1-2015)

Theme: "The Financial Sector's Partnership and Contributions to the UN Development Agenda and strategies"

The Convention of Independent Financial Advisors (CIFA) is a Non-Governmental organization in special consultative status with ECOSOC. CIFA is committed to support efficiently the global effort necessary to help the post 2015 Development Agenda and to build bridges across the economic, social and environmental dimensions of Sustainable Development.

The UN General Assembly resolution 68/1 contains the most far-reaching reform of the ECOSOC, its main body dedicated to economic issues and to social development. CIFA's consultative status at the United Nations is intended to contribute to ECOSOC's *Program of Work* with substantive reports and interventions which will enlighten the UN member-States' delegates on the current world investment environment, and its impact on the world economy and social development.

Seizing the opportunity of the emerging role of innovative multi-stakeholder partnerships, CIFA has invited the Federation Europeenne des Conseils et Intermediaires Financiers (FECIF) and the Swiss Association of Independent Financial Advisors (SAIFA) to attend a meeting at UNOG on 15 January 2015 to brainstorm on the **global partnership for sustainable development** in relation to the economic and financial situation and bring some recommendations on sustainable growth and collaboration with UNOG.

OBJECTIVES:
CIFA with its global partner's network, FECIF and SAIFA, will identify:

-How the financial and investment sectors can propose a more significant partnership and proactive role within the ECOSOC's *Plan of Work*, including its new *High Level Policy Forum* (HLPS), and therefore:
-Identify the UN and ECOSOC Agenda relevant work Items which are related to trends and threats in the social and economic environment as they relate to global investments
-Provide support and technical assistance to the ECOSOC for its annual joint session with Bretton Wood institutions, concerning urgent social and macro-economic global issues related to investments in developing countries,
-Submit briefings to UN member-States delegates participating to ECOSOC meetings on priority economic, social, financial and investment issues.

OUTCOME:

1. It is in the mutual interest of the United Nations and of the financial sector networks to establish a closer dialogue and to identify new partnerships in the social and economic fields of the Post-2015 UN Development Agenda, together with the United Nations' 5 Economic Commissions, as well as UNCTAD, WTO, IFIs and the Bretton Woods institutions. Such synergy will help promote world economic growth based on wealth creation through the promotion of entrepreneurship. This should have a positive impact on job creation, social development, women empowerment and on global wealth benefits.
2. CIFA will provide recommendations of general interest on ECOSOC's Agenda Items *Program of Work,* and on partnerships with IFIs which benefit Society and Humanity as a whole, through promoting entrepreneurial spirit leading to wealth creation, rule of law, job creation, women and youth empowerment, community enrichment, innovative technologies and ecology.

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Financing the post-2015 agenda (SDGs), based on public-private partnerships (PPP), has taken center stage. PPP have indeed been considered within UN programs over the last 15 years, but have not yet effectively taken off the ground. Sustainable Development: can be approached from three important angles: social, economic and environmental. **Social**, because inequality and social exclusion are widening. **Economic**, because of slow economic growth, not enough decent work and rising unemployment. **Environmental**, including biodiversity along with maintaining ecosystem services critical for Sustainable Development, and recognizing traditional communities *(indigenous people and local communities)*.

Sustainable Development, based on PPP, is the proper answer to the spreading violence and conflicts across the world and to enhance a cross-cultural dialogue worldwide.

The identified conditions for Sustainable Development and progress are precisely summarized by the word **SMART,** i.e., **S**pecific, **M**easurable, **A**ttainable, **R**elevant and **T**ime-bound. Future action and deeds must, therefore, be smart! The UN General Assembly, along with the World Bank, the ILO and other global UN and independent agencies, is committed to a major brainstorming to take place during the current year *(several events are already scheduled)*. This major budgetary exercise is expected to provide specific insight on how to finance the SDGs, as well as a proper framework to implement the SDGs goals. CIFA is expected to contribute its insight about PPPs.

Then, Ms. Hanifa Mezoui introduced **Mr. Christian FRIIS BACH** *(Under Secretary-General, Executive Secretary UNECE)*, who served in Denmark as Minister for Development Cooperation *(2011-2013)* and as a Special Advisor to the European Union Commission for the United Nations Global Sustainability Panel *(2010-2011)* prior to being appointed *(10 July 2014)* to the current position at UNECE.

Mr. Friis Bach explained the highly ambitious agenda, adopted by UN, aiming at agreeing on Sustainable Development and at eradicating poverty by 2030. It is a historic moment for the UN and the world. Ours is the first generation ever to heartily embrace such a mission. Substantial investments are needed across the world: in people and in infrastructure. **People should be put "first"**, he added. Concerning infrastructure, investments in water, energy, telecommunications, etc. have been estimated to amount to \$5-\$7 trillion per year. That is why the effort must be public and private, for neither states nor private investors could come up with such financial resources on their own. The climate fund set up by Denmark is a good example that public-private partnerships are the solution for SDGs to be achieved. The financial resources do exist. Sovereign funds, pension funds, etc. represent a great pool of money *(approximately \$45 trillion)* that could indeed be channeled at least partially towards achieving SDGs and eradicating poverty across the world.

Mr. Friis Bach went on with specific and very detailed examples of past initiatives *(water-related and others as well)*, which have been successful, such as in the Philippines, Nepal, etc.

Undoubtedly, concrete public-private partnerships can be developed, as they have proven to be indeed successful in the past.

He concluded by welcoming insight and advice from CIFA and the financial community represented in the room by FECIF and GSCGI/SAIFA. He invited CIFA to participate at the 20th of March 2015 UN preparatory conference in Geneva focused on the SDGs' financing. His final words were: we need investments and we need partnerships!

Ms. Hanifa Mezoui introduced the next speaker, **Dr. Joerg WEBER** *(Deputy Director, Investment and Enterprise Division, UNCTAD)* who is currently the Officer-in-Charge of the International Arrangements Section in UNCTAD, responsible for implementing the work of the organization on international investment agreements. Dr. Weber joined the UN in 1990 and has been with this program since its inception in 1998.

As the Sustainable Development Goals (SDGs) are set to replace the Millennium Development Goals (MDGs) after 2015, Dr. Weber mentioned that the task ahead is daunting. The United Nations Conference on Trade and Development (UNCTAD) has assessed the financing needed, especially in the developing countries, in order for SDG to be implemented. The financing gap, as identified by UNCTAD especially for the SDG-sensitive sectors in the developing countries, amounts to \$4.5 trillion per year over the period 2015 to 2030. But, developing countries face an annual gap of \$2.5 trillion per year Therefore, reflecting on policies to raise the share of private-sector participation (PPP) will help narrowing this gap.

Fortunately, FDI flows have returned to growth after the 2012 slump. UNCTAD projects that FDI flows could rise to \$1.6 trillion in 2014, \$1.7 trillion in 2015 and \$1.8 trillion in 2016, with relatively larger increases in developed countries. In LDCs *(least developed countries)* the financing needs are particularly acute and challenging, as their financing capacity is the lowest.

SDGs aim for poverty reduction, food security, human health and education, climate change mitigation, and a range of other objectives across the economic, social and environmental segments of the global economy. However, fragility in some emerging markets and risks related to policy uncertainty and regional instability might discourage FDI inflows and investments.

The economic, social and environmental challenges are global. They require, therefore, a global effort. The role of the public sector is fundamental and pivotal. Equally, the private sector contribution is indispensable. The financing of SDGs by the private sector is currently relatively low, as only a fraction of the worldwide invested assets of banks, pension funds, insurers, foundations and endowments, as well as transnational corporations, is in SDG-sensitive sectors. For SDGs' goals to be achieved, a lot depends as well on policymakers across the globe. They need to find the right balance between creating a favorable framework for potential private investors and, concurrently, remove barriers to investment while protecting public interests through regulation as well. A balanced risk/reward situation, sufficiently appealing to private investors, is as important as guaranteeing accessibility and affordability of services for all worldwide. Policymakers must, therefore, provide SMART (!) regulation in order to help achieving the SDGs by 2030. In his closing remarks, Dr. Weber encouraged CIFA to participate in the works of the World Investment Forum headed by UNCTAD.

Hanifa Mezoui, recognizing how clearly Dr. Weber explained the dimension of the SDGs post-2015 financing needs, went on introducing the next speaker, **Mr. Jean-Pierre DISERENS** *(CIFA's Secretary-General, FECIF's Board Member)*, the first of the private sector speaker of the day. Mr. Diserens, focusing his intervention on the:

COLLABORATION OF THE PRIVATE SECTOR IN ACHIEVING THE SDGs 17 POINTS

...genuinely recognized that, if MDGs failed, the main reason was that the financial aspect had been ignored when the UN identified these global goals. IFAs have a privileged position within the global asset management industry, as they meet directly, eye to eye, with investors. Consequently, they can inspire their customers willing to put their savings to use for long-term projects along the sustainable development goals identified by the UN. CIFA is federating, through IFAs' national associations across the world, about one million of financial intermediaries. Potentially, investors are more likely to turn to IFAs, rather than to large banks *(UBS, Crédit Suisse, Deutsche Bank, etc.)*, when willing to direct their investments towards sustainable development. It is, therefore, a huge opportunity for financial intermediaries *(i.e., private entrepreneurs)* across the world to participate in SDGs and work for the good of people.

Interestingly enough, the human factor *(mentioned earlier by Mr. Friis Bach when he stressed how important it is "to put people first")* was also discussed by **Mr. Vincent J. DERUDDER** *(Founder & Honorary Chairman of FECIF, Chairman of FECIF Consultative Committee)* introduced right after by Hanifa Mezoui.

THE EU AND THE FINANCIAL SERVICES: 15 YEARS AFTER THE LAUNCH OF THE EU FINANCIAL SERVICES ACTION PLAN

The title of Mr. Derudder contains the key point *(the human factor)* on which his remarks lied, resumed in the following insightful information about the EU financial intermediaries' industry:

1. The EU FSAP – *a single market of the financial services* – aimed at increasing cross border transactions for EU financial products & services.
2. The role of the financial intermediaries: distribution of EU financial products and services, between 20% and 60% of market share.
3. The intermediary: 37% of the EU consumers prefer to deal with an intermediary rather than directly with an institution or through the Internet – **the human factor.**
4. The different types of intermediary: agents *(exclusive or non-exclusive)*, brokers and consultants.
5. The number of intermediaries in Europe: 500,000 licensed by EU regulators plus 700,000 other professionals advising EU consumers – 2,000,000 back office personal.
6. The intermediaries are the ideal channel for new products and services because of the special attention they get from the public.
7. EU consumers would rather invest in long term vehicles, financing the real economy than in highly speculative products – this is the position also of the consumers' associations and the intermediaries; unfortunately, the EC regulatory environment is more favorable to large institutions and to speculative / short term investment.
8. In order to facilitate a re-launch of the economy it is advisable to support long term investments and the role of intermediaries remunerated on the basis of long term retrocessions – as it is a political matter, the role of the UN to raise those issues across the planet is crucial.

Therefore, the PPP *(public-private partnerships)* can be well served by the key role of IFAs. They are "intermediaries", sitting right between consumers and sustainable development projects. But, for IFAs to fully participate in SDGs, EU and global policymakers should refrain from over-regulating the sector. Intermediaries should be reasonably remunerated for their work so vital to the global economy. Along this aspect, he noted that former EU Commissioner Michel Barnier and former EU President Mr. Barroso erred in many ways. For instance: (1) they had the big ambition of banning retrocessions for intermediaries, and (2) they failed to launch the planned "Long-Term EU Investment Directive" which remained in the EU drawer of dormant "drafted" projects instead. Without proper remuneration, little incentive is left then for intermediaries to participate in long-term and sustainable development projects. Nowadays, there is hope in Brussels that President Juncker will be able to guide the European Commission and EU policymakers towards "lighter and better regulation".

Hanifa Mezoui then turned the mike to one of the founders of CIFA, **Mr. Pierre CHRISTODOULIDIS** *(President of CIFA, Founder, Honorary President and Board Member of GSCGI-SAIFA)* who introduced the following topic:

POVERTY CAN BE BEATEN, NOT HATRED

The title is provocative on purpose.

The Financial Times, symbol of the intelligent capitalism, published at the end of 2012 an insightful analysis of the free-market economy.

Business leaders, expert observers, economists, politicians and entrepreneurs from around the world comment on the health of our economic system.

One of the titles selected among this long series of articles is «Capitalism in Crisis». The overall judgment is severe. It can be summarized as follows: the "ultra-liberal-deregulated" type of capitalism inherited from the 1980s failed.

As such, the market economy has proven not only to be unstable, but and more importantly unjust as well.

"We live in a system which mutualizes losses and privatize profits" says Stiglitz.

Physiocrats wanted to reduce debt, classic mercantilists accelerate growth, and Keynesians reduce unemployment.

In the current crisis, we should achieve the three goals altogether.

In his recent book, "Capital in the Twenty-First Century", Thomas Piketty and his team did not examine in depth a factor that is growing concern of scientists and economists, and especially those awarded Nobel prizes, about the increase in inequality among the various actors of the economy.

At the 64th meeting of Nobel Laureate in Lindau – *meetings held since 1951, after the war, between Nobel laureates* – the main topic discussed was precisely "inequality".

In his book, Piketty is openly concerned about the growing inequalities that inevitably lead to less democracy, because they can create strong social and political tensions, and he stresses that the "inequalities" inherited can threaten and destroy capitalism.

It is clear that the more circle of dominant forces shrinks due to concentration, and its power lies in smaller and fewer hands, the more the system incurs de risk of skidding.

Stiglitz explained during the Lindau's meetings the forces that lead to an increase in inequality while Eric Maskin *(another Nobel laureate in economics)* exhibited why global markets have not reduced inequality in developing countries. "Indeed, why respect the rules of the system, are questioning the protesters if the system creates regularly new crisis without ever punishing those responsible".

In our view, there is a constant and politicians must have the courage to face it: wealth creation, derived from the creation of new businesses or financialization techniques, depends on the information held in fewer hands. The number of holders of such information has naturally shrunken due to the constant consolidation of financial actors and this can lead *(will lead?)* invariably reactions, of which we do not yet know the nature or extent.

At the same time, it is certain that the number of "poor" people will increase as a result of criminogenic financial practices mainly among the urban and often well-educated population who have difficulty finding work opportunities.

In that same vein, financial resources tend to be concentrated among the now well known "TBTF-or systemic financial actors" inexorably leading to a deep social split between the groups of rich people and the "new poor".

The discontent and frustration of the latter, i.e., the largest in number, generate a hatred attitude towards the wealthy, which could lead to a clash of violence proportional to the duration and intensity of this phenomenon.

Opacity and size go together. The size generates opacity, which in turn encourages predation. The more one grows, the more one tends to take over companies in the same field.

This gigantism, contrary to the very spirit of capitalism, stifles new entrepreneurial initiatives and condemns the system to a certain impoverishment and a spiral of hatred.

For the moment, there are few signs showing the politicians' willingness to fight this trend of gigantism, although recent statements by the Governor of the Bank of England, may indicate an awareness of some leaders about this phenomenon.

This gigantism proceeds based on two coherent logic concepts: first, there is a concentration of wealth and therefore of power among a smaller number of owners, which implies an obvious reduction of criminal responsibility of its representatives. Then, we observe more and more of such cases end up in the form of settlement agreements, the latest being that of Credit Suisse settled for US $ 2.6 billion.

Yes but now, Mr. Mark Carney is not a politician. He can introduce some preemptive guidelines, but it is up to politicians and their many expert committees to launch / formulate the judicial processes that are necessary before it is too late.

The audience then listened to the next speaker, **Mr. Yves NIDEGGER** *(Lawyer, Conseiller National, Membre de la Commission Juridique et de la Commission Judiciaire au Parlement à Berne)*, who recalled the "**Spirit of Geneva**" with the following topic:

PRIVATE MEANS TO PUBLIC AIMS

The grand-mother of all Geneva-based international organizations, namely the International Committee of the Red Cross (ICRC), was created as - *and remained* - a private humanitarian institution since its foundation in 1863 by Henry Dunant and Gustave Moynier. Private means to public aims.

Jean-Henry Dunant was a business man traveling to Italy in order to meet with French Emperor Napoléon III, with whom he intended to discuss the difficulties he was facing in conducting business in French-occupied Algeria. He walked incidentally through the fields of the Battle of Solferino, an engagement in the Austro-Sardinian War, where 40,000 soldiers on both sides died or had been wounded in a single day.

If Henry Dunant were to live today, perhaps would he be shocked again, as a business man, by the several hundred thousands of jobs destroyed, the agonizing "working poor" and other tragedies mainly caused by unfair trade, financial crises and the unsustainable economic development, all happening in a context of prolonged economic warfare.

Deeply moved then by the XIXth century warfare, Henry Dunant founded the Red Cross, whose symbol surely derives from the reversed Swiss flag. More importantly, it symbolizes the red blood shed on the battle fields. Today, as a response to the call for sustainable development, Henry Dunant might create another type of humanitarian organization, this time around in the field of finance. Perhaps, he would name it the "Gold Cross" aimed at responding to the human needs caused by economic warfare.

I recall that, back in the early 1990s, just after the demise of the Soviet Union, I was to meet with Cornelio Sommaruga, President of the International Committee of the Red Cross from 1987 to 1999, together with a member of the Geneva Grand Conseil. We made a proposal to him: to organize a worldwide lottery for the sake of financing the Red Cross and UN humanitarian programs. The world was to become global. Globalization uncovered needs so huge and so massive that the States' budgets would not be able to cope with. A global challenge was to be addressed with global means. A global lottery, inspired by the perspective of global jackpots, would make the private sector provide the necessary financial means where the States and State organizations would be unable to respond commensurately to the surging needs.

Cornelio Sommaruga declined this idea because, as he said, the image of the Red Cross, so pure and clean, would be tarnished if associated to something as villain as a lottery, even though it would have effectively provided private means to public aims.

Well, Internet was to soon take over the world, along with all sorts of global lotteries massively dragging private means, but for even more private gains.

Twenty years later, the States have accumulated huge debts, dangerously turning to the financial market in order to finance the ever rising public deficits. Meanwhile, the UN is currently trying to raise $16.4 billion just to cover the humanitarian needs of 2015 *(after $8.5 billion in 2013 and $12.9 billion in 2014)*. The Red Cross budget is also exploding.

Considering all these aspects, it is heartwarming to me seeing an organization such as CIFA, the Convention of independent Financial Advisors, holding a conference on a topic such as "The Financial Sector's Partnership and Contributions to the UN Post-2015 Development Agenda and Strategies".

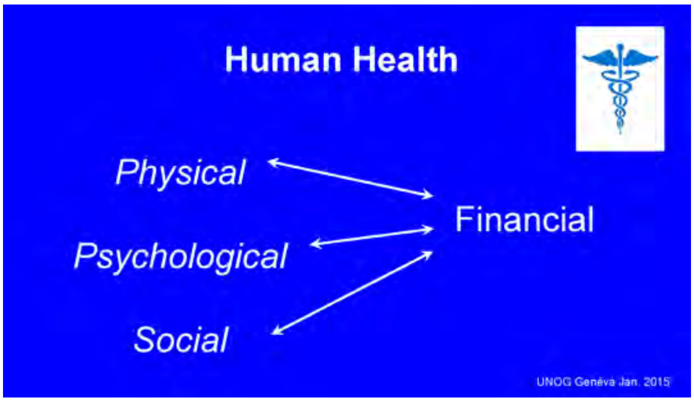
Your gathering of concerned professionals in the financial sector is, obviously, moved by the spirit of Geneva with the aim of becoming collectively the Henry Dunant of our time. My sincerest hope is that CIFA may be the place where the International Gold Cross Committee will be founded. Then, the goal would be achieved precisely as suggested by the title of your conference today.

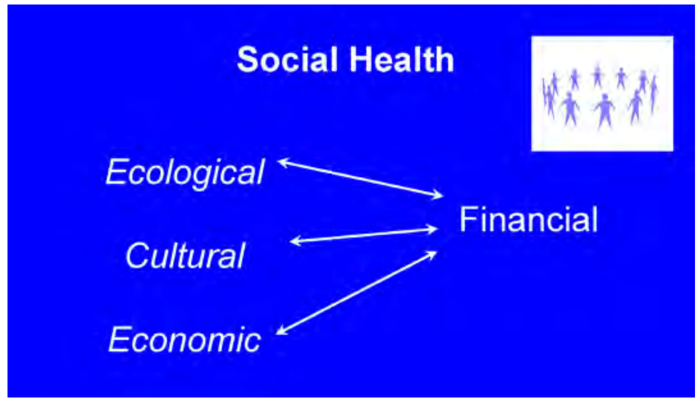
The creative insight about fiduciary intermediaries was then delivered by **Mr. Zoltan LUTTENBERGER, PhD** *(CIFA's Executive Board Member, Founding Chairman & Member of the Board of HAQFP - Hungarian Association of Qualified Financial Planners)*, the youngest but also highly experienced among all, added Ms. Hanifa Mezoui. He showed some interesting slides highlighting the following topic:

HOW A UNIVERSAL FIDUCIARY DUTY OF FINANCIAL ADVISORS HELPS BUILDING A BETTER WORLD?

He led the audience directly to the essential. Sustainability is not only important in terms of "development", but equally important in terms of financial advice. Again the topic dealt with the "human factor" as related to finance. **Human health** *(physical, psychological and social)* and **social health** *(ecological, cultural and economic)* can both lead to **healthy financials** *...as highlighted in slides shown on next page*.

Mr. Luttenberger went on with explaining the central and vital role of intermediaries and the fiduciary aspect of their

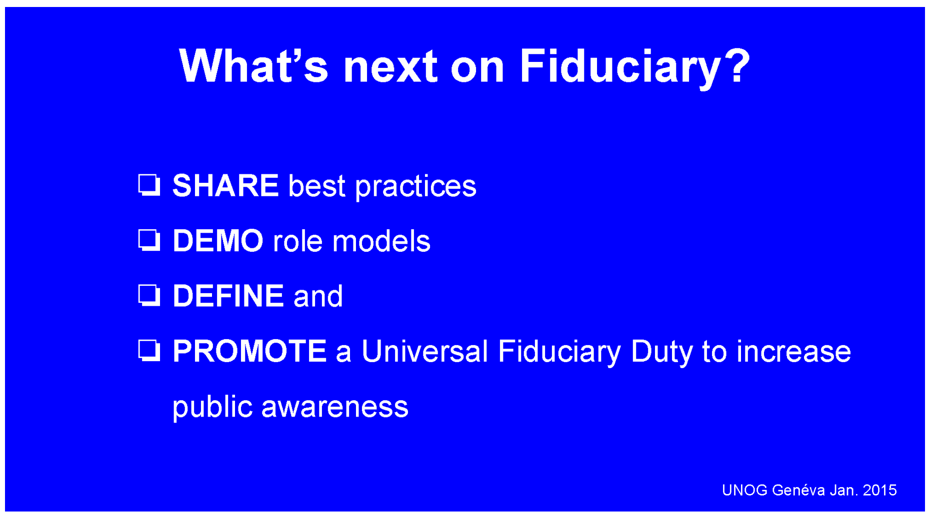




activity. It is sound fiduciary which leads to:

- suitable investments
- serviceable debts
- balanced budgets
- realistic expectations
- healthy personal and public finance

Very convincingly, Mr. Luttenberger, told the audience the future that he envisions for "fiduciary" going forward, as his last slide highlighted better than any words could do ...*here on right*.



Then, the mike turned to me, **Ms. Cosima F. BARONE** *(CIFA's Executive Board Member, Board Member & Director of GSCGI-SAIFA)* as I was expected, Hanifa explained, to deliver brief closing remarks about topics covered during the various interesting and insightful speeches.

Ladies and Gentlemen... Being the last person to address this distinguished audience, I find myself in the unpleasant role of keeping you in the room for a few more minutes before we all enjoy the next session, a luncheon to which CIFA is inviting us all.

Today's session focused on the UN Post-2015 Development Agenda and Strategies, especially about how to involve the Financial Sector as well, be it in terms of partnerships or otherwise. The main aim is, evidently, to achieve a harmonized approach between "**PRIVATE MEANS AND PUBLIC AIMS**" …I just borrowed from Mr. Yves Nidegger the title of his speech, because it resumes so well what it is imperative to achieve today for a better world tomorrow.

We heard Mr. Christian Friis Bach speak about the UN major goals, going well beyond MDGs, such as the vital goal to eradicate poverty by 2030 that he qualified as a "historic achievement". He insisted about the importance of putting people first. Across the financial world, however, the huge consolidation of institutions is penalizing enormously the individual customers. Even in a recent book published in Switzerland *(about the death of banking secrecy)*, not only the customers were never mentioned, but also it was totally ignored how the banks and other financial institutions betrayed their customers and never made good on the very services and "trust" they had previously promised to them. It is highly regrettable that large institutions do not put people first, but IFAs do.

I was stricken by the evaluation of annual financial needs for the post-2015 SDGs to be achieved. These needs amount to several trillion dollars needed each year! Indeed, a huge objective requiring a close cooperation between public and private economic and financial forces. The need of increased regulation was also mentioned. From our (IFAs) standpoint, however, we are observing every day the damage caused by increased regulation. It discourages private enterprise. If IFAs are pushed out of the financial sector, then the last bastion for sound and creative cooperation between savers and MDGs will disappear, as large institutions only care about making money and much less about SDGs and MDGs regardless of how laudable these initiatives are.

Dr. Joerg Weber stressed, among the various topics he touched on, the global aspect of MDGs and SDGs as these themes are being discussed in Geneva, New York, Paris and other major capitals across the globe. He described, in great detail, the flows of FDI *(foreign direct investments)* in several countries and expressed optimism that these flows should increase going forward. My concern is that FDIs' major aim is a very simple equation: Risk-Reward. These flows might come in a country, but they could easily leave once the financial objective *(profit)* is achieved regardless of other, although, noble promises and objectives (SDGs).

It is evident that many segments of the world economy need to be reformed: the global financial system, along with the international tax and international trade, to name only the most important. Mr. Vincent J. Derudder drew our attention on the fact that, in the EU as an example *(not dissimilar from other trends across the globe)*, global leaders lean towards large institutions while the real value and transformative force lie in the individual and small business initiatives. The IFAs do put forward the interest of their customers before their own interest. The global leaders, legislators and regulators must understand this aspect and act accordingly in order to allow long-term investment initiatives to blossom. After all, consumers are more interested in creating value through longer term investments, rather than speculating on short-term sophisticated investment widely promoted by large institutions aiming in most part to earn ever larger commissions and profits.

Mr. Jean-Pierre Diserens told us that in his view MDGs failed, but that SDGs must succeed through a close cooperation between public and private forces. The IFAs across the globe are more interested in investing their customers' capital in positive, constructive and long-term projects as opposed to the speculative trading activity. There are approximately one million of IFAs across the globe represented by CIFA.

Mr. Pierre Christodoulidis drew our attention to the economic inequality leading to social discontent and, sometimes, unmanageable unrest across the globe, a phenomenon not limited to emerging countries, but spreading as wild fire throughout the developed world as well. He praised how important is that politicians act responsibly and provide the appropriate judicial processes for the financial system to work efficiently.

Mr. Zoltan Luttenberger explained at length the "KEY" fiduciary role of IFAs, a true bastion against the "conflict of interest" which is unfortunately deeply anchored in the banking industry *(banks creates and distribute their funds and other financial products)*. It is, therefore, imperative to define and promote a "Universal Fiduciary Duty" in order to increase awareness and enhance best practices within the financial sector.

Finally, I would like to spend a few words about Mr. Yves Nidegger's presentation. Again, Mr Nidegger surprised the audience with creative comments and "possible" initiatives. Linking the war fields of Solferino to the economic and financial warfare should not surprise anyone. As per my own experience *(I lived and worked in Wall Street)*, there is a permanent war situation in finance, be it between financial institutions and regulators and/or between individual financial institutions moved by constant competition. For instance, it was not surprising to me that Goldman Sachs *(through Hank Paulson, then Treasury Secretary)* would put to death Lehman Brothers once the opportunity came, regardless of the financial crisis which spread across the world and the huge losses that it caused. I truly appreciated Mr. Nidegger's suggestion to found the International Gold Cross Committee. Is this a creative and effective way to fund the SDGs? We do expect, however, from policymakers better regulation, the type which does not suffocate private initiatives within our profession and industry.

We hope that our presentations today provided insightful information about the Financial Sector and its mechanisms. In order for the UN post-2015 goals to be achieved, both the public and private forces must work together and promote truly transformative thinking and action.

I'll stop here. We at CIFA – FECIF – and GSCGI are very grateful for your time and attention. We look forward to a constructive and continued cooperation with the UN institutions.

Ms Hanifa Mezoui closed then the meeting, but not without stressing that SDGs are about sustainability and poverty and that the entire world is being associated to these goals. Each of the 17 SDG goals has so many sub-goals in which all global industry could find a way to act for the good of all.

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UNAOC's Sixth Global Forum
UNITED NATIONS
Alliance of Civilizations

Bali, Indonesia, 29-30 August 2014

CONCEPT PAPER

Indonesia is the world's largest archipelago with over 17,000 islands. The country stretches 5,100 km along the equator between the Australian and Asian continents and straddles the Pacific and Indian Oceans. The home of more than 490 different ethnic groups, speaking different languages, following different traditions and professing different religions, Indonesia has absorbed the influences of the world's great civilizations. With a fascinating and colorful history, Indonesia is blessed with a rich and dynamic culture.

Indonesia's diversity is celebrated in their national motto, "Bhinneka Tunggal Ika", which translates into English as "Unity in Diversity." This reflects the outlook of Indonesia's Founding Fathers that embraces the wealth of our cultural, ethnic, linguistic and religious diversity. We in Indonesia are convinced that diversity is not a liability or a threat. Indeed, it enriches and it empowers. It serves as the fountainhead of the social strength.

Indonesia's diversity is reflected in the broader context that marks the relations of the nations in Southeast Asia that make up the Association of South East Asian Nations (ASEAN). Not unlike Indonesia, the ASEAN countries are similarly diverse in terms of culture, religion, economic development and political history. With such diversity, the region is transforming itself into the ASEAN Community, with a single vision and a common sense of identity by 2015. In a globalized world this capacity to unite and cooperate inspite of diversity is a source of strength and dynamism.

All this makes the Indonesian example particularly relevant to a number of ongoing transitions taking place around the world, including in Asia Pacific region .Indonesia's recent experience also makes it a particularly special setting for the 2014 Global Forum of the United Nations Alliance of Civilizations (UNAOC). An initiative of the United Nations Secretary-General that is supported by 114 states and 25 international organizations *(members of the Group of Friends)*, UNAOC works to develop innovative models for ameliorating identity-based tensions around the world.

Following on the success of five consecutive forums in Spain, Turkey, Brazil, Qatar and Austria, the Sixth Global Forum of the UNAOC will take place in Bali, Indonesia on 29-30 August, 2014. The Forum will bring together political leaders, representatives of international and regional bodies, the private sector, civil society, youth, the arts, and the media as well as donor agencies and foundations, to vigorously foster cross-cultural dialogue and understanding.

Bearing the theme "Unity in Diversity: Celebrating Diversity for Common and Shared Values", the Forum will highlight strategic and yet practical measures that generate and sustain common values and a shared sense of responsibility among all stakeholders, partners and constituencies toward the realization of the mandate and objectives of the Alliance of Civilizations initiative.

During the two-day Forum, two plenary panel discussions will be convened focusing on the main theme, followed by a series of break-out sessions dedicated to the four pillars of the Alliance of Civilizations. Participants will take part in the partners' exhibitions, award ceremonies, video screening and various side-events, which UNAOC's partners will have the opportunity to organize at the margins of the Forum.

Against the backdrop of the over-arching theme "Unity in Diversity: Celebrating Diversity for Common and Shared Values", the Forum's break-out sessions will address the following issues:

continued on following page

- Promoting harmony through inter-religious and cross-cultural dialogue;
- The role of women in fostering understanding among cultures;
- Fostering understanding through the power of sports, art, music and entertainment;
- Youth participation in peace-building;
- Media conversation across lines;
- Harnessing the positive power of social media in reconciling the demand of security and the right to privacy as well as the freedom of expression;
- Social inclusion and migration: developments for post-2015 agenda;
- Perception of migration: how to change the narratives about migrants.

Prior to the Forum, a youth event will be held under the topic "the role of youth in promoting unity in diversity through education, media and migration".

The Sixth Global Forum of the UNAOC, the first in the Asia Pacific, will seek to reflect and benefit from the diverse setting of the region. Furthermore, the Forum will set the debate within a wider context, including the ongoing discussion on the post-2015 development agenda. As one of the event's outcomes, members of the UNAOC's Group of Friends will adopt the Bali Declaration on the Alliance of Civilizations, reaffirming their commitment to support the mandate of the Alliance and identify concrete and implementable measures in line with the main theme of the Forum.

New York and Jakarta, May 2014

* * *

CLOSING REMARKS BY **H. E. MR. NASSIR ABDULAZIZ AL-NASSER**

THE UNITED NATIONS HIGH REPRESENTATIVE FOR THE ALLIANCE OF CIVILIZATIONS BEFORE THE MINISTERIAL SEGMENT OF SIXTH UNAOC GLOBAL FORUM

Your Excellency Mr. Marty Natalagawa, Foreign Minister of Indonesia

Your Excellency Mr. Juan Manuel Garcia-Margallo, the Foreign Minister of Spain,

Your Excellency Mr. Ali Naci Koru Deputy Minister of Foreign Affairs of Turkey,

Excellencies,

Ladies and Gentlemen,

I am grateful for your thoughtful and helpful interventions during our ministerial segment of the 6th Global Forum. I am also grateful for your stamina and your tolerance. Yesterday was indeed a long day and I value your input.

Aside from our Ministerial segment, yesterday provided us with some terrific insights and real opportunities to learn. And, of course, we all enjoyed and were energized by the events of Thursday afternoon and evening. It has been a busy and exciting couple of days!

Let me recap some of the highlights.

Our Focal Points met on Thursday afternoon. There, they agreed unanimously to the Bali Forum declaration. You, the Ministerial representatives met yesterday and we took note of the thoughtful comments made by many of you. We also were gratified to hear that new pledges of support to our Trust Fund from Qatar and Indonesia. We also received our first offer to host the 7th Global Forum in 2016 from Azerbaijan.

On Thursday, we watched as the 75 youth selected from Indonesia and around the world tackled difficult issues related to building more peaceful, more tolerant societies. We were all impressed by the high quality of the questions they asked of the Secretary-General, Foreign Minister Nakalagawa and my self. Indeed, some of the questions were really challenging!

Then, we had the great honor to watch the announcement of the new class of awardees of the BMW-Intercultural Innovation Award. All finalists will be awarded support to help their projects.

I know, we were all touched by the emotional power of the presentations of the projects that received recognition. It was a magical evening.

Yesterday, we moved into the core of our forum program, the plenary sessions, the breakout sessions and the side events. The conversations were rich and diverse in their substance. I was pleased to get the chance to visit many of them myself.

Plenary 1

In Plenary 1, we learned about the wide application of the term "Unity in Diversity". Five noteworthy speakers raised the varied ways in which the term can be applied, ranging from the need to consider migration as a fundamental human right, to the diversity of food and cultures as reflective of broader diversity of human civilizations, and the key role that food security plays in building peace. We learned about the need to examine our differences and our differing cultures, if we are to build a proper foundation for conflict resolution. And, we learned about global citizenship, both at the level of the individual and at the level of multinational corporations. Inter-connectivity demands global concepts of citizenship.

Our breakout sessions gave us the chance to explore more specific issues and explore them in greater detail.

On Promoting harmony through inter-religious and cross-cultural education:

The panelists coincided in pointing out that to respect and learn about other religions is a way to improve and purify one's own religion. But, mutual respect, one of the panelist insisted, must be transformative and engaging as well, not limited to a simple acceptance of tolerance, but developing into positive action. To move in this direction, the panel recommended including inter-religious education in primary and secondary school curricula as a way to encourage better understanding among individuals from different cultural backgrounds.

We have learned about "Preserving lessons of coexistence from Different Cultures through History" in a session sponsored by the Research Centre for Islamic History, Art and Culture. "Learning about the Other" was a critical tool to ameliorate identity-based tensions all over the world. Going back to history and everyone's own tradition is a precious and rich fountainhead enlightening our present and the way the entire human family can coexist together.

The Universal Peace Federation has sponsored a side event, to teach us how to build Trust through Interreligious Dialogue. Respectful religious leaders together taught us how to dialogue, and exchange views and insights on how to build trust, and cooperate with each other's and among religions.

A side event sponsored by the Indonesia Global Compact Network pro-

vided insight on Promoting Harmony through Business. It emphasized the importance of Business for Peace (B4P) as a leadership platform aims to expand and deepen private sector actions, in support of inter-cultural and inter-religious peace and harmony in the workplace, marketplace and communities."

Media conversations across lines

A debate about the media's increasing power through social media and constant access to information, panelists stressed that people need to understand and appreciate the enormous power that the media possesses, and the damage that it can cause, realizing that published material, whatever form it may be in, may result in collateral damage. The media, facing a variety of internal and external threats, must improve its ability to operate in an unbiased and transparent way.

Social Inclusion: Developments for the Post-2015 Agenda

The discussion explored the current situation surrounding migrants, challenges and potential for positive change in the future. It was asserted that, as migration is inevitable, it is necessary that we have the skills available to responsibly manage social diversity.

This should translate into the right to access all public services, and live within an environment cultural and religious tolerance that would leave them free to exercise their freedom in exploring their integration while celebrating their diverse identity. One method is to encourage community-based programs that enhance social inclusion in host societies, as well as instill in host governments that it is in their national interest to manage migrant integration well, within their country.

Youth Participation in Peace-Building

Talking about peacebuilding, experts from four different countries shared their thoughts. The session started with showing the "Guiding Principles on Young People's Participation in Peace Building" which will be used to advance the role of youth in peacebuilding.

Participants spoke about issues, such as the importance of economic issues for young people. By having activities to help their communities, young people can avoid being influenced by intolerance, extremism and xenophobia. Participants described the damage that can be done through bad stereotypes about young people, migrants, health status, and sexuality. Participants identified potential solutions, such as the development of theatre and art shows to encourage the youth to take part in peace building. Social media was also identified as an effective way to attract youth. Another alternative was the use of contemporary methods of communications to encourage youth to participate in peacebuilding.

Alumni of the fellowship program, one of the flagship projects of UNAOC sponsored by the German Government, participated in the different break-out sessions. The 4 Alumni expressed their commitment to working on fostering understanding and dialogue and to continue to dedicate their personal and professional lives to making an impact on local communities and institutions with a view to fostering gender equality, social inclusion, economic development and dialogue.

The role of culture in the formulation of new sustainable development

Cultural heritage and pride was recognized as a main driver to revive and move forward communities after a disaster. Bottom up, instead of top down, initiatives have significantly more chances to be successful. It was pointed out that, while globalization tends to produce assimilation of communities, the same forces are also a dynamic motor that energizes the development and conservation of local cultures. And, we learned about the new concept of "Venture philanthropy" that facilitates the empowerment of communities, providing in the process opportunities for sustainable development. Culture was recognized as a soft power tool to advance the sustainable development agenda.

We have learned about Mobilizing Diverse Communities on Climate Change and Justice in the session sponsored by the International Ecological Safety Collaborative Organization. This side event was of great significance for improving the dialogue on ecological civilization, and for realizing the Post-2015 Sustainable Development Agenda, and an opportunity to clarify the meaning of Ecological Civilization, which is "regulating human behavior and realizing the harmonious coexistence between mankind and nature".

The Food and Agriculture Organization of the United Nations has sponsored a side event and showed us what is involved in Promoting Cross-Cultural Understanding through Food Security.

UNAOC welcomes the strengthening of the partnership with FAO, whose adhesion to the UNAOC's Group of Friends during the forthcoming months is an acknowledgement that food security and peace have a binding and mutual connection.

We have learned how to "Increase Awareness on Finance and Cultural Diversity" in a session sponsored by the Convention of Independent Financial Advisors (CIFA). We have realized that economic development is essential for peace, and can only be achieved when the conditions for wealth creation exist in a country when economic progress can be shared with the community and **WHEN CULTURAL DIVERSITY IS RESPECTED**.

We have benefit from the expertise and uplifting stories of people from all over the world. We have heard voices of wisdom from our great faith traditions calling us to a world of peace, justice and environmental sustainability. New alliances have been formed and new insight has been gained.

I am confident that they will continue to be instrumental in advancing the implementation of the **Sustainable Development Goals (SDGs)** through innovative partnerships under the post-2015 vision.

The principles of collective responsibility, collective accountability, collective trust, collective hope, collective sharing and collective inspiration toward intercultural and interreligious dialogue to achieve "Unity in Diversity", have guided us in this forum, as members of the human family, regardless of our race, religion, ethnicity, cultural or nationality we stand on common values. From that place, let us work together for a world of greater peace.

Harnessing the Positive Power of Social Media

The benefit of social media in enhancing democracy is massive, but controls are needed to prevent abuse that could even lead to aiding terrorists. The use of media "tribes" such as "facebook and twitter" in several countries is diverse. It gives young people a voice and they don't have to put their identity, which can make them feel secure. But, that security can itself be abused, and must be studied further.

Fostering understanding through the power of sports, art, music and entertainment

Four main lessons were considered the participants – crucial elements to foster understanding through the power of sports, art, music and entertainment:

- Emphasizing the concept of reaching out to challenge ourselves and going into places where you have not been before.
- Being ready to look at images and stories that surprise and challenge the existing beliefs.
- Choosing leaders that touch hearts and spirit.
- Cultivating a sense of human empathy.

Perception of Migration: How to Change the Narratives about Migrants

During this session, panelists discussed how word choice in articles and perspective in photographs, for example, give a specific perception to the readers or viewers. Unfortunately, this perception is often negative. In an effort to provide a solution to the often negative perceptions created by common depictions of migrants, UNAOC and Panos Institute Europe has launched a Media-Friendly Glossary on Migration. It stresses the importance of using the correct terminology when journalists are reporting on migration.

Yesterday's side events included "Ecological Civilization: **Time Calling for Common Values"**

This side event focused on the interconnections between ecological issues and economic growth, politics and sustainable development. I attended that event and reminded the participants that ecological issues, while important on their own, also impacted the programs supported by UNAOC. The connection to youth is essential. Changes in our ecological health impact the future and, we know, the future belongs to the youth. Handled properly, a well-managed ecology can create economic growth.

Ladies and Gentlemen,

We have had a wonderful time here in Bali. All of you, government representatives and civil society representatives alike, have done your part to make our conversations fruitful and ensure that the 6th Global Forum will long be remembered not only for beauty of its setting but the quality of its debates.

Before closing, let me one more time thank our hosts, Republic of Indonesia. None of this would have happened without the dedication of H. E. Minister Marty Natalegawa, Amb. Esti Andayani and the rest of Indonesian team. They have lifted heaven and earth to make this a most wonderful experience.

I would also like to thank the interpreters, the conference officers and the security personnel for their tireless efforts.

I also would like to thank my team, especially the task force for their diligence, resilience and hard work. You all did a great job.

May we all return home to continue the important work of the Alliance.

I thank you.

H. E. MR. NASSIR ABDULAZIZ AL-NASSER

CIFA's Concept Note

Remarks by **Jean-Pierre Diserens, Secretary-General**

Panelists:
— **Steve Young**, Executive Director, Caux Round Table
— **Salim Chanderly**, CIFA Advisor , ASIA
— **Mahroo Moshari**, Director of Manhantan Multicultural Counseling
— **Francois Loriot**, CIFA, CSR-MDG-SDG & Human Rights Advisor
— **Pamela Bernabei**, President IOA
— **Janka Palkova**, CIFA Executive Committee

The financial sector's contribution to sustainable development in a context of cultural diversity

At the ECOSOC, CIFA is the sole international entity of financial advisors with consultative status dedicated to the promotion of the UN Agenda, Goals and Objectives. At the UN-FOSS session of November 2013 and at the April 2014 Joint GA-ECOSOC session on the Post-2015 UN Development Agenda, CIFA has actively participated to the update of MDGs, to the design of the new SDGs and to the promotion of more active partnerships between the UN, the private sector, CSO and NGOs.

CIFA actively supports the General Assembly's 2000 Millennium Declaration, as well as the Global Compact Principles, and the 2001 MDGs. However, CIFA is concerned that many of these universal statements have not benefited from the private sector and from CSO timely inputs, in order to truly translate and represent the cultural diversity of the 21st century.

Likewise, recent discussions at the United Nations and Bretton Woods entities

on good governance, human rights, corruption, bribery, accountability, interest rates *(**ribâ** prohibition of usury)*, illicit flows and transfers of assets and fiscal heavens, all indicate the need to involve more closely the private sector and CSOs in the design, discussions and promulgation of efficient guidance and decision-making *(ECOSOC res: 2006/24 and doc 6607/2014; DEV/2605 IPU/UN)*.

Many of the following financial concepts call, in Bali, for a cultural diversity approach, discussion and mutual understanding by Nations, in order to ensure "Peace, economic stability, fair international business practices and sustainable development" for all. The CIFA Panel will address the cultural differentiations of some business and financial keywords which represent major differences of human civilizations, religions and of the world's major legal and justice systems. A forthright and open dialogue on these conflicting concepts is urgent to avoid cultural conflicts, misunderstandings and disputes:

- good governance and accountability: notion of "responsible business"
- corruption, bakchich, takrim, and other business gifts
- ***ribâ*** and abusive interest rates practices
- defense of property rights and spoliatory taxation practices
- free flow of legitimate assets

Jean-Pierre Diserens

UNAOC United Nations Alliance of Civilizations

CONVENTION OF INDEPENDENT FINANCIAL ADVISORS A Non-Profit Foundation

The Sixth Global Forum United Nations Alliance of Civilization BALI INDONESIA 2014

The Sixth Global Forum of the United Nations Alliance of Civilizations

Bali, Indonesia 2014

"Unity in Diversity: Celebrating Diversity for Common and Shared Values"

Convention of Independent Financial Advisors (CIFA) cordially invites you to a panel discussion side-event:

"The financial sector's contribution to sustainable development in a context of cultural diversity"

August 30th, 2014 | 09:00 to 11:00

Venue: **Legian #3**

Panelists:

Steve Young, Executive Director, Caux Round Tables
Selim Chanderli, Advisor Asia, CIFA
Mahroo Moshari, Director, Manhattan Multicultural Counseling
François Loriot, CIFA, CSR-MDG-SDG & Human Rights Advisor
Pamela Bernabei, Secretary General, Scientific and Humanistic Research Foundation Antonio Meneghetti
Giulia Guardini, Secretary
Hana Jungova, Interpreter
Janka Palkova, Executive Committee Member, CIFA

Moderator:
Jean-Pierre Diserens, Secretary General, CIFA

Join us for the Cocktail Reception
17:30 to 18:30

Individual Asset Managers Don't Need Heightened Regulation, Ex-Treasury Official Says

Former U.S. Treasury official Mary Miller said she doesn't believe financial-system risks in the asset management industry can be addressed simply by subjecting individual asset managers to heightened regulation...

Nellie Liang, director of the Fed's Office of Financial Stability, outlined areas where the Fed believes potential risks need more investigation, such as in the growing sector of open-end, long-term mutual funds and exchange-traded funds...

WSJ, Jan. 9, 2015

Singapore decides against swaps trading switch

Singapore has decided against forcing more swaps trading on to regulated electronic trading platforms...

The decision puts the Asian city state on a different path to the US, Japan and Europe — the three biggest swaps markets — to overseeing the over-the-counter derivatives trading...

A sudden shift to electronic trading would impose extra costs on a still relatively small market long used to dealing on the phone...

Financial Times, Feb. 11, 2015

Ucits funds now speak Mandarin

The Ucits IV directive, the latest iteration of the European retail fund regulation, appears in Mandarin on the commission website...

This is an acknowledgment of the success of Ucits around the world...

Financial Times, Feb. 15, 2015

UK watchdog cracks down on asset managers

The UK's £5tn asset management industry is not doing enough to guard against potential insider trading and market abuse, the UK's financial watchdog has found...

The Financial Conduct Authority has found that only a small number of companies it surveyed as part of a review had "comprehensive" controls in place against...

Financial Times, Feb. 18, 2015

Surge in Subprime Loans Linked to Cars Draws Regulatory Scrutiny

It is a tempting offer: Convert that beaten-up car in the driveway into hard cash with a simple loan...

But car title loans, which allow owners to borrow money against their cars, are having devastating financial consequences for a growing number of Americans...

Across the country, this business is booming. As the loans proliferate, regulators are beginning to crack down on them...

NYTimes, Jan. 30, 2015

Making Brokers Toe the Mark

If you are in the market for financial advice, good luck figuring out which financial advisers are legally obligated to act in your best interest...

There is a big difference between glorified salesman and true investment advisers, and yet the onus is on consumers to sort it all out...

According to the financial services industry, a rule to protect investors would actually harm — yes, harm — the average person in need of retirement advice, particularly the smaller investors...

NYTimes, Feb 13, 2015

Wall Street Regulator Plans to Scrutinize Electronic Bond Trading

Finra said it would start conducting examinations of firms that offer electronic bond trading, as well as "books and records, supervision and order execution practices"...

NYTimes, Jan.. 6, 2015

Investors Attack Europe's Alternative Funds Regime

Investors have criticized the European Union's regulation of the fund management industry in a survey by the trade body the Institutional Limited Partners Association...

More than two thirds (69%) of European investors said that their private equity programs had been put at a competitive disadvantage since the introduction of the Alternative Investment Fund Managers Directive...

"The risk of missing out on a good quality investment opportunity has increased a lot," said one respondent to the survey...

WSJ, Feb. 9, 2015

With Negative Rates, Europe Is Entering a No-Default World

In a world of negative interest rates, it certainly pays to be a borrower, Shakespeare's concerns notwithstanding.

But such a world is a strange place, especially for a restructuring lawyer. Up is down, and lenders might benefit from defaults.

European sovereign nations have issued debt with negative returns...

The New York Times, March 4, 2015

FINRA gets tough in 'high-risk broker' crackdown

The US Financial Industry Regulatory Authority banned the highest number of individuals from the securities industry in five years last year... It is a latest example of growing regulatory intolerance of financial malpractice...

Finra, an independent regulator charged with overseeing the securities industry to protect US investors, barred 481 individuals in 2014, up from 429 in 2013 and 294 in 2012...

Financial Times, Feb. 8, 2015

SEC Plans to Fix Flaw in Electronic Distribution System

The Securities and Exchange Commission, seeking to level the playing field for all investors, plans to fix a flaw in how it electronically distributes corporate regulatory filings that has allowed rapid-fire traders to get a first look at potentially market-moving news...

The issue was first raised by a pair of academic studies published this year...

WSJ, Dec. 26, 2014

Sweden pledges to investigate closet trackers

The Swedish government is to become the first in Europe to formally investigate closet-tracking funds that charge high fees for active management...

The Danish regulator, Finanstilsynet, launched an investigation into so-called "benchmark-hugging" funds last September and found that...

Financial Times, Feb. 15, 2015

Boards without women breed scandal

Public companies with more women on their boards are less likely to be hit by scandals such as bribery, fraud or shareholder battles, according to research from index provider MSCI, which looked at more than 6,500 company boards globally.

The research found that boards with gender diversity above and beyond regulatory mandates or market norms had fewer instances of governance-related scandals.

Financial Times, March 8, 2015

Adding Good Deeds to the Investment Equation

Enter a twist on social impact bonds. Typically, social impact bonds are contracts, not bonds as investors think of them. If the group receiving the proceeds can improve a certain social condition, the investors are paid back with some interest; if it fails, the investors lose.

...an example of increased investor interest in social impact projects, a niche that has long appealed to two types of investors: those who want to avoid companies that clash with their beliefs, and those with a desire to put a small portion of their wealth into an investment that could do some good, whatever the return.

One type of social impact investment is green bonds, which focus on projects like wind power, clean water and sustainable agriculture.

There is also a range of investing strategies known as environmental, social and governance investing, or E.S.G.

The NY Times, March 6, 2015

High-frequency trading is the new invisible hand

What's the difference between you and a very powerful computer? This is the question posed by artificial intelligence research...

Roughly half of equity trades in the US and UK financial markets are now carried out by these ultra-fast thinking machines... There is evidence though that the trading is characterised by many 'flash crashes', like that of May 2010...

...high-frequency trading is the culmination of the 'performativity' some social scientists believe characterises finance...

Financial Times, Feb. 17, 2015

The IFA message to European Regulators

FECIF *(Fédération Européenne des Conseils et Intermédaires Financiers)* is the main organization representing IFAs and Intermediaries in Banking, Life Insurance and Financial Affairs. FECIF represents a large number of professionals across Europe. Its members *(trade associations, financial companies and individuals)* are involved in the major European financial markets. The number of FECIF members has been growing year on year, therefore confirming FECIF's core role of defending the interests of the IFA sector within the financial services industry. During the 15 years of its existence, FECIF has regularly met with EU-MEPs to discuss all major issues.

On December 3rd, 2014, FECIF gathered in Brussels for a one-day conference addressing the challenges ahead for European IFA *(please see the programme below)*. In their opening address, both **DAVID CHARLET** *(FECIF Chairman and Head of ANACOFI in France)* and **JOHANNES MUSCHIK** *(FECIF Deputy Chairman and Head of AFPA in Austria)* focused on how the Financial Services industry has evolved since 2008 to the present day. In terms of its size, the industry encompassed approximately 700,000 companies and 500,000 individuals, as well as an estimated 2 million back-office employees, incorporating the administrative segment of the European financial services industry. The UK, Scandinavia and Benelux clearly led the "distribution through intermediaries" sector across Europe, as opposed to Portugal and Greece where the industry is much less developed. In 2013, there were 30 trade associations

12h30 - 14h00	Lunch sponsored by MIM3	
14h15 - 14h30	Welcome speech - **David CHARLET**, ANACOFI/Fra, Chairman of FECIF **Johannes MUSCHIK**, AFPA/Austria, Deputy Chairman of FECIF	
14h30 - 15h30	Round Table - *New regulation: good news or over-regulation?* Moderator: **Paul STANFIELD** (FEIFA/UK, Secretary General of FECIF) **Vania FRANCESCHELLI** (ANASF/Italy); **Stéphane FANTUZ** (CNCIF/France); **Martin KLEIN** (VOTUM/Germany); 1 **representative** from Tocqueville Finance SA.	
15h30 - 15h50	**Guillaume PRACHE**, Managing Director – Better Finance for All	
15h50 - 16h15	**David COWAN**, Co-ordinator, Consumer Protection and Financial Innovation team - EIOPA	
16h15 - 16h40	Break	
16h40 -17h00	**Garry HEATH**, Consultant - Special Risk Bureau Insurance	
17h00 – 17h20	**Yves NIDEGGER**, National Council Member (Geneva) - Swiss Parliament	
17h20 - 18h30	Round Table - *What and who are Financial Advisers and Planners? We are not illusions – Why are we valuable to individual consumers and society?* Moderator: **Vincent DERUDDER** (Honorary Chairman of FECIF) **Arcadi ORRIT** (AIF/Spain), **Marc VAEL** (BZB/Belgium), **Jiri SINDELAR** (USF/Czech Rep), **Jean-Pierre DIESERENS** (CIFA/Switzerland) and **Patrick Le JUSTE** (CEO of MIM3).	
18h30 - 18h45	Witnesses points of view **Axel RASON** CEO of UPSIDEO ITT supplier / **Michael LODHI** CEO of The Spectrum IFA Group	
18h45 - 19h00	Questions and Conclusions: FECIF's wishes **David CHARLET**, Chairman	
19h45 - 23h00	CONFEDERATION DINNER sponsored by fecif, CIFA Convention of Independent Financial Advisors – A Non-Profit Foundation, UPSIDEO, Tocqueville	

across Europe, spread across 20 countries. However, under the weight of increasing regulation, the industry has contracted quite substantially in many formerly important markets for intermediaries. **DAVID CHARLET** disclosed the preliminary results of a major new pan-European survey being conducted by FECIF. Considering that Germany, France and the UK combined have more than 400 000 intermediaries, the survey could infer that in 2014 the overall number of IFAs increased as compared to 2008. Nevetheless, a more realistic assumption would be to consider that the industry might have contracted by approximately one third of its 2008 reported size especially in two or three major markets *(the UK and the Netherlands)*. Another insightful aspect emerged from the survey: two primary categories of professionals *(brokers/advisors and agents)* concentrated in specific countries. FECIF is presently finalizing the research for this survey, the results of which are expected to bring a clear vision of the current industry situation.

JOHANNES MUSCHIK stressed that, when the European Financial Services Action Plan was first launched in May 1999, its main goal was to "make regulation easier for private investors". Fifteen years later, the required paperwork has multiplied significantly, making financial intermediaries, and also their customers as well, struggle under the weight of regulation. Inevitably, the supply of financial instruments has shrunk in countries where heavy regulation is the "rule", affecting financial intermediaries and their clients. Hence, how is the industry going to ensure that customers' savings will be safely invested and well looked after under these circumstances? If legislators and regulators continue to lean on big banks and other large financial institutions, they must be held accountable for having let the "too big to fail" systemic risk expand without preserving investors' interest.

During the first panel, moderated by **PAUL STANFIELD** *(FEIFA/ Secretary General of FECIF/UK)* and consisting of **VANIA FRANCESCHELLI** *(ANASF/ Italy)*, **STÉPHANE FANTUZ** *(CNCIF/ France)*, **MARTIN KLEIN** *(VOTUM/Germany)*, and **ERIC TAJCHMAN** *(Tocqueville Finance SA)*, there was a focus on new regulation and the principle of "independency" as it applies to financial intermediaries was raised. Since MiFID II is about ensuring investor protection, commissions or inducements from third parties are called into question. Banning commissions/inducements (as in the UK and the Netherlands) would, undoubtedly, threaten the current IFAs business model (focused on the distribution of financial products). If no longer viable, and should ESMA continue to push forward with this issue, then financial intermediaries will need to build a new business model. Fees charged to the final investor will surge in a new business model framework. As a consequence, fewer customers will be able to afford the higher cost of financial advice at a time when they need it most, particularly considering that central banks are currently keeping the interest rate pedal pressed to the floor. Several surveys run by different bodies, either regionally or globally, have revealed that the number of financial intermediaries has diminished substantially after the introduction of heavier regulation. Surveys also uncovered that only "wealthy" investors would accept to be charged a fee for financial advice. Therefore, heavier regulation and a ban on commissions/ inducements are definitely unwelcome not only for the damage they would cause to the financial services industry as a whole, but also to the final investors' wellbeing as well. As new trends develop at the global level, IFAs will need to embrace change and adjust their business model.

DAVID COWAN *(Coordinator, Consumer Protection and Financial Innovation team - EIOPA)* focused his presentation on consumer protection regarding insurance distribution and EIOPA's role. For the time being, the industry is being mainly supervised at the national level. EIOPA must promote greater transparency, simplicity and fairness for consumer products/services, but its role might need to evolve towards: (a) issuing warnings where a product poses a serious threat, and (b) temporarily banning certain types of products. A further push to prevent regulatory arbitrage and promote equal conditions of competition was mentioned by Mr. Cowan.

Supervision is facing all sorts of obstacles, due to the wide diversity of intermediaries *(not enough consolidation has occurred yet across the industry)* and no direct control possible over IFAs. Forthcoming new legislation "IMD 1.5", aimed at tackling conflicts of interest inherent to "Insurance-Based Investment Products" (IBIPs), will go through a two-phased consultation process and might be delivered for technical advice to COM in February 2015. Regarding IMD2 *(or IDD)* expected to be finalized by summer 2015, COM called in July 2012 for a "mandatory disclosure of the full amount of remuneration after a 5-year transitional period", while European Parliament *(EP)* amendments of February 2014 also required the disclosure of the source of remuneration *(commissions/inducements)*. Equally interesting is that, according to the EP, tying practices are not explicitly banned and multi-risk policies would be allowed. Overall, EIOPA views "supervisable ethical conduct" as important as continuous training of intermediaries. Mr. Cowan stressed as well the need for a "level playing field" between intermediaries and the staff of insurers within a harmonized approach to avoid market fragmentation. Currently, EIOPA is focusing on strengthening process controls by manufacturers before product launch with the "Guidelines on Product Oversight & Governance by Insurers", a public consultation that runs until 23rd January 2015. The next step is expected to focus on distributors.

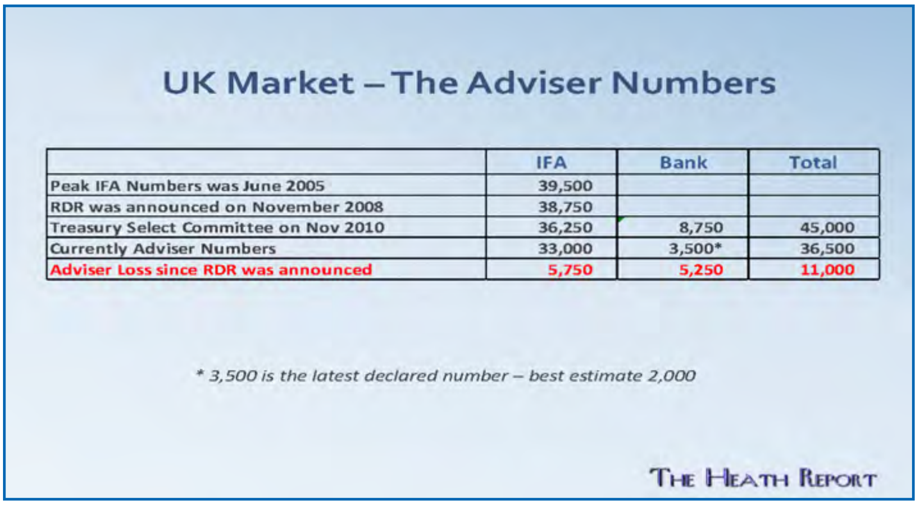
The automatic exchange of information between national fiscal authorities across the globe was approached by **YVES NIDEGGER** *(National Council Member, Swiss Parliament)*, who candidly admitted that, compared to five years ago, the Swiss perspective has morphed quite dramatically. In 2009 *(March 13th)*, Mr. Hans-Rudolf Merz *(then President of the Swiss Confederation and Head of the Federal Department of Finance)*, bowing to international *(G-20)* pressure to loosen banking secrecy rules to help other nations fight tax evasion, pledged that Switzerland would "accept the standards of the Organization for Economic Cooperation and Development *(OECD)* on administrative assistance on tax matters". By doing so, there was no longer a difference between tax evasion and tax fraud and "de-facto" Swiss law became inapplicable on Swiss territory. Incidentally, Mr. Merz resigned in October 2010. Then, Swiss bankers designed the "RUBIK" system, negotiated with the UK, Austria and Germany, in order to maintain what was still left of the "banking secrecy" *(preserving customers' identity)* and involving the bulk transfer of taxes due to foreign countries and collected by Swiss banks. Eventually the system failed, especially when international pressure to move faster took hold,due to the US-FATCA legislation and the wider automatic exchange of information system.

How then to ensure protection of individual rights at the national level when the exchange of information becomes automatic? When information was released only based on specific and motivated demands, there was room for defense. To the contrary, whenever there is "automatic" transfer of information, the individual involved cannot even be informed, according to the law as currently drafted. As a consequence, the individual would have no way of defending his or her own rights.

The Swiss Minister of Finance, Ms. Eveline Widmer-Schlumpf, has put a lot of pressure on Parliament members to have the new law implemented on time to start collecting data from January 2017 onward for delivery to relevant countries beginning in January 2018. Apparently, the multilateral approach is favored, instead of bilateral agreements, since it could speed up the whole legislative process and ensure a timely implementation of the new law. More generally, Yves Nidegger pointed to the major changes emerging within our countries and especially to the fact that instead of encouraging wealth creation, the administrations (civil servants) in power are focusing on tax collection. In conclusion, he said ***...If tax collectors make up the political culture, one has to worry!***

An insightful presentation on the impact of RDR on the UK market by **GARRY HEATH** *(Consultant - Special Risk Bureau Insurance - Editor of "The Heath Report" which explains the dangers of the Retail Distribution Review to UK consumers)* attracted the attnetion of the audience. In short, RDR banned commissions and allowed no grandfathering for experienced advisers. Essentially, the regulator presumes to decide how a consumer pays for advice and service. The impact on the industry has been quite dramatic as highlighted in the slides. Garry Heath went on to say that, in the four years since RDR became a reality, more than 11,000 UK advisers have exited the industry and, as a result, 11 million consumers have lost their advisers. Moreover, another 8 million consumers are in danger of losing their adviser. RDR definitely attacks the least financially astute consumer by denying them commission as method of payment! Equally worrisome is the increasing interference of the regulator in the client/adviser relationship. Increased regulation is not only costly to the "voiceless consumers in whose name the regulator acts, but for whom no protection is offered" affirmed Garry Heath.

While pointing to the lack of "level playing field" which is particularly worrisome, Garry Heath looked at increased regulation as a "disguised" nationalization of financial services by left wing politicians and ...managed by bankers for the benefit of the big battalions eternally attacking the small players". No better lessons come from Brussels nowadays. Large scale regulation is inevitable and ...IFAs will continue to be in a perpetual war with the bigger players *(banks and insurance companies)* whether they want it or not. He recommended that IFA representations play to their strengths by in particular including clients and consumers. Apa-

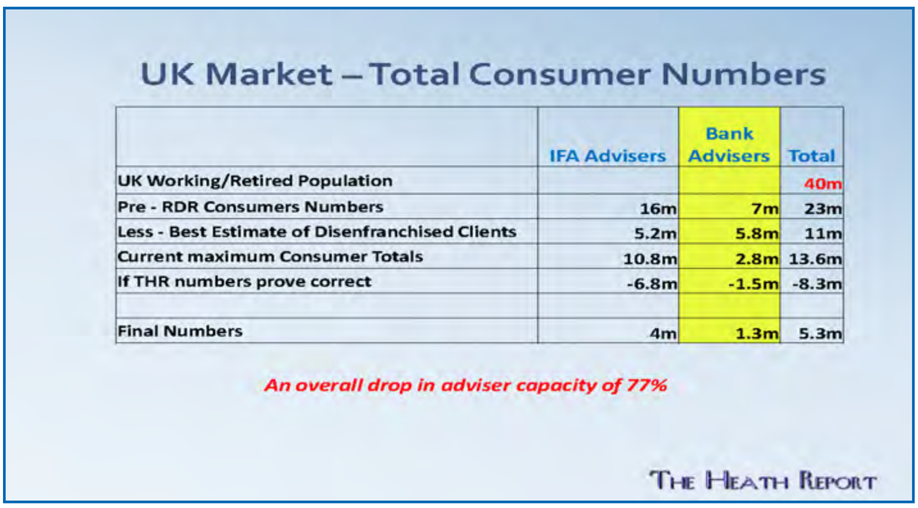


UK Market – The Adviser Numbers

	IFA	Bank	Total
Peak IFA Numbers was June 2005	39,500		
RDR was announced on November 2008	38,750		
Treasury Select Committee on Nov 2010	36,250	8,750	45,000
Currently Adviser Numbers	33,000	3,500*	36,500
Adviser Loss since RDR was announced	5,750	5,250	11,000

* 3,500 is the latest declared number – best estimate 2,000

THE HEATH REPORT



UK Market – Total Consumer Numbers

	IFA Advisers	Bank Advisers	Total
UK Working/Retired Population			40m
Pre - RDR Consumers Numbers	16m	7m	23m
Less - Best Estimate of Disenfranchised Clients	5.2m	5.8m	11m
Current maximum Consumer Totals	10.8m	2.8m	13.6m
If THR numbers prove correct	-6.8m	-1.5m	-8.3m
Final Numbers	4m	1.3m	5.3m

An overall drop in adviser capacity of 77%

THE HEATH REPORT

thy is the worst attitude for advisers and consumers ...he added, in clearly stressing that a financial services market dominated by the big players is definitely not in the consumers' interest.

GUILLAUME PRACHE, representing the European Consumers Federation for Financial Services 'Better Finance for All' wanted to provide an insight of what the situation is like on the other side of the river, in "Consumer Land". The purpose of this being to establish a better understanding of the issues they're coping with and foster dialogue with the Financial Intermediaries Federation. A common challenge for the consumer and financial intermediary organizations is to find a way to rebuild trust in retail investments. Too often individual investors are provided with underperforming investments. The real returns, after inflation and in terms of purchasing power, for long-term savings and pensions, are in negative territory. Returns on bank accounts are worse. Both consumers and insurance companies in the financial industry are even often forced into investing in products that are inevitably losing money such as government bonds which, using the correct terminology, is called financial repression.

The quality of the information given to the consumer is not improving, it is regressing. Recently it was decided by Parliament that all data on past performance compared to benchmarks no longer needs to be part of the disclosure regime *(PRIPs/KIIDs)*. Hence, investors will no longer be informed of how well or how badly an investment product has performed. The priority for the consumer is to have unbiased and cost efficient advice which doesn't mean that the banks are offering more cost efficient products with better returns. A perfect example of this is the Nr 1 capital guaranteed life insurance product in France (Fonds en EUR) which in 2013 had a nominal rate of return of 2.6% via bank agents' distribution and an average of 3.3% on the IFA network distribution side. Take away the Financial Intermediary channel and the consumer will have no other choice than to live with the lower end of the return scale, the 2.6%.

Guillaume Prache concluded that commissions are by nature a risk for conflict of interest, which however doesn't imply we should be banning all commissions and kill the multi-product advisor who can give access to better performing products bearing in mind that it's not always the biggest fund that gives the highest returns. Taking reality into account, the banks will not engage in open architecture, they will be promoting their own products in their own interest. Let's keep the dialogue between consumer and financial advisor open and let's hope ESMA will think twice before putting in place inefficient regulations.

Finally, the topic for the round table discussion, moderated by **VINCENT J. DERUDDER** *(Founder, Honorary Chairman of FECIF, and President of the Consultative Committee)* was to define the value of the Financial Advisor and Financial Planner to individual consumers and society. The panel consisting of **ARCADI ORRIT** *(AIF/Spain)*, **MARC VAEL** *(BZB/Belgium)*, **JIRI SINDELAR** *(USF/Czech Rep)*, **JEAN-PIERRE DISERENS** *(Secretary General of CIFA Switzerland, an NGO with special consultative status at the UN-ECOSOC in New York)* and **PATRICK LE JUSTE** *(CEO of MIM3, Money in Motion, an asset management company in Luxembourg)* was asked to lend their opinions and suggestions on the subject. In his opening words, **Vincent Derudder** reminded us of what FECIF was all about, when launched 15 years ago, and how its objectives have evolved. At the start, the goal of the EU commission was to enlarge the single market, to organize a harmonization amongst the EU members and to facilitate cross border business between member states. Then, suddenly, a tsunami of regulations came upon us and FECIF was forced into the role of advocating the interests of IFAs. The UK RDR was considered to be the model for wider European regulation, without really weighing up any serious consequences this could bring about. Looking at other sectors, there is Not One that dictates how people should be remunerated, except in the financial industry - and the worst fact is that for the financial sector, the remuneration for people in the financial industry is being decided by a couple of guys in Brussels, Frankfurt and London.

Looking at the situation in Spain, in **Arcadi Orrit**'s view, the regulation has been beneficial. Some 7 to 8 years ago anyone could be an IFA in Spain which was a rather dangerous situation. Today, with investment advice being recognized and IFAs officially registered, the consumer has an enhanced protection and the quality of the advisor has improved. Profiling the IFA profession versus the banks, the IFA has a much more dynamic, independent and personalized approach. As far as clients are concerned, who cannot afford Financial Advice, the IFA can delegate some services to the Association at reduced cost.

From the point of view of an asset manager and financial engineering platform in Luxembourg, **Patrick Le Juste** considers the EU market to offer advantages. The main reason for moving the MIM3 headquarters from Geneva to Luxembourg was to have better access to the EU market by means of the European passport. He considers IFAs to be highly important in developing the asset management business and he understands that the new regulations have limited the positive effect on the industry. Unfortunately, whether we like it or not, we'll have to adjust the sails and probably come up with a new model. Looking at the reaction of the asset management sector in the Netherlands following RDR-type rules, the management fees have been increased by "times two", and sometimes "times three". Patrick Le Juste hopes that regulators can somehow come to their senses and review the situation.

Considering that the Czech Republic is a rather young market, according to **Jiri SINDELAR**, the IFA profession is still looking promising. Two out of three new insurance contracts in the Czech Republic come through IFAs. The fact that there is commission cap protects the clients and is no hurdle to IFA businesses. Even though a young market, the Czech Republic has adapted rapidly due to the fact that the supply chain has changed. Most IFAs are switching to a higher added value for the consumers. As the EU is taking on a bigger role, increasing its footprint in the market, it was important to link forces and join FECIF.

Jean-Pierre DISERENS surprisingly *(or less surprising for those who know Jean-Pierre)* did not want to talk about IFAs. He wanted to give the audience a feel of where the world today is going wrong and where we could be going from here. People who need to structure their retirement have to be concerned about how the world is looking at the future, in the light of the Bretton Woods institution that was set up after WWII, giving some significant advantages to those who, in first place, wanted WWII; advantages that today are no longer justified. The monetary aspects, represented by currencies which are merely a piece of paper with ink on it but endorsing considerable political power, grant outrageous powers to those who are plainly broke. A rebalance will be needed and that rebalance will be made by taking the money where the money is needed. Making everyone transparent is the road to expropriation and henceforth rebalance. In other words, a new Bretton Woods agreement and a new system in which the client will be the victim. Seeing this happen in its back yard, the European population however is lame and doesn't raise its voice. It didn't at the time and it doesn't now. What Jean-Pierre DISERENS considers to be the most important thing is to protect clients and therefore, this time round, we need to speak up.

Mark VAEL, representing BZB *(a trade* *association in Belgium, having 1600 members representing 3000 IFAs in the Flemish part of the country)*, did want to emphasize the ongoing need for IFAs and why they bring value to the individual consumer. A survey in Belgium resulted in 69% of consumers answering positively to the question of whether advisers add value with regars to insurances services. The added value resulted mainly from the personal relationship with the IFA and the good and clear advice clients receive, not only in the process of setting up the relationship but also for the after-sales services. Human contact is a justification for turning to IFAs as opposed to institutions, where the justification merely lies in the fascination with the name along with the feeling of a certain security. Marc Vael could only conclude from this that there still is a bright future for the IFA.

Vincent DERUDDER's closing question to the panel referred to how they felt about transparency and disclosure of remuneration as well as disclosure of the client's personal information, which will end up with the tax man. Arcadi Orrit feels that clients should not have a problem with this provided that the IFA makes the client aware that disclosure is imposed on them by the Supervisor. For Patrick Le Juste, on the other hand, this was "THE" question of the day: the hurdles posed by disclosure, giving up confidentiality and being prepared to be fully transparent. There is no solution at hand and we'll need to wait and see where the new regulations will really lead us. He hopes that an association like FECIF can prevent or limit a "wild-growing" of regulations but whatever the results are, we'll need to cope and live with the outcome, whether we want it or not. The only solution according to Patrick Le Juste is to use a model that might solve overregulated scenarios. Jiri SINDELAR stated that no one can object to fair disclosure using appropriate measures on commissions and remunerations. As currently there is no appropriate capital available in the Czech Republic, tax transparency will in no way solve tax issues. Hence, the number of customers this would involve in the Czech Republic would be rather small. To Jean-Pierre DISERENS, transparency is going to be a choice. A choice for the clients as to where they are taking their wealth considering that there are still 141 countries in the world that continue to value sovereign rights. That, however, leaves behind the middle-class, the people who do not have much of a choice and who are going to be hit hardest by means of expropriation or, in other words, who will be walking the streets naked. The logic in all this is missing. Mark Vael's opinion was entirely in line with Mr. Diserens' opinion and further pointed out that politicians don't see the difference between an entrepreneur and a criminal. The findings of the Heath Report clearly show that advisors will be having more of a social role considering smaller clients and their lack of access to financial advice. Banning commissions will lead to the same results as the Heath Report. With far too much disclosure imposed, regulators forget what the real importance is: they see where the big money is however they don't take into consideration how that money was earned. All Panel Members remain, however, optimistic on the future even though we are on the cross-roads of change. As Marc Vael put it, the biggest challenge today is not the changes, rather the speed of change. That, along with the digital evolution, is what we need to deal with.

To conclude, **David CHARLET** reminded the audience that the legislators dictating rules for our industry are politicians and civil servants, whose role is to represent citizens and their interests *(develop rather than destroy the profession)*. While we still have many things to worry about, it is not yet too late to correct matters. David Charlet is proud to represent our industry, which was able to adapt to numerous New Directives and texts, even totally transform its business model in less than 10 years for the benefit of our clients.

On that optimistic note, we wish you all a very optimistic 2015. May we all continue, together, to defend the values we stand for, in good health and prosperity.

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Financial Advice in Europe under MiFID 2 – key changes

Summary:

- Europe moves from regulating product selling to regulating financial advice.
- MiFID2's suitability standard emphasizes assessments of customers' risk tolerance and ability to bear investment losses.
- MiFID2 provides for 'independent advice', bans commissions when advice is provided on an independent basis.
- Commissions for non-independent advice are still allowed. This creates an opportunity for business model arbitrage and will impact negatively independent advisors and, ultimately, harm investors.
- The regulation of financial advice is aligned with the standard six-steps financial planning process.
- The MiFID2 framework is still to be completed with detailed rules, regulatory and implementing technical standards. The new regime will become effective on January 3, 2017.

* * *

Europe responded to the Global Financial Crisis (GFC) with a slew of Directives and Regulations, some of which will change the way financial advice is delivered to the Europeans. Chief among them is Directive 2014/65/EU *(known as MiFID2)*.

In a 2009 review of the financial markets, the European Commission signaled, among others, the problem of the reliability of advice and "the inbuilt conflict of interest faced by advisors due to remuneration systems that can bias them towards selling particular financial products." To address this and other problems consumers in the financial markets face, European legislators are in the process of strengthening financial consumer protections, including those around advice. As a result the emerging European regulatory framework could be summed up as follows:

1. Europe moves from regulating product selling to regulating financial advice;
2. Europe adopts a more detailed distribution of product regulation, including a more elaborate suitability standard and
3. The new financial advice regulation is aligned with the standard six-steps financial planning process, which has been promoted by professional associations worldwide for over 40 years.

Lubomir Christoff
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1. Europe moves to regulating financial advice

Prior to the GFC financial planning was not regulated on a European level. Instead selling of investment and insurance products was regulated. It was a patchwork of vertical regulations with gaps between them. Where investment advice was regulated under MiFID1, selling of insurance products, including investment products with insurance wrappers, were regulated differently under IMD1. IMD1 applied only to insurance brokers but not to employees of insurance companies. Mortgage advice was not regulated at all.

In 2009 the European Commission proposed a "horizontal approach" to "both mandatory disclosures and selling practices" with a view to promoting consistent outcomes regardless of the legal form of the product or the distribution channel employed." In practice, such a horizontal approach is in the process of being implemented using the MiFID definition of 'advice' and conduct of business provisions as a benchmark and spreading them to other sectors and products such as insurance and credit. While each financial sector will continue to be covered by its own Directive, advice and sales will be regulated in the same fashion modeled after MiFID2.

By covering selling practices of all retail financial products irrespective of their legal form, the European regulation moves to de facto regulating financial advice.

2. The new European Suitability Standard

As before, under MiFID2 investment firms will be obliged to "act honestly, fairly and professionally in accordance with the best interests of its clients" [art 24 (1)]. As before, in order to provide suitable services and products, investment firms will need to gather information on their clients' knowledge and experience in the investment field, their investment goals and financial situation.

The new wording of the MiFID2 suitability standard, however, strongly emphasizes the requirement that firms and advisors assess both clients' risk tolerance and capacity to bear losses to the extent that article 25 (2) repeats this requirement twice.

Independent advice. MiFID2 introduces the notion for independent advice, which is somewhat simpler compared to the one applied in the UK. For the investment advice to be independent, the firm will need to "asses a sufficient range of financial instruments available on the market which must be sufficiently diverse with regard to their type and issuers or product providers to ensure that the client's investment objectives can be suitably met..." art. 24 **(7a)**. Independent advisors are banned from receiving commissions or non-monetary benefits from third parties.

Commissions and inducements. MiFID2 does not go as far as UK or The Netherlands to ban commissions altogether. When a non independent advice is offered, commissions are allowed, provided the advisor can demonstrate that they are "a) designed to enhance the quality of the relevant service to the client and b) do not impair compliance with the investment firm's duty to act honestly, fairly and professionally in accordance with the best interest of its clients..." [art. 24 (9)].

While these requirements are consistent with the Directive's intent to protect investors, their effectiveness will depend crucially on the specific circumstances and situations considered when determining whether the "quality enhancement" test and the "do not impair compliance with the best interest duty" have been met.

Information to clients. MiFID2 contains detailed requirements on providing clients with information about investment advice, financial instruments, costs and charges as well as information as to "(iii) whether the investment firm will provide the client with a periodic assessment of the suitability of the financial instruments recommended to that client" [art. 24 (4) (a) iii].

3. The European financial advice regulation is aligned with the six-steps financial planning process

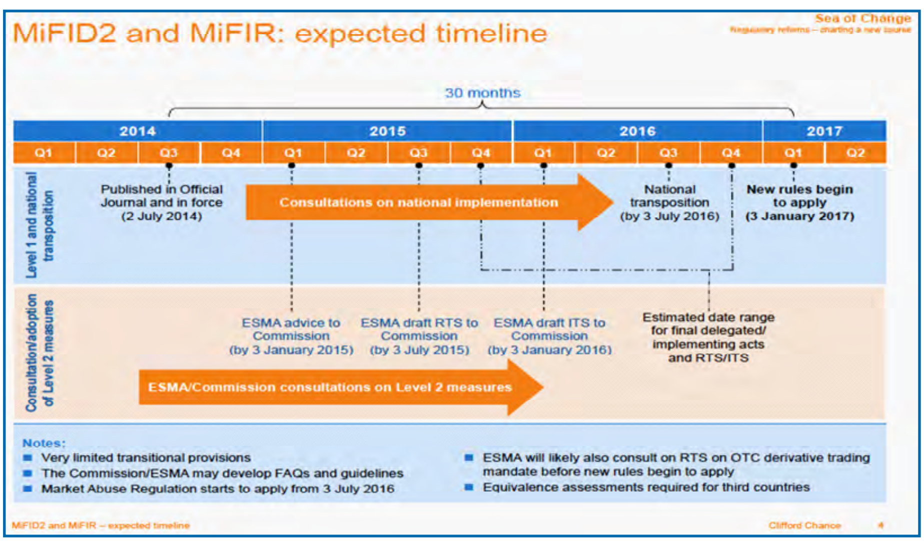
MiFID2 provisions around investment advice, and by extension the provisions of other Directives, regulating advice, are fully aligned with the standard six-steps financial planning process as shown in the table below.

The 6-steps FP process	MiFID2 provisions
1. Establishing and defining the client-planner relationship	The investment firm shall establish a record that includes the document or documents agreed between the investment firm and the client that set out the rights and obligations of the parties, and the other terms on which the investment firm will provide services to the client. [Art. 25 (5)]
2. Gathering client data, including goals.	When providing investment advice or portfolio management, the investment firm shall obtain the necessary information regarding the client's or potential client's knowledge and experience in the investment field relevant to the specific type of product or service, that person's financial situation including his ability to bear losses, and his investment objectives including his risk tolerance so as to enable the investment firm to recommend to the client or potential client the investment services and financial instruments that are suitable for him and, in particular, are in accordance with his risk tolerance and ability to bear losses. [Art. 25 (2)]
3. Analyzing and evaluating your financial status.	Suitability test – Same as above [Art. 25 (2)]
4. Developing and presenting financial planning recommendations and/or alternatives.	When providing investment advice, the investment firm shall, before the transaction is made, provide the client with a statement on suitability in a durable medium specifying the advice given and how that advice meets the preferences, objectives and other characteristics of the retail client. ("Reasons 'Why?') [Art. 25 (6)]
5. Implementing the financial planning recommendations.	Best Execution obligation: [Art. 27]
6. Monitoring the financial planning recommendations.	The investment firm shall provide the client with adequate reports on the service provided in a durable medium. Those reports shall include periodic communications to clients, taking into account the type and the complexity of financial instruments involved and the nature of the service provided to the client and shall include, where applicable, the costs associated with the transactions and services undertaken on behalf of the client.

4. MiFID2 – to be continued...

Directive 2014/65/EU *(the MiFID2 directive)* was published on June 12, 2014 and entered into force 20 days later, on July 2, 2014. EU Member states will have to transpose MiFID2 provisions into national law by mid 2016 and the new rules will become effective on January 3, 2017. MiFID2, however, is only the framework directive establishing principles. From here the European Commission will continue working on a new implementing Directive *(Level 2 Directive)*, specifying in more detail the new rules needed to implement the principles. To do that the Commission will rely on Technical advice provided by ESMA *(The European Securities and Markets Authority)*. Following the publication of the Level 2 implementing Directive, at Level 3 ESMA will develop Regulatory and Implementing Technical Standards and may issue non-mandatory Guidelines and Questions & Answers papers to further clarify certain provisions and achieve convergence of supervisory practices across the European Union.

Lubomir Christoff, ChFC



Source: Clifford Chance, (2014, June) "MiFID2 and MiFIR – expected timeline."

NOTES:

Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

COMMISSION OF THE EUROPEAN COMMUNITIES, (2009), "ON THE FOLLOW UP IN RETAIL FINANCIAL SERVICES TO THE CONSUMER MARKETS SCOREBOARD", p. 12

COMMISSION OF THE EUROPEAN COMMUNITIES, (2009),COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL, PACKAGED RETAIL INVESTMENT PRODUCTS", ", p. 9

The Juncker Commission:
a commitment to make a difference

The Juncker Commission was voted into office with a commitment to make a difference: to do different things and to do things differently.

Citizens expect the EU to make a difference on the big economic and social challenges – high unemployment, slow growth, high levels of public debt, an investment gap and lack of competitiveness in the global marketplace. They want less EU interference; they also expect the EU to be more open and accountable about what it does and how it does it.

This Commission is determined to focus on the 'big things' like jobs and growth, in line with the ten priorities of President Juncker's Political Guidelines.

This is the political engagement of President Juncker and, on that basis, the EU wants to rebuild confidence and to regain the trust of EU citizens. Citizens will judge the Juncker Commission by its engagement and delivery, and on the improvements they see in their own lives as a result.

This is why this Commission is making a political priority of lightening the regulatory load; the ambition is to overhaul the rules to make sure they contribute to the jobs and growth agenda. These rules should not impose unnecessary red tape or administrative burdens while, at the same time, they must bring the benefits that citizens expect.

The "Fédération Européenne des Conseils et Intermédiaires Financiers" (FECIF) was established in Brussels in 1999 and represents more than 230,000 European financial intermediaries *(life & pensions insurance agents and brokers, investment agents and brokers, independent financial advisers, financial planners, etc.)* through 19 national trade associations from 18 EU Member States.

A survey was conducted last year based on 1,245 intermediaries and 3,124 consumers *(existing and/or potential clients of intermediary members of FECIF)* across ten EU Member States and it indicates that 37% of the total number of consumers contacted prefers to deal through an intermediary because of the personal attention they receive during face-to-face meetings.

When there is a crisis, lack of economic growth, increasing unemployment – regulation and more regulation is not the right answer.

New regulations do not boost investment, nor retain or create jobs.

Most of the regulatory initiatives of the EC have been excessively burdensome for our members, with no real or perceived benefit for their clients, who are paying the disproportionate costs of such extra regulation.

This is why we put so much hope in the outcome of the REFIT Plan – hoping that the EC leadership will show the ambition to target at least 50% of existing regulations as being ineffective, counterproductive and too costly for the people of Europe.

We fully agree that there are weaknesses in the existing regulatory and supervisory framework but mainly because existing rules are not properly applied by the regulators - bureaucrats

Vincent J. Derudder
Honorary Chairman
Chair of the Consultative Committee
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fecif
Fédération Européenne des Conseils et Intermédiaires Financiers.

not close enough to the reality of the financial world to understand where the real problems lie.

We fully support the ambition of the EC to strengthen our clients' protection, to protect the interests of citizens, as investors, consumers, workers and taxpayers. However, we would like to see each legislative proposal, put forward by the EC, to be designed in such a ways to affect all parties of the industry equally: too often the small and medium-sized enterprises (SMEs) - our members - are paying the "dear price" of complying with new regulations as opposed to the large financial institutions, which can easily afford some extra costs that are, anyway, passed on by them to the consumers.

Regulation is largely responsible for the loss of 500,000 jobs in our industry and a very sharp reduction in the number of financial intermediaries *(130,000 less since the beginning of the crisis)*.

To better manage the consequences of the crisis a certain amount of flexibility in the regulatory process would allow our members time to adjust to the new situation.

The pressure of the "politically correct" is such - as is so evidently expressed by the ESAs guidelines - that it leads to an absence of proportionality in the implementation of regulation.

FECIF has repeatedly complained about the fact that no one single representative of the financial intermediaries' sector has been appointed to the so-called stakeholders' group of ESMA, the super agency created by the EC.

We are of the opinion that the bureaucratic oligarchy supervising the financial services industry has succeeded in preventing a true dialogue between all of the actors, which is viewed by our members as another mockery of democracy.

For too long, "big is beautiful" has been the EC concept but our members are not prepared to accept as a business model for good compliance, excellent governance and high ethics what seems to be the privilege of some "big and beautiful" institutions whose integrity is indisputable...

The path to hell is often described as one paved with good intentions. It seems the case with the previous Commission tsunami of regulation: over-regulation, gold-plating and excessive compliance explain the growing populist vote across Europe and an increasing anti-European feeling.

The end result of this strategy is restructuring, recruitment freezes, job cuts and consolidation, plus the risk that a number of SME providers will exit the market; thus reducing competition amongst distribution channels as well as the number of products and services offered by distributors.

In the past, the EC presented several programmes for **"Reducing Administrative Burden on Businesses"** without, honestly, much success.

I quote: "The Commission ascertains that unnecessary and disproportionate Administrative Costs may hamper economic activity and/or irritate business, citizens and public authorities. Measuring and reducing Administrative Costs would decrease overall cost of doing business; allowing additional investment and innovation, which in turn would improve productivity and competitiveness... ...As a matter of fact, this mission is part of a comprehensive strategy on better regulation **that the Commission launched back in 2001 (!) in the context of the Lisbon Strategy** for growth and jobs."

Very sincerely, good luck Mr Juncker!

Vincent J. Derudder
Honorary Chairman
Chair of the Consultative Committee
Member of the EC Expert Group on exchange of financial accounts information

> *"...Regulation is largely responsible for the loss of 500,000 jobs in our industry and a very sharp reduction in the number of financial intermediaries: 130,000 less since the beginning of the crisis..."*

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The Impact of RDR on the UK Market The Heath Report

At its launch, the Heath Report promised to issue an interim report at the end of July to explain the basic effects of RDR on the access for advice for consumers.

The full report will provide more detail as well as concentrating on the lessons learnt and need for better accountability in financial services regulation. It will be issued early March.

The Heath Report is being helped by a number of research companies who are willing to help by using client research to underpin our research. Every statistic in this report has been cross matched by more than one piece of research. That said, in some cases the sample sizes are small; additional research is now to be commissioned in order to improve understanding and substantiate current statistics.

The Heath Report hopes to give a voice to those who are often ignored by the current regulatory policy process - ***The Consumer.***

Substantiation

The information that The Heath Report uses comes both from advisers but also from face to face surveys with the public. By combining this information we are able to cross reference one set of data with another and come to a confident position which can be substantiated.

An excellent example of this process is establishing the number of consumers who have been advised by the IFA Sector. The ABI Statistics Office suggested the number was 12m, which many within the advisory community thought was high. But, the 12m did not include those consumers who had only used non insurance products like Unit Trusts and Investment Trusts.

Using consumer facing research, it is now clear that almost 16m consumers have used the IFA Sector at some time. This makes the ABI numbers wholly credible and, in addition, we also learn that almost 6m UK Citizens have used the IFA Sector in the last 5 years.

The number of consumers who have used banks is currently sketchy. The Heath Report seeks better statistics in this area for the final report

The Heath Report would like to thank Panacea, Action Consulting (UK), ABI IMAS and GfK – RDR 360 for their help, support and encouragement.

It would also like to thank the ex-members for Adviser Alliance and a number of individuals for their financial support.

Further financial support is urgently needed see *http://www.theheathreport.com/funding.html*

RDR

The regulator is tasked by The Financial Services and Markets Act 2009 to:

- protect the consumer,
- promote effective competition in the interests of consumers in the markets
- protect and enhance the integrity of the UK financial system

Garry Heath MCIM

Garry Heath was Director General of The IFA Association, 1989 – 1999, which enjoyed a membership of over 60% of UK IFA Practices. At its height, the IFAA had 16 staff and a turnover of nearly £2m.

Garry was a central player in the introduction of regulation into the financial services industry and was instrumental in the reform of FIMBRA and the creation of the PIA. He also was a witness to 4 Parliamentary Select Committees and the joint parliamentary committee that created the Financial Services & Markets Act.

He has been awarded "Outstanding Contribution to the Financial Services Industry" for 8 concurrent years and awarded 5 other Financial Services industry awards. He created the Financial Services department of BIPAR which still thrives as the EU body for advisers as well as the Financial Adviser 5 Star awards.

He represented the Association as its public face including promoting members' interests to Government, the civil service, and regulators and made numerous media appearances which included all 4 breakfast television stations, The Money Programme, Watchdog and Working Lunch.

More recently Garry established and sold two national financial services businesses valued at £40m and currently acts as a consultant with expertise in Financial Services distribution.

The Heath Report

In an attempt to remove perceived imperfections in the market, the regulator has forcibly divorced millions of clients from the advice they have historically accessed. How this is seen to be consumer protection is a mystery as is how the loss of over 25% of the adviser establishment promotes effective competition.

Until The Retail Distribution Review (RDR), clients and advisers decided the basis of their relationship, in particular the amount of advice required and the methodology of payment. RDR has removed commission as an option and, by doing so, has created a paradigm shift in financial services distribution.

The Numbers

The IFA Sector has been used by 16m UK Consumers for access to financial advice and products. 12m have used products offered by ABI members and 6m have accessed the IFA Sector in the last 5 years.

The Banking Sector has its own clients. The Heath Report is still seeking some reliable capacity figures for this sector but a figure of 7m appears initially to be a reasonable estimate.

So, of the 64m UK Population:

- 40.6m are either working or retired
- 23m of them have accessed advice
- 16m have used the independent sector…
- …and an estimated 7m used banks.

These numbers are broadly in line with the traditional market share figures issued quarterly by the ABI. 3.5m IFA consumers no longer have an adviser by virtue of their adviser leaving the industry since the announcement of RDR. In addition, circa 6m banking clients have lost their access to advice, as over 70% of bank advisers have been made redundant. Finally, the transfer to a fee based solution has meant clients are expecting a higher level of service from their advisers.

As a result, advisers have to significantly restrict the number of clients they can handle. This loss of capacity is still playing out in the market. But, capacity losses will range between 6.5m and 14.5m.

In total, Pre-RDR Independent Advisers and Banking Advisers serviced 23m of the UK's 40.6m working or retired people. Depending on how the structural changes currently playing out in the Independent sector settle, between 12.4m and 20.4m clients will lose access to advice.

Disenfranchised Consumers	**Best**	**Worst**
Exiting IFA Advisers	3,500,000	3,500,000
Clients beyond current IFA capacity	3,000,000	11,000,000
Number of Disenfranchised IFA Clients *(Sub – Total)*	**6,500,000**	**14,500,000**
Disenfranchised banking clients	5,900,000	5,900,000
RDR Disenfranchised Clients	**12,400,000**	**20,400,000**

How do Consumers use the IFA Sector?

There is an accepted myth that consumers need perpetual advice and servicing. Much of the RDR concept is based on this myth, as is the whole concept of 'financial planning'. Information given to the Heath Report seriously challenges that view.

The majority of the sector's historical client bank have not wanted or needed constant handholding; indeed, many consumers only want to be involved with the sector on a transactional basis. It is from this group that the majority of disenfranchised clients will come.

It is also the case that IFA Clients are not one homogeneous mass, nor are they universally spread across the UK. Whilst there are geographical areas which deliver quantities of wealthy clients, there are other areas where clients are less wealthy and IFA sector services lower income families. The commission system allowed such clients to access good advice in an affordable manner. This has now been compromised by RDR.

Research completed by Impartial Media in late 1990's revealed that the average transactional client was triggered to seek advice from IFAs once every 7 years. If the IFA had a regular marketing regime including quarterly newsletters that trigger was shortened to 5 years.

The research gives us different consumer profiles which may be defined as follows:

The Impact of RDR on the UK Market

Garry Heath

THE HEATH REPORT

Consumer profiles

Clients can be modelled into four categories.

They are not born into these categories, but elect to go to them by virtue of the amount they have to invest and seriousness of thought that they apply to their financial future.

There are some investors on reasonably modest incomes that attain considerable wealth by good advice, maintaining modest out goings and wise investment.

The Seriously Advised: These are the clients who have regular and planned meetings scheduled with their advisers. They take the planning of their financial future seriously and will be aware of issues, such as the Inheritance Tax. They are also likely to run their day-to-day finances in a sensible manner.

Typically, they would have at least 6 figure amounts to invest, they are almost certainly higher rate taxpayers. In industry speak - these clients are labelled "High Net Worth". But, most are actually Mass Affluent. They are also likely to be the group that are most likely to accept fees. This is the group that may have benefitted from RDR. They will be the clients that advisers, seeking to cut down their numbers of clients, will want to keep.

The Regularly Advised: These clients take their financial future reasonably seriously and expect regular updates from their adviser. They probably expect their adviser to initiate contact. They may not have significant capital to invest but are likely to have a healthy income which they will wish to use for savings, pensions and protection. Typically, they have been happy to pay their fees through the commission route. Now, they face paying for their advice via fees, probably less happily.

This group will face a decision. Either they will upgrade to the level of service of the Seriously Advised, which for them may be an over provision, or they will be in danger of being dropped by their adviser.

The Transactionally Advised: These clients do not seek regular contact, but are triggered to seek advice by an event. They may be getting married, buying house, receiving an inheritance, having new children, seeking a divorce or approaching retirement. They will look at the advice as a specific answer to a specific situation, and do not want or expect a holistic service. Therefore, they do not appreciate *(or warrant)* full 'financial planning' services.

Clients in this group are most likely to object paying fees as they view advice as a distressed purchase and probably perceive commission based advice as "free". This group will be the most compromised by RDR. These clients will not wish to have a regular relationship with an adviser, but their adviser is likely to fill the available capacity with the Seriously Advised, who will provide high levels of regular income. So, when the Transactionally Advised wants advice, there may be no capacity for them. This group is the most likely to attempt self advise but it is poorly equipped to do it successfully.

This is the largest group to be disenfranchised by RDR.

The Unadvised: The majority of the Unadvised are unlikely to have the excess income to save much, and many will not protect their families unless the benefit is provided by their employer or Government.

Historically, advice for this group was provided by "Industrial Branch" advisers, who were employed by the likes of Pearl, Refuge, and Prudential etc. These clients were the first victims of the wholesale loss of advice as a consequence of previous failed regulatory interventions.

In theory, they now have access to 'advice' from the Citizens Advice Bureau and the Money Advice Service, as well as casual advice from their personal networks. This group has not been affected by RDR, as these clients were not consumers of advice, except occasionally from Banks.

The Self Advised: There is also a small but increasing group of consumers that believe they can arrange their investments on their own, thanks largely to availability of information via the internet. Along with those basing decisions on guidance from MAS, CAB, etc., they will not have the protection of FOS that advised consumers do. This emphasises one of the major advantages of getting advice and, therefore, the significance of loss of advice capacity.

Mobility: Whilst there are few investors who downsize their advice type, there are many investors who wish to upgrade in the light of new developments in their lives: retirement, lottery wins and inheritances being good examples. The post RDR world will make upgrading far more difficult as there will be precious little advisory spare capacity to allow advisers to accept new members of the Seriously Advised.

RDR has created 2 methods to disenfranchise clients

- **Method 1:** Cut down the number of clients each adviser will service.
- **Method 2:** Cut the number of advisers available to the public

Method 1: Cut down the number of clients each adviser will service

Research shows that the current IFA market can be split into 3 broad models, with adviser numbers split fairly evenly between them. The total number of disenfranchised IFA Clients created by loss of servicing capacity is still unclear, as the effects of RDR are still playing out in the market.

At best, the current groups will maintain their adviser establishment. Boutique Advisers will continue, Segregated Advisers will be able to continue to service their existing client banks profitably. Undefined Advisers will survive the loss of Trail commission and find a way of converting clients sceptical of paying fees into fee payers.

At worst, the Boutique Advisers will maintain their current client bank, the Segregated Advisers will find segregating client unprofitable and will revert to the Boutique model, and the Undefined Advisers will leave the industry when Trail finishes.

Boutique Adviser Model – Current Capacity: 715,000 Clients: The most RDR compliant model is the Boutique Adviser who represents what the authors of RDR would like the sector to become. Boutique Advisers have probably never had a large number of clients.

However, it is very clear that clients who pay fees expect a high level of service, which is very labour intensive and impacts on the number of clients each adviser can handle. A third of the advisory force has adopted the "New Model Adviser" business model or its derivatives: top slicing their client banks to those most willing to pay fees and receive high levels of service.

For the purposes of this report, we have named them "Boutique Advisers" and their clients are likely mostly to be "The Seriously Advised". The number of clients per adviser range between 10 and 120, with the average at 65.

The commercial reasoning for the Boutique Adviser is strong. A small number of clients are relative inexpensive to administer, and fee levels are strong. As a result, many advisers have seen an increase in overall profitability accompanied by the less stressful existence.

There are 2 commercial downsides:

Embedded Value: the business is not scalable and, therefore, is difficult to sell to others. The business is a provider of income, not capital.

Replacement Clients: There is no ready pool of clients in the business accessing lower levels of service, who may be upgraded if other clients leave.

It is this model that will represent the fallback position for the whole sector as long as each adviser can find enough clients willing to pay fees for advice The Heath Report Survey indicates that, on average, each boutique adviser will service 65 clients *(11,000 advisers x 65 clients = 715,000)*.

The Segregated Adviser Model – Current Capacity: 715,000 - 3,300,000: The Segregated Adviser wishes to advise as many clients as possible, by segregating them into different levels of service. In general, there are two basic levels of advice on offer. The high service level of the Boutique Adviser and a more arms length

Best Outcome	Consumers	Worst Outcome	Consumers
Boutique Advisers	715,000	Boutique Advisers	715,000
Segregated Advisers	3,300,000	Segregated Advisers	715,000
Undefined Advisers	5,500,000	Undefined Advisers	0
Total	**9,515,000**	**Total**	**1,430.000**

model in which paraplanners and staff members do as much of the work as possible; thus, enabling the high level skills of relatively expensive adviser to be used more effectively. The average Segregated Adviser is probably more driven by emotion than commercial necessities, and does not want to abandon clients, if at all possible.

There are strong commercial reasons to be Segregated. But, the model is not established. It is heavily system dependent. It requires increased working capital to fund increased support staff. And, it may prove less profitable per client than the Boutique version. If this model settles down to be effective and profitable, the Segregated Adviser will be the way forward for the adviser who wants more than a lifestyle business, as it can offer a capital exit in the future.

The current commercial downsides are principally access to capital and the development of systems and processes. If all the currently Segregated Advisers are able to maintain this model, each adviser should be able to service 300 clients. Therefore, 11,000 advisers x 300 = 3,300,000 clients. In the future, some or all of this group may revert to the Boutique Model. As a result 11,000 advisers x 65 clients = 715,000.

The Undefined Adviser Model - Current Capacity: 0 - 5,500,000: The Heath Report indicates each adviser in the "Undefined" group will service an average of 500 consumers. 11,000 advisers x 500 = 5.5m

This Group is the most compromised of the three business model types. Many advisers in this group are in great danger of leaving the industry. This group also has the largest number of clients per adviser. So every adviser exiting from this group will create a considerable downturn on the capacity of the sector as a whole.

There is no future in staying "Undefined". To survive, this group needs to upgrade either to Boutique or Segregated. Historically, this is the group who was the most likely to be servicing transactional clients who are the least likely to be capable of paying fees. It is also this group who does most for the social good, as it drills down to customers who cannot afford more expensive forms of advice such as SME owners.

This model was perfectly commercially viable until the RDR rules were imposed. The demand that clients pay fees disproportionally impacts on this group, due to its lack of ready cash. Many of these clients baulk at paying fees for new advice. Therefore, post RDR, those in the undefined adviser sector are already experiencing a downturn in new business.

The costs of maintaining contact with such a large pool of clients requires a regular income to pay for the regular cost. Trail Commission is invaluable to this group and represents a disproportionately high percentage of its income.

Panacea has completed considerable research on the impact of the removal of Trail commission. Using standard industry statistics, the 11,000 advisers will be employed by circa 3,500 firms. Panacea's first survey indicated that 50% of those firms considered that the loss of trail commission would be catastrophic to their business. Its planned removal in 2016 seriously compromises the viability of this part of the sector, as well arbitrarily destroying the embedded value of the advisers business painstakingly built up over many years of honest trading.

If the FCA wishes to maximise the number of disenfranchised clients, the removal of Trail Commission is the best way of doing it.

Method 2: Cut the number of advisers available to the public

When FSA announced RDR in November 2009, the IFA establishment was 38,750.

By January 2013, IFA adviser establishment had fallen by 7,000 to 31,750, as advisers decided to retire or leave the industry either because:

- The arbitrary requirement to take and pass even more exams of questionable educational value to very experienced advisers and, considering their average age, unlikely to provide any personal economic advantage;
- Or deciding that they would not be able to encourage enough of their cli-

The Total Losses

Disenfranchised Consumers	**Best**	**Worst**
Exiting IFA Advisers	3,500,000	3,500,000
Clients beyond current IFA capacity	3,000,000	11,000,000
Number of Disenfranchised IFA Clients *(Sub – Total)*	**6,500,000**	**14,500,000**
Disenfranchised banking clients	5,900,000	5,900,000
RDR Disenfranchised Clients	**12,400,000**	**20,400,000**

ents to move away from commission and towards fees.

Since January 2013, IFA numbers have improved as IFA practices adopt redundant banking advisers so 33,000 is now the accepted number of IFA advisers.

The Heath Report's own survey currently puts each exiting adviser's client bank at 500. This may be low in some cases. So, 7,000 IFA Advisers x 500 = 3.5m.

3.5m IFA Clients Have Already Been Disenfranchised By Exiting IFA Advisers

The Lost Banking Advisers

The numbers of retail facing advisers are not declared on a monthly basis so numbers are dependent on ad hoc speeches by FSA/FCA staff. Since December 2013, a number of banks have announced further redundancies so a reasonable estimate of operating retail bank advisers is likely to be less than 2,000.

Establishing the number of consumers who have accessed advice via the banking sector is still a challenge. The nature of this advice is essentially transactional and there may be an element of double counting between the IFA and Banking sectors created by the same client accessing both sectors at different times.

Ex-banking advisers tell the Heath Report that they were expected to meet 4 customers a working day which would give an 800 client per adviser number. 8,656 x 800 = 6.9m.

If the retail banking sector advised 7m clients...

December 2011	8,656
July 2013	4,604
December 2013	3,556
April 2014	2,000

5.9m bank clients have disenfranchised by sacked banking advisers

So, in addition to the 3.5m clients abandoned by exiting advisers (see above) and the 5.9m abandoned banking clients; a minimum of another 3m will be unable to find an adviser with capacity to work for them.

If the current sector either gets smaller by further exits or moving to the Boutique model another 8m IFA clients are in danger of being disenfranchised

So, between 12.4m and 20.4m UK consumers have or may lose their access to FS advice.

Garry HEATH

THE HEATH REPORT


1860
CHATEAU DE MALLERET
GRAND VIN DE BORDEAUX
CRU BOURGEOIS
HAUT-MÉDOC
APPELLATION HAUT-MÉDOC CONTRÔLÉE
2011
Partenaire de la CIFA depuis 2012
www.chateau-malleret.fr
www.lasuite-atelier.com - Photo © P. Grenet

Quando il Promotore Finanziario è DONNA

Vania Franceschelli

è impegnata fin da giovanissima nel settore.

Sostiene che le donne consulenti e intermediarie finanziarie sono un fenomeno in crescita, ma anche una garanzia di serietà e di stabilità per il cliente-investitore.

* * *

Dr.ssa Franceschelli quando ha cominciato la sua attività nel settore finanziario e come si è sviluppata la sua carriera fino a oggi?

VF: Ho iniziato a lavorare in banca giovanissima, diventando responsabile di filiale a 27 anni. Nel frattempo ho conseguito la laurea in giurisprudenza e ho superato l'esame da promotore finanziario. Quindi, dopo pochi anni, mi sono licenziata per svolgere l'attività di consulente finanziario che pratico tutt'ora per il gruppo Allianz Bank.

Nel 2011, sono entrata nel Comitato Esecutivo di Anasf, l'Associazione Nazionale dei Promotori Finanziari, prima donna dall'anno 1977, quando è nata l'associazione, dove mi hanno assegnato il ruolo di responsabile estero; qui mi occupo delle normative europee in campo finanziario e dei rapporti con le associazioni di consulenti finanziari degli stati europei. L'Anafs è certificata EFA *(European Financial Advisor)* e EFP *(European Financial Planner)*.

Vania Franceschelli nasce a Castelfranco Emilia.

È un promotore finanziario del gruppo Allianz Bank. Laureata in giurisprudenza, è certificata EFA (European Financial Advisor) e EFP (European Financial Planner). Condivide con due professioniste, una commercialista e una consulente del lavoro, un progetto professionale tutto al femminile nel cuore di Modena.

Impegnata a livello europeo, è responsabile estero di Anasf, l'Associazione Nazionale dei promotori finanziari italiani e membro del board del Fecif (European Federation of Financial Advisers and Financial Intermediaries) federazione europea no profit che salvaguarda gli interessi di 180 mila consulenti e intermediari finanziari, con sede a Bruxelles.

Relatrice in vari convegni italiani ed esteri sull'evoluzione delle normative europee in materia finanziaria e sull'applicazione alla categoria dei promotori finanziari. È responsabile di Editorial Strategy del gruppo dedicato alle promotrici donne PF al Femminile, creato da Advisor Professional, la business community dei promotori finanziari. È responsabile regionale del progetto Economic@mente, rivolto alle scuole medie superiori con lo scopo di insegnare gratuitamente la pianificazione finanziaria per tutte le fasi della vita.

Impegnata nella salvaguardia del Made in Italy su vari fronti. Presidente dell'Ordine del Nocino Modenese; ideatrice del Premio Donne del Nocino giunto alla quinta edizione; è Maestra Degustatrice di Aceto Balsamico Tradizionale di Modena; Dama del Tortellino; Sommelier; Assaggiatrice di grappe; vincitrice del concorso enogastronomico "Il Lambrusco cerca moglie"; Organizzatrice e docente di corsi sul nocino abbinato ai vari prodotti tipici del territorio; vice-presidente e segretario Lions Wiligelmo Modena; revisore conti Panathlon Modena.

Sono l'unico membro femminile del board del Fecif *(European Federation of Financial Advisors and Financial Intermediaries)*, federazione europea no profit che salvaguarda gli interessi di 180.000 consulenti e intermediari finanziari,con sede a Bruxelles.

Sono relatrice in vari convegni italiani ed esteri sull'evoluzione delle normative europee in materia finanziaria e sull'applicazione alla categoria dei promotori finanziari e, da un anno, sono Editorial Strategist di "PF al femminile", community "in rosa" creata dalla rivista Advisor per promotrici finanziarie. Per finire, sono responsabile regionale progetto Economic@mente rivolto alle scuole medie superiori, con lo scopo di insegnare gratuitamente la pianificazione finanziaria per tutte le fasi della vita.

Un impegno costante e in ampliamento che le è stato riconosciuto anche con il premio Profilo Donna 2014...

VF: Rappresentare sul palco del Premio internazionale Profilo Donna, per la prima volta, la mia professione di promotore finanziario è stato un grande vanto per me e un auspicio che, nei prossimi anni, altre donne che svolgono la mia attività siano premiate.

Alcuni dati sulla promozione finanziaria al femminile in Italia: rispetto alla fine del 2013 la percentuale di donne iscritte all'albo dei Promotori Finanziari è passata dal 17,4% al 18,4% . Oggi sono 9.916 su 53.922 persone che svolgono questa attività. Il dato positivo è che le iscrizioni dall'inizio dell'anno di donne all'albo è stata pari al 30% sul totale. Siamo ancora troppo poche, anche se questa è un'attività tipicamente femminile.

Perché sostiene che è una professione tipicamente femminile?

VF: Recenti indagini hanno dimostrato che le promotrici finanziarie di solito gestiscono patrimoni più cospicui rispetto agli uomini, in quanto trattiamo i risparmi delle persone come se fossero dei nostri figli. Ci concentriamo maggiormente sulla gestione del cliente.

Il 72% dei clienti intervistati ha dichiarato che raccomanderebbe il proprio promotore donna ai loro amici, in quanto molto affidabile, di fiducia, competente e in grado di migliorare sensibilmente la gestione finanziaria.

Anche nel nostro passato era la donna *(nel modenese chiamata "rezdora, reggitrice")* a occuparsi dell'economia della casa. Ancora oggi il sesso femminile è all'origine dell'80% delle decisioni di acquisto e di risparmio all'interno della famiglia.

Statistiche molto interessanti che evidenziano anche in questo ambito l'emancipazione della donna?

VF: È chiaro, la mia non è una professione che s'improvvisa, anzi la maturità aiuta a evitare tanti errori.

L'attività di consulenza finanziaria purtroppo non esercita la stessa capacità di attrazione tra donne e uomini, in quanto non si ha, e non è solo un problema italiano, un'adeguata percezione della professione. Mi hanno recentemente commissionato una ricerca sulla consulenza finanziaria al femminile nel mondo e, salvo casi sporadici, non ho trovato materiale in Europa, ma solo negli USA. Da qua la volontà di sviluppare questo tema non solo in Italia. Noi donne dobbiamo imparare a fare sistema, cercando di collaborare per ridurre al minimo o addirittura eliminare le discriminazioni che ci portano a vivere in ambienti poco favorevoli, individuando gli ostacoli che creano disparità.

Quali sono i punti discriminanti che lei, in quanto donna, ha trovato nel suo percorso?

VF: Quando mi vengono richiesti degli interventi sul perchè ho scelto questa professione, spesso dalla platea mi viene rivolta sempre la stessa domanda, e per lo più da una donna "Ma lei è sposata?". Domanda a cui segue sempre la seguente affermazione "Signora, lei avrebbe chiesto la stessa cosa ad un uomo? Non le rispondo in quanto questa è una prima forma di discriminazione, che proviene da un retaggio culturale diffuso, quello che non si possa conciliare lavoro e famiglia!". Bugie... Certo, ci vuole pazienza e fiducia in se stesse per conciliare il tutto, ma questo fa parte della vita e di chi vuole viverla pienamente.

Quindi cosa consigliamo alle giovani che vogliono intraprendere questa attività?

VF: Credo molto in questa professione e credo ancora di più nell'aiuto che io e altre mie colleghe possiamo dare come attività di mentoring alle ragazze/donne che si accingono intraprenderla. Per questo abbiamo creato all'interno della rivista on-line Advisor, la community PF al femminile, in cui lanciamo discussioni, per lo più su temi economici, a cui tutti possono aderire.

Cosa si auspica per il futuro nell'ambito finanziario?

VF: Che molte famiglie italiane, nei prossimi anni, abbiano, oltre al medico, al commercialista e all'avvocato, un promotore finanziario, che le aiuti a programmare i bisogni e a renderle più consapevoli della gestione dei risparmi. Naturalmente, se il consulente è una donna competente, il risultato è assicurato.

Interview orginally published in PROFILO in December 2014

Are You Ready for a New Dawn?
Managing Client Expectations for Competitive Advantage

Since the dawn of civilisation mankind has engaged in business activities in one form or another, from the simple historic barter arrangements to the sophisticated international financial transactions we engage in today. Over the millennia the systems employed in the conduct of business have evolved and transformed as new methods developed and market expectations changed. Accordingly the principles of business have been altered as society became more highly developed and the buyer /seller relationships became more complex. However, one fundamental principle of business has endured throughout the ages. That is the principle of competitive advantage.

The Principle of Competitive Advantage

In order for any business to create and preserve an advantage over its competitors it must have at least one differential factor. Customers must perceive this differential factor as sufficiently more attractive so that it encourages them to transact with this firm rather than the competing firms.

All firms have to be acutely aware of this enduring principle if they want to succeed. Significant monetary resources are devoted to this challenge each year in an effort for firms to improve their competitive positions. In particular we see large corporations and product manufacturers deploying trillions in annual budgets across key facets of their organisations in order to establish and maintain a competitive advantage in their market. These firms focus particular attention on strategic elements, such as:

(i) product attributes,

(ii) cost structures and pricing

(iii) sales propositions

(iv) distribution channels.

The manipulation of these elements is at the core of the marketing strategy. It is commonly referred to as the marketing mix or the four "P"s of marketing. The term marketing mix was first coined by Neil Borden, the president of the American Marketing Association in 1953. It is still used by marketers today to describe the elements that a firm will combine to promote the unique selling points that differentiate their product from their competitors. In the 1960's Boden's concept was refined by E. Jerome McCarthy, professor at Michigan State University, to the four "P"'s. The classification of the basic four elements is as follows; Product, Price, Promotion *(sales & advertising)* and Place *(distribution)*. Further classifications have been introduced to this model over time to include elements relating to the marketing of commercial services. Various adaptations of the model have been

introduced, but the basic elements, namely, the four Ps, have continued to dominate product marketing strategies in one way or another. But, the world is changing, and in particular the world of financial products is changing. With change comes the need for alternative thinking.

Transition from Industry to Profession

In the financial industry the product producers have employed the four P's model to emphasise the unique attributes of their offering. The challenge has always been which elements to adjust so that customers are sufficiently motivated to give priority to the firm's products above rival products in the buying process.

The necessity to comply with regulation in the industry has a direct influence on how the product producers set about manipulating the individual elements in the marketing mix for their financial products. The introduction of revised regulation in MiFID II now poses additional challenges for the industry as it brings with it a greater emphasis on transparency in relation to a distinction between the financial instruments and the investment advisory service provided.

In particular, this new challenge will influence how a firm will adjust its product marketing strategy in relation to "promotion" and "place". This has a direct impact on the customer facing personnel that perform the sales function for financial products and operate in the channels of distribution.

A significant range of personnel will be affected, including the Financial Sales Advisors and the commission based Agents, along with the Financial Brokers and Independent Financial Advisors (IFA's). So the world is changing. Another new dawn is now approaching on the horizon. This new dawn marks the beginning of a new era where we will see a greater need for many institutions and firms to transform the role of the product sales advisor into the role of the financial planning advisor. Commission based Financial Brokers, Tied Agents and Independent Financial Advisors may also need to transition their business from a total reliance on product sales transactions to knowledge based service transactions.

Such a change may be easier for some firms rather than others, as evidenced in the Netherlands and also in the United Kingdom with the introduction of the RDR in 2013. Firms that have already educated their clients in relation to the characteristics of charges relating to both the investment service and the financial instrument will find the transition easier. For others, facing this task will require a metamorphosis of the individual product sellers and commission sales advisors into professional fee based advisors.

If organisations are to embrace the change it will require a shift in thinking across several groups, including, senior executives, employees and self employed. This means an evolution in mind set as personnel migrate from the product industry to the advisory profession.

From Product Sales to Advisory Service

Adapting to the change will lead to a new challenge for firms and IFA's in terms of gaining and retaining competitive advantage as a professional service rather than a product retailer.

If we are to understand the impact of this separation between financial product and professional advice it is important to first understand the difference between the two. It may sound like common sense but unfortunately the difference is not always clearly recognised by all the parties in the process, including both sales advisors and clients. Many text books offer suitable definitions of the difference between products and services, all of which are worthy. But, I favour my own definition, as follows: A product is a tangible item that has a physical nature to its use and consumption, where as a service is an intangible provision or offering that has an experiential nature to its use and consumption. In other words, a product exists and can be judged physically, whereas a service occurs and has to be experienced.

So the question is how a professional financial advisory firm can exhibit a deferential factor when competing solely on the basis of providing an advisory service. What will the client perceive as the differentiating factors of the fee based advice?

In answering this question it is essential to gain a clear understanding of the value the client will expect from the service proposition. The aim is to then make the value proposition appealing to the client so that it will match the clients' expectations.

Deferential Factor of Advisor Service

The traditional marketing mix used to sell investment products will now need to be altered. So the task will be to demonstrate the deferential factor by introducing elements to the marketing mix that are more closely aligned with the expectation of the client rather than the desires of the product producer. To make this process easier we can substitute four alternative elements, namely, Solution, Value, Information, and Access. These four elements are more focused on the customer *(demand side)* and can replace the product focus of the four P's *(supply side)* in the marketing mix.

- Product - becomes - Solution
- Price - becomes - Value
- Promotion - becomes - Information
- Place - becomes - Access

The mix in this alternative model allows the advisor to demonstrate a matrix of service elements that provides the client with measures by which they can judge the service. It makes it easier for the client to compare the advisor against competing advisory services and identify the deferential factors. It is then a matter of ensuring that the service performance meets and then exceeds the clients' expectations so as to secure a competitive advantage. Therefore the advisor will have to concentrate more on providing the client with advice that will help the client to find a solution to their particular needs and wants. The advisor will also need to ensure that the solution meets the clients' expectations in terms of value. The client will expect the advisor to provide appropriate information about the service, rather than product data and advertisements. Clients will further expect to have access to the advice, in a manner deemed appropriate to the provision of professional service, e.g. using appropriate consultation tools and facilities, using technology systems and communications methods that a client would expect to see in a professional service firm.

Hawkeye eLearning

Managing Expectations

If the advisor is to concentrate more on the provision of client centric solutions rather than product centric solutions then this raises the question of the advisors skills set. This new era will call for additional training as many advisors will need to acquire additional skills in order to be successful in migrating from product commissions to fees based advice

Above all advisors will need to reach a higher understanding of client expectations – and a specific understanding of how to manage these expectations.

To understand the process of managing client expectations it is important to first be aware that expectations are inspired by elements that have conditioned the clients thinking. The process is relatively straightforward when the client is not acquainted with the professional service being offered, because there is little or no pre-conditioned thinking. On the other hand the process can be more complicated when the client has been preconditioned by past exposure to, and/or perceptions of, the service. For example existing clients of a firm have already formed expectations of the service offered by that firm. In these cases it may be necessary to carry out a re-conditioning of the clients' thinking in order to manage their expectations. This is possible once the key principles are understood and the correct methods are employed. *(The Principles and Methods require a greater explanation at a level of detail outside the scope of this article)*.

Advisor or Seller = Doctor or Pharmacist?

We have established that a professional advisory service can attain and retain competitive advantage by identifying, matching and exceeding a client's expectations. We have also identified that the client's expectations are influenced by conditioning. It may help understanding if we put this into context by comparing the provision of professional fee based financial advice to the provision of professional fee based medical advice.

Generally speaking all clients are familiar with using the advisory services of their family Medical Doctor (MD). They expect that when they seek advice from the Doctor that the first step will be a diagnosis. Following the diagnosis a course of remedial treatment will be recommended. The implementation of the treatment recommended by the doctor may simply require some change in behaviour from the patient without the need for medication. The patient will pay the doctor an agreed fee for the advice received.

If on the other hand the course of treatment requires a prescription of medication then the patient will also attend a Pharmacist to purchase the medication prescribed by the Doctor. In this instance the patient will pay the Doctor *(Advisor)* for the advice received and will also pay the Pharmacist *(Product Seller)* for the product. There is no expectation of free advice from the Doctor or free medication from the Pharmacist. Why? Because the medical profession has always charged for advice and the Pharmacist has always charged for the administration of medication. The patient has been conditioned to expect these charges.

The challenge for Professional Financial Practitioners is to condition clients in a similar fashion to the medical profession. That is to expect fees for professional advice whether a product is required or not, and to pay separate fees for products where they are needed. Where a Financial Practitioner recommends a product to the client *(e.g. the Doctor writing the prescription)*, then it should be expected by the client that they will have to pay to receive this advice. Where the Financial Practitioner arranges a specific product on behalf of the client *(e.g. the Pharmacist administering the medication),* then it should also be expected by the client that they will have to pay to purchase this product.

Where the financial firm is regulated to do both then it may be possible to charge two separate fees for the service and the product. Provided the client has agreed to receive both and where the clients' expectations have been matched. Of course this is subject at all times to the Financial Practitioner operating in compliance with the relevant regulations.

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Richard Crotty is a serial entrepreneur having founded his first company when he was 20 years of age. He has over 30 years experience in strategic business growth, with particular focus on enterprise development and business transition. He is a director and shareholder of a number of companies that span various business sectors including; Scientific Research, the IT & Internet industry, Training & Business Consultancy, Healthcare and the Financial Services sector. To date his business activities have covered numerous geographic markets including Europe, Japan, Scandinavia and the USA.

Richard is the founder of ***Hawkeye eLearning***, *(www.hawkeye.ie)* an online training firm that offers knowledge and skills training along with learning management solutions to businesses across many areas. He is a certified life & business coach and is also the founder and Managing Partner of Crotty & Company, a management consultancy firm offering business advice and fiduciary financial planning consultancy to business owners and private clients.

Richard is a past student of financial planning, business management, behavioural science and psychology. He is a member of Menza International and is the Irish representative on the International Knowledge Circle of the FPA *(Financial Planning Association)*. He is the originator of the KITA Principle and author of the personal finance handbook: "***Money Matters for Life***".

As an energetic & humorous presenter Richard has designed and delivered many business training programs, and has addressed audiences on a range of topics in Ireland, France, Germany, Sweden, the Netherlands, Hungary and the UK.

The 4 Myths of the RDR

In January 2013, the full impact of the **Retail Distribution Review** hit the UK Advisory market. In the 2 years since then, we have had time to reflect on the ***Lies, Damned Lies and Myths*** about the RDR, both from the UK and from other jurisdictions, especially those facing similar changes

Please don't take this article as either a defence of all the detail about RDR or indeed of the regulator. The UK has made mistakes, and is in the process of correcting at least some of these.

BUT, and it's an important ***BUT***, I believe it to be vital that we deal with the RDR rules and facts as they are in real life, and not what the blogs or some of the more extreme Product Providers and other interested parties say or wish they were.

Myth 1 – To be Independent in the UK, you have to sell everything on the Market

Sorry, but this is complete rubbish. This particular myth is much beloved by those peddling unregulated Brazilian teak funds that prove to actually be junk bond funds based in Costa Rica, for example. We've all had the emails.

Can we look at the rules?

The new rule on independent advice states that:

"A firm must not hold itself out to a retail client as acting independently unless the only personal recommendation in relation to retail investment products it offers to that retail client are:

a) based on a comprehensive and fair analysis of the relevant market; and

b) unbiased and unrestricted."

Can anyone actually tell me what the real problem is? But, we keep being told that the FCA has changed the rules so that everyone has become Restricted. Sorry, but that is complete and utter tosh. 90% of firms that were Independent prior to the RDR are Independent now, our firm amongst them. And we don't think it is difficult. And our clients love it. And yes – we did ask them!

Comprehensive and fair analysis does NOT mean a detailed understanding of every fund and every product.

This part of the Myth is peddled by providers who need us to sell their products so they can be paid. No conflict there then!

Myth 2 – To be Independent, you have to know everything about every product all the time – even the ones you will never you use for your clients.

This insidious lie took over from Myth 1 when the FSA announced that Myth 1 was a lie. Again, the Fund Managers and peddlers of products continue to push this lie, which is then usually followed by a conversation about going Restricted, and using them – and only them – as the choice of Fund Manager in that particular sector. The question should always be 'Who Benefits?', and here the beneficiary from misrepresentation is potentially product providers. NOT the client!

In truth, if you understand SIPP's, or VCT's or Offshore bonds in concept, you can decide whether that particular client has a need for that type of *(generic)* product. If not, game over. If yes, then clearly additional research is required. Easy.

The 'trick' is to have clear, consistent Investment Philosophy that can be communicated to clients and used to set out criteria to filter out the vast majority of the investment universe. Apparently, there are 40 000 collective investments to choose from in the EU. To say we will review each one, for every client, for every transaction is just plain silly. It's even sillier to say we should carry around the details of each one in our heads at all times. Let's be honest, despite the protestations of the Money

Industry, the choice of fund manager is almost completely irrelevant. What matters is the product / tax wrapper and asset allocation. That is the stuff we must understand, and be able to make robust, clear recommendations about. We can then research – using the tools available / panels – the right manager / fund for that particular case.

So set sensible filters, and connect them explicitly to the needs and profile of your client base, or of segments of it, in any case.

Myth 3 - It's all about 'fees'

Here I mean direct fees from the client, cheque, cash or bank transfer. Project or retainer, but no product involved at all.

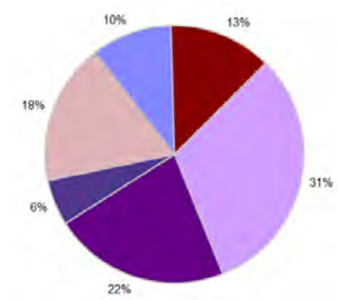
Sorry, but again no. Clearly, many firms and clients do and will want to work on a pure fee basis.

But in the UK most firms actually use an Adviser Charging structure, with an agreed amount being deducted from the Product / Platform, at agreed times. Some say 'What's the difference between this and commission?'

At one level, not much. At another level, a lot. No 'Entitlement' to the money. No 'extra 'Marketing allowances'. No product bias. No '112%' allocation rates, no funny money, and no Providers setting the tariff – what's not to like?

Myth 4 - Restricted Advice is cheaper than Independent Advice

How? I can see a case for a reduction in PI. Ours costs us about 1% of turnover, so if there is supposed 10% reduction in premium – and it may be much less – that only saves 0.1% of our turnover. So, in our case, that is about £20 or so per month. I could probably shop around and save that in stamps and paper!



What else can we save significant amounts on? And I mean what else that will knock 20% or 30% off our costs? Our big bills are staff, FSA / FSCS fees, rent and rates. I can't see how any of that could change – can you? And please do not tell me research! That is an outcome of Myth 1 or Myth 2, not reality. Let me repeat, the time, cost and effort required for research post RDR is not significantly – if anything – different from what we do now.

So at best, some marginal cost savings. Will these be passed on to consumers, or will this be retained as increased profit? Will it be 'I can do this work for £50 less' or 'I've chosen to be Restricted to make my business as profitable as possible'? If so, then let's admit it. It is a commercial world out there.

But much of the noise on the Blogs is about how the FSA has changed the rules so much *(they haven't)* so that you have to know every product *(you don't)* so we all have to be Restricted *(not true)* and that will allow us to make more money *(Is this really the core issue here, I wonder?)*

One thought. We are already seeing the start of a possible tendency for highly skilled and qualified staff to only want to work for Independent Firms. That could add an interesting twist to the cost saving argument?

Can we also look at the effect on consumers? It has emerged in the last few weeks in the UK that the cost of Life Assurance is higher through Restricted Advisers. That is, the same policy, offered by the same Product Provider, at the same terms and conditions is costing consumers more money.

So restricted may be easier for some larger firms, but there is no clear evidence that consumers are seeing the benefit of this.

In the longer term, the UK IFA sector has long been the consumer's best friend, the consumers' guardian from the worst of the 'Money Business'. And if the 'Money Business' succeeds in killing off the Consumers' best friend and guardian, then it's open season – again – on the consumer, and the precarious trust we are working hard to rebuild after the crimes of Equitable Life, Keydata, Shepherds, Arch Cru, Bancassurance sales et all, will be destroyed, and we will all lose. Again.

Phil BILLINGHAM

ACII Chartered Financial Planner CFP

Phil is Director of both Perceptive Planning, and the Phil Billingham Partnership, a consultancy specialising in the transition of Financial Advisory firms from the 'Old Model' to the 'New Model'

Lessons from the Swiss Franc crisis of 15 January!

I was at a meeting at the CIFA/United Nations Economic and Social Council (ECOSOC) in Geneva on 15 January, when the chair of the meeting — ***Jean-Pierre Diserens, Secretary-General of CIFA (www.cifango.org)*** — abruptly announced that the Swiss National Bank had just terminated the Swiss Franc's peg to the Euro.

This surprise announcement must have been "very significant" for the chair of the meeting to interrupt the meeting's proceedings.

To try to understand the catastrophic impact: if you were long on the Euro against the Swiss Franc on a leverage of 20 times, the loss would have been five times your margin deposit, as at its worse point. The Euro fell by as much as 25 per cent on that day.

If you are leveraged 100 times, which I understand is the maximum allowed in Europe or 50 times in USA, you may have lost as much as 25 times your money!

The hamburger I ate in Geneva on that day in the morning was 1.135 Singapore dollars to one Swiss Franc. The next day, the same burger became 1.165 on the credit card machine.

The fallout may never be fully known?

Subsequently, the news in the following days revealed the collapse of two international forex brokers and some hedge funds. The fallout may only be known much later, particularly the consequences of counter parties, as to how much has been lost by financial institutions, central banks, sovereign wealth funds, etc.

Investors focus on the wrong thing?

Once again, perhaps the real lesson is that most people focus on the wrong thing in investing.

They focus on the **returns**, when they should be focusing on the **risk**!

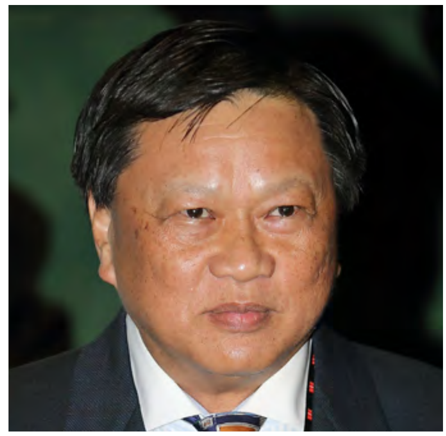
Whenever you invest in anything, you must ask what is the worse that can happen? Also, you have to ask whether you may have any further liabilities even after you have lost all your money in your account, like in the Swiss Franc/Euro cited in the example above.

One should also be aware that a "stop loss" may be useless under volatile market conditions.

If you buy a **stock**, the company can go bust. If you buy a **property**, it could be destroyed in a natural disaster that may not be covered by insurance. If you buy a **synthetic Exchange Traded Fund (ETF)**, the counter parties may fail to fulfill their obligations in a severe market crash. If you invest in a **unregulated alternative investment** like wine, art, eco-housing, etc., your only recourse may be against a company that has "run away".

Inflation risk?

Also, not forgetting that perhaps an often overlooked risk is that **bank deposits** below the inflation rate are actually losing money all the time.



A possible approach to risk?

So, what is a simple moderate solution to investing? Use a diversified portfolio of different asset classes globally, such as equities, bonds, commodities and properties, using an investment vehicle that in effect have the funds actually held in trust by a third party custodian – like mutual funds, ETFs, etc.

No such thing as a free lunch?

Finally, since I keep focusing on risk, what about so many investors who borrowed in Swiss Francs to invest in all kinds of investments, because of the low interest rate?

Well, that is another article for another day ...and, by the way, the Swiss Franc now pays a negative interest rate.

Leong Sze Hian
Past President
Society of Financial Service Professionals
Singapore

Azimut Group, Story of Success

Azimut is Italy's leading independent asset manager, active since twenty-five years *(1990)* and totally independent from banking, insurance or industrial groups. The Group comprises various companies active in sales, management and distribution of financial and insurance products, with Registered Offices in Italy, Luxembourg, Ireland, China *(Hong Kong and Shanghai)*, Monaco, Switzerland, Taiwan, Brazil, Singapore, Mexico, Australia and Turkey. Azimut is a modern Group. The Parent Company Azimut Holding was listed on the Italian stock exchange on 7 July 2004 and it is a member of the main Italian index FTSE MIB since March 2010 *(Azimut was the best performing stock of 2012)*, where it currently ranks among the top 35 Italian companies by capitalization. In September 2013, it joined the EuroStoxx 600 index.

In Italy, Azimut has about 190,000 clients assisted by over 1,500 financial partners *(through a distribution network - Azimut Consulenza SIM - and its divisions: AZ Investmenti, Apogeo Consulting, Azimut Wealth Management, Azimut Global Advisory, Azimut Kalybra and Institutional & business partners)*, with over 30 billion euro in total assets, of which 27.5 billion are under management *(as of January 2015)*. Azimut is a dynamic Group of portfolio managers and financial partners, all operating in a cohesive manner. Over a thousand managers, employees and financial advisors have been directly involved in the Azimut Holding shareholder structure since the IPO, a strategy guaranteeing stability and performance and representing a rare example of commitment and independence.

Within Azimut, "growth" is achieved through an international expansion aiming at exporting, via local partnerships, its business model integrating production and distribution. Today, Azimut operates in 13 countries with the highest growth rate. Its fund managers, following international markets in real time and on a 24 hours basis, are organized in three distinct geographies. The first one "Europe, Africa and the Middle East" is followed by fund managers located in Italy, Luxembourg, Switzerland, Ireland and Turkey. The second one "the Americas with particular emphasis on Central and South America" is based on joint ventures in Brazil. The third one "Asia and Australia" is managed by Azimut fund managers located in its Hong Kong and Shanghai offices, as well as with partnerships established in Singapore.

Foreign expansion has enhanced product innovation, a strategic component of the Azimut Group allowing existing and prospect clients to access asset classes normally reserved to institutional investors. It's a tangible sign of the multinational dimension that Azimut is cautiously and persistently pursuing. Azimut launched very innovative products: Renminbi Opportunities *(the first European fund allowing to seize the growth opportunities of the Chinese currency)*, Cat Bond Fund *(one among the few UCITS product investing in Insurance Linked Securities, providing exposure to insurance risks related to catastrophic events)*, Hybrid Bonds *(investing in hybrid instruments)*, Lira Plus *(Turkish Lira)*, Global Sukuk *(investing in "Sukuk" bonds respecting the principles of the Muslim religion)*, and AZ real Plus *(investing mainly in Brazilian government bonds and short-term domestic monetary instruments)*.

New Research Findings on pension savings returns

The outlook for European citizens saving money for their pensions is far from encouraging. Although lower inflation rates across the EU slightly improved real returns, current low interest rates *(lower still following the latest ECB cut down to 0,05%)* combined with heavy fees, render pension savings markets extremely vulnerable to even the slightest increase in inflation.

Worryingly the actual performance of pension savings remains unknown to clients and to regulators. It comes as no surprise then that the latest EU Consumer Markets Scorecard again ranks pensions and investments as the worst consumer markets of all.

A report by **BETTER FINANCE** on the gloomy status of private pensions in Europe — the 2014 Edition of ***«Pension Savings: The Real Return»*** — now covers 8 EU countries *(Belgium, Denmark, France, Germany, Italy, Poland, Spain and the United Kingdom)*, representing 75% of the entire EU population.

The report clearly illustrates that the tendency to blame poor returns on the performance of capital markets holds no water. Pension funds too often underperform capital markets. As stated by the European Commission in 2013, some of the ***"reasons for not saving long-term are the often poor performance of financial intermediaries to deliver reasonable return, and costs of intermediation"***. A case in point is a Belgian pension fund, which benchmarks itself against world equities and bonds, and persistently lagged the performance of such capital markets by 40 % over the last 13 years, destroying 19% of the real value of the participants' savings.

The **BETTER FINANCE** report confirms and significantly expands upon the 2012 findings of the OECD which revealed negative real returns for pension funds. Unlike the OECD report, however, it also covers personal pension products and takes into account all charges, fees and commissions borne by pension savers as well as the impact of taxation in order to reveal exactly what actually ends up 'in the pockets' of pension savers.

With no clear information regarding their performance, a lack of comprehensive and harmonised disclosures for long term and pension products combined with biased advice at the point of sale, it is nearly impossible to work out how best to save for retirement.

Whereas the European Authorities rightly identified the promotion of long term investment as a priority for growth and jobs, their current policies with regard to long term and pension savings to this day remain inconsistent with this priority.

EU Savers Call for a pan-European Personal Pension Plan

BETTER FINANCE now calls for a simple, transparent pan-European savings vehicle that at least protects the long-term purchasing power of savings. The proposal is part of ten key policy measures listed in the report *(see below)*.

Currently European citizens looking to invest in long-term and pension saving retail products will find it nearly impossible to find adequate and comparable information to help them decide on how to optimise returns on their savings.

For this reason **BETTER FINANCE** also calls for the EU proposed Regulation for a Key Information Document to be extended to all long-term and pension investment products and for this to be complemented by the disclosure of full costs and commissions, as well as long term historical returns *(after inflation, charges and taxes)*.

Besides improving information standards at the point of sale, it would constitute an important step in the right direction if the responsible institutions were to actually report on pension saver trends, including on the actual performance of all pension products. Currently no such data exists.

Having identified households as the main source of funds to finance investment, decision makers in the EU also blame the poor performance by financial intermediaries in delivering reasonable returns for said households. European authorities, however, are not without blame either. At the very least an end should be put to the penalization of savers. Taxation policies should be put in place to incentivize long term retirement savings and investment over consumption and short term savings.

Recommendations

Based on the **BETTER FINANCE** research findings, we recommend the following ten policy measures to urgently address this issue of inadequate pension savings returns:

1. **Improve and harmonize disclosures for all long term and retirement savings products;**
   - "PRIIPs": the EU proposed Regulation for a Key Information Document (KID) must be extended to all retail long-term and pension investment products, or, at least, a summary of pension saving product information should be required and be as comparable as possible to this KID;
   - Disclosure of full costs and commissions, and long term historical returns must be provided:

     - *After inflation;*

     - *After all charges borne directly or indirectly by the investor; and*

     - *After taxes (as required in the US for investment funds).*
   - Disclosure of funding status (assets/liabilities coverage)
   - Disclosure of transfer/exit possibilities
2. **For EIOPA to comply with ESAs Regulations article 9(1):** to actually report on pension saver trends, including on the actual performance of all pension products - one can manage or supervise only what one can measure. It is indeed quite surprising that the actual net performance of pension saving products is not really known, nor by clients nor by supervisors.
3. **Design a simple retirement savings vehicle that protects the long-term purchasing power of savings** *(could be used as a default option in other pension saving products)*:
   - readily accessible, without need for advice and its associated commissions;
   - supervised by public bodies.

   A pan-European Personal Pension Plan would definitely be welcomed by EU savers if it matches these requirements and if it is not disadvantaged in terms of taxation.
4. **Simplify and standardize the range of product offerings;** forbid non UCITs funds ("AIFs") in all retail packaged long-term and pension products *(except for qualified investors who can access packaged products with choice of investment units)*, and find ways to thoroughly streamline the excessive number of UCITs offered in the EU *(about 35,000 versus 9,000 in the US, and that for a smaller market)*.
5. **Establish transparent, competitive and easy-to-use** *(standardised)* **retail annuities markets throughout the EU, and give more freedom to pension savers to choose between annuities and withdrawals when and after they reach retirement age.**
6. **For those individually subscribed to collective pension products, improve the governance of the collective scheme by having at least half of the scheme's supervisory body directly designated by the pension scheme participants.**
7. **Ensure the end of biased advice at the point of sale and guarantee competent advice on long term investments,** including going back to basics in order to explain what the building blocks of LT saving products are: equities and bonds.
8. **Ensure special treatment by prudential regulation of all pension products** *(insurance and non-insurance regulated)*: the long duration of the liabilities allow for higher portfolio allocation to long term investments such as equities.
9. **Taxation to incentivize long term retirement savings and investment over consumption and short term savings,** or at least not penalise this virtuous behaviour**.**
10. **Basic financial mathematics to be part of school curricula,** as this is a crucial tool in selecting suitable investment products for pension savers.

Guillaume Prache

Managing Director

BETTER FINANCE for all

The European federation

of Financial Services Users

The history of Australian superannuation

Compulsory super has been good economic policy for Australia and SMSFs have played a vital leading role in it.

Superannuation has a long history in Australia, dating back to the late 1800s. But for nearly 200 years, until the 1980s, it was largely the preserve of company executives, small businesses and public servants.

It was not until 1986, when the Australian Council of Trade Unions, Australia's peak union body, won a 3% employer superannuation contribution as part of the national wage case did superannuation begin to spread to the broader working population. By 1989, superannuation coverage had increased rapidly to cover 79% of all employees.

But the then Labor Government did not want to leave superannuation for employers and unions to contest as part of national wage cases; Labor wanted universal coverage for all employees underpinned by legislation. On 1 July 1992, the Superannuation Guarantee (SG), fully paid by employers, was introduced at 3% of salary, gradually increasing to 9% by 2003.

The Government saw the SG as part of its "three pillars" approach to retirement income – the Government age pension, SG savings, and voluntary savings – and despite significant changes to the system since 1992, the fundamental principles remain: a universal, compulsory system paid for by employer contributions – the current SG rate is 9.5% with the goal to reach 12% on 1 July 2025 – that receives tax concessions to encourage people to be self-sufficient in retirement.

Despite some policy differences about superannuation between the two major political parties, the system largely enjoys bipartisan political support, which they both recommitted to in 2013.

To operate its superannuation system, Australia opted for the trustee system. Trustees are responsible for the oversight of the funds, including the obligation to ensure funds are invested prudently. Their obligations are set out in the Superannuation Industry *(Supervision)* Act 1993, as well as being subject to general trust law.

Today, there are more than 540,000 superannuation funds in operation in Australia with funds under management (FUM) now about $1.85 trillion.

Andrea Slattery

Managing Director/CEO
SMSF Association
www.smsfassociation.com

Andrea is the Managing Director/CEO and Founder of the SMSF Association. She has worked in the Australian Financial Services industry for over 22 years and has established herself as an authority in the field of Self-Managed Super Funds (SMSF) and Retirement systems. Andrea was awarded '2014 Woman of the Year' – Money Management | Super Review, Australian Women in Financial Services Awards. She won the "2014 Invisible Government' award as a trusted Australian spokesperson by Media and was named on the 'Roll of Honour for the Australian Superannuation Industry' by Asia Asset in 2010. She holds a Masters in Commerce from the University of South Australia, and designations including SMSF Specialist Advisor, a Fellow of the Australian institute of Company Directors, a CPA and CPA Financial Planning Specialist.

The funds are growing exponentially with Deloitte Actuaries and Consultants estimating FUM will be $7.6 trillion by 2033.

There are various types of funds, with the main categories being:

- Industry Funds: run by employer associations and/or unions for employees (20%);
- Retail Funds: run by financial institutions for individuals (27%);
- Employer Funds: run by employers solely for their employees (4%);
- Public Sector Funds: run by governments for their employees (16%);
- Self Managed Superannuation Funds (SMSFs): run by a small number of individuals *(maximum number allowed is four)*. Fund trustees are fund members (31%).

The first four types of fund are regulated by the Australian Prudential Regulation Authority (APRA); SMSFs come under the regulatory domain of the Australian Taxation Office (ATO).

As I said, there is broad consensus in Australia that compulsory superannuation is the correct policy setting with the latest Melbourne Mercer Global Pension Index rating the Australian system as the second best in the world behind Denmark.

From the perspective of the organisation that I represent, the SMSF Association, the growth of our sector of the market, in terms of the number of funds, trustees and FUM, has been nothing short of staggering. The numbers bear this out.

Figures by the Australian Taxation Office (ATO) show that in the four years to 30 September 2014, the SMSF sector grew by $180 billion or 49%. In dollar terms, it was the fastest growing superannuation sector and it means SMSFs hold about 30% of superannuation FUM. By contrast, at 30 June 2002, that percentage was a paltry 11% of $350 billion.

On the investment front, and over the same four-year period to 30 September 2014, SMSF trustees have not only kept pace with the other funds in terms of returns but have been acknowledged by the Regulator to be better performing over the long term.

In terms of the number of trustees, ATO figures reveal they have grown 26.6% in the four years to 30 September 2014, from 804,000 to now top the one million mark at 1,023,964. Over the same period, the number of SMSFs has grown by 27.8% from 421,956 to 539,375.

The bulk of SMSF trustees are aged 50 and over, reflecting a trend for people to want to take direct control of their superannuation as they either near or in retirement. The Global Financial Crisis simply reinforced this trend.

But although they take direct control, nearly 99%, according to the latest research by the SMSF Association and Russell investments, still need professional guidance. What is emerging in Australia is the 'SMSF Specialist' - the professional/s who advise these trustees on all/some aspects of their SMSF. The SMSF Association's role is to ensure all professionals offer the highest quality advice and service, that the trustee is able to make informed decisions and that the integrity of the industry is paramount.

The SMSF Association's research indicates that with the increasing numbers of professionals providing specialised services and advice to trustees in combination with consumers becoming more engaged and informed about their retirement savings and spending, then the number of SMSF funds will continue to grow substantially.

Andrea Slattery

SMSF ASSOCIATION

Self Managed Super Fund Association

The SMSF Association is the authoritative voice for the self-managed superannuation fund (SMSF) sector in Australia that is regulated by the Australian Taxation Office. There are now more than 540,000 SMSFs with one million trustees/members. FUM are about $600 billion or about one-third of the total superannuation pool of $1.85 trillion. The SMSF Association is the leader of the SMSF sector's integrity. It represents professionals providing a range of services across various disciplines in the complex area of SMSFs. It is the advocate for the highest professional standards and competence to ensure SMSF trustees always receive the best possible advice and it supports the engagement of trustees and consumers in making informed decisions for their future retirement and for Australians future savings system.

On PIKETTY's misunderstanding of "CAPITAL"

Several months ago French economist Thomas Piketty updated to great acclaim Karl Marx's moral critique of private wealth accumulation. The ethical issue put by both writers before the leaders of modern civilization is inequality – differences in social power between the rich and the poor. They complain that modern economies systematically and consistently favor the rich over the poor in the allocation of income and the ownership of assets.

Since the publication of Marx's ***Das Capital*** in 1867, this critique has generally been understood – mistakenly, I believe - as narrowly focused on the capitalist system of production.

To be sure, Marx objected with passion and vitriol to the economic system in which he lived, which was early industrial capitalism, and drew attention to all its ethical shortcomings. Piketty, too, presents a critique of today's global economic practices. So it is fair to conclude that both writers object to capitalism as an economic system.

But their critique applies to more than just capitalism. They indict wealth in general.

Wealth has been a universal expression of humanity's needs and wants as to which the "memory of man runneth not to the contrary."

St Paul's famous conclusion that ***"the love of money is the root of all evil"*** was written down in a pre-capitalist society.

Wealth has been with us for a long time; in Pharaonic Egypt, in Mayan city-states, in the Hanging Gardens of Babylon, and in the China of Qin Shi Huang. In all of these, there was not only wealth but also inequalities of wealth and income.

Capitalism, properly defined and understood, is not merely "wealthism", but a special way to create new wealth through self-sustaining economic growth. It is a separately distinguishable system within the field of human economic practices designed to secure material well-being. Henry Sidgwick made this point in his 1883 treatise ***Principles of Political Economy***.

There are other ways distinct from capitalism through which humanity has sought to meet its material needs and to fulfill its diverse wants, both tangible and intangible. There have been hunter/gatherers. There were collaborative farming practices. There is total state ownership as in Pol Pot's Cambodia and Kim Jong-un's North Korea. There were feudal aristocracies. There have been landlords and latifundia. There were guilds for artisans. There is mercantilism. There is crony-capitalism.

But in all these systems there is wealth along with inequality in its distribution among people. There even was unequal distribution of goods among the

Stephen B. Young

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Stephen B. Young became the Global Executive Director of the Caux Round Table in 2000. He wrote the book Moral Capitalism to explicate the economic and moral approach of the Caux Round Table to free market capitalism. Moral Capitalism integrated the moral sense theory of Adam Smith with other theories of moral philosophy and economics. It has been translated into Japanese, Spanish, Croat and Polish. In 2008, Young was named one of the 23 persons who developed the corporate social responsibility movement by Professor Sandra Waddock in her book, The Difference Makers. For the Caux Round Table, Young drafted a set of ethical Principles for Government, edited a set of ethical Principles for NGOs, and wrote a set of ethical Principles for the Ownership of Wealth. To support training in the Principles for Government, Young wrote the monograph Moral Government which was translated into Spanish. Under Young's stewardship, the Caux Round Table developed country chapters, developed a unique management tool for corporate social responsibility, the Arcturus assessment instrument, and an assessment instrument to help individuals act more ethically, the Ethical Leadership Profile.

"Piketty says he took a seminal trip to Romania in 1990 at age 18. "This sort of vaccinated me for life against lazy, anti-capitalist rhetoric because when you see these empty shops, you see these people queuing for nothing in the street," he told the New York Times. "It became clear to me that we need private property and market institutions, not just for economic efficiency but for personal freedom."

graves of ancient peoples. Inequality is some universal function of the human enterprise, not just a sin of capitalism alone.

Unfortunately in derogation of clear thinking, the word "capital" is used to indicate both wealth in general and the special forms of usage, which constitutes capitalism as a dynamic system of production and distribution.

Piketty, for example, uses the word "capital" in this way, which conflates economic apples and oranges.

His research is to study the ratio of income derived from labor to that derived from non-labor. He divides national income into only two categories: labor and capital. He lumps together all forms of income which do not arise from work and calls the aggregate of these forms of income the income from "capital". These forms of income from capital are: "rent, dividends, interest, profits, capital gains, royalties, and other income derived from the mere fact of owning capital in the form of land, real estate, financial instruments, industrial equipment, etc., again regardless of its precise legal classification." *(p.18)*

He speaks of capital as earning income from "rents, dividends, interest, royalties, profits, capital gains, etc." *(p.242)* In other words, in his definition of capital he makes no necessary connection to its making investments only in productive enterprise. For Piketty, capital is wealth that can be used anywhere to earn a return. One such example is where he speaks of "a capital which produced an annual rent". *(p.207)*

He defines private capital as the difference between the assets and liabilities of private individuals: "whether public or private, capital is always defined as net wealth, that is the difference between the market value of what one owns *(assets)* and what one owes *(liabilities, or debts.)*" *(p.123)*

In speaking of the "nature of wealth" he refers to "capital" as industrial and financial capital and urban real estate." *(p.164)*. He defines wealth as "land, buildings, machinery, firms, stocks, bonds, patents, livestock, gold, natural resources, etc." *(p.113)* In short he uses the term "capital" as synonymous with wealth.

He then does not subdivide capital into categories of analysis depending on how it is used. Is it, for example, transformed into productive assets or only invested in status goods or just kept as ready money? But he does speak of capital as "technology" *(p. 212)*; or again as a "factor of production". *(p.213)* He distinguishes between nominal assets and real assets. *(p.210)*

He considers the assets to be counted as domestic capital as both the means of production – land and machines, patents, etc. – and financial instruments such as stock with a market value. *(p.119)* He comments: "It is always difficult to set a price on capital, in part because it is objectively complex to foresee the future demand for goods and services generated by a firm or by real estate and therefore to predict the future flows of profits, dividends, royalties, rents and so on that the assets in question will yield." *(p. 171)* Here he mixes together financial assets of all sorts with the wealth that is focused narrowly on firms, which produce goods and services.

"Yet what could be more natural to ask of a capital asset than it produce a reliable and steady income: that is in fact the goal of a "perfect" capital market as economists define it." *(p.114)*

"The advantage of owning things is that one can continue to consume and accumulate without having to work, or at any rate continue to consume and accumulate more than one could produce on one's own." *(p.121)* This is a classic definition of living off rents rather than wages. Thus he believes that "Capital is never quiet: it is always risk-oriented and entrepreneurial, at least at its inception, yet it always tends to transform itself into rents as it accumulates in large enough amounts – that is its vocation it logical destination." *(p.116)*

Piketty does not include human capital – the present net value of future earnings of a person – as part of the capital he seeks to measure. Thus, in a post-industrial economic order he distorts the relative weights of income from labor and from capital. Many who fall into his category of only earning wages

From the Economist, Nov 8th, What happened in the mid-80's to make it so hard for the bottom 90% to accumulate wealth?

are actually capital assets due to their skills and education and management capabilities. Their income should be counted as income from capital. While this adds to the amount of capital in society, it broadens the base of those who should be considered as owners of wealth producing assets.

However Piketty feels that "Attributing a monetary value to the stock of human capital makes sense only in societies where it is actually possible to own other individuals fully and entirely – societies that at first sight have definitively ceased to exist." *(p.163)* Piketty thus posits as capital only assets that earn rents and can be priced and sold in a market to others who want to acquire the right to those future rents.

Inconsistently, Piketty considers that "knowledge and skill diffusion is the key to overall productivity growth as well as the reduction of inequality both within and between countries." *(p.21)* If this is so, why then not consider human capital germane to any analysis of inequalities over time of income and wealth?

Piketty rather simply follows Karl Marx in this definition of "capital" as wealth that can be easily monetized.

First Marx posits that "the wealth of those societies in which the capitalist mode of production prevails presents itself as "an immense accumulation of commodities." *(**Das Capital** p.41)* Thus Marx does not focus on the dynamic of capitalism – investment in the division of labor and self-perpetuating increases in productivity which lower costs to society and increase the supply of available goods and services.

Then he posits what he calls "use-value" or the utility of a thing to its owners. "Use-values" constitute the substance of all wealth. *(p.43)*

Then Marx moves on to a third concept – "human labor in the abstract can be allocated in units of different magnitudes to commodities". *(p. 45, 46)* The amount of this abstract labor constitutes for Marx "value". Marx does admit that there can be ownable items which have use-value but no "value" in his eyes because their utility to owners is not due to use of labor. *(p.47)* Use-values arise from social convention; value comes from the material contribution of abstract human labor used to produce a commodity.

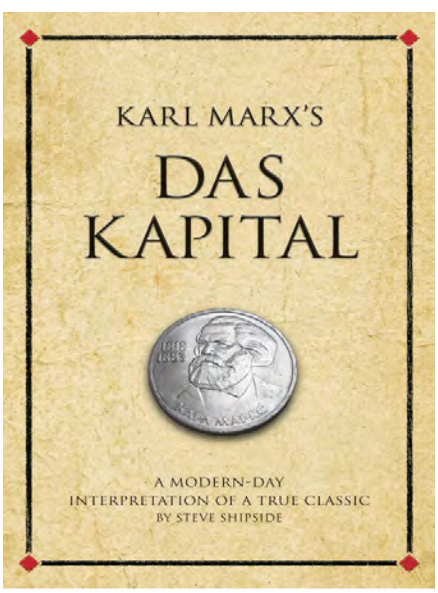
Then, commodities also have an exchange value by which one is exchanged for others. The exchange value to be received for a commodity is a rent payment. *(p.95)* Commodities only realize their exchange value when their owners bring them forward for sale. *(p. 96)*

For Marx, the circulation of commodities with their associated values is the starting point of capital. *(p.163)* Money is used to broker the exchange of commodities. Commodities can thus be replaced by money in the pocket. Money thus becomes the first form in which capital appears. *(p.163)*

Thus for Karl Marx, capital is not specially connected to capitalism; it is generic to the circulation of money, or to wealth in general.

Capital for Marx "appears first as moneyed wealth, as the capital of the merchant and of the usurer." *(p.163)* "All new capital, to commence with, comes on the stage, that is, on the market, whether of commodities, labor or money … in the shape of money that by a definite process has to be transformed into capital." *(p.164)* Money that becomes capital is money that is laid out to make more money. When money is laid out and brings back an increase in money, the increase is "surplus value". *(p. 168)*

> "… the possessor of money becomes a capitalist. His person, or rather, his pocket, is the point from which the money starts and to which it returns. … as the appropriation of ever more and more wealth in the abstract becomes the sole motive of his operations, that he functions as a capitalist, that is, as capital personified and endowed with consciousness and a will. … The restless, never-ending process of profit-making alone is what he aims at. This boundless greed after riches, the passionate chase after exchange-value is common to the capitalist and the miser; but while the miser is merely a capitalist gone mad, the capitalist is a rational miser. The never-ending augmentation of exchange-value, which the miser strives after by seeking to save his money from circulation, is attained by the more acute capitalist by constantly throwing it afresh into circulation." *(p.170, 171)*



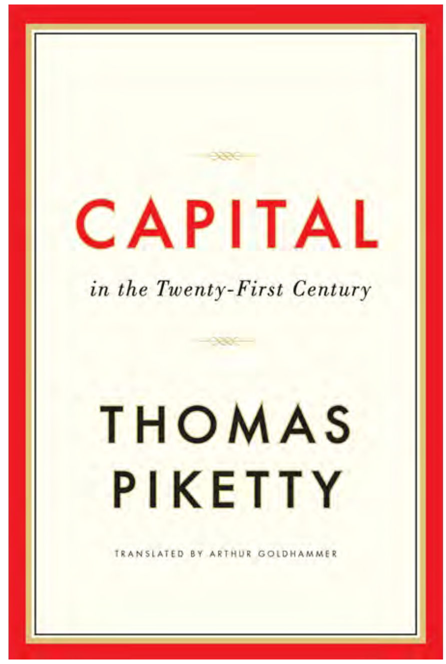
Marx even conflates the unique aspect of true capitalism into money only by saying that "… industrial capital too is money, that is changed into commodities, and by the sale of these commodities, is reconverted into money." *(p.173)*

Marx puts as a foundational dynamic of capitalism the extraction of money through base practices, oppression, commercial wars, and the evils of early colonialism – the African slave trade, child slavery in the mills of England, protection of domestic production, monopoly charters to companies, authorization of banks to discount bills and issue their own notes, etc. Marx's theory of economics thus passes far beyond the confines of capitalism and embraces all use of money and so of wealth. Central to his ethical calculus are rent seeking and financial intermediation.

Marx seems to have missed what is special about capitalism, which is not its use of wealth, or private property, or market transactions, or prices, but rather its capacity for enhancing productive capacity. Unlike all the other modalities of economic endeavor, only capitalism can sustainably increase economic outcome and raise living standards.

Thus, the ethical issue of inequality has to be thought about differently in capitalist systems than in non-capitalist economies. With economic growth in true capitalism comes the opportunity to reduce inequalities, or at least, to improve the lives of those living at every level of distribution.

Piketty admits as much: "concentration of wealth remains high, although it is noticeable less extreme than it was



a century ago. The poorest half of the population still owns nothing, but there is now a patrimonial middle class that owns between a quarter and a third of total wealth and the wealthiest 10 percent now own only two-thirds of what there is to own rather than nine-tenths." *(p.377)*

"Make no mistake: the growth of a true "patrimonial *(or propertied)* middle class" was the principal structural transformation of the distribution of wealth in the developed countries in the twentieth century." *(p.260)* "…the rise of a propertied middle class was accompanied by a very sharp decrease in the wealth share of the upper centile, which fell by more than half, going from more than 50 percent in Europe at the turn of the twentieth century to around 20-25 percent at the end of that century and the beginning of the next." *(p. 262)*

"As noted, the very significant deconcentration of wealth *(which has seen the top centile's share decrease by nearly two-thirds in a century from 60 percent in 1910-1920 to just over 20 percent*

today) and the emergence of a patrimonial middle class imply that there are far fewer very large estates today than there were in the nineteenth century."*(p.418)*

The total amount of wealth and inheritances in France is about the same magnitude to GDP in both periods, but with a century of economic growth, that wealth was spread among many more families. He speculates that as a result of growth "there will probably be more small to medium rentiers and fewer extremely wealthy rentiers". *(p. 378)* "… we have gone from a society of rentiers to a society of managers." *(p. 278)*

Piketty arranges his assumptions to overlook the dramatic contribution to human well-being of capitalism as a special sub-system of economic activity. He concludes, for example that from the 18th to the 21st century "the nature of capital" in Britain and France was totally transformed but "in the end its total amount relative to income scarcely changed at all." *(p.140)* With the achievements of capitalism in lowering costs and providing new technologies – cotton clothing, electricity, flush toilets and running hot water, automobiles, radios and cell phones – the lives of poor people in both countries were objectively much better off by the end of the 20th century than they had been in the 1750s.

Piketty admits that because of growth due to capitalism "today's societies are very different from the societies of the past, when growth was close to zero or barely 0.1 % per year, as in the 18th century." *(p.96)* A consumer basket initially filled mainly with foodstuffs *(in the 18th century)* gradually gave way to a much more diversified basket of goods, rich in manufactured products and services." *(p.87)* "material conditions of life have clearly improved dramatically since the Industrial Revolution, allowing people around the world to eat better, dress better, travel, learn, obtain medical care and so on." *(p.89)*

In fact, recently, the percentage of people living in extreme poverty has fallen from 36% of humanity in 1990 to 15% in 2011. Those who earn under US$1.25 a day has fallen from 811 million persons in 1991 to 375 million in 2013. Both statistics were reported by the World Bank on October 9, 2014.

Piketty worries about low growth, which can be overcome through the application of capitalism.

"Capital-dominated societies … can arise and subsist only in low-growth regimes." *(p.84)* The relative ratio of earning income from wealth vis-à-vis earning income from labor has grown in favor of wealth, and Piketty predicts will stay high or get higher in favor of wealth in the coming years of the 21st century, because of slower growth – especially population growth – and higher savings. *(p.173)* "a country that saves a lot and grows slowly will over the long run accumulate an enormous stock of capital *(relative to its income)* which can in turn have a significant effect on

A watch for $1.2 million?

the social structure and the distribution of wealth." *(p.166)* "The basic point is that small variations in the rate of growth can have very large effects on the capital/income ratio over the long run." *(p.167)*

Inequality of wealth varies with growth rate: with low growth, savings by those with money will lead to higher levels of capital in society; with higher growth, the ratio of wealth to income from labor will be lower. *(p. 233, 228)*

Over 30 years, "a growth rate of 1.5% per year corresponds to cumulative growth of more than 35%. In practice, this implies major changes in lifestyle and employment." *(p. 95)*

PIketty notes that whenever the rate of return on wealth is significantly and durably higher than the growth rate of the economy, it is all but inevitable that wealth will concentrate and inequality increases. *(p.377)* Thus, a high growth rate lowers the rise of inequality.

Without capitalism, there is limited growth, much stagnation in productivity, and even stasis in overall gross product. It is under such systems that inequalities of income and wealth are most pernicious and least subject to remediation.

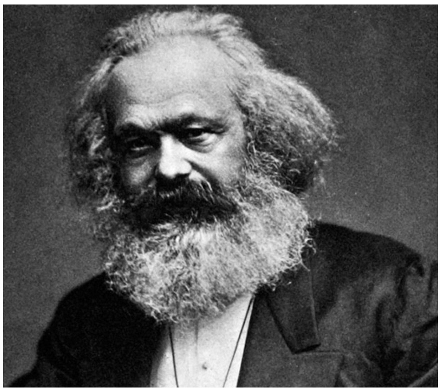
Rent Seeking is not Capitalism

What Marx, followed by Piketty, most objected to was rent, not capitalism per se. They both actually wrongly indicted capitalism for promoting rents and so allowing the wealthy to live off rents and grow richer in their wealth to earn even more rents in the future.

Going back to Adam Smith, income from rent was distinguished from income from labor. Work received a wage. Rents were cash payments for the use of an asset such as land or a house. No work was needed to earn rental income.

Marx and Piketty find income from work ethically just and admirable. In fact, Marx based his entire critique of the industrial economy on the assumption that it diverted too much of the value created by work away from the workers to those who had not so contributed to the good or service sold. This was the Marxist theory of surplus value, which was taken out of flow of buying and selling by "capitalists".

Smith's genius was to realize that in his time a new system of production was underway, something new in human history. This was the adoption of machines and technology along with management skills to production to permit the specialization of function and the division of labor. It was, he argued, only the division of labor, which created increased productivity per worker and so more production for the economy, given the size of the work force. Thus the division of labor created the "wealth of nations".



"Every increase or dimunition of capital, therefore, naturally tends to increase or diminish the real quantity of industry, the number of productive hands, and consequently… the real wealth and revenue of all … inhabitants." ***(Wealth of Nations**, p.312)*

"Increasing the fund which is destined for the maintenance of productive hands tends to increase the number of those hands whose labor adds to the value of the subject upon which it is bestowed." *(p.321)*

"The annual produce of the land and labor of any nation can be increased in its value

Tolkien's Smaug on his mountain of gold by no other means but by increasing either the number of its productive laborers or the productive powers of those laborers who have before been employed. Productivity can never be increased but in consequence of an increase in capital or of the funds destined for maintaining workers and/or in consequence of either some addition and improvement to those machines and instruments which facilitate and abridge labor or of a more proper division and distribution of employment." *(p.326)*

Growth, therefore, does follow naturally on an increase of money or of wealth but only on a proper application of money to production. "Every unnecessary accumulation of wealth can serve no good purpose whatever." *(**Lectures on Jurisprudence**, p. 387)*

Capitalism is, therefore, very different from wealthism.

The early American sociologist Thorstein Veblen made the distinction the central observation of his book ***The Theory of the Leisure Class***. He concluded that a notable feature of the "wealthism" of his day, copious wealth produced by industrial capitalism, was an aristocratic tendency of those possessing wealth to spend it on "conspicuous consumption". Such notorious consumption sought, Veblen thought, to secure social status, not to finance directly more capitalist production. He thus questioned the social utility of that usage of wealth.

Smith rejected the view that money was productive capital: the opulence of a nation did not depend on its coin and money *(**Lectures**, p.388)* To accumulate money was not to accumulate wealth. Too much money just inflated prices and did not cause growth in production.

The emergence of capitalism as something new in human economic activity was at the center of thinking about "modernization" after World War II as efforts were made to bring the fruits of industrialization to poor countries around the world. W. W. Rostow in his famous book ***The Stages of Economic Growth*** spoke of the advent of capitalism in any country as its "take-off" into self-sustaining new wealth creation. Rostow's thinking has more recently been expanded by William Easterly.

The challenge since then for global development efforts, in which trillions have been spent by wealthy nations and international bodies such as the World Bank, has been to move societies out of stagnation into robust platforms for production of goods and services which provide for rising living standards and a middle class which, in turn, incubates constructive political reform favoring constitutional democracy and the honoring of human rights.

The objectives of development are encapsulated in the Millennium Development Goals of 2000 and the proposed Sustainable Development Goals to be adopted by the General Assembly of the United Nations in September 2015.

An often-overlooked fact is that capitalism, ***stricto sensu***, is a quantum improvement on traditional private property and free market economic systems. Humanity has enjoyed private property rights and has used free markets since time immemorial without thereby generating self-sustaining growth in productivity and GDP. The sum of Total Factor Production in pre-capitalist and non-capitalist societies is dramatically lower output than is possible under capitalism. Why?

In his anecdote about production of straight pins, Smith reported that under the pre-capitalist artisan mode of manufacture, one person could make but 200 pins a day. But with division of labor in a factory setting, some 10 persons could through accomplishment of 18 different tasks make 48,000 pins a day, for a productivity outcome of 4,800 pins per worker.

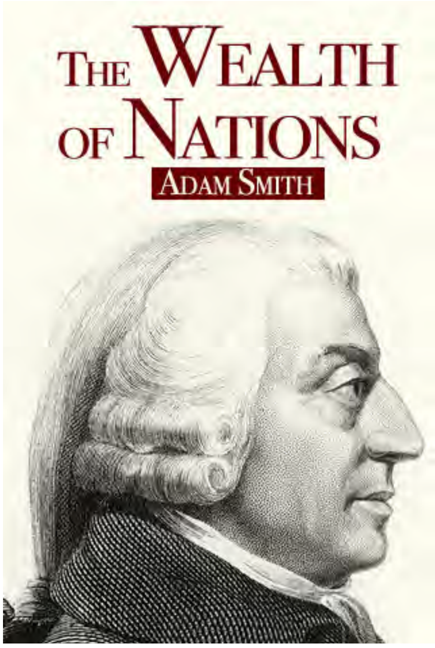
Consider for a moment the result for inequality of wealth of a drop in the price of pins when supply grows from 200 a day to 48,000 a day. The price of pins will drop dramatically to the advantage of those with less income and wealth. The new factory system brought them better real standards of living. And poor people in the 18th century had greater need for straight pins for their sewing than did wealthy gentry and aristocratic families.

But how to classify the cash proceeds which would come to the owner of such a pin factory after he had paid for all his machines, his consumable supplies, and wages for his employees? Should the returns to enterprise be allocated to rent or to wages?

Smith advanced a third solution: such special returns should be given their own, separate, category of earnings – a return on investment in enterprise. ***"Money used as a capital is employed in the maintenance of product laborers, who reproduce the value with a profit."*** *(p.333)* Smith was clear in his own mind that the return from investment and management was not mere rent, as active decision-making and risk-taking was required as a consequence of setting up an enterprise. Nor was this return a wage from labor work. The work of the master of enterprise was not mere hourly labor; it was something new and strange. It demanded different skills in making plans and giving instructions and coordinating the interdependencies of the different specialized functions. It also demanded acquisition of machinery and materials to support the workers in their different assigned tasks. This took effort and calculation not necessary on the part of a landlord who just received income for use of his real property.

Smith thus concocted the famous three factors of capitalist production: land, labor and what he called "stock" which we now denominate as "capital".

A **capital** as Smith conceived of it was only used for production – "for maintaining productive hands only" *(p.316)* In this way did that portion of a stock constitute a revenue. He distinguished



profits from rents. *(p.319)*

Land earned rent; labor earned wages; and stock earned increase, or profit.

Smith considered that the share of wealth which was lent at interest could also be called a capital but it earned a rent. "As such capitals are lent out and paid back in money, there constitute what is called the monied interest. It is distinct not only from the landed, but from the trading and the manufacturing interests." *(p.334)*

Wealth assigned to others to employ is "a capital from which owners wish to derive a revenue without being at the trouble of employing them themselves". *(p.335)* As the overall wealth of society *(its stock for Smith)* grows, the quantity of stock available to be lent at interest - and the power of the monied interest - grows greater and greater.

Today, in a post-industrial world, intangible assets such as human capital, social capital, reputation, brand equity, and intellectual property constitute a large share of the earning capacity of firms. The price of buying their capacity to earn income through their business activity, their market capitalization, reflects the present cash value of their predictable future earnings. The factors that contribute to those future earnings constitute their current "stock" to use Smith's terminology. Accumulating an appropriate "stock" to meet market demand is the foundation for business success. Putting that "stock" into production through the division of labor generates jobs and increased cash flow in the economy.

Increased liquidity coupled with legal rights to borrow money against future earnings permits accumulation of more "stock" and so more growth in market activity and liquidity. The accumulation and use of "stock" was for Smith the secret ingredient for success in expanding the wealth of nations. Without "stock," land and labor combined would not generate new, higher levels of productive output.

Land and labor could earn income in the form of rents and wages, and so give rise to wealth, but they could not create capitalism.

Smith then divided wealth into different categories. Wealth devoted to enterprise became "a capital" which financed the acquisition of "stock" for the business. Wealth not turned into "a capital" was merely wealth, which could be unproductive or even wasted through improvidence.

The distinctive aspect of capitalism as opposed to "wealthism" is how wealth is used. Not every use of wealth a capitalist does make.

Contemporary Marxists make the distinction I am suggesting here when they focus their objections to what they call "Fordism" or "Taylorism" to reflect the factory system of division of labor on production lines.

Sociologists Max Weber, Thorstein Veblen in his study of enterprise, and later Daniel Bell attempted to define the special quality of capitalism as an economic dynamic as a way of thinking, a ***mentalite***, a ***gestalt***, a culture and a way of life.

Weber spoke of capitalism as consisting of profit-making enterprises which are systems of action seeking to increase control over goods and services and capable of autonomous orientation to capital accounting, which values and verifies opportunities for profit and of success in activities designed to make profits. Capitalists seek forever-renewing opportunities for profit via rational enterprise. They orient their actions to monetary calculations of an increase in the market value of the enterprise. *(**Theory of Economic and Social Organization**)* In another work, Weber asserted that, "the impulse to acquisition, pursuit of gain, of money, of the greatest possible amount of money, has in itself nothing to do with capitalism." *(**The Protestant Ethic and The Spirit of Capitalism**, p.17)* He continued: "This impulse exists and has existed among waiters, physicians, coachmen, artists, prostitutes, dishonest officials, soldiers, nobles, crusaders, gamblers, and beggars."

Veblen saw the special feature of capitalism as a "machine process" designed as a reasoned procedure grounded on systematic knowledge of natural forces and human aspirations. The mindset of the capitalist, Veblen asserted was to invest in the machine process as owner and designer in order to realize an increase in wealth. The money to be rationally invested in a business enterprise is an amount calculated with reference to the profit-yielding capacity of the enterprise.

The orientation of capitalism, then, is not inwardly directed towards consumption or hoarding money but outwardly directed towards the accumulation of working capacities that produce what others will buy. Consumption and hoarding tend not towards vocations but risk the onset of sumptuary indulgence at some margin of an individual's utility preferences.

Bell described the economic principle of capitalism as the "rational calculation of efficiency and return in the choice of means in order to increase production *(e.g. the most efficient combinations of labor and capital or the specialization of tasks and functions)*".

Capitalism, accordingly, uses wealth and created new wealth, but it is not mere "wealthism".

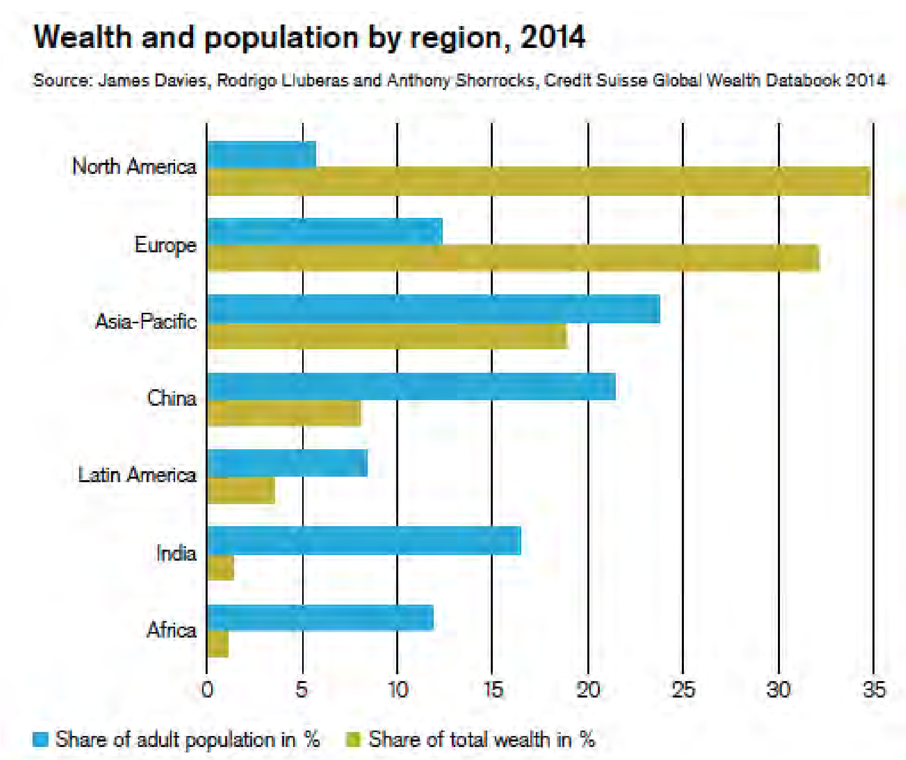
If "wealthism" is a cancer to society due to its frivolity in the use of assets and its division of communities into "haves" and "have-nots", then it is a cancer that degrades the quality of life in capitalist and non-capitalist societies alike.

A gambler, a spendthrift, a collector of fine art, a merchant who buys and sells goods made by others, a landed aristocrat, a lawyer or other professional – none of these were by role and activity Smith-style capitalists, though very wealthy they could be.

But if they took some of their wealth and used it as "a capital" to invest in division-of-labor reliant enterprise, then they could be called capitalists.

Now the analysis of how capitalism worked became complicated once money is introduced into consideration. Both wealth in general and that sub-category of wealth Smith called "a capital", which was funds devoted to employment of others seeking a profit, used money.

The master of enterprise needed money to acquire land, plant equipment, materials, and to advance wages to employees. The money came from his capital, which was a part of his wealth.



Thus while every person with a capital to invest had wealth, not every wealthy person was such a capitalist.

As the capitalist form of production grew in scale, sophistication in the use of money also blossomed. Credit was made available to those who sought present funds. Savings of some were transferred by intermediaries to others. Bills of exchange and bank notes were issued and accepted as ready money available to buy "stock" and support production. Firms called factors would advance goods on credit or buy goods for resale for cash or on credit. Financial intermediation became a vital sector of the capitalist economy, represented most of all by stock exchanges and stock trading.

The financial sector mingled generic wealth as contained in money with enterprise capital, which was that part of social wealth devoted to capitalist production.

Hernando De Soto in his recent study of poverty and slums recommends the expansion of legal title to give people more ownership of assets which they can then use to fund small enterprises. *(De Soto, **The Mystery of Capital**)*

Capitalism and Rent Seeking

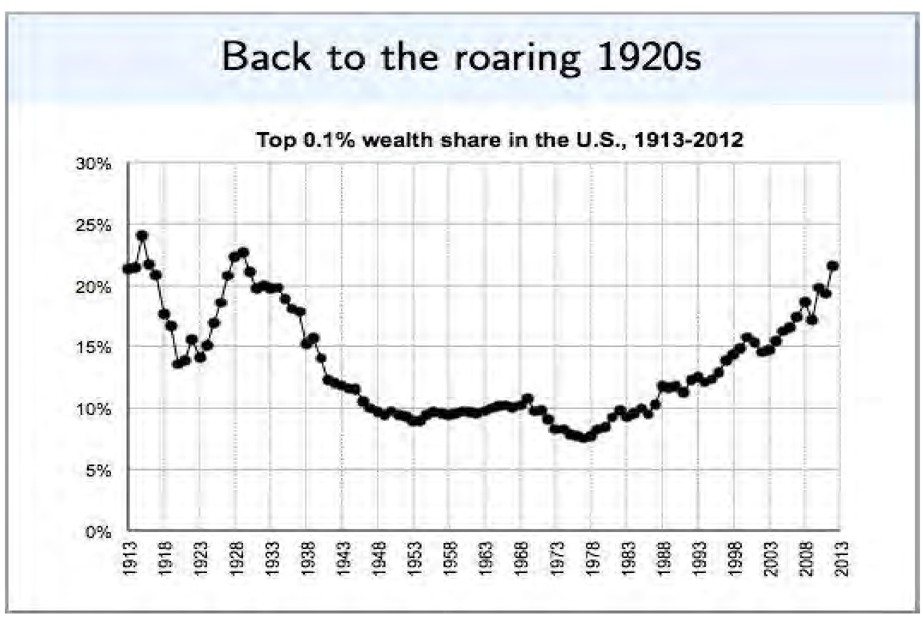
So, to analyze the pros and cons of capitalism as a system of wealth creation as Marx and Piketty propose to do in their treatises, it is not enough just to talk about wealth and money in general and its distribution. Something more focused is necessary. What are the results of the specialized system of division of labor and application of "stock" to production? Are they beneficial? What costs come with those benefits?

Just so did Joseph Schumpeter fashion his theory of capitalism. He focused not on wealth but on a process of invention and innovation in technology and productive capacities. He put the entrepreneur at the center of capitalism, not wealth or money. He coined the phrase "creative destruction" as the distinctive feature of capitalism. The system constantly changed the consumption realities of human civilization. New products and services were coming into being as enterprise employed new machines and techniques to production, driving out of use and fashion older products, services and modes of production.

With this system, as even Piketty admits, life got better for everyone in general. What Schumpeter did not discuss were the externalities for society and the environment of this exponentially expanding use of technology for economic gain. Thus, capitalism's success in growing material goods and services is offset by its failures to provide public goods such as health care and education and its tendency to generate public bads such as pollution and mindless consumerism. Nor did Schumpeter consider the relative advantages brought by capitalism to those who provided capital and separately to those who provided only personal labor. With the invention of the corporation, ownership of a capital invested in stock for enterprise assumed more and more characteristics of earning income as rent. Especially when money was lent merely for a return of money. The rise of financial intermediation to oil the wheels of enterprise and permit more and more current investment secured by legal interests in receipt of future income gave to capitalism serious capabilities of rent seeking.

Rents are returns to power, not to work or to entrepreneurship. The primary form of power giving rise to rental income is legal title or some other form of right under law or contract.

Earning rent as a landlord is made possible, first, by a public legal system that grants title of ownership and protects that title against all others, and, second, some contract right to receive money



or other consideration in exchange for limited use of the property.

Most financial investments of money depend on contract rights protected by law as well. Purchase of a share of stock in a corporation – or a limited partnership interest, or a bond, or a debenture, a share of preferred stock, an option, a futures contract, a collateral debt obligation, a loan or share thereof – gives no power to manage, direct, or make decisions for a productive enterprise. Such contracts do no more that promise a share of returns under certain conditions as specified in their terms.

Thus, financial investment in businesses run by others is more like using cash wealth to earn future rents than it is to profiting from direct capitalist ownership.

And it was the rent aspects of financing industrial production that most aggrieved Marx and set his ire ablaze. He was angry that the owners of enterprise could take cash wealth, which he thought was surplus value created by workers, and use that monied wealth to buy more contract rights to the receipt of more future rent payments. Those paid only wages for their work, he saw, and had little if any chance to participate in such accumulation of wealth.

In this sense, contract rights in financial intermediation are akin to the rent potential of gambling. To win at poker one relies on the rules of the game. Contract rights specify the priority of cards and allocate each pot according to the composition of various hands.

A range of other legal rights create rent in the form of protection of intellectual property. License fees and royalty payments are rents for the use of what belongs to another.

Those who live on the rents from wealth contribute less to economic growth than those who seek a return from wealth invested as capital in enterprise.

The proceeds of rent can be saved or spent. When they are saved, they may or may not be transformed into productive capital stricto sensu. They may only be invested as money in the purchase of contract rights to earn more money, thus inflating asset prices but not real domestic output. If they are spent, they contribute to increased demand for goods and services. But if no new production enters the market to meet the demand, the new demand may only lead to inflation in nominal prices.

The bedrock of growth is productivity, not money in circulation. Circulating money must be used in the right way in order for real growth to occur.

Piketty conflates capital stricto sensu with wealth and so considers that the return on capital is a rent, not some special category of return with a qualitatively different ethical character:

> "Rent is not an imperfection in the market: it is rather the consequence of a 'pure and perfect' market for capital, as economists understand it: a capital market in which each owner of capital, including the lease capable of heirs, can obtain the highest possible yield on the most diversified portfolio that can be assembled in the national or global economy. To be sure, there is something astonishing about the notion that capital yields rent, or income that the owner of capital obtains without working." *(p.423)*

One of Piketty's recommendations for resetting the social outcomes of wealthism is to create a new category of rents. He would give the poor legal rights to enjoyment of "a certain number of good deemed to be fundamental". *(p.479)* He justifies this use of government power to redistribute money as a "principle of equal access" to such fundamental goods. Here Piketty merely endorses the practices of the modern entitlement, or welfare, state.

Rents can be charged as a result of holding other forms of power as well. A monopoly or a cartel gains market power

Millet's 'The Gleaners'

to control pricing and extract money for goods or services over and above the price that would be set by competition. The competitive price would be the return on capital while the overage would be a rent.

Money itself is a form of power, therefore it can command returns not necessarily disciplined by competitive market forces of supply and demand. It can generate rent, or income received not due to work or to assuming the risk of capitalist enterprise.

Today's money in the form of fiat currency gains its power from legal contract. Because fiat currency is made by government authority legal tender for the payment of debts, such money is unconditional economic power. Money in the form of demand deposits, money market funds, and similar custodial arrangements also consists of contractual rights to immediate possession. Money is perhaps society's most perfect form of unrestricted private discretionary power.

Piketty demonstrates the power of money to make money with analysis of how the fortunes of the most wealthy people earn more than do the assets of the only moderately well-off.

Other forms of power produce rents as well. Mafias and shake-down racketeers extract rents from those subject to their demands, extractions backed by credible threats of punishment for disobedience, rather than earn wages or a profit from productive enterprise.

Cronyism in securing preferential treatment from government, which generates benefits from political or regulatory interference with market demand or pricing to limit competition, also produces rents.

The income received by governments when exercising the power of taxation is a rent paid by society. Thus, government spending on wages for its employees or on transfer payments for health care, education, and welfare, takes the form of passing on rental income to chosen persons. In their recent book Why Nations Fail, Daron Acemoglu and James A. Robinson argue that a major impediment to the success of capitalist take-off is rent extraction by governments. Rent seeking compromises the dynamic potential of capitalism.

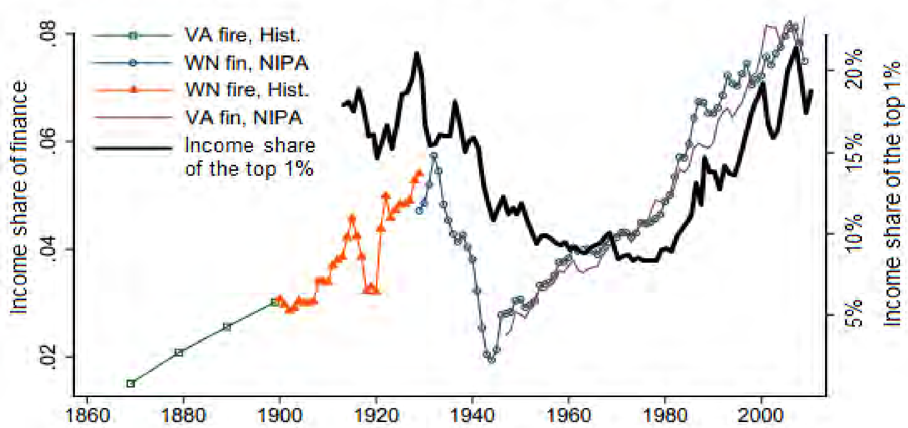
Piketty observes that since 1980 inequality of income and wealth distributions has grown. *(p. 220, 221)* This may well be the result of a tilt in economic activity away from earning returns on capital to increased rent extraction from society. Access to rents from increased use of intellectual property, financial intermediation, and protective regulation is not likely to be widely distributed across a population.

The US financial sector contributed 7.9% to GDP and took out in total compensation 9% of GDP.

Rent seeking, in general, because it is insulated from harsh market dynamics through its reliance on non-marker power, provides higher returns for lower risk. Piketty thus notes that the average wealth of the richest twenty-millionth people in the world grew from $1.5 billion in 1980 to nearly $15 billion in 2013, for an average growth in assets of 6.4% a year above inflation. *(p.434)*

On average it seems that wealthy families and individuals don't use all their rental income from ownership of contract rights for consumption. They plow a significant proportion of earnings and gains on the nominal market value of their paper assets into the

Economic data suggests a strong correlation between an expanding financial industry and rising income inequality



Note: Original graph from Philippon (left scale) has been reformatted and overlaid with income share data including capital gains (right scale).

Original notes: VA is value added, WN is compensation of employees, "fin" means finance and insurance, "fire" means finance, insurance, and real estate. For "NIPA", the data source is the BEA, and for "Hist" the source is the Historical Statistics of the United States.

Source: Philippon (2012), Piketty and Saez purchase of more contract rights, thus boosting asset prices from which they benefit far more than do those who live off wages.

For example, the average per family or per capita savings of ordinary working Americans are paltry.

Adam Smith noted that in towns where people were maintained by the employment of capital they were industrious, sober and thriving but communities where people were maintained by the spending of revenue *(the proceeds of rent)* people were idle, dissolute and poor. *(P.319)*

As rent seeking increases, the competitive advantage of capital investment in enterprise evaporates. Income from rents comes with less risk than investment in businesses.

Adam Smith recognized with concern this advantage to owners of wealth of investing in rents rather than in truly capitalist enterprise subject to the risks of the market: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." *(P.128)* Smith saw how the temptation to fix prices – to extract a rent – had great appeal to those with money to invest.

Smith also commented acerbically on the difficulty of getting freedom of trade and competition put into law to replace rent seeking monopolies in business and commerce:

> " … like an overgrown standing army, [business people] have become formidable to the government, and upon many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening … monopoly is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public service, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists." *(P.438)*

Piketty agrees with Schumpeter that capitalism ***stricto sensu*** is good for society: "No one denies that it is important for society to have entrepreneurs, inventions, and innovations. The problem is simply that the entrepreneurial argument cannot justify all the inequalities of wealth …" He adds that, sadly, "Entrepreneurs … then to turn into rentiers, not only with the passing of generations but even within a single lifetime…" *(p.443)*

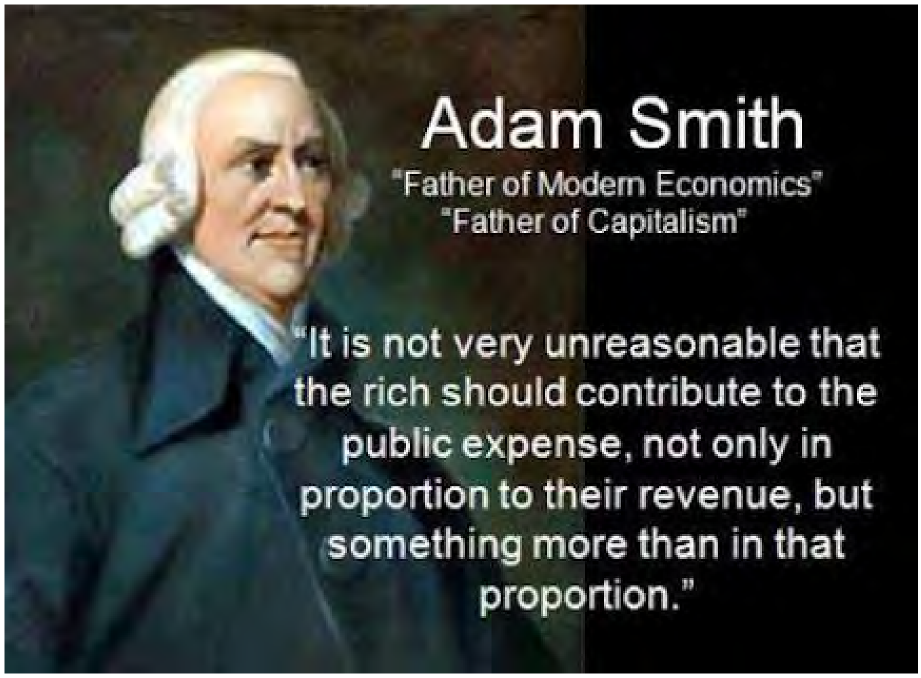
The American Louis Kelso provided an interpretation of capitalism, which corresponds to both the emphasis of Schumpeter on creative destruction and the concern of Marx and Piketty over the relative vulnerability of wage labor as against ownership of productive capital assets. Kelso argued that under conditions of division of labor and the introduction of new technologies to increase productivity, labor will always suffer. The need for labor will always be changing and the need for workers will correspondingly change as well. The direction of those changes will be towards fewer and fewer workers having higher and higher skills. In short, the dynamic of capitalism is to replace workers with machines.

In this system workers are price takers and not price makers. They must compete for the jobs available without being able to create jobs for themselves. Only capitalists stricto sensu can create opportunities for employment. Since the beginning of the industrial age, economic growth has been able to provide new sources of employment to absorb the working hours of those whose labor contribution became no longer needed and those new to the work force.

But in recent years, unemployment and underemployment has been historically high in the EU and the United States. The evolution of technology into digital communications and miniaturization of computing sophistication has, more and more, led to the replacement of workers with machines on an unprecedented scale.

Kelso's response to this trend in capital intensive production was to invent contract rights which would give workers access to capital assets, adding to their wages income from firm profits and investment rents. Kelso's recommendations to intentionally diffuse more widely the ownership of productive capital point to a general ethical consideration about wealthism. With wealth understood as monied power, and with money in and of itself a source of power, the ethical considerations arising about wealthism are those that come into play when power is as work. A sense, on the one hand, of demanding self-restraint and responsibility from those in possession of any power, and, on the other, an intuitive standard of fairness or due balance combine to direct our attention first to those without power, to those most vulnerable. The ethic arises almost as a first principle inductively acknowledged that power should be held as an office in service to some great good than self-indulgence. The American philosopher John Rawls and the economist Amartya Sen both have constructed theoretical approaches to justice, which further this equitable objective.

Any economy, then, which turns away from promoting genuine capitalism towards more rent seeking turns itself towards more irremediably inequality of distribution of its generation of wealth and income. Large scale financial intermediation, intense regulation, and generous provision for entitlements are the structures which can turn any modern post-industrial economy away from robust capitalism towards a bifurcated social structure of a very wealthy elite and a large lower class, both dependent on rents for their well-being.



Conclusion

Piketty's estimate that inequality of income and wealth will increase due to lower economic growth and declining populations does not take proper account of the potential role of capitalism. If the economy remains skewed towards rent seeking, then the trends Piketty highlights will come to sad fruition. But if a more robust capitalism, genuine creative destruction transforming the status quo, can be stimulated, higher growth will result and the severity of inequalities will decline.

The policy guidance recommended by Piketty's study of inequalities of wealth and income is simple: promote capitalism, minimize rent extraction.

But perfection in human affairs is rarely achieved. Alexander Hamilton, the first Treasury Secretary of the United States was dedicated to the advance of what I am calling capitalism in order that the economy of his new nation grow reliably. But he warned that:

> "Tis the portion of man assigned to him by the eternal allotment of Providence that every good he enjoys, shall be alloyed with ills, that every source of his bliss shall be a source of his affliction – except virtue alone, the only unmixed good which is permitted to his temporal condition … The true politician … will favor all those institutions and plans which tend to make men happy according to their natural bent which multiply the sources of individual enjoyment and increase those of national resource and strength – taking care to infuse in each case all the ingredients which can be devised as preventives or correctives of the evil which is the eternal concomitant of temporal blessing."

Stephen B. Young
Global Executive Director
The Caux Round Table

Currency Wars, the Ruble and Keynes

The specter of currency wars once again haunts the international chattering classes. Remember back in 2011, when Brazilian finance minister Guido Mantega blamed the U.S. for deliberately weakening the greenback to gain a competitive advantage? Well, now the shoe is on the other foot.

The Yen – an important regional currency – recently sank to a seven-year low against the now mighty U.S. dollar (USD). This is putting downward pressure on the Korean won and other Asian currencies. The situation is similar in Africa where the Kenyan shilling has hit a three-year low against the USD; the Nigerian naira recently set an all-time low against the dollar; the Ghanaian cedi has shed over 25 percent of its value against the greenback this year. The big Latin American loser is the Venezuelan bolivar, followed by the hopeless Argentine peso. Moving to Europe, Ukraine's hryvnia has lost over 88 percent of its value against the USD this year, while the Russian ruble has racked up a loss of over 43 percent against the greenback in the same time span. The list could go on, but let's focus on Russia and the travails of the ruble.

The ruble, while it has not been hit as hard as the hryvnia, has sharply depreciated because of the Russian-Ukrainian conflict and the sanctions that it has spawned. The sanctions are, of course, a mug's game. Indeed, sanctions have almost universally failed to achieve their objectives. The one thing they do, though, is to impose real costs on many intended and unintended victims, including the international economic system. It is noteworthy just how predictable the unintended consequences are. While the sanctions imposed against Russia have clearly contributed to ruble weakness, they have massively strengthened President Vladimir Putin's hand.

Thanks to the sanctions imposed against Russia, President Putin's support rose to 88 percent in October, according to Russia's most independent polling group, the Levada Center. Undoubtedly, Putin got another boost in the polls after the shabby treatment he received in Brisbane, Australia at the meeting of the Group of Twenty (G20).

Diplomacy is dead. This is dangerous. As Clifford Gaddy, a Russian expert at the Brookings Institution in Washington, D.C., recently remarked, "I fear very much that … there is an element of sleepwalking in the policies of key players in today's world." Gaddy was alluding to Christopher Clark's recent book, ***The Sleepwalkers***, which chronicles the origins of the First World War.

In addition to the Russian-Ukrainian conflict, the ruble has been put under pressure because of the recent slide in the price of oil. As the accompanying chart shows, Russia's fiscal accounts balance when the price of oil is about $102 per barrel. If the present price of less than $80 per barrel persists, it will put most oil producers, including Russia, in a fiscal squeeze.

The ruble's dive has been associated with the plunge in the price of oil, coupled with a series of damaging events *(see the accompanying chronology)*.

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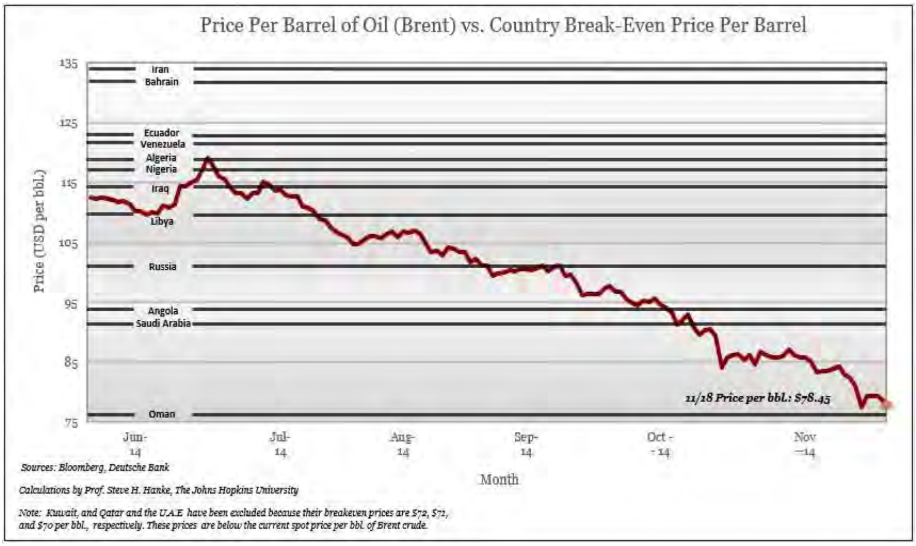
Prof. Hanke's most recent books are Zimbabwe: Hyperinflation to Growth (2008) and A Blueprint for a Safe, Sound Georgian Lari (2010).



These events are indicated on the next chart which shows the course of the ruble against the USD.

Also shown are the 10- and 40-day moving averages for the RUB/USD exchange rate, as well as the price of Brent crude per barrel.

But, that's not the end of the story. As the above chart shows, the ruble's volatility has soared. Indeed, whiplash collars should be standard issue for the brave souls who are trading the ruble.

The ruble charts look pretty ugly, but they contain a bit of a silver lining, in the short-term.

The depreciating ruble means that Russian imports will be more expensive and exports more competitive. This combination will help keep Russia's current account positive, which will offset some of Russia's massive capital flight.

In addition, Russia's fiscal accounts are denominated in depreciating rubles and its oil exports are invoiced in an appreciating USD. So, the fiscal blow from lower oil prices will be cushioned by a weak ruble. Perhaps it was a weak ruble strategy that Putin was alluding to when he recently stated that Russia was braced for a "catastrophic" slump in oil prices.

But, there are limits to any temporary benefits from a ruble rout. When a currency takes a dive, the specter of inflation is always right around the corner. And with inflation, Putin will see his poll numbers come off their highs. What to do?

Russia should abandon the floating exchange-rate regime, which it adopted on November 10th. Oil and other commodities that Russia exports, are priced and invoiced in U.S. dollars. By embracing a floating exchange-rate regime, Russia is inviting instability. The ruble's nominal exchange rate will fluctuate with oil and other commodity prices. When the price of oil rises *(falls)* the ruble will appreciate *(depreciate)*, and Russia will experience a roller-coaster ride distinguished by deflationary lows and inflationary highs. To avoid these wild rides, most of the big oil producers – Saudi Arabia, Kuwait, Qatar and the United Arab Emirates – link their currencies to the U.S. dollar. Russia should do the same.

To get things right, Russia should lift a page from John Maynard Keynes' Russian playbook and establish a currency board.

Under a currency board system a central bank issues notes and coins. These are convertible into a foreign reserve currency at a fixed rate and on demand. As reserves, the monetary authority holds high-quality, interest bearing securities denominated in the reserve currency. Its reserves are equal to 100 percent, or slightly more, of its notes and coins in circulation, as set by law. A central bank operating under a currency board rules does not accept deposits and it generates income from the difference between the interest paid on the securities it holds and the expense of maintaining its note and coin in circulation. It has no discretionary monetary policy. Instead, market forces alone determine the money supply.

There is an historical precedent in Russia for a currency board. After the Bolshevik Revolution, when troops from Britain and other allied nations invaded northern Russia, the currency was in chaos. The Russian civil war had begun, and every party involved in the conflict was issuing its own near-worthless money. There were more than 2,000 separate issuers of fiat rubles.

Russia: Event Chronology

Event Number	Event Date	Event
1	2/22/2014	Yanukovych leaves Ukraine.
2	3/3/2014	First sanctions announced by US.
3	3/11/2014	First sanctions announced by EU.
4	3/17/2014	Putin approves Crimean referendum.
5	4/25/2014	Russia raises benchmark rates.
6	4/28/2014	New instability in Eastern Ukraine leads to more sanctions.
7	5/7/2014	Putin pulls back troops from Ukraine border.
8	7/17/2014	Malaysia Airlines Flight 17 crashes. US extends sanctions.
9	8/6/2014	Russian responds with sanctions on US and EU.
10	9/5/2014	Cease-fire agreement reached in Minsk.
11	10/8/2014	UN report warns that cease-fire is becoming "increasingly fragile"
12	11/2/2014	Pro-Russian seperatists in Dontesk and Lugansk hold general elections.
13	11/3/2014	Russian Central Bank raises key rate to 9.5%.
14	11/5/2014	Russian Central Bank announces end of unlimited currency support interventions. Maximum cap of $350m per day.
15	11/10/2014	Russia announces ruble float.
16	11/12/2014	NATO claims Russian troops crossed border.

Prepared by Prof. Steve H. Hanke, The Johns Hopkins University.

To facilitate trade, the British established a National Emission Caisse for northern Russia in 1918. The Caisse issued "British ruble" notes. They were backed by pounds sterling and convertible into pounds at a fixed rate. Kurt Schuler and I discovered documents at the archives in the British Foreign Office which prove that the father of the British ruble was none other than John Maynard Keynes, who was a British Treasury official at the time.

Despite the civil war, the British ruble was a great success. The currency never deviated from its fixed exchange rate with the British pound. In contrast to other Russian rubles, the British ruble was a reliable store of value. Naturally, the British ruble drove other rubles out of circulation. Unfortunately, the British ruble's life was brief: The National Emission Caisse ceased operation in 1920, after allied troops withdrew from Russia.

Yes, it is time for Putin to lift a page from Keynes and follow what most large non-U.S. oil producers already do: link the ruble to the greenback.

Steve H. Hanke

The Bitcoin or the big con?

Le Bitcoin, ou la grande escroquerie?

«Je vous parle d'un temps que les moins de vingt ans ne peuvent pas connaître» *(Aznavour)*, l'Europe en ce temps là n'existait pas encore. Les choses ont bien changé depuis pour le Dollar, avec le retrait du Yen, l'arrivée de l'€uro, la montée du Renminbi.

Pour nous, survivants de la préhistoire financière, il est un rappel important, pré «âge du tout tactile». Avant l'émergence du 2.0, les problèmes étaient les mêmes, juste résolus avec des moyens différents. Qui se souvient de FINACOR? *(l'ancêtre d'EXANE)*. Cette société familiale, établie à Paris à la sortie de la 2° guerre mondiale, sous la houlette d'un patriarche qui trônait au bout d'une immense table de salle à manger transformée en salle de change, régnait sur la place de Paris, place Vendôme.

En effet, son fondateur avait été le 1° courtier à travailler sur les eurodevises. C'était bien sûr à l'époque de la guerre des deux mondes, le capitaliste contre le soviétique. Rideau de fer oblige, le Rouble était inconvertible. Solution? Pour permettre les échanges internationaux, il fallait bien que, entre les fibres, trous ou les mailles lâches dudit rideau, le commerce fonctionne. On vendait donc et on achetait aux pays de l'Est, Russie en tête, via la BCEN. Toutefois, impossible de rapatrier en Russie les fonds, ou d'obtenir des Roubles en Occident. On créa donc des devises «miroir» de celles convertibles et comme le marché était situé sur le vieux continent elles s'appelèrent eurodevises. FINACOR eut donc l'idée géniale de faire investir les eurodevises. Il s'agissait de faire travailler à l'Ouest les devises in-importables à l'Est.

Comment? Il suffisait de rédiger des obligations, gagées sur ces stocks de monnaie, échangeables sur les marchés financiers ensuite. La titrisation ou les sub-primes n'ont rien inventé de nouveau. Sauf que là on était sur du vrai argent, émis par des Banques Centrales solvables, et permettant les échanges internationaux. Des eurodevises ont donc découlé les euro-obligations, venant concurrencer les émissions locales comme l'euro-Franc contre les Emprunts d'Etat Français, l'euro-Yen contre les Samouraï, l'euro-Sterling contre les Gilts, l'euro-Dollar contre les Treasuries, l'euro-Deutsche Mark contre les Bunds, etc.

Le système financier s'en est fort bien porté jusqu'en 1989, et l'âge d'or vit aussi l'arrivée des euro-crédits. La Perestroïka puis la chute du Mur de Berlin, dont on célèbre l'anniversaire en cette année 2014, ne sont pas anodines, car le système s'écroula peu après, en 1992, la convertibilité étant revenue avec l'effondrement que l'on sait.

Pourquoi ce rappel? D'abord pour rendre hommage au génie d'un seul homme, aujourd'hui bien oublié de l'histoire, M. Victor TOTAH. Mme Angela MERKEL, opposée aux €uro-obligations pourrait donc relire l'histoire financière des années 80.

Ensuite et surtout, parce que l'adage «la bonne monnaie chasse la mauvaise» est toujours d'actualité: de LAW au Louis en or, des anciens aux nouveaux Francs, de l'€uro au Deutsche Mark? *(ou vice-versa, affaire à suivre…)*

Enfin, parce que dans le concours de nettoyage des lessiveuses actuel au seul profit des Etats-Unis et au total détriment de l'Europe, de la Suisse et autres grands naïfs du prédateur sans scrupules qu'est l'Oncle Sam, il faut bien voir que les Banques Centrales ne maîtrisent plus la donne.

De plus, à l'époque de FINACOR, pour que le système fonctionne, il fallait une plaque tournante, et tout le monde était bien heureux que la Suisse existe. On l'a oublié, mais par exemple, l'organisme de troc de Renault était établi à Genève, toutes les raffineries françaises construites à l'Est bénéficiaient au profit des oligarques de comptes numérotés alimentés directement par Bercy, afin que les signatures, sous les applaudissements, puissent se faire pour les «contrats du siècle» et ainsi paraître à la Une des journaux. De même, bien avant l'incompréhensible saga de CLEARSTREAM! CEDEL et EUROCLEAR assuraient, au Luxembourg une compensation de qualité aux divers opérateurs financiers en euro-obligations. Sit transit gloria mundi!

Rajoutons le principe calamiteux du «too big to fail» appliqué depuis 2008. Il vient tout juste d'être remis en cause, enfin, par le Gouverneur de la Banque d'Angleterre, M. Mark CARNEY qui dénonce le scandale du «pile je gagne, face tu perds» qui a conduit à sur-réglementer le secteur domestique, et se concentrer sur la paille, alors que la poutre est ailleurs.

Oui le Rouble est à nouveau à genoux, conséquence des sanctions Occidentales pour la Crimée, dans une conjoncture déjà défavorable à l'économie locale. Pour autant, les investissements russes ont-ils diminué dans le reste du monde?

Oui, tous les pays se sont ligués contre la drogue et ses cartels. Pour autant, la consommation augmente si vite que, Etats après Etats, elle se légalise. Or, qui dit plus de consommateurs dit plus d'approvisionnements, qu'il faut bien payer.

C'est comme pour le pétrole: les champs du Texas sont vides, les USA dépendent des Emirats et de l'Arabie Saoudite? le cracking prend le dessus *(remarquez la similitude de sémantique avec la drogue dure le crack…)* et hop, les USA sortent de l'ornière.

> *« Aujourd'hui le Bitcoin est l'exutoire des mafieux en tous genres »*

Comment? Par recyclage des énormes masses monétaires générées par les politiques accommodantes des Banques Centrales. Double effet:

— Asphyxie des opérateurs locaux par overdose de régulation

— Création d'une nouvelle monnaie souterraine, rendant ringardes celles, officielles, dont se servent *(encore)* les touristes!

De fait, si la bonne monnaie des théories classiques chassait la mauvaise, avec la création des eurodevises la notion de bien et de mal s'est relativisée: fallait-il ou non fraterniser avec l'Ours de l'époque pour sauver nos emplois? Aujourd'hui, le Bitcoin est l'exutoire des mafieux en tous genres.

En effet, personne ne se pose la question de connaître la masse monétaire représentée par ce phénomène. Plutôt que d'enterrer dans la jungle des coffres scellés de papier monnaie qui peuvent se perdre, pourrir, changer de mains etc. il est bien plus efficient d'embaucher un super hacker, un génie «geek» bref des marginaux géniaux, comme les Einstein d'aujourd'hui et de spéculer «tactilement» en toute impunité. Des fortunes se font ou se défont instantanément: tu es mort, game over, et on recommence. Qui dit mieux?

Pour amuser la galerie et servir de couverture, on laisse de simples particuliers jouer dans la cour des grands, et tout perdre sans remords. On sait déjà *(Figaro Magazine, 17 octobre 2014)* que statistiquement «les particuliers qui spéculent sur les devises perdent de l'argent dans 90% des cas. La perte moyenne frôle les 10.900 €uros. Sur quatre ans, 13.224 clients ont perdu au total 175 millions d'€uros. Les 1.575 clients restant n'ont empoché que 13,8 millions.» *(Source: AMF qui engage une campagne de publicité digitale pour sensibiliser aux risques du FOREX)* Alors, sur une monnaie virtuelle! Toutefois l'écran de fumée fonctionne bien: «FLOP: Le Bitcoin … présentée comme la panacée en matière d'échanges mondialisés, s'avère bien fragile. Elle a décroché de 35% de manière irrationnelle lundi dernier» *(Le Figaro Magazine, 22 août 2014)*, ou la démonstration de savoir bien analyser le résultat, mais pas la cause! Les mafias gagnantes du monde entier ont dû sabler le champagne!

Preuve à charge? Selon le journal Suisse La Côte du 21 novembre 2013: la valeur du «Bitcoin … ***qui a fait parler d'elle lors de transactions illicites***, a touché pour la première fois la barre de 900$ mardi… Elle s'échangeait quelques heures plus tard autour de 700$. .Début avril elle ne valait que 200$». Il faut avoir le cœur bien accroché car les chutes sont aussi brutales que rapides puisque sa valeur a été divisée par quatre en deux jours en avril 2013 et aimer les montagnes «russes» car il est passé de 100$ à 400$ entre le 1° et le 15 novembre 2013. Il valait 4,15€ en 2011…

Certes on est allé plus loin puisqu'il y a maintenant des distributeurs de Bitcoins aux coins de rue de Genève *(janvier 2014)* ou d'ailleurs, en partenariat avec le canadien Bit Access, leader mondial des DAB. Swiss Bitcoin EXchange, le premier négociant en Bitcoin Suisse a été autorisé par la FINMA en juin 2014. Les gogos n'ont jamais manqué, des Emprunts Russes au Canal de Panama. Promettez la lune et il y aura toujours un crédule pour l'acheter, VIRGIN le sait bien. La cupidité continue à animer les marchés financiers, des tulipes hollandaises à nos jours, et les délits d'initiés de fonctionner, de Waterloo à aujourd'hui. Toutefois selon Alexis ROUSSEL, CEO du SBEX, l'autorisation de la FINMA fait que «le Bitcoin est considéré comme un moyen de paiement en Suisse, et un dépôt en Bitcoin comme un dépôt bancaire». Il reste à prouver, cependant, que l'on puisse obtenir un crédit Lombard sur ces actifs si volatils…

Bref, au lieu que nos guignols de banquiers centraux continuent à vouloir laver plus blanc que blanc et oublier la croissance en route, ils feraient mieux de s'intéresser à pourquoi l'industrie du crime continue à fonctionner comme si de rien n'était: Al CAPONE recyclait dans les blanchisseries, leurs homologues actuels dans le Bitcoin. La recette n'a pas changé: plus c'est simple et évident, moins c'est visible! Steve HANKE l'a dit au Sénat américain: ***«La forte demande pour le Bitcoin a été motivée par les exigences que font peser les réglementations»***. La prohibition financière existe donc depuis 2008 au moins, c'est officiel.

Donc plus l'arbre est gros plus il cache la forêt et on peut rêver en écoutant Ben BERNANKE qui «a clairement salué les potentiels de la monnaie» Bitcoin *(ibid La Côte)*. Est-ce de l'angélisme, ou bien cela signifie «clairement» que les USA recyclent ainsi des dollars «sales» destinés à des trafics d'influence en tous genres autour du monde. Simple spéculation sans fondement? En effet, il faut oser écrire comme patron de la FED, à propos de cet univers sans foi ni loi, que ces monnaies virtuelles «peuvent être prometteuses à long terme d'un système de paiement plus rapide, plus SECURISE et plus efficace»: inconscience ou cynisme délibéré?

Après les faucons, les colombes: Steve HANKE, Professeur d'Economie à Baltimore indique que «si le Bitcoin grandit et devient compétitif, il tombera SOUS LE COUP DES AUTORITES qui essaieront de le réglementer». On est toujours en retard, non pas d'une bataille, mais d'une guerre, et en l'espèce d'une génération virtuelle dans ce domaine! Il rajoute: «Il devient une alternative LEGITIME pour transférer de l'argent et un moyen de paiement de plus en plus viable». Protection de la sphère privée et Bitcoin même combat? On ne rêve plus, on plane!

Si l'on en croit Philippe HERLIN, Docteur en Economie et auteur de «La révolution du Bitcoin et des monnaies complémentaires» le Bitcoin est paré de toutes les vertus, car il la juge plus saine que les monnaies Etatiques, il serait ainsi la «planche de salut des monnaies mal gérées». On en revient donc toujours au principe de substitution d'une monnaie par une autre. Alors, après la votation sur l'or, à quand une sur les réserves en Bitcoin de la Banque Centrale Suisse?

Restons sérieux? Pas si sûr, car il convient de noter que la Suisse a un sérieux avantage: l'antériorité. En effet, post crise de 1929, depuis 1934 *(non ce n'est pas une erreur de frappe)* existe le WIR *(nous autres)*, monnaie de service entre 60.000 entreprises suisses. Cela rappelle le défunt ECU *(European Currency Unit)* précédent l'€uro, et inaccessible aux particuliers. 1 WIR = 1 CHF.

La CIFA lors de sa XI° conférence annuelle en 2013 avait réalisé une table ronde sur le sujet des monnaies de substitution: ***«Table ronde 4: Quels sont les effets négatifs de la régulation bancaire sur la capacité des banques à prêter au secteur privé? Quelles sont les conséquences des exigences du Bâle III? Vue d'ensemble des instruments bancaires alternatifs non sujets aux problèmes de liquidité.***

— ***Comment la régulation pourrait surmonter le dilemme entre le renforcement des banques et assurer le crédit adéquat aux entreprises?***

— ***Est-ce possible d'encourager des systèmes bancaires qui sont plus efficaces dans le financement des activités économiques et qui dépendent moins des liquidités ?***

— ***Est-ce que des formes alternatives de finance, comme des monnaies locales, des systèmes de compensations et de l'aide au renforcement des capacités commerciales pourraient réduire les demandes de liquidités des banques sans réduire le crédit aux entreprises?»***

Il y a plus de 5.000 monnaies locales non convertibles *(sauf dans leur pays)* de par le monde aujourd'hui. Au-delà, Monoprix *(groupe CASINO)* acceptera les Bitcoins d'ici fin décembre 2014 pour ses commandes.

D'autant qu'avec les démêlés en dollars de la BNP, UBS ou autres Crédit Suisse et Vontobel, selon François VELDE de la FED, cette «technique pourrait bien être utilisée par les institutions financières elles-mêmes ***(POUVANT CREER LEUR PROPRES BITCOINS)***, voire par les gouvernements eux-mêmes». Bitcoins de tous pays unissez-vous?

A mon humble avis, le «bit coin» n'est, comme son nom l'indique, que le petit morceau de la pièce entière. On ne voit que le périscope d'un sous-marin colossal. En effet ce petit morceau agit comme le poisson pilote du requin qu'il dirige ou suit, selon l'opinion de chacun. Pour moi, vu les montants actuels, c'est une tempête dans un verre d'eau, au dessus de la nappe phréatique souterraine, mais ceci permet à chacun de fourbir ses armes: trafiquants en tous genres, Etats souverains, puissances financières et régulateurs. Le menu fretin reste la proie de tous.

Il y a donc sans l'ombre d'un doute d'autres monnaies discrètes qui s'échangent entre trafiquants. Le Bitcoin ne sert qu'à roder les pratiques. Comment expliquer autrement la profusion d'armes et de conflits partout dans le monde? L'argent «officiel» ne suffit pas. A un angélisme de bon aloi croyant toujours à un monde meilleur demain s'oppose la réalité d'un monde virtuel actuel dans lequel quelques-uns manipulent le reste. Et le reste c'est 99% de gens comme vous et moi, englués par des Administrations plus soucieuses de préserver leur pré carré que du bien public, et qui polluent à tire larigot les citoyens prisonniers des monnaies légales. L'effet diversion est réussi, et il sera bientôt trop tard pour contrer ces pratiques.

A chacun donc de se faire une opinion. Ce qui est sûr c'est que ça fonctionne. Reste à savoir pour qui.

Gilles-Guy de SALINS
Membre du Bureau exécutif CIFA
Membre du Comité consultatif FECIF
Vice-Président ANCDGP

Quelques chiffres et données:
Le Bitcoin a été créé post 2008 par un informaticien inconnu répondant (?) au pseudo de Satoshi NAKATAMO. De là à en pouffer de rire, le pas a été franchi par Haruhiko KURODA, Gouverneur de la Banque du Japon, qui a considéré cette monnaie virtuelle le 8 avril 2014 comme du faux argent. Vrai pour partie aujourd'hui, mais il pourrait logiquement rire jaune à terme … ce qui serait un comble.

Il échappe totalement au contrôle des Banques Centrales. Son origine lointaine est la fin de l'onde du choc NIXON, décrétant l'inconvertibilité du Dollar en or et la fin unilatérale de l'accord Bretton Woods en 1971. On pourrait dire, en caricaturant, que le choix du Général de GAULLE de transformer systématiquement les réserves de la Banque de France de Dollar en or jusqu'à son départ en 1969 en est la cause politique première. A quand son profil avec son képi sur les pièces en circulation?

C'est à la fois une devise universelle et un système de paiement sans structure centralisée, entre participants. Des DAB sont maintenant présents dans de nombreux pays. Toutefois, limité à un montant émis de 21 millions il est légitime de s'interroger sur les fluctuations de cours sur un si petit encours: face émergée de l'iceberg? En effet chaque détenteur personne physique en a peu, 69% moins de 10, achetés après la flambée de 2013. Il y a peu de millionnaires de la première heure, mais tous *(83%)* pensent qu'il va monter dans les 3 ans.

Des plateformes standardisées de cotation existent: SBEX et consorts en occident, BTC China de l'autre côté. Attention, les Bitcoins ne s'échangent pas *(encore)* entre plateformes. La faillite de Mt GOX au Japon en février 2014 a volatilisé 850.000 Bitcoins pour une contrevaleur de 460 CHF millions. Ils n'ont certainement pas été perdus pour tout le monde: à quand des options à la baisse sur le Bitcoin?

On est donc dans un marché OTC *(Over the counter)* non réglementé, de gré à gré. Toutefois les échanges sont «monitorés» par un groupe de «mineurs» rémunérés en Bitcoins *(25)* pour valider la solvabilité des parties.

De fait les livres de comptes sont anonymes, mais ouverts à tous. Sauf que les pseudos sont invérifiables. Penser obtenir un KYC et un bénéficiaire final des transactions est un fantasme de technocrates.

Selon des statistiques incontrôlables, 80 à 88% des Bitcoins seraient thésaurisés. Quand on sait que près de 50% des billets de 500 FF n'ont pas été convertis en €uros au moment de leur inconvertibilité, cela donne beau jeu aux fabricants de rêve!

L'âge moyen des «bitcoiners» est de 30 ans, à 88% des hommes, en France. La finance comportementale a un beau sujet d'étude devant elle.

Les motivations des internautes sont connues: 27% pour l'investissement et la spéculation, les transactions confidentielles et sécurisées pour 16%, des opérateurs «incapables mineurs» pour 10%, afin d'échapper à toute fiscalité pour 8% et la recherche d'anonymat pour 7%.

Les «geeks» sont majoritaires, seuls 10% sont des professionnels de la finance, les financiers n'y comprennent encore rien, c'est un «truc» d'informaticiens. 65% des «bitcoiners» croient en cette «devise» contre 23% dans leurs monnaies officielles.

C'est la base de données la plus sécurisée au monde *(et pour cause…)* avec une puissance de calcul inégalée, selon Alain TRECCANI, doctorant au Swiss Finance Institute. Toutefois seuls 28% des détenteurs ont confiance dans sa sécurité, 26% craignent un vol sur leur ordinateur, 25% de perdre leurs données, et 21% l'apparition d'un virus anti-Bitcoin. Pour preuve, le porte-monnaie numérique INPUT.IO a été victime d'un vol d'un million de CHF en avril 2014.

Enfin, la devise du Bitcoin sur les pièces émises est: ***Libertas, Aequitas, Veritas.*** Quelle profession de foi!

Overcoming the Behavioral Barriers to Smarter Investing

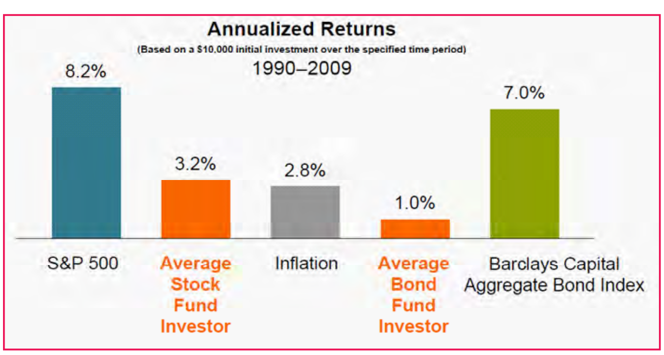
Summary:

- Investing & planning is more affected by investor behavior.
- Science has proven that different biases and behavioral pitfalls can be indicated and solved.
- The financial world and the products created become more sophisticated 'under the bonnet' but need to be simpler and easier for customers to understand.
- Clients strive for robust simplicity, transparency and good value.

* * *

Good investment practice is often thought of as consistent common sense. While the financial aspects of investment planning are, or should be, carefully considered, it is often the behavioral aspects which can distract clients and advisers alike from achieving good outcomes. Left to their own devices, investors *(and possibly their advisers)* on average do more harm than good to their portfolios relative to an index-based approach, as the figure below suggests in broad terms for US investors *(Dalbar, Inc. & Lipper, 2010)*.

Of the 5-6 percentage points difference in returns, only a small amount is due to fees. The rest is due to poor decision-making. Analysis of equity allocations for the period 1992-2002 for over a million accounts reveals that individuals frequently end up buying high and selling low *(Benartzi and Thaler, 2007)*.



In a market where information advantage has been competed away by the rapid growth in financial media and information resource, what behavioral traits might be causing investors to inflict so much relative damage on their portfolio and how can they be avoided?

In this article, we try to identify a few behavioral pitfalls, based on academic and practical insights. We look at why smart individuals might be unable to execute smart investment decisions. Finally, we look at how innovative investment products are trying to design out detrimental behavior and closing 'The Behavior Gap.'

When looking at examples of behavioral biases, they fall broadly into two groups: those that affect the making of an investment, and those that affect the managing of an investment.

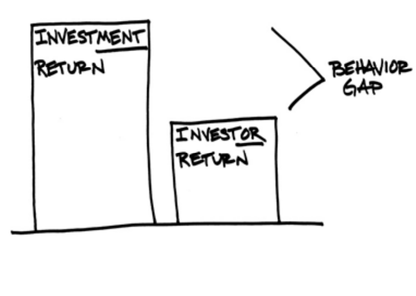
Behavioral biases that affect the making of an investment

Anchoring

When deciding how much to allocate to a savings plan, decisions are anchored to maximum percentage of salary contribution rates offered by an investment plan or the match offered by the employer. This means the presentation of contribution rate options can have an impact on the actual level of contributions made.

Inertia

Almost all individuals recognize that not taking timely decisions about how savings are invested can be costly and impinge on ones future happiness, especially during retirement. However, a majority of individuals also tend to put off deliberating and deciding about their investments to a future date. This inertia to attend to investment deci-



sions is so profound that opt-in rates are only 50% percent even in defined benefit plans where the contributions are made entirely by the employer! Such oddities of investment decisions and preferences extend to investment allocation and rebalancing decisions as well. While investors indicate a preference to construct their own portfolio over selecting a professionally managed investment solution, they vote for the managed solution as the superior option *(Benartzi and Thaler, 2007)*!

Choice Paralysis

With the number of investment options exploding and becoming increasingly sophisticated, the task of putting together an 'optimal portfolio' that suits an investor's long term objectives is by no means simple. In fact, let us leave lay investors aside for a moment; even the Nobel Prize winner and inventor of Modern Portfolio Theory, Harry Markowitz, opted for a naïve 50-50 split between stocks and bonds when asked how he allocated his personal savings *(Zweig, 1998)*! Take up of funds is inversely related to the number of constituent instruments it contains. This has been elegantly illustrated by the so-called 'Jam Experiment' which showed that when presented with more choice, shoppers were more likely to browse, but when presented with less choice, they were more likely to buy *(Iyengar and Lepper, 2000)*.

The same has been shown true for Defined Contribution pension plans in the US, where evidence suggests that as the number of investment options increased, participation in the pension scheme fell *(Iyengar and Jiang, 2003)*. In the context of a European fund industry with thousands of funds on offer this is food for thought.

Naïve diversification

When deciding how to allocate investments, individuals often resort to simple rules of thumb *(1/number of funds) (Benartzi and Thaler, 2001)* or arithmetically simple division *(e.g. 25-25-50 when three of many funds are selected) (Benartzi and Thaler, 2007; Huberman and Jiang, 2006)*. This means that the choice of investment options offered, and indeed, how they are presented, can have a material impact on asset allocations. Good diversification is one of the key things when doing good goal based investment planning and managing an investment portfolio!

Behavioral biases that affect the managing of an investment

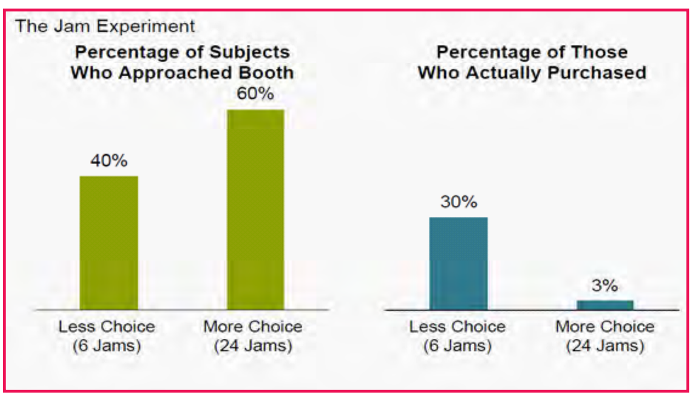
Myopic loss aversion

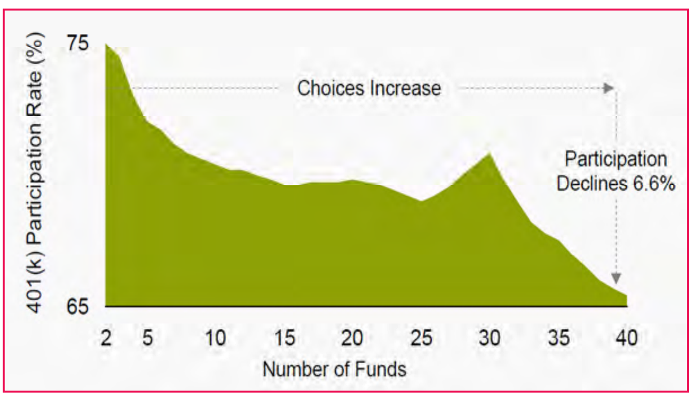
Investors are fundamentally loss averse. Loss aversion is said to be 'asymmetric' as the same loss has been shown to create significantly greater pain than the same gain gives pleasure *(Kahneman and Tversky, 1979)*.

So investors with long time horizons can be put off from investing by witnessing short-term losses, and therefore adopt an asset allocation that is more conservative than their long-run needs require. In the most extreme case, savers with a 20 year time horizon prefer 'safe' cash and fall prey to the invisible risk of inflation. Reporting frequency influences the negative impact of myopic loss aversion on risk taking. For example investors who viewed monthly reports which included 4 negative reports out of 10 tended to allocate much less to equities *(41% equity allocation)* than investors who viewed annual reports which included 1 negative report out of 7 *(70% equity allocation)*. Put differently, less news is good news to steady nerves for a buy and hold strategy.

Performance extrapolation

Performance extrapolation, or chasing winners – ***whether star managers or 'hot' asset classes*** – is bad for your wealth. Studies by Grinold & Kahn *(1995)* support anecdotal evidence that yesterday's star managers struggle to sustain strong investment returns, and can often experience long losing streaks. So, if star managers deliver, but not all the time, that is of little help in delivering investors with consistent re-





turn and may not justify the active fees. Likewise, chasing 'hot' securities, markets or sectors is rarely a smart strategy. Potentially smart investors and their advisers are seduced by positive news flow and peer group referencing into herd following. At its most extreme, the lesson of the dot com bubble is a case in point, but human behavior suggests that this was not the last example of irrational chasing of winners as surely as it is not the first.

Disposition effect

There is also evidence that changes to allocations, if any, are propelled by emotional reactions rather than sound investment practice. One such reaction, known as the disposition effect, is the tendency of individuals to hold on to losing positions whilst selling winning stocks too soon *(Shefrin and Statman, 1985; Weber and Camerer, 1998)*. Resistance to book losses can be tax inefficient and result in lower long term returns.

Status quo bias

Once investors have finally taken a course of action, due to inertia most individuals resist making any changes to the allocations that they have made, hence do not perform regular reviews or rebalancing. This status quo bias leads to 'set and forget' mentality that is dangerous if the suitability of the asset allocation drifts from the required objectives, particularly when these objectives are likely to change over time as investment time horizons shorten.

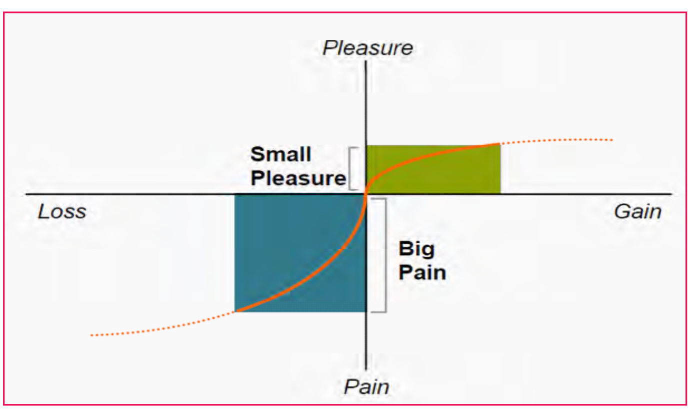
So, having reviewed the symptoms, how can we understand the causes? An understanding of how we think about investments is informative in this respect.

The psychology of investment decisions

Investment decisions broadly constitute three distinct phases. First, investors *(with their advisers)* must decide ***how much*** they want to invest. Then they must decide ***how to allocate*** their savings. Finally, to ensure they stay on track with their investment objectives they should review their portfolios and ***rebalance*** the allocations based on the performance. An ideal investor would indulge in sophisticated computation to determine the savings amount, optimal portfolio allocation and rebalancing strategy. Nobel Laureate, Daniel Kahneman, terms this deliberative thought process of an economic agent as 'System 2' *(Kahneman, 2011)*. Evidence from behavioral research, however, suggests that individuals volunteer very little time to important financial decisions and adopt mental shortcuts, making choices instinctively without much effort, an approach known as 'System 1'.

Although using simple heuristics may reduce the effort needed to make investment decisions, if not applied carefully these heuristics lead to the biases discussed above and can generate sub optimal investment outcomes. For instance, naïvely splitting ones savings amongst the products on offer can lead to investment portfolios that are influenced by the nature of products offered by the investment provider, which can skew the risk of portfolio inappropriately. By giving into short term emotional impulses or not taking appropriate levels of risk, investors may not attain their investment objectives.

While we know we should take a System 2 approach, the cognitive load associated with investment complexity means that we often resort to a System 1 approach which may not be in our best financial interests.



	System 1	System 2
Characteristics	Fast, automatic, frequent, emotional, stereotypical, subconscious.	Slow, effortful, infrequent, logical, calculating, conscious.
Examples in investment decision-making	Cognitive shortcuts, simple heuristics, naïve diversification, simple division	Create a financial plan, an optimal asset allocation strategy and a rebalancing and review process.

Mitigating poor investment behaviors

We identify cognitive burden and emotional stress as key ingredients of investment decisions that lead to suboptimal investment decisions. Our proposal, therefore, is that to mitigate some of the poor behavioral tendencies outlined above, the investment process and decisions should be simplified and designed to alleviate the emotional strain and the cognitive load induced at various phases of investment decisions. Just as cars have got simpler to drive, while becoming dramatically more sophisticated under the bonnet, investment propositions need to be engineered intelligently so that they appear to be a convenient solution to the otherwise complex problem of financial planning for the future.

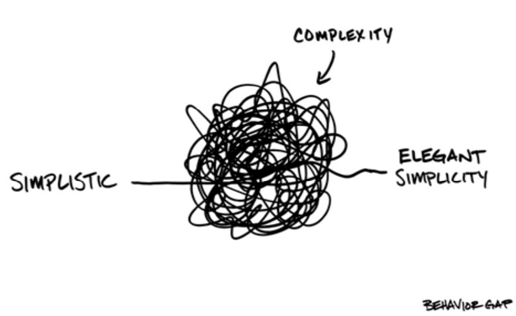
Why not strive for 'Elegant Simplicity'? This means developing 'behaviorally adapted' solutions that don't necessarily require giving up deliberating with System 1 but help individuals avoid the various pitfalls that can occur when using System 1 to make investment decisions. One example of a behaviorally adapted solution is auto-enrolment plans which has led to a twofold increase in the percentage of employees who enroll in a savings plan *(Madrian and Shea, 2000)* and thus have emerged as an effective way to help individuals overcome inertia. There is scope, however, to develop such behaviorally adapted solutions further by designing choice architectures and products which make the transition from an investment objective to selecting an investment product as short *(reduce cognitive load)* and certain *(reduce emotional strain)* as possible. Such solutions would better engage consumers with investment decision making, while designing out poor behavioral tendencies.

The principles of a behaviorally adapted solution

We identify four principles which can help simplify investment decisions and overcome poor behavioral tendencies.

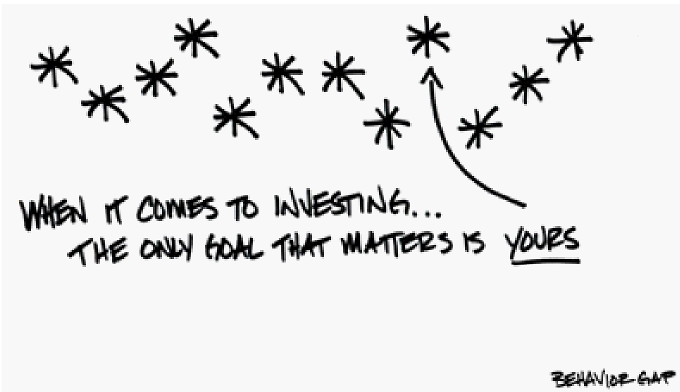
First, investment tools should be geared towards creating a structured decision process where investors are prompted to think about and articulate investment objectives they care about. Goal based investing is an example of such an approach which encourages investors to construct portfolios around concrete investment objectives. Goals create emotional links between long term savings objectives and investment solutions designed to deliver these objectives, thus mitigating the urge to act on short term impulses at the cost of long term objectives, especially when the markets are turbulent.

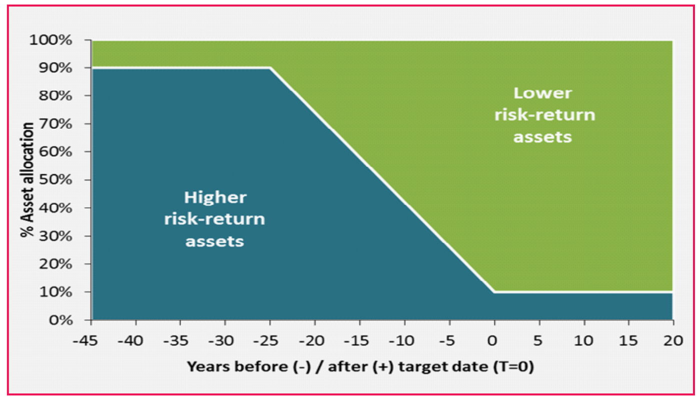
Second, to design out poor diversification, the product offering should be curtailed and categorized suitably so that multi-asset class funds are not mixed with standalone products, since most people fail to recognize the difference between diversified funds and individual securities. Further simplification can be achieved by automatically sorting investment products to match the investment objectives based on criteria that matter to individuals *(for example required return on investment, liquidity, time-horizon)*, so that they better describe why an investment is suitable. One way to do this is to present managed investment solutions for an entire savings journey rather than multi-asset funds that solve only a temporary investment decision problem. Target date funds are examples of managed funds which offer a professionally managed investment journey tailored to specific investment objectives and their time horizon. The time-horizon driven approach to risk suitability makes target date funds a natural fit for goal based investing.



Third, portfolio risk should depend not only on psychological notions of risk attitude but also take into account economic factors such as risk capacity, time horizon and affordability. This broader meaning of risk suitability is reflected in Target date funds: rather than assume a fixed risk profile for an investor throughout the savings journey, the underlying mix of diversified assets in these funds shifts from a growth objective to an income objective on approaching the 'target date'. This in turn creates an emotionally comfortable journey for investors.

Finally, investments solutions should be professionally managed and minimize the need for individuals to actively monitor or review their investments to ensure they are on track. Keeping the costs of these managed solutions low, while allowing sufficient flexibility is key to ensure the uptake of managed solutions. Target date funds offer the potential to lower the cost of offering professionally managed solutions by collectivising investors based on the 'target date' and thus achieving economies of scale both when negotiating the price of underlying funds and cost of trading activity. As importantly as the cost savings for savers is the creation of consistency: savers in each cohort experience the same time-weighted investment returns thereby reducing the likely dispersion of returns that a cohort





of savers would experience through an entirely self-directed approach.

Refocusing on core competencies

By outsourcing ongoing asset allocation to an outcome-oriented fund such as a risk profiled or Target Date fund for part or all of an investor's portfolio, core competencies can be more clearly articulated between advisers and clients. It enables advisers to focus more on financial planning, and less on asset allocation whilst helping to design out behavioral mistakes that investors and advisers can be susceptible to along the investment journey. The need for lower cost solutions-type funds is pressing in a time when advisory fees are increasingly under pressure, and performance under increasing scrutiny. Naturally, selection of and due diligence on a suitable outcome-oriented fund remains key, but given the importance of asset allocation as the key driver of the level and variability of returns, it is essential that the asset allocation for a given objective is professionally managed.

In summary, three trends mark the current state of retail finance. On the one hand, the financial world and the products created by it become more sophisticated 'under the bonnet' but simpler and easier for customers to understand, whilst designing out detrimental behavior. On the other hand, clients strive for robust simplicity, transparency and good value. While these trends seem opposite, when correctly harnessed, one is actually enabling the other. And, last but not least, both investors and the investment industry needs reconsidering investment planning being a process instead of only 'stock picking and making decisions on noise'. Asset allocation is still key. Good investment portfolios also start with the WHY. Why do we want to invest? What are our goals? That is what goal based financial and investment planning is all about! By refocusing on the process and on clear set of rules, we might overcome our behavioral biases and become smarter investors.

By Shweta Agarwal Ph.D. and Henry Cobbe, CFA, with contributions from Robert van Beek, CFP.

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Henry is an IMC holder since 2000 and a CFA charterholder since 2004.

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Robert G.J. van Beek CFP® (1973) is a Financial Life Planner and Business Consultant with a working experience of more than 20 years in the financial industry. He started his own company, About Life & Finance, in 2010 after working as business consultant, wealth planner, account manager and asset manager for different large and small financial companies. As author, in both the Netherlands and Belgium, Robert published 5 books *(in Dutch for both consumers and advisors)* and a variety of articles about financial planning, wealth management, investments, risk & return and financial literacy. His latest project is a translation of the book and concept of The Behavior Gap© by Carl Richards. Robert is member of different professional bodies, serves the board of FPSB Nederland, FPA Belgium *(Chair)* and also represents Belgium and The Netherlands of Financial Planning Association *(FPA USA)* EAME International Community and Geofocus group.

Avertissement pertinent sur une fiscalité excessive

Qu'est-ce qu'un impôt juste? Dans les systèmes progressifs actuels, qui posent un défi à l'égalité devant le droit, et face à l'appétit jamais rassasié d'Etats généralement surdimensionnés, la question revêt toute sa pertinence. C'est la raison pour laquelle l'Institut Libéral (Genève), en partenariat avec L'Agefi et avec le parrainage de la fondation Action Libérale, a lancé l'an dernier un concours d'essai pour étudiants basé sur la citation suivante du grand philosophe politique des Lumières Benjamin Constant: ***«L'excès des impôts conduit à la subversion de la justice.»*** Le jury du concours a décerné les prix de 3000 francs en espèces, assortis d'un abonnement à L'Agefi, à trois lauréats méritoires. Récipiendaire du premier prix, **Amel Merabet** met en évidence, dans ses considérations, les risques d'arbitraire qui découlent d'un Etat illimité, ainsi que la nécessité de protéger tant la liberté individuelle que la propriété privée en remettant en question les justifications souvent fumeuses en faveur des interventions et des monopoles publics.

Pierre Bessard
Directeur, membre du Conseil de fondation
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Considérations d'Amel Merabet lors de la remise du Prix à Genève, le 30 septembre 2014.

Parler des impôts c'est une gageure. Surtout lorsque l'exercice consiste à relayer la grandeur de la pensée de Benjamin Constant, fidèle ennemi de l'impôt excessif, sur un sujet d'écriture lui même imposé.

Pour dénoncer «le racket des impôts» certains brûleront aux yeux de tous et aux trois-quarts un billet de 500 francs français. Benjamin Constant choisit la discrétion en prévenant, il y a deux siècles déjà: «l'excès des impôts conduit à la subversion de la justice, à la détérioration de la morale, à la destruction de la liberté individuelle».

Concernant la destruction de la liberté individuelle, l'excès des impôts est ici perçu comme un excès du pouvoir, par le truchement de la loi qui décide des impôts. Or, le rôle de la loi est précisément d'empêcher les excès du pouvoir. Si la valeur suprême dans la pensée libérale est la liberté individuelle, comment l'individu peut-il jouir de la liberté

Amel Merabet

Corporate Jurist
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Amel Merabet, poursuit actuellement un master en droit économique à l'Université de Genève et un master en droit des affaires à l'Université Panthéon-Assas à Paris, dans le cadre du programme Swiss-European Mobility.

Elle a obtenu son bachelor en droit à l'Université de Genève.

Parallèlement à ses études, elle s'est notamment engagée dans l'encadrement pédagogique d'étudiants et de professionnels en difficulté d'apprentissage, en qualité de répétitrice.

Avec un intérêt prononcé pour la culture et le désir de sensibilisation, d'accessibilité et de valorisation des arts, Amel Merabet a également été, pendant cinq ans, chargée d'exposition auprès de différents services culturels sur le canton de Genève.

individuelle si la loi, chargée de garantir cette liberté contre les excès du pouvoir, devient-elle même l'instrument des excès du pouvoir? Aussi, comment jouir de la liberté individuelle si, concrètement, l'argent des citoyens fonde des initiatives étatiques plutôt que de rester dans la sphère individuelle - où chaque citoyen, qui connaît ses propres besoins mieux que l'État, décide lui-même comment utiliser son propre argent? Un surplus d'impôts empêche donc la garantie de la liberté individuelle par la loi, et paralyse l'exercice même de cette liberté par le citoyen: cette liberté est donc détruite.

Quant à la détérioration de la morale, la morale des individus ne saurait rester intègre dans un système où la loi s'oppose à la liberté individuelle. Le citoyen ne disposerait alors plus que de deux alternatives: soit il accepte cette loi entravant sa liberté individuelle et renie alors sa morale en devenant l'esclave d'un pouvoir injuste - l'esclave étant infâme, il ne connaît pas la morale puisqu'il ne connaît pas la liberté. Soit l'individu s'oppose à l'Etat, par les mots et par les armes, et la morale devient simple facteur de trouble à l'ordre public avec les empiètements sur la liberté individuelle que provoque toute tentative de révolution.

Enfin en ce qui concerne la subversion de la justice, il faudra comprendre la justice dans son sens philosophique et théologique classique. La justice, c'est rendre à chacun ce qui lui appartient. Or, si la loi spolie les citoyens, on voit bien que la justice est absente de la loi puisqu'elle enlève au lieu de laisser à chacun son dû - sauf à appeler cette justice «sociale».

Une justice sociale qui définit la justice comme la redevance à chacun de ce qu'il mérite en fonction de critères vagues et opaques qui ne reposent pas sur la méritocratie du travail individuel. Cela au mépris du droit de propriété - car puisqu'il y a excès des impôts, il y a spoliation légalisée – un droit de propriété qui est dans la pensée libérale l'émanation essentielle de la liberté individuelle. Plus nous pouvons posséder, plus nous sommes libre. La «justice sociale» est donc une parodie de justice, une subversion de la justice à proprement parler: on ne possède pas parce qu'on a travaillé, mais parce que l'État a décidé qu'il était juste que l'on possède; la justice vient de l'arbitraire de l'État, et non d'un ordre naturel - conforme avec le mérite et la morale - façonné par la somme du travail de chacun.

Inéluctablement, Benjamin Constant avertit des trois dangers de l'impôt excessif et interroge à cet effet l'opportunité de la concurrence dans les secteurs publics. Sans protection de la liberté individuelle et la garantie de la propriété privée, l'individu contribuable se retrouve seul tel un empereur trahi par son propre fils. Le fils adoptif est ici incarné par le service public qui se jette sur le citoyen avant de le percer de vingt-trois coups *(un coût pour les hôpitaux, un coût pour les écoles, un autre pour les trains, les routes, l'agriculture, la santé, la culture, les sports, les loisirs…)*. Et c'est à terre que l'on entend le citoyen soupirer une dernière fois dans son agonie: toi aussi, mon fisc.

Amel Merabet

Depuis des années, la pression fiscale n'a cessé d'augmenter, alors que les déficits publics se creusent et que les défauts du système ne font que s'aggraver.

Or la croissance continuelle des prélèvements obligatoires et leur caractère de plus en plus arbitraire représentent la cause majeure des défaillances de l'économie et de la persistance du chômage en Europe.

Progressivité de l'impôt sur le revenu, impôt sur la fortune, impôt sur les successions, fiscalité des entreprises, taxation du capital, financement de la protection sociale: sur toutes ces questions qui font plus que jamais débat, Pascal Salin livre, avec sa clarté et sa rigueur habituelles, une vision audacieuse pour en finir avec les «réformettes» électoralistes et les «mesurettes» qui prennent aux uns pour donner aux autres.

Pascal Salin est professeur émérite de l'Université Paris-Dauphine, spécialiste de la théorie monétaire et ancien président de la Société du Mont-Pèlerin. Il est notamment membre du conseil académique de l'Institut Libéral.

"La Tyrannie fiscale"

de Pascal Salin

Odile Jacob, 2014, 331 pages,

ISBN: 978-2-738-13063-1

The Sustainable Development Goals: What Can Be Learned from the Singapore Development Model?

The Singapore development model has been widely-acclaimed for its ability to springboard a nation from the Third World to the First World – but arguably what exactly are the pivotal points to its success may not be well understood.

The Singapore model can be explained by two key principles – first, the uniqueness of the treatment of cash flows in its fiscal policy and second, the conceptualisation of its economic and social development policies.

But first a warning – that the adoption of the Singapore model needs to fulfil several criteria in order for it to be replicated for long-term success. Otherwise it may lead to certain undesirable outcomes. This will be discussed in the later part of this essay.

An Alternative "Fiscal" Model?

The fundamental difference between Singapore and other countries, and what arguably allowed Singapore to leapfrog its contemporaries – is a migration from a traditional tax-based system towards a self-sufficient "savings-investment" model.

Right after its independence in 1965, Singapore was aware of the need to create a huge pool of capital in order to fund the development of key infrastructure in the country.

Taxation as a tool was inflexible as a high tax rate is seemingly unattractive to foreign investment and immigrants. So, a Singapore eager to attract investments reduced tax rates gradually to one of the lowest in the world. But this, in theory, would mean that the funds necessary for infrastructure development may also be reduced due to lower tax revenues.

The Government would therefore have to look for alternative funds domestically, or to look externally to borrow from other countries or international organisations.

The Government did both, but with the aim of reducing the reliance on external debt eventually.

Within less than 10 years, by the mid-1970s, the Government was able to do so.

Today, it has hardly any external debt as almost the entire public debt is domestic.

> *" The Singapore development model has been widely-acclaimed for its ability to springboard a nation from the Third World to the First World "*

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.

> *" The key to differentiating the Singapore model with that of the traditional "high" tax-based system in other countries is that instead of a singular pool of tax revenue which is spent in a year with little left, a second constant pool of funding is available for longer term objectives. "*

For a country with no natural resources which could be exported and had difficulties attracting foreign capital investment at that time, where did the alternative funds come from domestically?

By 1968, the Government recognised that the social security pension funds of Singaporeans, the Central Provident Fund (CPF) had accumulated a huge pool of funds.

The CPF was a self-generating pool of money, unlike taxes which would normally be used up year after year and in a time where Singapore was still an under-developed nation, there was hardly any surplus left over annually for development goals.

The decision was made to allow the Government to borrow and use the CPF funds. The Government began pumping the CPF into infrastructure development, in public housing, airports, ports, etc. Arguably, Changi Airport *(formerly the world number one airport)* and the Port of Singapore *(formerly the world number one port)* were all financed to some extent in the early years by the CPF.

By the mid-1970s, Singapore had managed to build up its key infrastructure, and was also able to wean off international funding and started to accumulate annual Budget surpluses.

From the late 1990s, the Government also began to keep part of the annual returns from the investment of the CPF funds to build up the country's reserves. The reserves, at an estimated $900 billion, are estimated to be the largest in the world today on a per capita basis.

The above are arguably, one of the key reasons that made the Singapore model tick.

The use of a stable pool of pension funds thus enabled infrastructural development and economic growth.

In this scenario, a viable replication of the Singapore model would be for a government to liaise with its citizens to keep a small portion of the annual returns of the pension funds, say 1 per cent – to fund development, so that the route towards achieving development goals may be smoother.

The pension contribution rates can be gradually adjusted upwards if desired, to allow for more funds to be set aside in the pension fund, and this is arguably easier to do than increasing taxes.

An Alternative "Taxation" Model?

The key to differentiating the Singapore model with that of the traditional "high" tax-based system in other countries is that instead of a singular pool of tax revenue which is spent in a year with little left, a second constant pool of funding is available for longer term objectives.

Where a singular pool of tax revenue can result in the perpetual problem of fiscal deficits, a secondary pool of funding which is not constantly sapped away may help to mitigate this issue.

In Singapore's case, this came from the people's labour and mandatory contribution of their income into the CPF. In another country, it could be the discovery of oil, for example.

The Singapore "Public Housing" Model: Pricing is the Key to Its Success?

Notably, one key use of the CPF in Singapore is to also fund the development of public housing, via the borrowing of it by the Government to fund the construction, and the borrowing of it from the citizens' own CPF accounts to fund the purchase.

By the early 1980s, more than 80 per cent of the population were living in public housing.

However, after the 1985 economic recession, several economists warned against further excessive usage of the CPF for the development of public housing, as Singaporeans could then only use the CPF for the purchase of public housing, other than for retirement, as this could distort demand, and lead to inflationary pressures and a housing bubble.

Eventually, the use of the CPF for public housing did lead to escalating home prices. The CPF thus became a double-edge sword because of its dual use for public housing and retirement. The money funnelled towards paying for the increasing prices of the homes meant lesser funds for retirement.

But the Singapore public housing model may still be adapted if public housing is pegged on a "cost" basis instead of Singapore's "market pricing" basis.

A different approach to attaining the Sustainable Development Goals?

In conclusion, the Singapore model stands out in its identification of a secondary pool of domestically-available funds which could act as the jumpstart for infrastructural development, and also continuing Budget surpluses and accumulated reserves for longer term use.

However, it bears repeating that for this model to be effective, transparency and accountability should act as strong foundations, especially in the light of the issues related to using the citizens' pension funds.

Finally, a balance has to be maintained particularly for such a model, for as long as wages, the contribution rates to the pension fund, interest returns on the pension fund to the citizens and retirement adequacy are well-coordinated, it may make the path to sustainable development a smoother one.

Roy Ngerng & Leong Sze Hian

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Roy Ngerng

Roy Ngerng is a sociopolitical blogger in Singapore.

He blogs at *www.thehearttruths.com* which was the second most popular sociopolitical blog in 2013.

Roy writes extensively on the country's pension funds and the Singapore economic model.

He has been invited to speak on Singapore's tax, healthcare and education system.

His blog has been viewed over 4 million times since it started two years ago.

bzb

Beroepsvereniging van zelfstandige
bank- en verzekeringsbemiddelaars

www.bzb.be

About BZB

BZB is the professional association for self-employed banking and insurance intermediaries (Beroepsvereniging van Zelfstandige Bank- en verzekeringsbemiddelaars) in Dutch speaking Belgium. In 2014, it numbers more than 1,600 members of whom the vast majority is active as self-employed bank agents and insurance brokers. BZB also counts a group of insurance agents among its members, as well as several stock brokers and bank brokers. BZB represents their interests collectively and individually and strives for the continuation of the independent distribution channel in the financial sector.

INSURANCE:
At the crossroads of change

According to a new survey conducted by Accenture and BZB (Professional Association of Independent Banking & Insurance Brokers) in Dutch speaking Belgium, brokers and agents remain the preferred insurance distribution channels for 81% of consumers because of the personalized service and advice they offer. For now, the place of the intermediary in the insurance ecosystem appears secure. But there are clear signs that change is on its way, with both the market and customers calling for a more integrated approach.

For example, changing consumer behavior. The survey reveals that consumers are using digital and other direct channels more frequently. These include price comparison websites, which are gaining in popularity *(used by 57% of respondents to look for new policies)* and consumers are now more willing to purchase insurance online if certain conditions are met: a discount (61% of respondents), easy contact with one person *(57%)* and data security guarantees (48%).

This is happening in a fragmented insurance market where new entrants, stiffer regulations, limited scalability, specialization and

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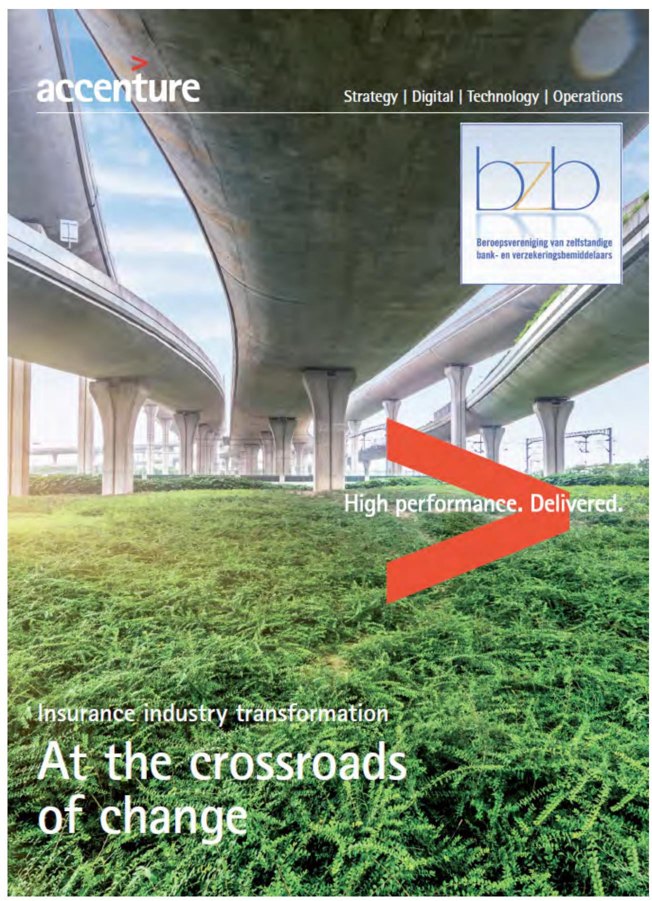

In memoriam: Daniel Nicolaes (27/07/1962 - 11/06/2014)

To our great sorrow, on 11 June 2014 Daniel Nicolaes passed away at the age of 51.

This year was Daniel's 10th anniversary as Chairman of BZB, and he had been a member of management since 2001.

Daniel gradually became an enthusiastic Chairman who left his mark on the association. He was a proponent of dialogue and turned the trade association into a valued discussion partner. Under his chairmanship, BZB was able to hold its head high when dealing with the banks and the sector in general.

He succeeded in getting agents from the major banks to collectively join the association and also convinced other agents' associations to collectively join. This in turn allowed BZB to grow into one of the largest representative associations. Moreover, he highly valued professionalism and offering added value to members.

Through his approach and growing expertise he gradually gained respect in the sector. And, because the European institutions play an important role in drafting financial legislation, Daniel also played a major role in building up a network at a European level. He had been a member of the Board of Directors of the European Federation of Financial Advisers and Financial Intermediaries (FECIF) since 2013.

The BZB conference was one of Daniel's showpieces. From a small-scale happening it grew into a highly-valued and well-attended sectoral event. It was clear that he always wanted to have a conference featuring solid content. For him, this annual high point was proof that BZB had made its mark and that the association was a player to be reckoned with.

Daniel also played a prominent role in lobbying in the context of important legislation impacting self-employed financial agents. For example, under his chairmanship BZB actively lobbied in the framework of the law on mediation in banking and investment services and more recently the Twin Peaks II legislation. Discussions with politicians, but also the FSMA, were an important part of his activities as Chairman. At the European level, BZB took part in consultations on, and lobbied in the context of, MiFID, IMD, PRIPs, etc. under his impetus. He very recently engaged with various political parties during the federal election period in order to explain BZB's political memorandum.

He was also able to succeed where others had not in bridging the gap with the French-speaking trade association Fedafin. Thanks to good cooperation results were achieved in a number of matters, including the new joint committee.

His will be some very large shoes to fill. Nevertheless, the BZB Board will ensure that future challenges are taken up with the same spirit and passion.

He is greatly missed at BZB.

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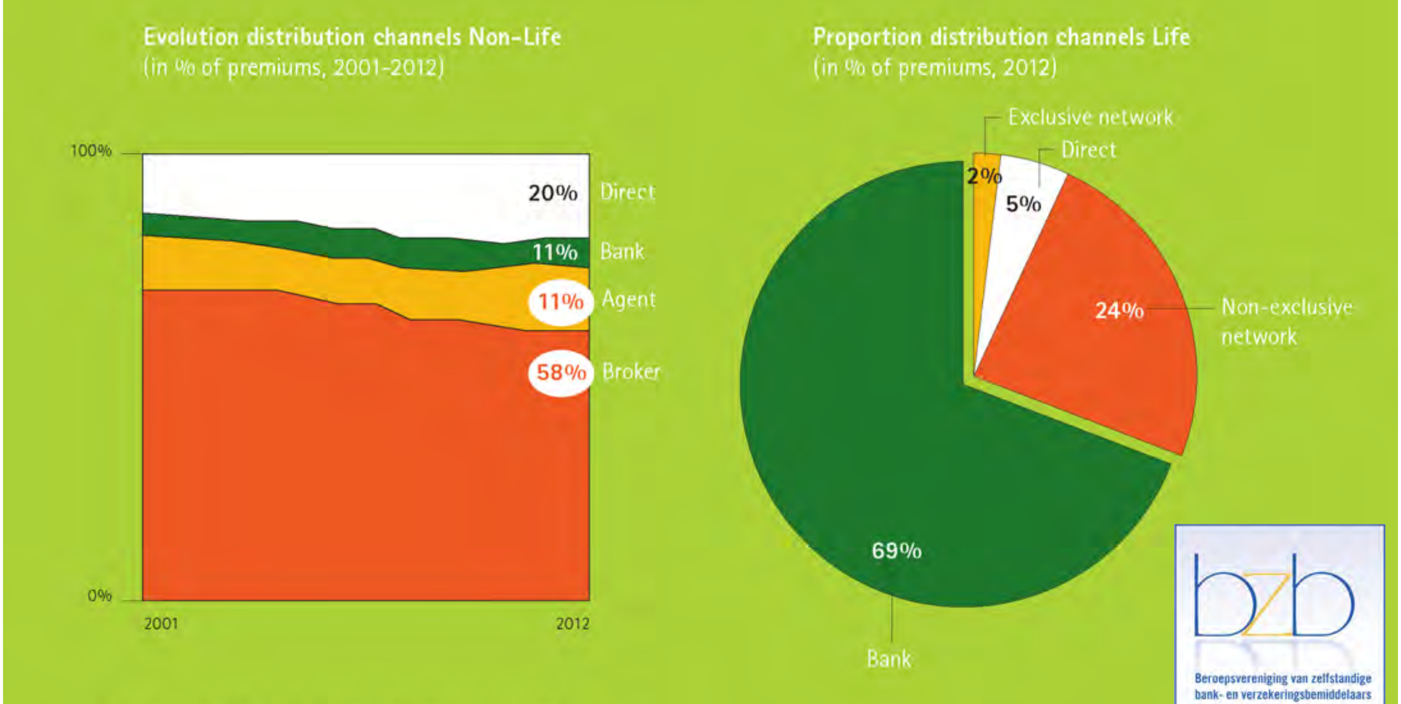
Figure 1 The intermediary remains the dominant distribution channel



Source: Assuralia 2012, Distribution channels in the insurance industry

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difficult access to capital are piling on the challenges for brokers and agents who are under increasing pressure to prove themselves relevant. Although the personal advice they offer is clearly still a differentiator, they must use their time more efficiently if they want to retain and broaden their portfolios.

The survey recommends two strategies:

— Sharper customer segmentation: To further boost their personalized services, it is crucial for brokers and agents to choose the right approach for the right customer and tailor their advice to meet their specific needs. The survey outlines four loyalty segments among consumers on the Belgian market and explores their attitudes towards insurance intermediaries based on trust and the frequency of re-evaluation of their products.

— Embracing digital to use time more efficiently and gain insights: Shrewd investment in digital technologies and smarter use of existing digital channels can free up brokers and agents to focus more on personal advice and enable a faster turn around of sales and even claims. At the same time, digital channels such as social media can provide extra insights into their customers, and by linking this data to the data of the insurance company, they can create a 360° portrait.

By re-thinking the tools available to them and by using all the different channels *(digital, omni-channel…)* available in combination with the analytics power of the insurance companies, brokers and agents will strengthen their value adding role and drive even greater customer loyalty. This is the win-win situation all parties should be working towards.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 305,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014.

Its home page is www.accenture.com.

Developing Cross-border Advice

Finance has been global ever since money has been used.

However, what was once reserved for *(Ultra)* High Net Worth Individuals, a rather small number of financiers and governments, became part of the daily business.

Globalization of retail finance and *(collective)* investment schemes added a new challenge to the work of independent financial advisors serving the mass affluent.

This is what cross-border financial advice is referred to, especially important to the European Union, where most financial transactions are tied to the European Common Market *(or global financial markets in some way or another)*.

Investments and Taxation are the most often affected fields of personal finance in this regard. To obtain and manage such a special knowledge like that on cross-border financial issues, advisors need access to the relevant pieces of information and a network of competent financial professionals from different countries and regions.

The International Community of FPA (US) has added a new tone to the sometimes less colorful palette of European cross-border venues. FPA is "the Mother of financial planning" *(certainly in the US)*. The workshop taking place this year *(immediately after the CIFA Forum)* in Antwerp is hosted by one of the Forum speakers, Robert van Beek CFP®, Director of FPA Belgium.

Another event of the European roadshow has been the recent Budapest FP Forum in the summer, a semiannual venue. During the event, top experts delivered insights about critical asset

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He is also a member of the CIFA's Executive Committee.

classes, product types and the challenges of the transition "from sales to advice" to master new markets, as well as the 2nd generation of the MiFID-IMD/IDD regulations.

We learned about FX robo strategies, private equity and IPOs in different industries and from different continents, the precious metal asset class and applied behavioral finance.

However, the probably most useful part has been the special, patented know-how about managing client expectations, which is a very basic for investment advisors and DFMs.
www.tinyurl.com/FPFBP14

Another regular practice management event took place in Bavaria, where senior officers of financial advisory businesses confer at the beginning of every year about the state of art of financial advice. This topic is going to be an exciting discussion in the coming years, when MiFID2 and IDD take effect in the EU.

Within the EU, country specific regulations will make more flexible business models available to German advisors, thus, opposed to their counterparts under commission ban or in a regulatory system without established rules for simplified advice.
http://www.vertriebsgipfel-tegernsee.de

Zoltan Luttenberger, PhD

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The founding principles of CIFA are built around an ethical reflection and **the reform of the worldwide financial system.** Through its many assignments, CIFA is working towards a unique goal: putting finance back at the service of investors.

CIFA is regrouping 70 professional associations, which represent more than one million individuals or legal entities involved in the **financial intermediation** worldwide**.**

Since 2007, CIFA, through its active participation in the works of various United Nations organisms, has obtained the « **special consultative status** » **with the United Nations** in the framework of the Economic and Social Council (ECOSOC).


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