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CIFA'S MILESTONES 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 round-table 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 2015, The United Nations reclassified CIFA to the "general consultative status" with the UN-ECOSOC. As a result, CIFA joined the select UN club of 143 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), MONACO (2011 THROUGH 2018), AND NEW YORK CITY SINCE 2019.

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!

2015 PUBLIC DEBTS & DEFICITS, UNRESTRAINED TAXATION: WHO WILL PAY?

2016 EXCESSIVE REGULATION: IS IT REALLY INTENDED TO GUARANTEE ENTREPRENEURIAL FREEDOM AND PROPERTY?

2017 OUTSIDERS IN POWER: WILL THEY TEAR DOWN THE EXISTING MODEL? WHAT NEW MODEL DO THEY PROPOSE?

2018 REPEAL AND REPLACE AN ECONOMIC MODEL UNDER ATTACK?
How Technological changes are disrupting the socio-economic-fiscal-political models?
Which alternative model should be built?

2019 HOW TO MOBILIZE PRIVATE FINANCE TOWARDS FUNDING THE UN-SDGS

2020
2021 *postponed due to COVID-19 pandemic*

THE CHARTER OF INVESTORS' RIGHTS

THIS CHARTER HAS AS ITS GOAL THE DEFINITION OF THE FUNDAMENTAL AND INALIENABLE RIGHTS OF THE INVESTOR.
THE CHARTER WAS DRAFTED BY THE CONVENTION OF INDEPENDENT FINANCIAL ADVISORS (CIFA), A NON-GOVERNMENTAL ORGANIZATION WITH CONSULTATIVE STATUS AT THE ECONOMIC AND SOCIAL COUNCIL (ECOSOC) OF THE UNITED NATIONS.
CIFA IS THE POSSESSOR AND CUSTODIAN OF THIS CHARTER.
THE CHARTER AIMS TO UNDERLINE THE PRINCIPLES, BOTH STRAIGHTFORWARD AND PERMANENT, OF THE INVESTOR SO AS TO BENEFIT FROM A LEGAL FRAMEWORK WHICH PRESERVES PRIVATE PROPERTY AND COMPRISES GOODS RESULTING FROM THE ACTIVITIES, BE THEY PERSONAL PROPERTY OR INTELLECTUAL, OF THE INVESTOR.
THE CHARTER ATTEMPTS TO RESPECT THE LEGISLATION, TRADITIONS AND CUSTOMS OF ALL THE COUNTRIES THAT RATIFY IT.

Article 1

Private property is protected according to the contents of this Charter of investors' rights. Private property is defined as the entirety of goods and rights that exist, as well as all revenue and obligations relating to it that are not recognised as the property of a member state of the United Nations. Private property resulting from ancestral, historic or tribal rights is equally covered by this Charter.

Article 2

Only private property constituted or acquired under universally accepted moral norms is protected by this Charter. All private property acquired or constituted under constraint or duress, or by way of intimidation or any other criminal manner, is excluded from protection by this Charter.

Article 3

The investor is a person, physical and moral, who is in possession of the right of disposal of his or her private property and is, simultaneously, the beneficiary of income and obligations which accrue to him.

Article 4

All acts of expropriation or confiscation of private property and revenues are forbidden. All investors have the right to protect themselves, by all legal means, against all acts of expropriation or confiscation by a state or private organization that is directly or indirectly subordinated to it.

Article 5

The investor has the right, freely and without constraint, to dispose of the totality of all of his or her assets which constitute his private property as well as the income attributable and conforming to their needs and aspirations. Any restrictions on the rights of disposal of these goods are not acceptable without the agreement of the owner who gives free consent without constraint.

Article 6

The investor has the right to protection of his private sphere. The investor is the sole decision-maker regarding the choice of means of investment structure which guarantees the best protection for his private sphere.

Article 7

The investor has the right to use his best judgement to find the most appropriate way for his private property and revenue to yield a profit. He has the right freely to choose the structures and institutions that he judges will more than adequately accommodate the components of his private property as well as the revenue which results.

Article 8

The investor undertakes to arrange his assets in a manner that respects the habits, customs as well as the legal framework of the countries in which he invests.

Article 9

The investor has the right to expect from states and governments good structures, supervision and adequate surveillance of the market place. He or she is free, and at the same time personally responsible, for all investments which proceed forth.

Article 10

The investor undertakes to respect the fundamental rights of mankind as defined in the Charter of the United Nations. ■

EDITORIAL

COVID-19 IMPACT ON HUMAN CAPITAL DEVELOPMENT

TONY MAHABIR

PRESIDENT OF CIFA

According to the World Bank,COVID-19 threatens to wipe out a decade of human capital gains, leaving a generation behind, as countries struggle to contain the virus, save lives, and rebuild their economies:

- Most children—more than 1 billion—have been out of school due to COVID-19.
- Globally $10 trillion of lifetime earnings could be lost for this cohort of students, due to lower levels of learning, school closings, or the risk of dropping out of school.
- Lower and middle-income countries are reporting significant disruptions in essential health services, like routine vaccinations and child healthcare.
- The pandemic is exacerbating risks of gender-based violence, child marriage and adolescent pregnancy, all of which further reduce opportunities for learning and empowerment for women and girls.

Yet, if we want to eradicate poverty, protecting and investing in people is one of the most effective ways of ending extreme poverty by 2030.

Human Capital Investments must remain on course during Covid-19 and if possible, be accelerated in a post-Covid-19 world. The outcome is worth the price.

While it requires resources such as people, time, money and a herculean effort by all stakeholders, let us imagine a world where all humans possess the knowledge, skills, and health to realize their potential as productive members of society.

CIFA, like the World Bank, shares the conviction of investing in people through nutrition, health care, quality education, jobs and skills to develop their human capital, thereby resulting in ending extreme poverty and creating a more inclusive society.

At its core, the essence of human capital is empowering the individual to possess personal and financial assets in order to be an independent author of their wellbeing. Further, Adam Smith stated that “Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizens.” (Please read Stephen Young’s article titled Capital: A Basic Human Right in this issue for more of this.)

Closer to home and in our own sphere of influence, CIFA welcome and thank Her Excellency, Mihoko Kumamoto, Director of UNITAR, for her enlightening article on Paradigm Shift in Adult Learning? Learning After the Pandemic. Through her leadership during COVID, the United Nations Institute for Training and Research was able to maintain their mission to providing customized and creative learning solutions to institutions from both public and private sectors.

Under her leadership, Her Excellency helped UNITAR to pivot quality education by shifting from face to face and in-person learning modes to other innovative and emerging media like virtual learning and mobile education.

LET US IMAGINE A WORLD WHERE ALL HUMANS POSSESS THE KNOWLEDGE, SKILLS, AND HEALTH TO REALIZE THEIR POTENTIAL AS PRODUCTIVE MEMBERS OF SOCIETY.

In her own words, she stated...
"Before the pandemic, many people believed that face-to-face learning was the most effective learning modality, despite several studies showing that online learning could be equally effective. With the pandemic, people were forced to rely on online learning, and many have since come to appreciate the benefits of this modality."

I highly recommend reading her article to truly appreciate the wonderful work UNITAR has completed and continues to do. With their dedication and commitment to transforming the world, they have changed quality education to build human capital, competency, knowledge and skills in personal, business and public institutions especially during Covid.

We at CIFA, similar to everyone else, has had to cope, pivot and re-ignite our vision of a better world.

Looking ahead, we will continue to foster healthy conversations and viewpoints in our Trusting magazine and at our conferences and forums. Our role is bringing together all relevant stakeholders to the table for in-depth dialogue and cooperation to deal with a world of increased volatility, uncertainty, complexity and ambiguity facing investors.

At the same time, financial advisors must cope with changing regulations, lack of harmonization and inconsistent standards and certification nationally and internationally.

On a macro scale, while we are not out of the woods yet, the COVID-19 pandemic has transformed how governments and businesses think about our economies and our societies.

The monetary and fiscal policies governments make today will determine their success in building a transition to greener, more inclusive and more resilient tomorrows.

In closing, it is the view of CIFA that the post-Covid era should be seen as an opportunity to chart a path that empowers everyone to face the future with confidence.

Success to you, dear reader, stay safe and may each passing day bring us all toward brighter tomorrows! ■

CIFA'S XVIIth INTERNATIONAL FORUM

HOW TO MOBILIZE PRIVATE FINANCE TOWARDS FUNDING THE UN-SDGs?

UNITED NATIONS, NEW YORK CITY, MAY 6-7, 2019

TOPICS

Monday, May 6

UN 2030 AGENDA ECOSOC 2019 SESSION

- "ONE WORLD FOR ALL: EMPOWERING PEOPLE TO BUILD EQUAL AND INCLUSIVE SOCIETIES"
- "ADDRESSING INEQUALITIES AND CHALLENGES TO INCLUSION THROUGH FISCAL, WAGE AND SOCIAL PROTECTION POLICIES"

KEYNOTE SPEAKERS

FERGHANE AZIHARI

POVERTY, INC. FIGHTING POVERTY IS BIG BUSINESS. BUT, WHO PROFITS THE MOST?

H.E. MR. COURTENAY RATTRAY

Ambassador, Permanent Representative of Jamaica to the United Nations

NAVID HANIF

Director, Financing for Sustainable Development Office, ECOSOC

Tuesday, May 7

HOW TO MOBILIZE PRIVATE FINANCE TOWARDS FUNDING THE UN-SDGs?

- GLOBAL FINANCIAL SYSTEM REGULATION AND THE IMPENDING NEED TO FINANCE THE UNITED NATIONS' SDGs
  How to channel private investments to finance the Sustainable Development Goals?
- TAXATION AND SDGs
  How to achieve the SDGs through a tax system aimed at enhancing private wealth creation?
- QUANTUM POLITICS AND SDGs
  How to achieve the SDGs in the new political era of quantum politics characterized by the populist intrinsic opposition to regulation, taxes, globalization and multilateralism, along with the rejection of political elites and mainstream media?

XVIITH INTERNATIONAL CIFA FORUM
HOW TO MOBILIZE PRIVATE FINANCE TOWARDS FUNDING THE UN-SDGs?
CIFA HOLDS HISTORIC FORUM IN THE UN FOR SDG FINANCING

PATRICE HORNER

It was an auspicious UN Forum at the UN in New York City on May 6 – 7, 2019. The first UN Forum hosted by an external body, the Convention of Independent Financial Advisors (CIFA). It is critical that the financial planning community engage with their advisors and clients to invest in the UN Sustainable Development Goals (SDG) to reach them by 2030.

There are eleven years left and funding remains pivotal in the make or break initiative. Attendees from the UN and the financial communities participated in lively discussions over the two-day forum in early May. Topics ranged from Financing for Development (FfD), Building Inclusive Societies, Global Financial System Regulation, Taxation and SDGs, as well as Quantum Politics and SDGs.

The following is a brief recap of the sessions.

The CIFA Forum was opened by Secretary General of CIFA, Jean Pierre Dieserens. He paid tribute to recently deceased Chair of the 2016 Group of 77 and Ambassador of the Kingdom of Thailand H.E. Virachai Plasai after his recent sudden death. Ecuador Ambassador H.E. Horacio Sevilla Borja, who chaired the Group of 77 in 2017, in his tribute alluded to the Thai theory of sufficient economy, while H.E. Mohamad Fathi Ahmed Edrees noted that should not be time wasted in pursuing the SDGs that were so important to Plasai. H.E Edrees, who is Ambassador, Permanent Representative of Egypt to the UN and Chair of the Group of 77 for 2018, quoted tennis star Arthur Ash, “Start where you are, do what you can”. Hanifa D. Mezoui of the CIFA Executive Committee and former Senior Advisor on Humanitarian Affairs and Civil Society of the United Nations Alliance of Civilizations (UNAOC) borrowed a quote from Sheryl Sandberg, COO of beleaguered Facebook, “We cannot change what we are not aware of and once aware, we cannot help but change”. Change is what is needed, perhaps dramatic change, to achieve the goals agreed by the UN General Assembly of countries in 2015.

CIFA President Tony Mahabir explained how finance and investing need to be purposeful not just profitable. Mahabir said that for *“every transaction ask, what am I contributing and how is it impacting”* the global community. *“We must revitalize the global economy for sustainable development”* in order to meet the critical goals. Entities need to be “Purpose Entities” vs. the sometimes-competing interests of NGOs and GOs whether for profit or non-profit.

UN-CIFA Forum Keynote Presentations

Estimates from the Brookings Institute peg the amount needed for the SDGs is $5 to $7 trillion per annum. Two most critical priorities are prevention of climate change and impact of climate change. Greenhouse gases must be reduced to prevent global temperature rising more than 2%. Unmitigated gas buildup could result in a 4% rise, which would be catastrophic for the future. Climate change is also the largest economic challenge. Financing for Development (FfD) is tasked with monitoring SDG implementation, holding SDG Investment Fairs, and facilitating dialogues on international cooperation in tax matters through a Tax Committee. Ambassador H.E. Courtney Rattray, Permanent Ambassador from Jamaica to the UN, noted that we are seeing a 1% degree increase impact. The UN population fund is projecting an increase of 2 billion people by 2030, mostly in urban areas, exasperating the power demands. A Global Marshall Plan should be established. The SDGs funding requirements exceeds the cumulative treasuries of global governments. Gradual change will not suffice. Targeted support from global funding entities is required, including World Bank and IMF, as well as reflecting such investment in Basel III and Solvency II Capital Requirements. *'Rethink all global financial funding models and disbursement models, not funding governments but the private developments,'* explained Rattray. The move to long-term sustainable development should include a 'patience premium'. There is a lack of deal flow of bankable projects. Brookings Institute has recommendations on proper incentives and collaborations to address these challenges, creating UN based investments, with targeted capacity building projects, with short-term or first-last positions, and take-out financing from the larger global funding entities.

Charge' d'etudes Ferghane Azihari of the IREF Paris, explained a significant challenge, *"People who handle power stand to lose from change, whilst those who will lose without change have no power".* He posits that power companies as we know them must go out of business. The book ***'Poverty Inc'*** explores the conundrum, while ***'The White Mans Burden'*** book details economics from the Colonialist era. *"Today we need good culture and good institutions"* he added. Previously 'slave' countries are skeptical of commerce activities and have socialist tendencies.

Because of this situation, cooperation amongst companies and governments is difficult. At the same time governments do not challenge corporate rent-extraction.

H.E. Edrees questioned the liberal system of fair trade. It is estimated that there is $100-150 billion leaving Africa in illegitimate trade, funding terrorism. Aid is not the key, instead of getting a fair share of trade. *"Trade not Aid".* Aid creates resentment due to its subordinate position. The Millennium Challenge was an initiative increasing funding to Lesser Developed Countries (LDCs). Banking restrictions and decline in trade are keeping middle countries stuck and not developing to their full potential.

In energy, deploying energy ecosystems is much more complex, according to Chantal Line Carpentier, Chief of United Nations Conference on Trade and Development (UNCTAD). Flows of Foreign Direct Investments (FPI) outweighed aid for some years, but they don't address education and healthcare. *"Have a mechanism to monitor effectiveness of government aid,"* suggested Carpentier. The UN is supporting a new concept of blended finance, government funding blended with private investments.

"PEOPLE WHO HANDLE POWER STAND TO LOSE FROM CHANGE, WHILST THOSE WHO WILL LOSE WITHOUT CHANGE HAVE NO POWER"
FERGHANE AZIHARI

WE CANNOT IGNORE HUMAN SUFFERING WHEN CONSIDERING FINANCIAL ACTIVITIES.

NAVID HANIF

Navid Hanif, Director for Financing for Sustainable Development Office of the Department of Economic and Social Affairs (DESA) of the UN, said that its FfD Forums play a critical role for financings the 2030 Agenda. The Montreal Consensus was raised after the failure of the Washington Consensus (10 actions toward higher growth and development). We cannot ignore human suffering when considering financial activities. We have faced a decade of deception, a decade of disillusionment, and a decade of discontent. There has been damage to bio-diversity. If we do not fix the routes, the systems will not flourish. Current geoeconomics and geopolitics must shift now. If we miss this juncture, we may miss a historic opportunity. There has been a failure in framing SGDs as an investment opportunity … *"it's not a charity."* The UN Secretary General will be launching an initiative for financing for sustainable development, with a conference on the 27th of September. What can you do to shift the investment? What can the pubic sector do to provide incentives to prompt solutions? Hanif requested that attendees send him ideas and initiatives for consideration toward the UN Secretary General's September initiative. Wealth manager decisions need to incorporate sustainable development solutions. FfD is about reviewing opportunities, sector by sector. Hanif explained that they are working on a standard metric for SDGs investments, distilling it from the four hundred matrixes. Where are the gaps? What should be included to provide transparency and reliability?

UN Economic and Social Council (ECOSOC) and CIFA 2019 Panel Discussion

Hanifa Mezoui moderated the important afternoon dialog on *'Inclusion Through Fiscal, Wage and Social Protection Policies'.* ECOSOC is the United Nations' central platform for reflection, debate, and innovative thinking on sustainable development. Mezoui is a CIFA Executive Committee Member and the Former Senior Advisor of Humanitarian Affairs and Civil Society of the UN Alliance of Civilizations (UNAOC). The UN Labor Force Participation and Fertility (LFPF) committee provides leadership for 2030 Agenda. The UN has targeted July 11th as World Population Day, to emphasize the danger of rapid population growth which will have negative impact on the growth and development of countries. The July meeting has the theme of 'Empowering People' to address education, inequalities, peaceful societies, and global partnerships.

The Addis Ababa Action Agenda (AAAA) was adopted in July 2015 and subsequently endorsed by the UN General Assembly. It includes a new framework for funding the SDGs. Daniela Bas, UN Director of the Division for Inclusive Social Development, Department of Economic and Social Affairs (DESA), noted that inequalities impact social inclusion. Trust is very important. Income disparities between countries is declining, but the gap between the rich and the poor has increased dramatically. Global wealth inequality is even greater than income gap. Social protections put in place in the developed world after the Industrial

Revolution are not working in this fourth revolution. Many developing countries are still coming to grips with the Industrial Revolution protections.

UNCTAD Director, Chantal Line Carpentier, reported that FDI have decreased lately. Developing countries have attempted to improve their metrics for foreign investments, in part through government support. Multi-national Entities (MNE) have captured 55% of annual global income. Some aid has been granted to compensate for existing inequalities. Aid can't assist with structural reorganization. It is important to support SDGs for the lowest income 40% households. There are conflicting international rules preventing countries from addressing these goals. Sweden and Italy have been realigning aid to the rules. New policy agreements should be crafted for sustainable development, including having local development entities match incoming aid and direct investments. Wages used to follow productivity growth but the link has been broken. When policies are not working, government institutes austerity that inordinately impacts women.

Ambassador Louise Kantrow, Permanent Representative to the UN and former Director of the International Chamber of Commerce (ICC), commented on timing of the CIFA Forum. It is a lead up to the UN planning and General Assembly (GA) meetings, examining the underpinning of the activities in the SDG financing. It is important to show how business is cooperating. ICC is 100 years old, precedes the UN, and helped draft the UN Convention. Business needs to talk to governments for both to survive. The UN invites CIFA for more participation in the coming lead-up to the GA. The High-level Political Forum (HLPF) will be held during 8 days in July. The first few are technical days. The final three will be about a high level assessment. SDGs business forum and UN Global Compact global goals have to be seen locally (global, national, local). This is the only way to get out of impasse. UN only has convening power, notes Mezoui.

Lila Karbassi the Chief Programmes UN Global Compact has a private sector arm of 10,000 companies that have committed to the SDGs and to funding over 10 years. The division makes an annual analysis of the progress. The recent report sees some progress in human rights under SDG 8, 5, 3 and 13. There is less measurement progress in impact investment. Climate challenge is urgent and a primary focus of the GA. Next year, all national government commitments will be revised. ESG has funded some $30 trillion. *"It is the beginning of much larger trend"*, Karbassi reported. There is a need more transparency to see how initiatives are progressing.

H.E. Sevilla Borja, Ambassador and Former Permanent UN Representative of Ecuador and 2017 Chair of the Group of 77 plus China, gave a political view on the market and the biggest problem of finance. The 1960 goals were disarmament, decolonization, development. Nothing substantive has been achieved on development even after the 15 years

THE CIFA FORUM IS A LEAD UP TO THE UN PLANNING AND GENERAL ASSEMBLY MEETINGS ... IT IS IMPORTANT TO SHOW HOW BUSINESS IS COOPERATING.
LOUISE KANTROW

THE FFD HAS BEEN ESTABLISHED TO ASSIST WITH CHANNELING RESOURCES TO ERADICATE POVERTY IN COOPERATION WITH THE OVERARCHING GOALS OF GOVERNMENT.
H.E. M.F.A. EDREES

for the Millennium Development Goals (MDGs). Only 11 years left, until 2030, to address the SDGs. He reported $178 billion have been spent last year on military, with more countries spending up to 2-4% of GDP. However, countries have committed only 1% of GDP toward the SDGs. The GA will be issuing a Road Map for SDG implementation to highlight the transformational elements for the UN.

Louise Kantrow added that confidence building must be undertaken to augment funding for public institutions. Economic sustainable growth has been proposed by Nobel winners. There should be a transfer of technology to assist developing countries to catch up. Global work on international taxation, tax matters, has had a great victory. It is focused on international development. After five years of ICC lobbying, the global alliance for investment has been announced. The Overseas Development Agency (ODA) with the affiliated corporations are to partner with the UN. A friendly legal platform and better information transfer will be pursued to address the needs of humanity.

Global Financial Systems and SDGs Funding

Communication Specialist, Afaf Konja, and former spokesperson for the President of the UN General Assembly and US Resident Global Correspondent, was the Chairperson the second day of the CIFA Forum at the UN. It was a focused discussion on funding the SDGs and the effects of Taxation and Politics on supporting the sustainability development goals.

H.E. Ambassador Mohamed Fathi Ahmed Edrees pointed to the *"Absurd concentration in wealth at this point in history"* as a social and economic challenge. The FfD has been established to assist with channeling resources to eradicate poverty in cooperation with the overarching goals of government. There needs to be *"more flexible funding"*. The FfD alliance has challenges to stimulate private investment. The UN FfD is about developing strategies and partnerships across sectors for 'green financing'. Attendee, Patrice Horner, pointed to successful Public Private Partnerships (PPPs) initiatives to build the hospital and airport in Bermuda. Ambassador Edrees said that the world cannot rely on governments alone to make conditions suitable.

Thierry Bonneau reiterated the necessity of the private sector to be involved. Bonneau is a Professor and Director of the Doctoral School of Private Law at the University of Pantheon-Assas (Paris2). He asks... *"Why are they not engaging?"* There is a tendency toward short-termism without clarity of a long-term vision, as well as unstable financial systems with vague legal terms. We can encourage against short-termism by the use of 'positive incentives' such as taxonomy, green labels, and low carbon indices. Increased transparency and professional duties as fiduciaries of the world should become the standard. Regulators are working with the FfD to standardize definitions for green labels, and with countries to detail the requisite supervision and punitive measures and how to incentivize sustainable/long-term investment approaches.

Joe Oliver, Canadian Corporate Director and former Minister of National Resources (2011) and of Finance (2014), explained that competing objectives must be reconciled. Solutions must be *"based on science and facts versus diplomatic signaling".* Environmental issues are central to companies in the resources businesses, which are directly affected by government action and by activists. Central banks are calling for actions to address climate risk, as it is resulting in destabilization of financial systems also exasperated by the lack of long-term management from absentee rent-extraction corporations. Oliver pointed out that *"Pension funds are taking a lead and creating benchmarks for actions to be economically sound".* Mechanisms for 'Negative Screening' can be used to exclude investments in non-compliant companies.

"What will happen if goals are not met, how will affect your daily activities?" ... that is the question posited by Dr. Olaf Weber, who is University Research Chair of Sustainable Goals and Professor at University of Waterloo in Canada. Financial systems must change or SDGs will change them. He questions why change has been slow, especially because *"...it is in the best interest of the financial systems".* Funds to least developed countries decreased in 2016. Bankable products and good governance have to be further developed. Developing countries are being pressured to adopt regulations by financing entities. China Green Credit Policy was adopted in (2012) to decrease pollution. There is a positive correlation between investment returns and green activities. Key performance indicators are being captured and standardized, in order to benchmark and apply possible sanctions. Banks offer tools of assessment and reduced interest rates to encourage reduction of population. Regulators are passing legislation to 'protect financial systems from sustainability risks', such a climate risk, but other risks should be incorporated as well, such as the runoff from creation of textiles in Bangladesh. There are UN Voluntary Codes of Conduct to balance both financial and social goals which can be adopted and reported on by individual countries. The Sustainable Accounting Standards Board (SASB) manages and reports on sustainability topics that matter to investors. There is evidence that younger investors focus on sustainability investments. Weber stresses that it is not a 'nice to do', it is a necessity. *"The business case for sustainability is to sustain a business case."*

Indira Tasan, CIFA Representative for SE Asia to create a network in Jakarta and Indonesia to explain SDGs, notes that in these countries SDGs are not addressed in daily dialog even though *"Millennials in Asia are interested in doing something in their region."* How to channel investments in the region?

"The cause hasn't penetrated deeply enough in the population to prompt the will to make sacrifices and to direct regional policies" added Joe Oliver.

"PENSION FUNDS ARE TAKING A LEAD AND CREATING BENCHMARKS FOR ACTIONS TO BE ECONOMICALLY SOUND"
JOE OLIVER

THE NEED "TO CHANGE FROM A VICIOUS TO A VIRTUOUS CYCLE." INCENTIVES ARE REQUIRED TO PROMPT CHANGE. "TAXATION FOLLOWS WHERE WE CREATE VALUE."
ALLISON CHRISTIANS

Carpentier added *"When economic disparities are high, there is evidence that the politics are influenced by the wealthy whom lean toward their existing investments."* Even though renewal energy is sustainable and investments are on par or excelling traditional investments, *"Why are advisors not promoting?"*
AVIA world benchmarking alliance indicates that business leaders are collaborating. Daniel Mitchell, Chairman for the Center for Freedom and Prosperity, explained that *"Wall Street exists to exploit imperfect information in the markets"* an take advantage of your perceived opportunities.

Dr. Louise Kantrow stated that *"...global problems cannot be addressed solely by governments".* There is a consensus amongst countries that all communities must engage. SDGs are action-oriented and the world requires changes for businesses to thrive. Corporations want smart regulation. They do not function well without sufficient regulation.

Allison Christians, Associate Dean (Research) and Chair in the Law of Taxation at the McGill University Faculty of Law, explained that businesses need the SDGs 'limitation of liabilities' to reduce public exposure and to underwrite endogenous shocks. Unprofitable companies are being prompted up and the public is subsidizing them. Entrepreneurship by definition is not grounded in certainty and is based on the probability of success. The world needs pragmatics and dreamers.
By recording the so called financial 'Put' in the balance-sheet liability to make sustainability goals material KPIs (Key Performance Indicators), added Steven Singer, Senior Partner at GROCO in San Francisco.

There is a difference between developed and developing world – and impact on elections and on people. There needs to be a connection between discourse of the people and what the governance needs to deliver. The SDGs are increasingly creating discourse in governments. The relevance of goals is different in different countries, so the SDGs are flexible. In smaller countries the impact can be huge. The financial markets in Africa are not developed sufficiently to impact change, wherein you need to empower the governments, added HE Edrees, Ambassador for Egypt.

Taxation for Private Wealth Creation

Daniel Mitchell, Chairman for the Center for Freedom and Prosperity moderated the discussion on Taxation and SDGs.
Allison Christians, Associate Dean (Research) and Chair in the Law of Taxation at the McGill University Faculty of Law, explained the need *"...to change from a vicious to a virtuous cycle."* Incentives are required to prompt change. *"Taxation follows where we create value."* To do so, allocate costs on the value chain. If not attributed, it is attached to an externalized cost. Accounting should allocate existing profit more accurately to where value is created, i.e., a transfer price adjustment on an itemized basis or a universal price adjustment on an aggregate method. The latter is less accurate but more has certainty. The corporate taxpayer can make the election. Transfer pricing adjustment will

better quantify SDGs development costs. The Base Erosion and Profit Shifting Act, or BEPS, has been working to minimize unsubstantiated transfer pricing. It is intended to avoid corporate values to be stuck in conduit countries through international transfers.

Peter Egger, Professor of Applied Economics, ETH Zurich, KOF Swiss Economic Institute, said *"The complexity of grasping tax policy is a moving target when you are moving."* Data 1: Taxation - What is changing in taxation and why is there so much social discourse? Global access and income preferences has an impact that has come to the detriment of local and smaller companies. More mobile people have tax region options, which actually drives country priorities. Tax Complexity includes level versus progressive taxation. Data 2: Inequality – based on world-wide personal income taxation. The World Bank can provide average income and inequality inefficiencies that has simplified analysis. This is used to determine the impact of regional taxation to meet revenue goals and to remediate income disparity. In the 1980s, the redistribution of income was not tax-driven. In 2012, tax policy is more equalizing, but there are more effects to be considered. Household types must be considered. There is a fundamental disconnect between what governments put in place and what the individuals perceive. Since 1994, there has been more income redistributions, according to OECD data, due to the hollowing out of the middle class. This makes capturing income for country initiatives challenging. It is in part a function of mobile people, who make tax elections by residency.

Daniel Mitchell talked about new limitation on deductibility of state taxes and how it may lead to an exodus of higher income people.

Chantal Carpentier asked ... *"wouldn't it be better to tax wealth due to the regressive impact of value added taxes and the lack of the middle class."*

Peter Egger noted the taxing as a potential double edged sword.

There was a question posed about the impact of the informality of income, how to encourage reporting. In addition, there is a warped perception of where value is created. The power of the Starbucks logo is evidence of the value perception, whereas product costs have not changed. Stakeholders can make changes to preferred value capture methods, in collaboration with the taxing bodies. The latter should be consulting.

Globalization and Multilateralism

The closing round-table was moderated by Francois Loriot, Humans Right Advocate and President of the Bar Association for NGS's. Loriot was tasked to lead the discussion on how to achieve SDGs in this new political era.

Joe Oliver opened with *"Democracy in Western World is in trouble".* He is a Canadian Corporate Director and former

"THE COMPLEXITY OF GRASPING TAX POLICY IS A MOVING TARGET WHEN YOU ARE MOVING."
PETER EGGER

POLITICS TAKE PLACE IN SPECIFIC NORMS AND WITHIN SPECIFIC COUNTRIES. THE PEOPLE MOVEMENTS PLACE INTERESTS OF A COUNTRY AGAINST THOSE OF THE GLOBE.
HENRY OLSEN

Minister of National Resources (2011) and of Finance (2014).

The rise of populism outside of political process is a result of the stalemate or in response to the economic division. Without public support there is no way to achieve the SDGs. Populism is viewed as counter to UN goals, while corporations are viewed as creating SDGs issues.

But, there are regulatory actions that undermine corporate profits acceptable for SDGs. Enhancing growth and prosperity are source of wealth to fund changes. Focusing on SDGs and not maximizing returns are *"... putting pensioners at risk for moral causes".*

The central function of markets is price discovery. The Canadian Government legislated SDGs policy, but the public was unwilling to fund it. The core issue in Canada is the perception of climate change. Over a billion people globally have access to power and another billion have insufficient access. This affects the ability of people to 'power their industry'. *"Science is not a popularity contest."* It must agree with the facts, not conspiracy theorists.

However, we do not know everything about climatology. Be more modest about what we know and cautious about the costs we place on the poorest to bare. Opposition to pipelines in Canada has increased greenhouse gases due to increased transportation emissions.

There is a need to empower entrepreneurship with strategic regulation and to target its incentives.

Henry Olsen, a Senior Fellow at the Ethics and Public Policy Center in Washington D.C., addressed global democracies. Politics take place in specific norms and within specific countries. The people movements place interests of a country against those of the globe. There are three movements.

The **first** is the 'right-wing' movement, which pits national solidarity against international cooperation. It is in response to global migration and transfers, at the expense of the benefit of the local nationals, who are bearing the brunt of globalization. This will reduce the ability of mid-level countries to grow and develop.

The **second** movement includes 'left-wing' populism. They promise a different nationalism. They are looking to reset national and international impacts to equilibrate the standards, to address the perceived unfairness of the economic impact of liberalism. Actually, the global inequality is declining. It's a matter of horizon. Elections are divided between those who have capital and those who have labor.

The 'green movement' is the **third** movement. It is from highly educated people who live in cities. They advocate putting the climate first.

The conundrum is the viability of the second and third worlds cannot happen without inexpensive carbon. They cannot afford expensive options and they do not create a large percentage of carbon.

In an indirect way, it is also nationalism to impose on others their objective. It puts sustainability and development at logger heads.

It is important to find a middle ground, whereby the entire world will prosper.

CIFA Forum Conclusion

Chairperson Afaf Konja led the day to conclusion by asking participants to state their closing conclusions.

The consensus is that challenges have become so immense and so intense that no government can address it.

The UN has been caught in a series of reforms and reflects the challenges of multilateralism.

Brexiters resented the imposition of foreign interests, i.e., from Brussels.

A type of triage must be employed to address the most critical issue.

An attendee pointed to the time line on stabilizing climate as being a short fuse.

By addressing safer and inexpensive energy, a number of critical UN SDGs can be supported. ■

THE UN HAS BEEN CAUGHT IN A SERIES OF REFORMS AND REFLECTS THE CHALLENGES OF MULTILATERALISM.
FORUM ATTENDEE

XVIITH INTERNATIONAL CIFA FORUM
HOW TO MOBILIZE PRIVATE FINANCE TOWARDS FUNDING THE UN-SDGs
MAY 6-7, 2019
PHOTOS

SPEAKERS' COCKTAIL
MAY 5, 2019

XVIIth INTERNATIONAL CIFA FORUM
HOW TO MOBILIZE PRIVATE FINANCE TOWARDS FUNDING THE UN-SDGs
MAY 6-7, 2019
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CARPENTIER
AZIHARI


KANTROW
CARPENTIER


WILLIAM K. BLACK
THIERRY BONNEAU
MOHAMED FATHI AHMED EDREES

FORUM DEBATES
MAY 6-7, 2019


FATHI AHMED EDREES
ALLISON CHRISTIANS


HANIFA D. MEZOUI
TONY MAHABIR
AFAF KONJA

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KANTROW


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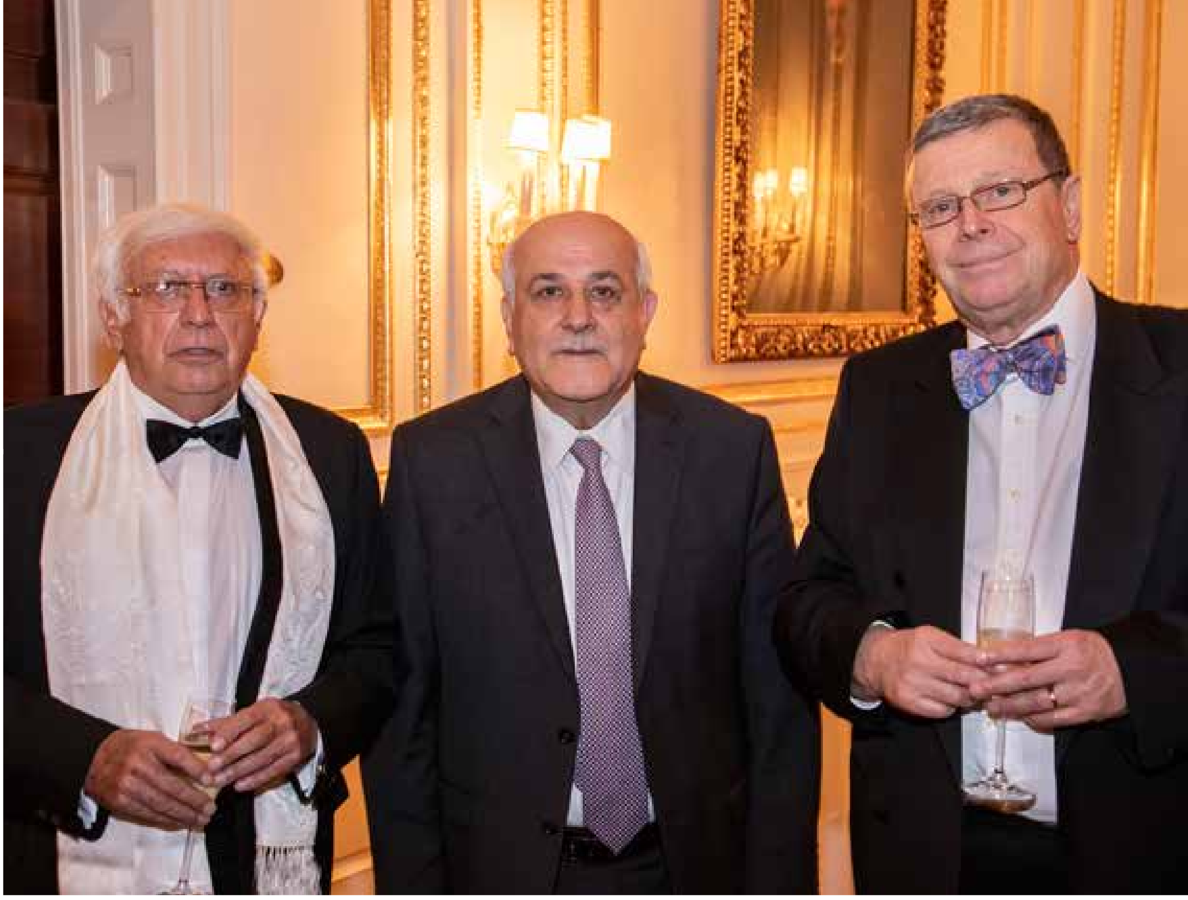
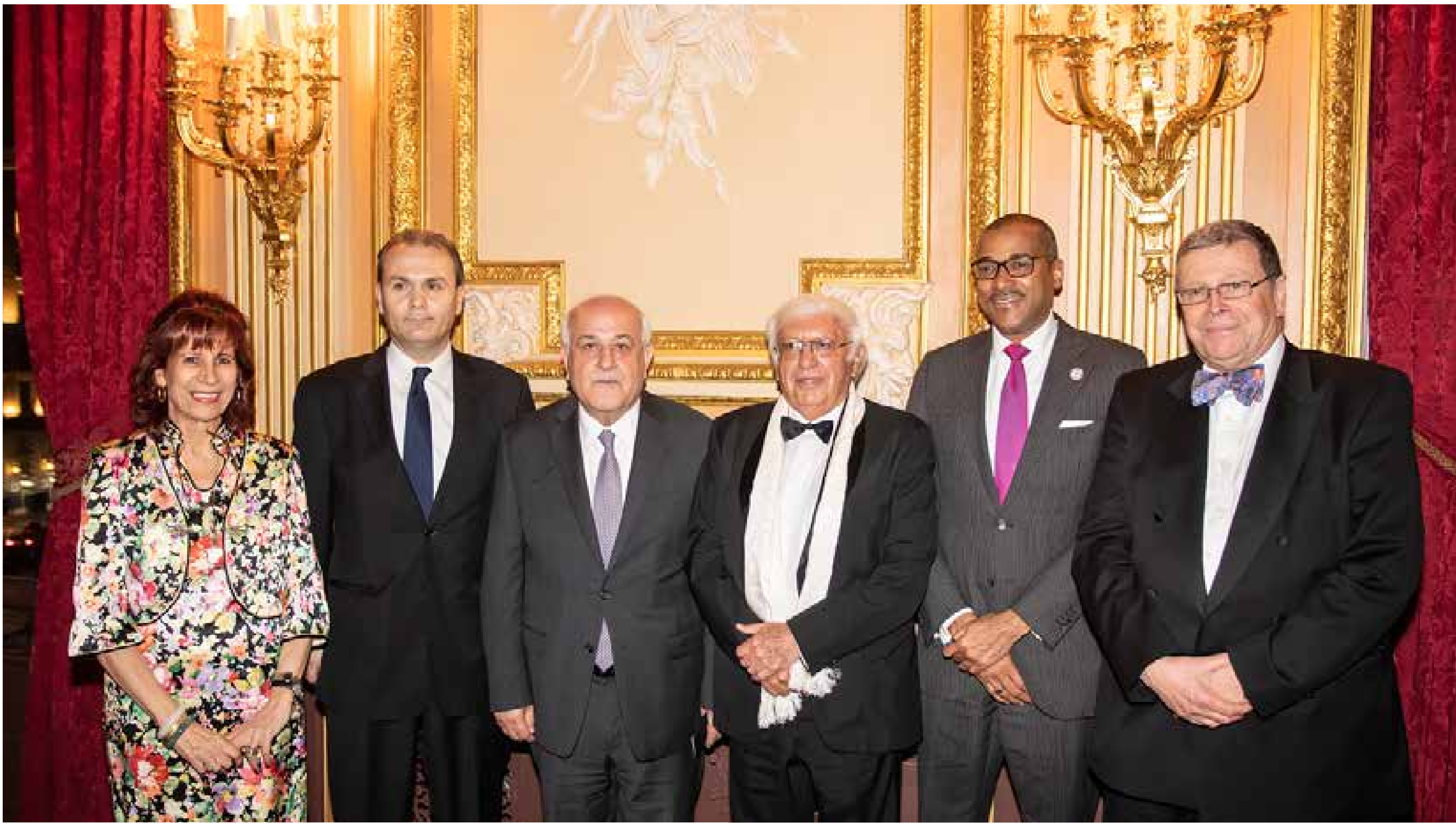


FORUM GALA DINNER
MAY 6, 2019

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FORUM GALA DINNER
MAY 6, 2019


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FORUM
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FORUM GALA DINNER

MAY 6, 2019

END OF
FORUM
2019

UNITED NATIONS, ECONOMIC AND SOCIAL COUNCIL, HIGH-LEVEL SEGMENT

ECOSOC 2020 SESSION

STATEMENT SUBMITTED BY THE CONVENTION OF INDEPENDENT FINANCIAL ADVISORS—CIFA

ECOSOC
HLPF 2020
"Assessment of the situation regarding the 2030 Agenda & action forward"
NYC, July 7-16 2020

The Convention of Independent Financial Advisors (CIFA) is honored to support the United Nations' 2030 Agenda for Sustainable Development through the following accelerated actions and transformative pathways:

a- education/training and outreach for investors,
b- ethical inputs in fair trade and international taxation conferences,
c- research on and identification of SDG investment opportunities,
d- promoting a new social/economic multilateralism for accelerated action,

Many months before the United Nations' September 2019 Summits in NYC, a worldwide financial and economic slowdown was already looming, and is now aggravated by the most serious global pandemic and recession since 1930 (according to the International Monetary Fund). In our view, this challenging situation offers a unique opportunity for Humanity to address and resolve the most urgent reforms required in the economic, social and financial areas.

CIFA offers its full support and its proactive expertise should the United Nations Economic and Social Council (ECOSOC) decide to use its universal leadership, powers and convening authority (under articles 62-66 of the UN Charter, Chapter X- ECOSOC), to address and resolve this historical social, health and economic crisis and move towards more sustainable solutions for development and human progress.

a- CIFA's education/training and outreach for investors

It is our view and experience that no long term improvement to the social and economic ills of Humanity can be achieved without spending the required patience and time to teach, educate and train the young generations, the stakeholders and the future economic and social leaders, including investors.

For this purpose, CIFA organizes every year since 2003 an educational Forum for its members, investors and selected guests. In 2020, the CIFA Forum to be held at the United Nations headquarters and cohosted by Uruguay would have addressed a new concept of multilateralism through the theme *"What Innovative Economic, Monetary and Fiscal Policies to Finance the Massive Investments Needed to Achieve the SDG: Sharing Transformative Experiences"* (scheduled 22-24 April 2020, but postponed to April 2021 due to the pandemic).

In addition to its "transformative" initiatives in education, teaching and training, CIFA is developing with the United Nations Institute for Training and Research (UNITAR) in Geneva various SDG training sessions for investors, academics and other social or economic leaders. CIFA is currently finalizing online modules with UNITAR to outsource key investment strategies for the SDGs.

We are aiming to come up with a cost-effective product that will offer various learning accelerated actions titled: *Financial Literacy: Ethic and Finance* (Global Financial training and certification program). These activities will contribute to the SDGs 4 and 17 by building personal human capital, financial literacy of global citizen and ensuring a "core body knowledge" that meets UNITAR and SDG standards and certification. UNITAR "is aware that the climate surrounding learning is changing rapidly, and it is important to offer a platform that is user friendly and based on the latest technologies".

Hence, CIFA financial literacy program will answer that call. Its impact will reach private businesses and individuals and thus enabled to make educated decisions concerning their finances and investments and, by the same token, implementing CIFA Charter of Investors Rights. A Memorandum of Understanding (MOU) between UNITAR and CIFA listing agreed activities is currently being drafted.

b- CIFA's ethical inputs in fair trade and international taxation conferences

In recent years, CIFA has been invited by the United Nations and was honored to attend various Conferences, Financing for Development (FfD) Summits and Workshops of major importance for the 2030 Agenda for Sustainable Development. CIFA was present at all the 2019 ECOSOC Forum on FfD. CIFA representatives at United Nations venues were prominent international business leaders, academics and jurists with extensive knowledge and experience of world affairs and international business relations.

Of special interest for CIFA has been the new United Nations International Tax Cooperation Committee which held its inception meetings with a new expanded membership in May 2018 and April 2019 at the United Nations Headquarters in NYC.

CIFA OFFERS ITS FULL SUPPORT AND ITS PROACTIVE EXPERTISE SHOULD THE UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL (ECOSOC) DECIDE TO USE ITS UNIVERSAL LEADERSHIP, POWERS AND CONVENING AUTHORITY.

OF SPECIAL INTEREST FOR CIFA HAS BEEN THE NEW UNITED NATIONS INTERNATIONAL TAX COOPERATION COMMITTEE, WHICH HELD ITS INCEPTION MEETINGS WITH A NEW EXPANDED MEMBERSHIP IN MAY 2018 AND APRIL 2019 AT THE UNITED NATIONS HEADQUARTERS IN NYC.

The extent of Committee's mandate is wide and the backlog of issues overwhelming. Of great interest and concern for our investors, with items inter alia such as:

- tax rate competition between countries.
- illicit transfer of profits/ impact of digital commerce on taxation.
- social impact of carbon taxation/ universal alignment of taxation systems.
- lowering taxation to increase productivity.
- G-24 fractioning of withholding taxation on digital business.

Through this Committee (and the OECD) initiatives, we rejoice that a global consensus on the sovereign rights of each country seems to emerge to address the current tax discrepancies. Without mutual respect of cultural differences expressed in the taxation process, world peace, trade growth and global economy can hardly recover. Indeed, reaching a certain consensus on some of these tax matters could also foster growth and reduce extreme poverty, despite major differences of views still prevailing between the Group of 77 and the OECD.

CIFA will continue to participate actively to the United Nations Committee of Experts on International Cooperation in Tax Matters.

c- CIFA's search and identification of SDG investment opportunities

As outlined by the Secretary-General during the September 2019 SDG/FfD Summits, there is indeed a keen and genuine interest by the private sector to become more proactive and closely involved in FfD. Hence, efforts must be made to educate, train and guide all parties involved to achieve productive investments for the benefit of all stakeholders. The Secretary-General announced the creation in October 2019 of the Global Investors for Sustainable Development (GISD) Alliance which will eventually propose new mechanisms to further attract investors and the private sector in FfD projects. CIFA is available to continue cooperating towards all such efforts to make investment in the SDGs attractive for the private investor.

In the above context, on 12-13 September 2019, was organized and CIFA attended in Geneva a United Nations' Workshop to finalize the Joint SDG Fund's Call for Concept Notes on Strategic Financing & Investments.

This FfD workshop was an opportunity for CIFA and other business participants, together with UN Agencies to:

- Identify and activate SDG accelerators.
- Reinforce the SDG financing architecture.
- Catalyze strategic programming and investments.

This exchange of views and information between investors and UN Agencies, on how to develop closer partnerships, was an opportunity to confirm once more the private sector's interest to invest in the FfD. At the same time the UN Agencies have to collaborate in identifying and eliminating various legal, commercial and administrative difficulties. This was a constructive step and most useful dialogue towards a meaningful relationship between the UN and the private sector in the future. CIFA welcomes such UN-Investors and Member States dialogue already started with Uruguay, Switzerland and Canada to name just a few, and will continue to support all transformative pathways leading to better investments in the SDGs.

d- CIFA's promotion of a new social/ economic multilateralism for accelerated action.

CIFA's annual Forum, regional conferences, training, teaching and publications are all geared towards the promotion and transforming of a new social and economic multilateralism reflecting reality. This will call for a major update of the 1945 UN Charter taking into account the new social and economic order of the 21st century. CIFA's members were all invited in April 2020 with a Press Release to contact and influence their respective governments and regulators to initiate this new transformative multilateral process, in the interest of all stakeholders. The 2019 and 2020 CIFA Forum held at United Nations Headquarters are planned in the spirit of a new form of multilateralism and with the co-sponsorship of various countries.

The ECOSOC should now open up and initiate such a reform process and promote a message of hope for a new form of multilateralism, respectful of the cultural tradition of each and every country, for the next Decade of Action, in order to mobilize all the energies worldwide towards a better economy. ■

CIFA'S ANNUAL FORUM, REGIONAL CONFERENCES, TRAINING, TEACHING AND PUBLICATIONS ARE ALL GEARED TOWARDS THE PROMOTION AND TRANSFORMING OF A NEW SOCIAL AND ECONOMIC MULTILATERALISM REFLECTING REALITY.

UNITED NATIONS' FACTI PANEL

THE HIGH LEVEL PANEL ON INTERNATIONAL FINANCIAL ACCOUNTABILITY, TRANSPARENCY AND INTEGRITY FOR ACHIEVING THE 2030 AGENDA.

■ CIFA'S HIGH LEVEL FACTI PANEL STATEMENT 2020

THREE PRINCIPLES OF GOOD FISCAL AND REGULATORY POLICY

DAN J. MITCHELL, FOUNDER AND CHAIRMAN OF THE CENTER FOR FREEDOM AND PROSPERITY.

HIGH LEVEL FACTI PANEL

Statement submitted by CIFA-Convention of Independent Financial Advisors, a non-governmental organization in consultative status with the Economic and Social Council.

Dear FACTI Members and Participants,

Thank you for the opportunity to participate.

We suggest that the Secretariat and various participants use the following three principles to help guide their analysis and recommendations.

1. Taxes and the Economy.
   The ideal fiscal environment is one that has a vibrant and productive economy that generates sufficient revenue with modest tax rates that do not needlessly penalize productive behavior. Public finance experts generally agree on the following features of a tax system that produces robust amounts of taxable activity:

   a. **Low marginal tax rates.**
      A tax operates by increasing the "price" of whatever is being taxed. This is most obvious in the case of some excise taxes – such as levies on tobacco – where governments explicitly seek to discourage certain behaviors. People will have differing opinions, of course, about the degree to which governments should try to discourage certain products, but there should be a general consensus in favor of keeping tax rates reasonable on the behaviors—work, saving, investment, risk-taking, and entrepreneurship—that make an economy more prosperous.

   b. **A "consumption-base."**
      Because of capital gains taxes, death taxes, wealth taxes, and double taxation of interest and dividends, many nations impose a disproportionately harsh tax burden on income that is saved and invested. This creates a bias against capital formation, which is problematical since every economic theory – including various forms of socialism – share the view that saving and investment are necessary for rising wages and higher living standards.

c. **Neutrality.**
Special preferences in a tax system distort the relative "prices" of how income is earned or how income is spent. Such special tax breaks encourage taxpayers to make economically inefficient choices simply to lower their tax liabilities. Moreover, loopholes, credits, deductions, exemptions, holidays, exclusions, and other preferences reduce tax receipts, thus creating pressure for higher marginal tax rates, which magnifies the adverse economic impact.

d. **Territoriality.**
This is the simple notion that governments should not tax activity outside their borders. If income is earned in Brazil, for instance, the Brazilian government should have the authority over how that income is taxed. The same should be true for all other nations.

2. **Tax cooperation and dispute settlement.**
A very important consequence of a growth-oriented tax system is that there is less reason for there to be conflicts between governments with territorial taxation. Brazil taxes economic activity in Brazil and Germany taxes economic activity in Germany. There would be some issues requiring varying degrees of cooperation, to be sure, most notably transfer pricing rules for cross-border businesses. Governments also might find it advantageous to adopt agreements providing *de minimis* rules and other provisions that further simplify the administration of tax regimes.

3. **The role of cost-benefit analysis.**
When considering tax policy and financial regulation, policy makers should weigh both costs and benefits. Some tax laws impose disproportionately heavy economic costs compared to projected tax collections. Indeed, organizations such as the International Monetary Fund have found that some provisions may even reduce revenue because of adverse economic effects. The same is true for some financial regulations. Know-your-customer rules and anti-money laundering regulations impose billions of dollars in compliance costs, yet there is little evidence that they have a significant impact on underlying crime rates. Moreover, there is data showing that such policies contribute to the rise of "unbanked" individuals, particularly from low-income communities.

Thank you, again, for the opportunity to share these principles of good fiscal and regulatory policy. ■

KNOW-YOUR-CUSTOMER RULES AND ANTI-MONEY LAUNDERING REGULATIONS IMPOSE BILLIONS OF DOLLARS IN COMPLIANCE COSTS. YET THERE IS LITTLE EVIDENCE THAT THEY HAVE A SIGNIFICANT IMPACT ON UNDERLYING CRIME RATES.

PARADIGM SHIFT IN ADULT LEARNING? LEARNING AFTER THE PANDEMIC.

MIHOKO KUMAMOTO

DIRECTOR, DIVISION FOR PROSPERITY, UNITAR

UNITED NATIONS INSTITUTE FOR TRAINING AND RESEARCH

It has been more than one year since the world started its fight against COVID-19. At the time of writing this article (13 April 2021), COVID-19 has taken the lives of more than 2.9 million people around the world. Considering limited statistical capacities in many developing countries, the real death toll due to COVID-19 is likely to be much higher.

The pandemic has revealed both the fragilities and resilience of our societies. On the one hand, the International Monetary Fund (IMF) estimates that about 95 million people have been pushed back into poverty in 2020, exacerbating inequalities between the haves and the have-nots. On the other, we have witnessed the creativity, innovation and ingenuity of humankind, which has catalysed transformation on several fronts, including in the adult-learning industry.

I would like to share with you some of the ways in which my organization, the United Nations Institute for Training and Research (UNITAR), which is a training arm of the United Nations for adult learning, has dealt with the challenges and opportunities posed by the pandemic.

About UNITAR and the Division for Prosperity

UNITAR provides learning solutions to individuals, organizations and institutions to enhance global decision-making and support country-level action to shape a better future. The organization was created in 1963 and, over the years, it has become a leader in providing customized and creative learning solutions to institutions from both public and private sectors, mainly from developing countries.

The Division for Prosperity is one of the eight divisions of UNITAR dedicated to supporting countries to shape an inclusive, sustainable and prosperous world. We offer learning and knowledge-sharing services to present and future changemakers, particularly youth and women, from developing countries including least developed countries, landlocked developing countries, small island developing states, and conflict and post-conflict countries.

Our training covers six thematic areas:
1) entrepreneurship and private-sector development;
2) leadership and inclusion;
3) trade and finance;
4) anti-corruption and combating financial crimes;
5) digital technologies; and
6) disarmament (our division has an office in Hiroshima, a city renowned for its nuclear disarmament and non-proliferation efforts).

Pivoting to Virtual Learning

In 2019, the year before the pandemic, UNITAR organized about 650 learning events, of which 59 percent was face-to-face, 38 percent online, and 3 percent hybrid. Although online learning was becoming more accepted, face-to-face trainings had been the most popular modality. When COVID-19 emerged, however, we were forced to pivot all our learning programmes to online.

The time required to pivot a five-month training course entirely online was about six months – no different from the time needed to prepare a face-to-face training of the same scale. This rapid and successful transition was mainly thanks to the dedicated professionals who were determined to offering learning without interruptions in a trying time. The course topics were diverse, ranging from entrepreneurship, microfinance and financial inclusion, and women's leadership to digital upskilling/reskilling.

In this transition, we have learned several key lessons. I would like to share some of them below.

Adult Learning Has Embraced the 4th Industrial Revolution

Since the emergence of the pandemic, digitalization of the adult-learning industry has sped up exponentially. Organizations and individuals squarely tackled the various criticisms against online learning. One common criticism was the limited interactions. Now, many tools are available to facilitate interactions, such as virtual breakout rooms, whiteboard, sticky notes and many others.

Another common criticism was the difficulty in engaging learners for long stretches of time. Now, learning materials are bite-size and content is repeated regularly to improve retention. Furthermore, gamification has been introduced to make learning fun. Virtual reality is bringing online learning experiences closer to the real world. For instance, UNITAR developed a virtual-reality

THE DIVISION FOR PROSPERITY IS ONE OF THE EIGHT DIVISIONS OF UNITAR DEDICATED TO SUPPORTING COUNTRIES TO SHAPE AN INCLUSIVE, SUSTAINABLE AND PROSPEROUS WORLD.

DIGITALIZATION IN LEARNING IS IN FULL SWING. ONE APPROACH UNITAR ADOPTED IS MOBILE-BASED LEARNING. IN DEVELOPING COUNTRIES, CELL PHONES ARE MUCH MORE AFFORDABLE THAN COMPUTERS.

tour for female leaders in the Pacific small island developing states so they may "visit" a site impacted by the 2011 Great East Japan Tsunami. Digitalization in learning is in full swing, and will accelerate.

▪ *Face-to-Face and Online Learning Have Their Respective Strengths for Effective Learning*

Before the pandemic, many people believed that face-to-face learning was the most effective learning modality, despite several studies showing that online learning could be equally effective. With the pandemic, people were forced to rely on online learning, and many have since come to appreciate the benefits of this modality.

Each modality has its own strengths and weaknesses. Face-to-face learning brings learners to a common space for a certain period of time, which helps them focus and quickly develop a community of practitioners. Online learning, on the other hand, offers flexibility, which is a major advantage for busy people who cannot get away for long stretches of time. It also has the potential to reach more people. For instance, UNITAR implemented a training programme on microfinance and financial inclusion for experts in Sub-Saharan and Middle East countries in partnership with AGFUND (the Arab Gulf Programme for Development) and trained about 500 people, which would not have been possible through a face-to-face modality. Online learning has established itself as an efficient and effective learning means.

▪ *We Must Also Explore Ways to Tackle the Widening Digital Divide*

As the world quickly shifted online, the gulf between those who have access to the internet and those who don't grew. The World Bank estimates that about 49 percent of people around the world use the internet, but that percentage decreases to a mere 17 percent in least developed countries. In this situation, it becomes essential to explore alternative arrangements.

One approach UNITAR adopted is mobile-based learning. In developing countries, cell phones are much more affordable and common than computers. We therefore partnered with EdApp, a mobile online learning platform, to offer mobile-based learning. With this, people go to areas where internet access is possible, download materials to their phone, and review materials when they are offline. This arrangement has enabled us to offer services to many hard-to-reach people.

However, some people are far from internet access points, and mobile-based learning is not an option. We experienced this through our training programme on entrepreneurship and project management in South Sudan. In a situation like this, what is important is to explore modalities that do not require high technologies – such as radio and TV. At the same time, expanding access to the internet in these countries must be prioritized, as the world relies heavily on the internet for information, economics, finance, and more. The internet has become essential to lead a quality life.

▪ ***We Need to Continuously Support Upskilling/Reskilling, Especially the Most Vulnerable***

The pandemic has shaken the core of countries around the world, affecting many people. Particularly vulnerable populations often work in the informal sector in precarious conditions and with few social protections. The April 2021 IMF projection of 6 percent global growth for the year is welcome news. However, economic recovery trajectories are expected to vary significantly among advanced countries and low-income countries, exacerbating inequalities both between countries and within.

As the economy and labour market remain weak for developing countries, it will be imperative for individuals, particularly the most vulnerable, to upskill and reskill. UNITAR aims to enhance our support in this area by offering training on digital upskilling and reskilling for women in Afghanistan and people in the Sahel region. More investment and efforts are needed so that we may support those who need it most and realize an inclusive society.

Prepare for the Post-COVID-19 Era

As we enter the second year of the pandemic and vaccinations are rolled out, we are beginning to see the light at the end of the tunnel. But the pandemic has inevitably changed how we provide learning services. Online learning is here to stay and could become even more popular as new technologies and innovations become accessible. Diversification of learning modalities is most likely to accelerate, using both low and high technologies. Face-to-face learning will also stay and is likely be used for targeted occasions.

The pandemic has been a human crisis and significantly altered how we live. For the adult-learning industry, the pandemic has also undoubtedly been a major watershed moment. The industry will never be the same. ■

**FOR THE ADULT-LEARNING INDUSTRY, THE PANDEMIC HAS ALSO UNDOUBTEDLY BEEN A MAJOR WATERSHED MOMENT.
THE INDUSTRY WILL NEVER BE THE SAME.**

CIFA INITIAL CONTRIBUTOR

Groupement Suisse des Conseils en Gestion Indépendants

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BUILDING PARTNERSHIPS WITH EUROPEAN PROFESSIONAL ASSOCIATIONS

VINCENT J. DERUDDER

FECIF HONORARY CHAIRMAN & MEMBER OF FECIF BOARD OF DIRECTORS

■ UP IN THE NEWS—REGULATORY & LEGAL

In 2000, under the presidency of Portugal, the "strategy of Lisbon" was launched to promote a European knowledge-based and competitive economy, in the paradigm of the competitive market economy in which the state intervenes as lightly as possible to establish a "level playing field" for competition and avoid the excesses of the free market economy in which large enterprises dominate and exercise market power.

Amongst the priorities set within the Lisbon process of national economic reform were (1) the reduction of administrative burdens and (2) the creation of an environment favourable to small and medium size enterprises (SMEs). Unfortunately, the European Commission did not seek to encourage national reforms recognising the need to reduce administrative burdens and their related costs, in fact to the contrary!

National governments have, of course, done very little or nothing and have increased burdens upon business across all activities.

Increasing regulation driven by the perceived failure of ethical business practices

The financial crisis and the ensuing economic crisis have triggered a global policy effort to increase regulation and oversight of financial services and services provided to the financial sector. We are thus assisting in increasingly suffocating administrative burdens placed upon enterprises, having little financial manoeuvrability to absorb the time-consuming effort and cost related to such rising burdens couched in compliance activities.

Within the European Union, practical regulation and oversight are placed at the national level where national governments adapt directives and guidelines to suit their own purposes. They thus create a complex and conflicting cross-border network of compliance requirements that few enterprises are fully able to contend with.

The goal pursued by regulators and oversight bodies is that of "investor protection". The attitude of national governments is that professionals are unable to sustain adequate self-regulation to ensure investor protection.

Additionally, it promotes the failure of ethical conduct and integrity as the "rules of the game" focus on meeting the maximum level of compliance requirements. In effect, we have a vicious circle in which professionals feel less and less responsible and accountable and regulators more and more set in their belief that they alone can impose investor protection through rules and regulations.

The professions, through their professional associations, are reduced to lobbying activities whose purpose is to endeavour to reduce, at best, the excesses of over regulation.

Engaging European and national regulators through co-regulation

The "Fédération Européenne des Conseils et Intermédiaires Financiers" (FECIF) can serve as a Centre for Excellence to engage European and national regulators and oversight bodies in promoting and developing co-regulation. The actions and activities are accomplished through the establishment, for instance, of the FECIF European Pensions Institute (FEPI) that addresses, through market survey, ad-hoc study, etc. a comprehensive review of the specific issues composing the complex domain of pensions and its related oversight.

The FECIF Advisory Committee is constituted of representatives of European professional associations who coordinate, with their members, the responses to the consultations organised by the European Commission, Parliament and other concerned bodies, and at the national level, ensure regulatory and oversight harmonisation of European Directives and guidelines.

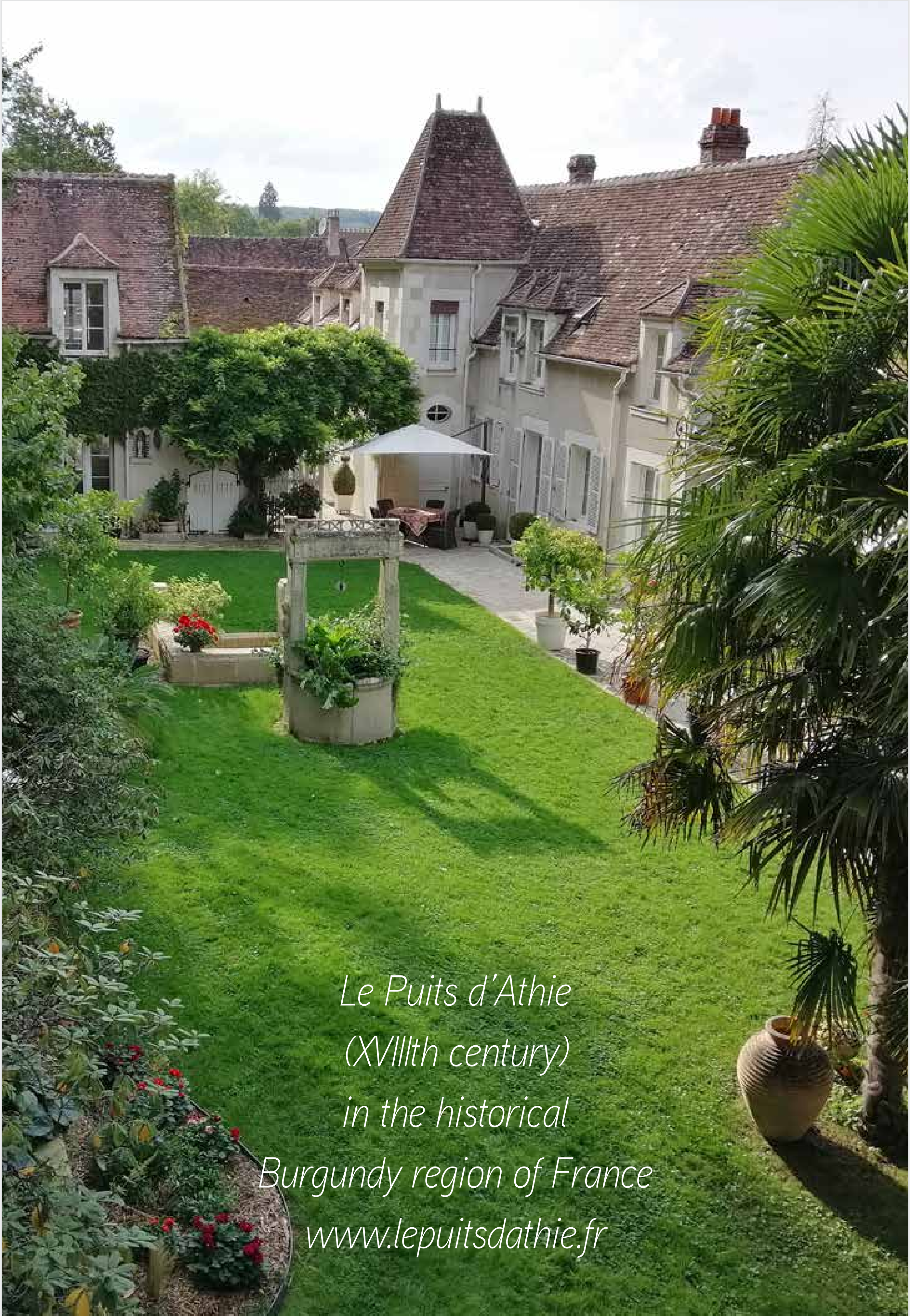
In practical terms, the newly-created FECIF Digital Marketplace (FDM) is a forum for the associations, their members and business partners of FECIF that have, through a fully digital Marketplace, the ability to exchange ideas, introduce innovations, develop new products and/or services for the benefit of the members, for the members of the members, and the clients of the members.

Conclusions

Working together with national and professional associations, and their members, FECIF can collect, collate and provide unique research, and support and engage in actions and activities to promote co-regulation. In that way FECIF can bring its resources to bear in order to assist those organisations, their members and the clients of their members, and support an industry that provides quality financial services that are needed by all.

It is time to join us! ■

A VICIOUS CIRCLE IN WHICH PROFESSIONALS FEEL LESS AND LESS RESPONSIBLE AND ACCOUNTABLE AND REGULATORS MORE AND MORE SET IN THEIR BELIEF THAT THEY ALONE CAN IMPOSE INVESTOR PROTECTION.


Le Puits d'Athie
(XVIIIth century)
in the historical
Burgundy region of France
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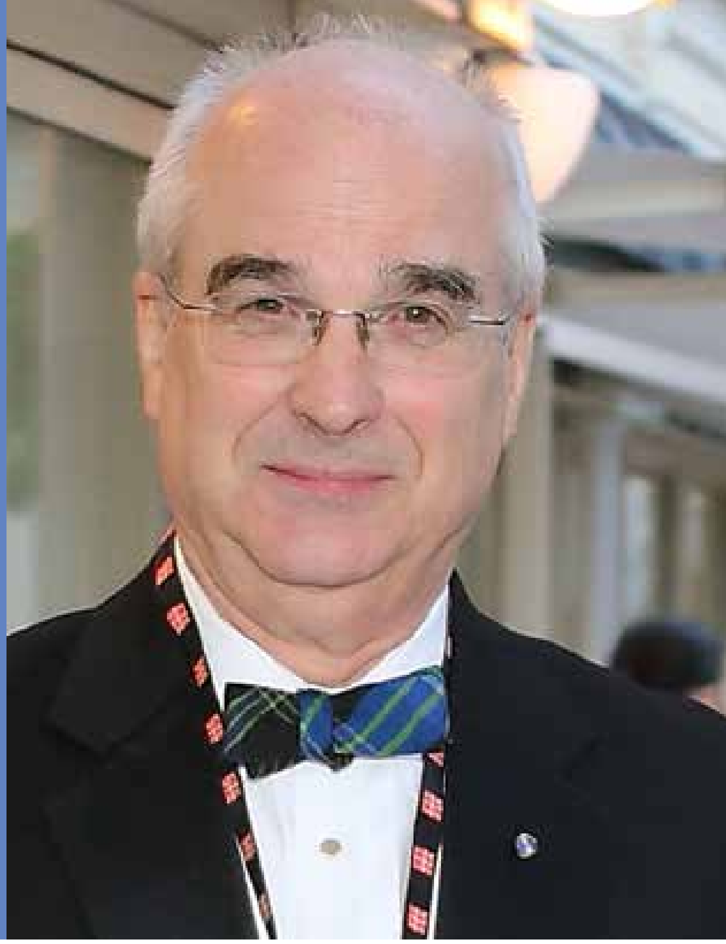
CAPITAL: A BASIC HUMAN RIGHT?

CONTEXTUALIZING DIALECTICAL MATERIALISM

STEPHEN B. YOUNG

GLOBAL EXECUTIVE DIRECTOR OF THE CAUX ROUND TABLE FOR MORAL CAPITALISM

▪ **UP IN THE NEWS—OPINION**



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Business lockdowns and stay-at-home orders invite us to reflect anew on basic human rights. The demands that economies be opened for work and enterprise direct our attention to the vital importance to individuals of financial capital. Yet, we are being advised that economic goods and our health are a rivalrous polarity. We must choose one over the other. Such an understanding of capital may be far too narrow, an understanding which may distort our choices and our institutional arrangements. This essay raises questions and offers, in response, tentative answers.

This essay presents a new, integrating view of capital. It explores a recognition of preciousness in capital which creates effective moral agency in individuals. The powers provided to an individual by capital, therefore, are fulsome and varied.

The coronavirus pandemic is only a few months old, but already has taught our global community a very important truth: economic, social and political institutions inherently shift risk to the more vulnerable among us. Those without wealth, education, supportive social networks or self-assurance are disadvantaged in their ability to avoid infection or survive if infected. They lack the resilience and the capabilities enabling the more well-to-do, the better educated, with higher positions of authority and social status, the less emotionally dysfunctional.

The philosophical economist Amartya Sen named the condition of persons who have higher chances of finding wellbeing "agency." He provided a list of capabilities which can provide us with "agency." Those with more capabilities have more "agency" to employ on their own behalf and on behalf of others. They can better govern the outcomes which they experience.

More importantly, it has been a premise of open systems, such as capitalism and constitutional democracies, that the individuals who drive results in such systems have effective "agency" to be self-reliant, resilient and will not suffer from their autonomy and systems to be morally acceptable. Where such individual "agency" falls short, the system, too, falls short in our esteem and in its ability to deliver fairly results across the lives of its participants. Where individuals lose the efficacy of their agency abilities, perforce, they must become dependent on others – family, patrons, the state, etc. – for their wellbeing.

The phenomenon of "agency" from the perspective of physics is like the heat or other form of energy which produces work. From the perspective of biology, it is like the inexplicable force which brings life into being. From the perspective of chemistry, it is a compound element – like H2O – bringing together different natural potentials into a new expression of material possibility.

Perhaps we should consider more seriously the various components which give us "agency," those "capital" assets which empowers us and allow us to manage our risks and, in fact, be self-reliant, providing for our own good and happiness.

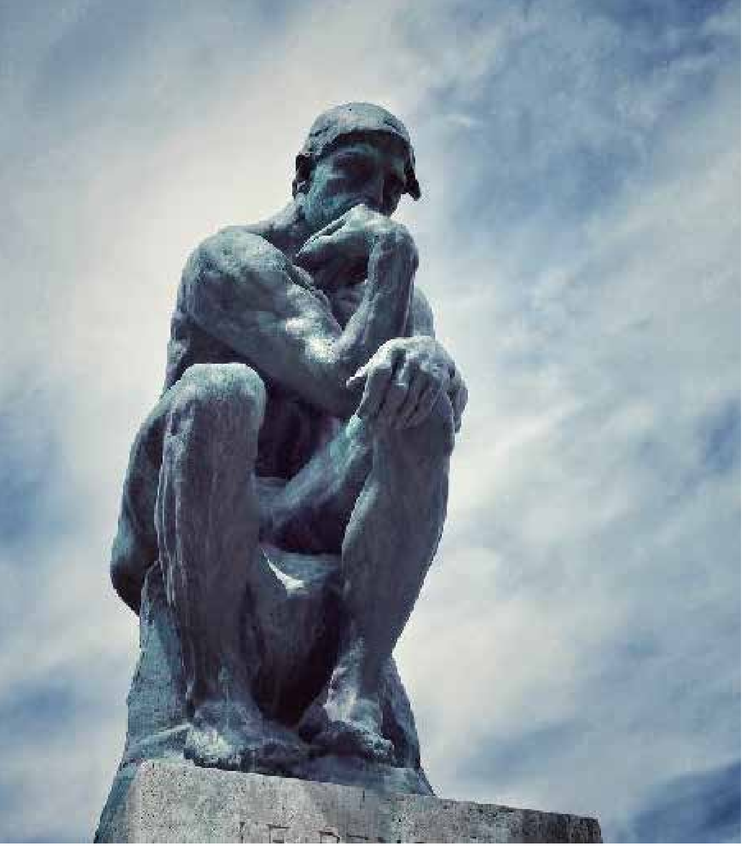
Emerson, in his noted essay "Self-Reliance," concluded that each has a living property "which does not wait the beck of rulers, or mobs, or revolutions, or fire, or storm or bankruptcies, but perpetually renews itself wherever the man breaths." He was strong in the conviction that "through the whole universe is full of good, not kernel of nourishing corn can come to him, but through his toil bestowed on that plot of ground which is given to him to till." For Emerson, the person alone was enough "capital" to invest and earn a return and from which to make a life worth living.

Unfortunately, the concept of "capital" has long been narrowly associated only with finance, with money in its various forms.

The Proto-Indo-European root word for our English word "capital" was kaput or "head." Words associated with derivatives of kaput include that which is of the head, first in importance, excellent or first rate. The Latin adjective was "*capitalis*." In the Middle Ages, "*capitalis*" was joined with "pars" or debt to indicate the principal part of what was owed separate from interest payments. In 1610, English usage of capital referred to stock or property which was first in importance. In 1640, there was use of the word capital to mean that wealth used to carry on a business.

The word "wealth" too does not limit its meaning to only money and other tangible assets. In English, the modern word "wealth" derives from "weal," which indicates welfare or wellbeing in distinction to "woe." The Proto-Indo-European root word for "weal" and "wealth" was *Wel-* , connoting abundance, very much of something. A cognate modern word coming from *Wel-* is "well," which indicated good fortune, welfare, happiness. Thus, when capital was used to indicate the wealth needed for a business, it also brought to mind possession of personal circumstances which provided wellbeing, welfare, good fortune and happiness in life.

UNFORTUNATELY, THE CONCEPT OF "CAPITAL" HAS LONG BEEN NARROWLY ASSOCIATED ONLY WITH FINANCE, WITH MONEY IN ITS VARIOUS FORMS.



that which is important for the wellbeing and good fortune of a business. Therefore, "capital" should mean more than money. It should bring to the minds of owners, investors and managers all that leads a business to prosper.

The word "asset," so often taken as descriptive of capital, supports a too narrow exposition of all that makes us wealthy. Speaking of "assets" too restrictively brings to mind cash equivalents and not the intangibles which give strength and purpose to our lives. The core concept of "assets" uses the Latin word satis, meaning "enough." In the 1570s, the word "assets" referred to having an estate upon death sufficient to discharge all debts. "Assets" were what could be monetized. By the 1580s, the word was given a general sense of what could be owned, especially any property that theoretically could be converted to ready money.

We come to a similar conclusion when we analyze the etymological roots of the word "own" or "to own." The idea evolving into our word began with the Proto-Indo-European idea behind aik-, which was "to be master of," "to possess." The root seems to be what a person is in command of, has authority over, the source of agency in that it can be deployed by a person to have effect. Though we most often think of a material context for ownership, the word need not be so limited. For example, we can "own up" to our responsibility or to a fault committed by means of our mastery over some action or thoughtlessness. We also say "to hold one's own," meaning to stand firmly for oneself.

The word "own," I suggest, points to personal agency, to all those personal attributes which are under our mastery or to our character as a person. We own our personhood. At times, we can degrade that ownership of ourselves by turning control over to emotions, to cognitive biases, to others or to a surrender of our will to circumstances.
Thus, even today, we may still infer that what we call "capital" could include all

Today, under American law, a final account and petition for distribution of an estate can be filed by the personal representative when there are sufficient funds available to pay all debts and taxes, the time for filing creditors' claims has expired and the estate is in a condition to be closed.

A similar restriction has been placed upon the word "labor" to distinguish it from property or what was gained from labor. Though now long used in political economics as personal, physical effort distinct from capital, the verb "to labor" also still implies strength of character – an asset of self-mastery – when persevering in accomplishment. The Latin verb *laborare* could refer to the following actions: to work; endeavor; take pains; exert oneself; produce by toil; suffer; be afflicted; be in distress or difficulty. The Latin noun labor similarly embraces not only work, but also toil, exertion, hardship, pain, fatigue. Thus, labor drew attention to performance, to undertaking a task, with all that implies for activation of our capacities, skills, creativity, ingenuity, diligence and other traits of character. Our labor, thus understood more capaciously, denotes our personal self in action. Without logical difficulty, we can say that labor is the intentional application of personal agency in time and space. It is what we use to make the most of our lives.

In his seminal description of the new system of wealth creation which had emerged in his time, Adam Smith wrote of "stock" as the monetizable assets needed for a firm to succeed. But at the same time, for example, in his description of the division of labor in the pin factory which gave an exponential increase to the daily production of straight pins, Smith noted the importance of what today we call "social" capital or "human" capital. His depiction of the necessary reliance of every seller on the value preferences of consumers further grounded his understanding of the "origins" of the wealth of nations on moral conditions for exchange.

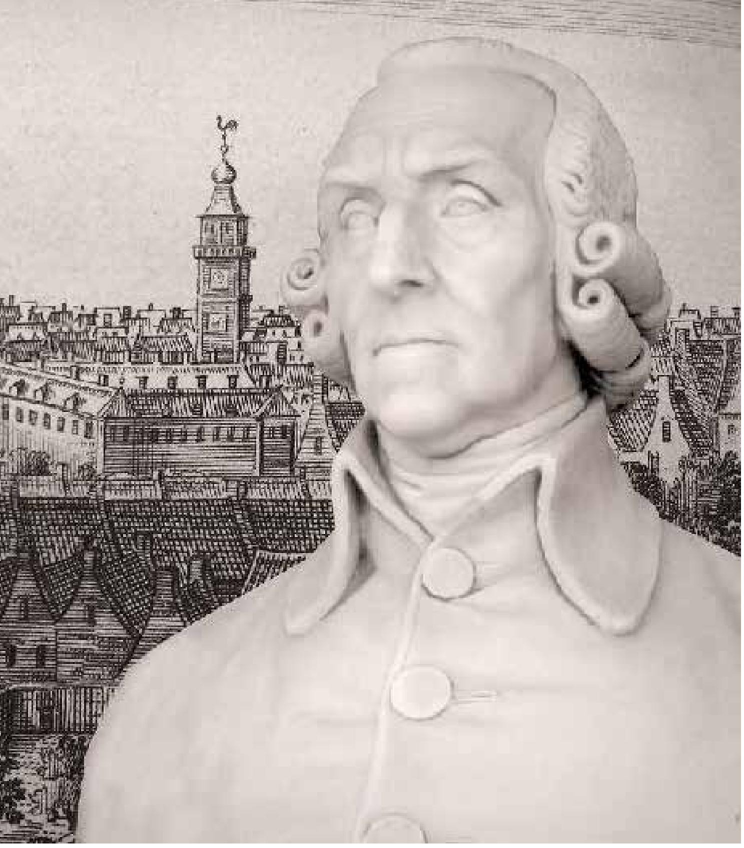
In his pioneering exposition of the inner workings of a new economic system springing up around him in Scotland and England, Adam Smith astutely observed that valuable factors of production included more than labor power, money and land.

First, he presumed that individuals had to bring substantive advantages to market if they were to profit from others: "Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizens." Every individual needs assets in order to be an independent author of personal wellbeing and advancement. "As it is by treaty, by barter and by purchase, that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives rise to the division of labor." What each individual brings to the commons determines the value of what he or she receives in return. Such capacity to contribute is a resource which empowers. "Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society."

Sometimes, Smith observed, what is brought to the common weal is "an uncommon degree of dexterity and ingenuity, the esteem which men have for such talents, will naturally give a value to their produce superior to what would be due to the time employed about it. Such talents can seldom be acquired in consequence of long application, and the superior value of their produce may frequently be no more than reasonable compensation for the time and labor which must be spent in acquiring them." Smith observed that different trades and professions earned more or less for those so engaged according to the correlation of a person's education and insight and the probability of success. Such education and insight functioned as capital assets, attracting the confidence of others and so determining market judgments on the quality and price of the goods or service provided.

Talent is an economic advantage, an intangible asset which earns a return, a human capital.

ADAM SMITH NOTED THE IMPORTANCE OF WHAT TODAY WE CALL "SOCIAL" CAPITAL OR "HUMAN" CAPITAL.



Smith noted in addition that some labor is not mere physical exertion. It is another kind of talent – the skill of inspection and direction of the work of others, the skill of management. Some of the wages paid to such a worker reflects the value to the business of such inspection and direction and is a measure of the "trust" reposed in the worker's knowledge, judgment and discretion. Those personal capacities for management and for deserving trust are assets of the individual employed, assets like money which is contributed to production for a return to the owner. Smith understood that small trust in a worker deserved less renumeration than that received by one capable of being greatly trusted with authority and responsibility. "When a person employs his own assets in a business, the credit which he may get from other people, depends, not upon the nature of his trade, but upon their opinion of his fortune, probity, and prudence."

Years later, the American financier J. Pierpont Morgan had these words of advice: "Money equals business which equals power, all of which come from character and trust." "The first thing (in credit) is character... before money or anything else. Money cannot buy it." "A man I do not trust could not get money from me on all the bonds in Christendom. I think that is the fundamental basis of business."

The conflating of "capital" with money and finance was accomplished later in the 19th century. Christian moralists like Charles Dickens disparaged market economics on the grounds that they depended on greed, an unworthy predilection of more vulgar minds. Most importantly, Karl Marx wrote his treatise *Das Kapital* to damn what would thereafter be called "capitalism" for replacing moral responsibility with the "cash nexus".

Today, in a post-industrial society, we can better understand that the value of a firm depends on more than its cash accounts and its financial balance sheet. Firms need intellectual capital – patents, trademarks, trade secrets, proprietary know-how. They need goodwill. They need productive employees. They need brand loyalty among consumers. They need quality governance, a form of social capital.

Today, for most companies, their market value – set by public trading or inferred by a net present value calculation – is much larger than the net assets stated in their financial accounts. Thus, the total capital which is used in making profits encompasses more than what can be quantified in monetary units. Such total capital includes financial, social, human and natural capitals.

This concept of capital in macro economics is similar to Total Factor Productivity used in measuring national GDP. Calculating a firm's total capital is recommended by the International Integrated Reporting Council. The World Economic Forum measures countries for their achievement in creating human capital.

Once capital is understood as a composite, its vital contribution to human wellbeing appears.

For individuals, capital provides a buffer against bad luck – against risk. Capital provides resilience. Simultaneously, it also provides individuals with means to obtain advantages, to turn risk into reward.

Capital functions as a resource. It is an asset. It is used. It has dynamic and static qualities. Dynamically, it is energy which flows through time and spreads across space. Statically, it can be stored and kept over time for use upon demand. Thus, money, for example, either can be spent or kept in a safe. Skills and learning acquired through education can be applied in the present or kept in mind for future use. Our earned reputation stays with us and it acts on our behalf in a moment of engagement with others. Our personality, with its components of ego identity, introversion, moral compass, ingrained habits, both good and bad, is always with us and acts on our behalf every waking minute of our lives and sometimes in our sleep in the form of dreams.

A conclusion, then, is that to live well, we need to acquire and protect assets and not only financial assets.

When we make a comprehensive list of possible individual capitals, we are forming a concept of the properties of a person in a more scientific sense. In physics and chemistry, a property has the meaning of a capacity, a tendency, a causal contribution to an outcome. For example, the property of carbon as a diamond is different from its property as coal. The property of carbon, when infused with the property of hydrogen in a specific ration of one to the other, creates something with new properties – hydro-carbons. Similarly, the property of ice is different than the properties of both water and vapor. Each property has its own use.

A root word for "property" in Latin is *proprietatem* or having a special, inner, private character or quality, such as coming under exclusive ownership. The Latin word was borrowed from the Greek idea of *idioma*, meaning peculiar, idiosyncratic, idiomatic. The Latin cognate word *proprius* means one's own, particular to itself, special, proper and correct, from *pro privo* "for the individual, in particular," from ablative of *privus* "one's own, individual."

Thus, what is proper to a mature person of sound body and disposition is not transient. It has substance which produces a felt presence in the world around it.

Capital goes hand in hand with human freedom or liberty. Without capital, it is very hard for individuals to be free or to experience liberty. With capital, they are positioned to seek and find their chosen destinies. Idealism and aspirations, that which gives purpose and meaning to life, become practical wisdom for those who have capital. For those without capital, little can be made of life that is more real than cynicism and despair.

That a person's capital account, so to speak, can include a versatile range of properties can be confirmed with an analogy to factors

CAPITAL GOES HAND IN HAND WITH HUMAN FREEDOM OR LIBERTY. WITHOUT CAPITAL, IT IS VERY HARD FOR INDIVIDUALS TO BE FREE OR TO EXPERIENCE LIBERTY.

of production, traditionally listed as land, labor and capital. One commonality among the three is that they can be lent for a price. There is rent for land, wages for labor and interest or dividends for money. The accounting custom is to pay for a factor in segments of time used. Rent is charged per month or year; wages by hour, day, week or month. Money at a rate for interest or a share for dividends, calculated on a monthly, quarterly, or yearly basis and so paid over to the provider of the asset. Yet, when labor earns a bonus or a share of the profits, something other than hours worked is used to justify the return on the contribution to productivity of that individual. As with land and money, the special "properties" contributed by the person for use in production of the good or service are rewarded with wealth measured in money. What the person so contributes is, therefore, like the assets of land or money.
Like the landowner and the financier, the worker brings assets, not just physical exertion, to the productive process of wealth creation.

Part of a person's capital might be that which Aristotle associated with virtue. Cicero, in his book *De Officis*, advised that we will have better, happier lives if we acquire skills in applied ethics – combining the *honestum* or what has moral integrity for ourselves and in our relationships with others with the *utile* – that which has utility, provides practical advantage.

In Buddhism, the reality of living in the dharma is a state of being which is our capital. Buddhism, therefore, teaches how we can enhance the quality of that state with the skills of mindfulness which are readily at hand as we apply our will.

Confucius and Mencius advised that each of us can better our lives by taking responsibility for our relationships and living up to the expectations others have of us to live with reciprocity. This inner capacity of soul and personal dedication was called virtue (Te). It was a form of personal capital.

Catholic Social Teachings emphasize human dignity in that we are created by God with capacities and a moral competence. The existential reality which can uphold that dignity is our personal capital.

The early Calvinist political philosopher, Johannes Althusius, insisted that all people are destined to associate with one another (*consociandi*). Human life, accordingly, proceeds along symbiotic processes. To live well, each person must be adept at the practices of association and symbiotic reciprocity. The capacity to live so is an asset of each person. The quantity and quality of that personal asset advance or impede how that person experiences the outcomes of life.

In particular, each person needs the capacity to mutually access whatever is useful and necessary for the exercise of social life.
No person is by nature endowed with the requisite necessities; no person is self-sufficient, needing social support to live and, more importantly, to live well. Each person must have as an end of personal effort a just, happy and comfortable symbiosis and must acquire the means to achieve that end.

Each of us comes into the world with intellectual and moral skills to acquire capital. But those skills are our only natural capital. Althusius called these "the seeds of virtue implanted in our souls."

We come into the world in different social, economic and political circumstances which differently enable us to acquire less-natural forms of capital from our families, education and our social access to property.

Calvinists, such as Puffendorf, wrote about the "duties" we can assume which will lead to better fortune and better relationships. Even Nietzsche, the nihilists, in his reducing human life to the "will" to power, was using "will" as the sum and substance of a person's core capital, that which carried a person through life with purpose and independent living. Adam Smith followed this understanding with his extensive discussion of our moral sentiments – how we acquire them, use them and how they serve our wellbeing. Smith is quite comfortable in presenting moral sentiments as a kind of individual asset to be acquired, saved and used profitably to improve our wellbeing.

Qur'an similarly informs us that each person was created by God to serve as a steward in life. To perform the work of stewardship, each person is endowed with character and potential, held in trust. With respect to financial capital, Qur'an is explicit that no person should be subjected to excessive risk which might destroy the capital they possess with which to do their duty.

More specifically, Qur'an calls upon individual persons to act upon their stewardship obligations. The outcome of their actions should be justice – *Adl*. Powers and abilities are given to people as trusts – *Amanah* – to be used, not reserved for selfish enjoyment. Individuals are given the ability to think, reason and reach conclusions – the faculty of *Ijtihad* which must be used in consultation with the thinking of others (*Shurah*) and be open to a merciful conscience (*Rahmah*).

Under Qur'anic guidance, all people are called to seek certain purposes with their talents and their resources: (1) respect for and promotion of life; (2) respect for and promotion of good values and human nature (religion and civilization or din); (3) respect for and promotion of knowledge and thoughtful conduct; (4) respect for and promotion of property; and (5) respect for and promotion of family and progeny. The return on such actions is a balance (*Mizan; Wasatiyyah*). The resources – real and spiritual – which are put to work which provide energy for accomplishment – should be considered assets of the person seeking to improve the world, in other words, as capital.

Contemporary moral philosopher John Finnis, arguing from ideas about natural law only, concludes that each person deserves to have seven fundamental goods: life, knowledge, play, aesthetic experience, sociability of friendship, practical reasonableness and religion. Finnis' proposals have been described as follows:

LIKE THE LANDOWNER AND THE FINANCIER, THE WORKER BRINGS ASSETS, NOT JUST PHYSICAL EXERTION, TO THE PRODUCTIVE PROCESS OF WEALTH CREATION.

SOCIAL AND ECONOMIC SYSTEMS HAVE A DUTY TO ASSIST US IN THE ACQUISITION AND MAINTENANCE OF OUR CAPITAL ASSETS.

- *Life* brings a vitality that enables a person to gain strong willpower.
- *Knowledge* is to be acquired by the individual as a habit of pure desire to know, simply out of curiosity, as well as a concerning interest and desire for truth.
- *Play* is expression of the person's subjectivity and imagination.
- *Aesthetic experience* is similar to play in that it is subjective and uses the faculty of the imagination.
- *Sociability* is realized through association and friendship; it is both a personal capacity to engage and a personal benefit.
- *Practical reasonableness* uses a person's intellectual ability in making the choices that ultimately shape one's nature and the quality of one's life.
- *Religion* is a sphere of personal being which responds to a concern for a simplified, distinct form of order, wherein an individual comes to recognize a sense of personal responsibility.

These seven goods serve a person as resources and capabilities. They are assets, making possible risk investment in personhood. To more accurately account for the forms of capital which enhance our lives, the function of each capital can be described. An individual's total capital might well be included in John Finnis's list of human goods which we can accept as truly applicable to living a good life.

Social and economic systems have a duty to assist us in the acquisition and maintenance of our capital assets. With respect to the economy, that calls for financial empowerment of individuals – enhancing their access to and ownership of capital assets.

In the 1950's, Mortimer Adler and Louis Kelso proposed a different relationship between labor and capital then held by conventional market analysis of economic growth. Alder and Kelso gave capital a greater role in wealth creation as a result of structural features introduced by the industrial revolution. Their observation, given the ungainly name of "Binary Economics," was that capital, not labor, was doing ever more of the work in an economy and was creating ever more wealth and was contributing ever more to economic growth. They insisted that increases in capital productiveness, rather than increases in human productivity, contribute more to growth. They concluded that "Capital is the primary source of affluence, whereas labor rarely produces more than subsistence."
Now, happily, Binary Economics includes more than finance and tangible assets in the capital stocks which work away to create new wealth. They consider capital to be that which is used to produce goods and services. So quality human capital, though paid a wage, earns more than merely providing an energy equivalent in horsepower. As a form of intangible capital, it earns a return on its contribution to sales and profits as an asset.
The recommendation of Binary Economics, then, is to provide all with access to ownership of capital. Simply put, Kelso recommended loaning money to workers for them to buy ownership shares. Dividends on the shares would pay off the loan. Once the loan was paid, all earnings on the shares in the enterprise would go to the worker as

owner, including a share of the earnings of all forms of capital used by the firm in its seeking profitable returns.

In short, the proposal is to empower individuals by providing them with assets, to give them a balance sheet of significance where risk would be offset by capital. In the U.S., Kelso's idea was adopted in the employee stock ownership plans, where employees could borrow money to buy ownership shares in the companies for which they worked.

The insight of Binary Economics has been recently echoed by Thomas Piketty in his book *Capital*, where he argues that r > g: the return on capital (in his case only financial capital) – r - is greater than the rate of growth - g. Thus, Piketty argued, those with wealth would always have a greater share of national wealth and income than those who only worked for wages. Piketty, indirectly, recommended an asset accumulation approach to better balancing the distribution of wealth between the top 10% and the bottom 50% of any society. He proposes high taxes on the wealthy to be used by government to fund acquisition of social and human capitals by those in the lower income quartiles, in addition to subsidies of their living expenses.

If the policy vector preferred by Binary Economics and Piketty is, roughly, to give individuals more capital assets to call their own, the range of capitals which they should acquire needs to be set forth and evaluated for impact and efficiency in improving their ability to obtain lives of quality and acceptable risk Amartya Sen made a list of capabilities which we should review for their possible inclusion in a list of fundamental human capitals. His approach reflects a vision of total capital at the level of the individual. He drew our attention to individual differences in the ability to transform resources into valuable activities, the variety of activities giving rise to happiness and having a balance of materialistic and nonmaterialistic factors in evaluating human welfare. Sen defines the most promising individual, a person with agency, as someone who acts and brings about change, whose achievement can be evaluated in terms of his or her own values and goals.

Sen's colleague, Martha Nussbaum, offered a list of capacities supporting individual agency. Each of these capacities can be considered as an asset of an individual who has agency:

- *Life*. Not dying prematurely, or before one's life is so reduced as to be not worth living.
- *Bodily Health*.
- *Bodily Integrity*.
- *Senses, Imagination and Thought*. Being able to use the senses, to imagine, think and reason—and to do these things in a "truly human" way, a way informed and cultivated by an adequate education, including, but by no means limited to, literacy and basic mathematical and scientific training. Being able to use imagination and thought in connection with experiencing and producing works and events of one's own choice, religious, literary, musical and so forth. Being able to use one's mind in ways protected by guarantees of freedom of expression with respect to both political and artistic speech and freedom of religious exercise. Being able to have pleasurable experiences and to avoid non-beneficial pain.
- *Emotions*. Being able to have attachments to things and people outside ourselves. Supporting this capability means supporting forms of human association that can be shown to be crucial in their development.
- *Practical Reason*. Being able to form a conception of the good and to engage in critical reflection about the planning of one's life. This entails protection for the liberty of conscience and religious observance.
- *Affiliation*. Being able to live with and toward others, to recognize and show concern for other humans. Protecting this capability means protecting institutions that constitute and nourish such forms of affiliation and also protecting the

freedom of assembly and political speech. Having the social bases of self-respect and non-humiliation; being able to be treated as a dignified being whose worth is equal to that of others.
- *Play*. Being able to laugh, to play, to enjoy recreational activities.
- *Political*. Being able to participate effectively in political choices that govern one's life; having the right of political participation, protections of free speech and association.
- *Material*. Being able to hold property (both land and movable goods) and having property rights on an equal basis with others; having the right to seek employment on an equal basis with others; having the freedom from unwarranted search and seizure. In work, being able to work as a human, exercising practical reason and entering into meaningful relationships of mutual recognition with other workers.

In 1990, the U.N. Human Development Report began to measure some of these capacities as provided by different sovereign nations as the Human Development Index to more or less successful national development efforts. In the tradition of virtue ethics, a basic asset permitting one to live well was having sufficient strength of will to overcome wayward and selfish inclinations. Thus, possessing virtues couldselfish inclinations – vices – would be added to the liability side of one's capacity for agency.

In Buddhism, personal assets are the capacity to have:
- Generosity, giving of oneself
- Morality, proper conduct
- Renunciation
- Transcendental wisdom, insight, discernment
- Energy, diligence, vigor, effort
- Patience, tolerance, forbearance, acceptance, endurance
- Truthfulness, honesty
- Determination, resolution
- Goodwill, friendliness, loving-kindness
- Equanimity, serenity

And personal inclinations towards the following would be liabilities of character, giving rise to hardships and disappointments in life:
- Greed
- Hate
- Delusion
- Conceit
- Wrong views
- Doubt
- Torpor
- Restlessness
- Shamelessness
- Recklessness

In his *Nichomean Ethics*, Aristotle isolated these virtues as enhancing one's agency in life:
- Courage in the face of fear.
- Temperance in the face of pleasure and pain.
- Liberality with wealth and possessions.
- Magnificence with great wealth and possessions.
- Magnanimity with great honors.
- Proper ambition with normal honors.
- Truthfulness with self-expression
- Wittiness in conversation.
- Friendliness in social conduct.
- Modesty in the face of shame or shamelessness.
- Righteous indignation in the face of injury.

In the Catholic tradition, Dante provided a list of seven vices which would draw one into difficulty and loss:
- Pride or vanity
- Envy or jealousy
- Wrath or anger
- Sloth or laziness
- Avarice, covetousness or greed
- Gluttony
- Lust

The most thoughtful Simone Weil, just before her death in 1943, in proposing how France could rise out of the oppressions and divisions of the war, wrote of what every person needs to prosper in life. She called these goods - really assets sustaining a healthy personality and giving it resilience - the "needs of the soul." These intangible assets, she proclaimed, nourish the soul which is what gives meaningful life to individuals. Among the personal assets she prescribes are: order, not confusion, among our moral obligations; a liberty to choose, provided by others who respect our capacity for agency; to feel useful, to be expected to take initiatives and be responsible; risk tolerance; to have symbols which confirm the morality of our place in the world, a conviction that we have a vocation; honor, public acknowledgement of sharing in a noble tradition; no weight of fear or terror on the soul; wealth, but not idolatry of money, which is unhealthy; a conviction that one has a civic life as part owner of the collective; truth; and finally, the soul's most needed nourishment - to be "rooted."

A society which does not or cannot nourish the souls of its constituents fails them grievously. Weil believed that such a society condemned its members to "a spiritual lethargy resembling death." Alternatively, those whose souls are on starvation diets are tempted to "hurl themselves into some form of activity necessary to uproot those who are not yet uprooted or are only partly so." Thus, when society starves the souls of its members, it destroys their human capital. They suffer and through their uprootedness, they destroy social capital, which in turn further degrades human capital.

Professor David McClelland postulated a relationship between successful economic development, with all its benefits for better quality of life, more public goods and a more robust civil society and a personal motivation he called "need achievement." For McClelland, the achievement motive in a person drew forth behaviors conducive to economic growth. Thus, such a motive was a form of human capital, contributing to the formation of financial capital.
McClelland and his associates studied other motivations which propelled individuals towards selected actions with social consequences, some positive and some negative. Thus, the particular motivation could be considered a positive form of human capital if it leads to positive social outcomes, but a negative form, a social and perhaps also a personal liability, if it brought about dysfunction or harm.
One such motivation was a "need for power." A strong power motive could lead to anti-social, aggressive behaviors injurious to the group. As a result, many individuals with a strong power motive thinking poorly of themselves for alienating others with rebellious, resentful and sulky behaviors. Women with high power motives often described themselves as cynical, bitter and resentful.
On the other hand, as part of a different personality, a strong power motive might inure a person to danger and risks and so bring about needed courage and leadership in difficult times. Persons with a strong power motive are associated with building alliances in small groups and driving group action. A strong power motive, though, tends to promote a habit of collecting prestige possessions like money, higher organizational position and conspicuous consumables.
According to McClelland, the impact of a person on his or her society can reflect a motive for affiliation, for building social capital in the form of comfortable cooperation. Such motivations should be thoughtfully considered when taking stock of a person's total capital assets and offsetting liabilities.

THE PROPOSAL IS TO EMPOWER INDIVIDUALS BY PROVIDING THEM WITH ASSETS, TO GIVE THEM A BALANCE SHEET OF SIGNIFICANCE WHERE RISK WOULD BE OFFSET BY CAPITAL.

**AGENCY IS THAT WHICH PERMITS INDIVIDUALS TO BE FREE AND TO EXPRESS THEIR HUMANITY AND DIGNITY.
AGENCY HAS VALUE. IT IS AN ASSET AND NOT A LIABILITY.**

An article in the August 2020 edition of McKinsey Quarterly by Lisa Christensen, Jake Gittleson and Matt Smith proposed a similar kind of personal asset: the ability to be an intentional learner. They affirm that intentional learners possess "what we believe might be the most fundamental skill for professionals to cultivate in the coming decades. In the process, they will unlock tremendous value both for themselves and for those they manage in the organizations where they work." Their definition of intentional learning exposes it as a personal asset: "an investment we make in ourselves, but it is equally an investment we make in our professions, our families, our communities, our organizations and the world at large. In that way, it just might be the most fundamental skill for professionals to cultivate." Then, they argue that acquisition of intentional learning, as a habit, comes from having an appropriate "mindset." Thus, the mindset itself becomes a personal asset, a source of efficacy and wealth creation. Mindsets, they write, are powerful, often exerting tremendous influence on behavior, sometimes unconsciously.

A Growth Mindset—Stanford psychologist Carol Dweck suggests that people hold one of two sets of beliefs about their own abilities: either a frozen or a fluid mindset. A frozen mindset holds that personality characteristics, talents and abilities can't be altered, changed or improved. In contrast, a fluid mindset suggests that its owner can grow, expand, evolve and change. One's capacity is not fixed, but can be made more ample and resilient, more efficacious.
To habituate oneself with using the powers of a fluid mindset, one should:

- Set small, clear goals.
- Remove distractions.
- Actively seek actionable feedback.
- Commit to tasks in areas you want to grow in.
- Practice regular reflection.

A related personal asset promoting agency is the ability to avoid cognitive biases. These biases interfere with good judgment, wise decision-making and successful engagement with others. Examples of cognitive biases are: overconfidence; self-serving bias; following the herd; loss of aversion; acceptance of narrative or other framing bias; anchoring in old data bias; confirming old perceptions bias; ; overestimating the chances of positive outcomes; and underestimating the probabilities of negative outcomes.
Yet, again a frame of mind positions our habits and abilities which, in turn, often determine our life outcomes.

In 2014, Angela Duckworth encapsulated her understanding of what contributes to an individual's success in life as "grit." She specified the components of "grit" as: courage; conscientiously pursuing achievement instead of dependency; following through on long-term goals with endurance; resilience through optimism, confidence and creativity; and choosing excellence over distant perfection. Possessing such "grit" is an asset of the mind and psyche.

Responding to vulnerabilities and lack of achievement in children, educators in the U.S. have developed programs to foster social and emotional awareness. In prior generations, this kind of coaching in balancing autonomy with successful, interpersonal relationships was called "character building." The domains of important social and emotional accomplishment are:

Possession of such personality skills adds important resources (assets) to the psycho-social heft of any individual with respect to navigating the risks of life and coming out on top of the vicissitudes encountered.

A practical way forward to concretize this more fundamental and human concept of the value and assets which should, by right, be the possession of each person would be to format a "balance sheet" for human capital. Such a balance sheet would record assets and liabilities for each of the three forms of capital – financial, social and moral character or "human" capital. Positive balances for financial assets, social skills and resources and personal values and habits would be assets. Financial debts, social vulnerabilities and personal limitations such as cognitive biases, depression and ignorance, would be liabilities of the person, obstacles to his or her finding sustainable wellbeing.

Conclusion

Agency is that which permits individuals to be free and to express their humanity and dignity. Agency has value. It is an asset and not a liability. Protecting a person's agency defends their ability to be human, a status to which they have an inherent right.
Agency can be expressed only by use of powers under the direction of the person. The total of those powers, less than which detracts from their exercise or which inhibits or compromises the force and reach of personal agency, is the net asset value of a person's agency.
This hypothetical balance sheet is proposed to answer the question "what is a person's capital value?" Each asset and liability to be recorded on the proposed sheet brings forth new questions: what are the proper components of a person's capital? How should each such component be measured?
The achievement of human wellbeing and felicity comes with the application of capital to our various vocations. If human rights are to provide vehicles for human dignity to manifest itself, then each individual has a claim to the ownership of capital. A society is, therefore, just to the extent it facilitates such acquisition by individuals of the powers and force fields which make personal agency a present reality.
Giving scope to human rights is protecting a very valuable life force – the realistic possibilities generated by an individual's application of his or her capital. ■

PAUL STANFIELD

SECRETARY-GENERAL
OF FECIF, BRUSSELS

CEO OF FEIFA, UK

ONLY A QUARTER OF ADVISERS ALWAYS CONSIDER ESG INVESTMENTS

■ UP IN THE NEWS—OPINION

This was one of the significant findings of the unique ESG survey conducted by FECIF. Whilst it was found that over 90% of financial advisory professionals considered ESG investments some of the time, just 23% did so all of the time; which is potentially concerning, given the EU regulations around ESG matters that began in March 2021!

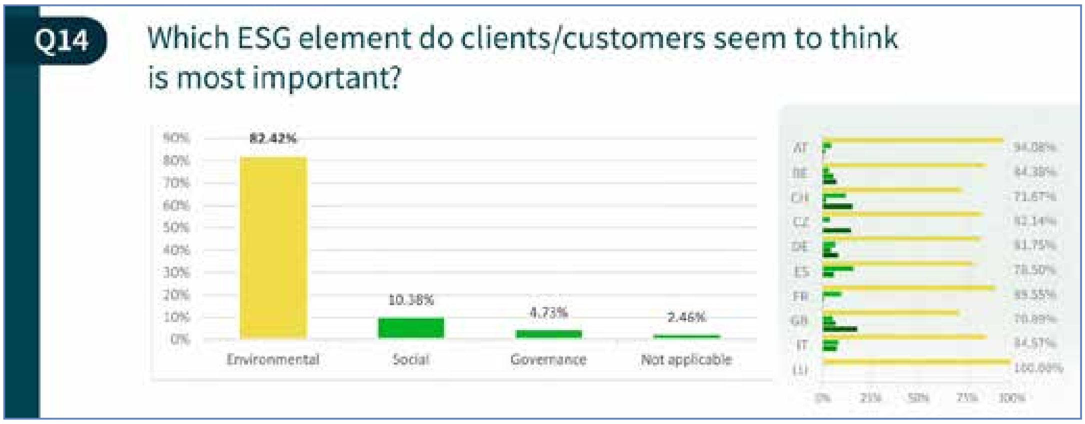
Unique webinar and survey

This data was revealed at the market-leading ESG webinar that FECIF held at the end of September 2020. It was derived from the above-mentioned research, conducted in July and August of that year; which elicited responses from no less than 2,000 advisers and financial intermediaries across Europe. Given the countries covered and the number of respondents, this is, to the best of my knowledge, one of the most extensive research projects, of its kind, ever conducted; if not the premier survey in the area of ESG advice.

The online event attracted over 200 advisers from all across Europe, and combined a number of industry experts in order to assess some of the key discoveries from this research and discuss advice around ESG investing, not least in light of the forthcoming regulations (which much of the advisory sector seems unsure or unaware of, at this stage).

E, S or G?

Another interesting aspect of the research, also discovered during the webinar, is that 82% of advisers believe that the key component of ESG, as far as their clients are concerned, is Environmental matters.
The panellists felt exactly the same as the survey respondents, but pointed out that Social considerations were fast gaining traction within the populace, not least on the back of the present global pandemic.
A lesson for advisers, perhaps; ensure that you are in tune with changing and developing public opinions in this sphere.



Comparisons at national, association and adviser level

The results from the survey have enabled us to compare individual countries as well as provide conclusions and clarification across Europe as a whole. Our National Association members can now specifically see where their advisers stand against other European markets and the collated data also helps individual advisers and intermediaries see if there are any gaps in their work or processes in these areas; ahead of the new regulations impacting them.

Other data collated

In addition to the results highlighted above, the survey looked into the present activities of advisers with regards to ESG, how often they consider such matters with clients, why, and when. It also assessed their views of investment companies and regulators, concerning "Sustainability" – and ascertained where they themselves need more knowledge and assistance to perform their role better. Finally, but certainly not least, we collected their opinions with regards to clients' interest, thoughts and approaches to this area. Some of this data is available within the public domain. The total research will be exclusively available to FECIF members.

Conclusions

An unmatched survey and incomparable webinar unveiled significant data and resultant conclusions, as well as highlighting FECIF's unique ability to generate such market-leading research.

It became clear, through the webinar, that there are presently 2 key factors creating the need for greater advice to be provided to investors on ESG matters: firstly, consumer interest and demand; secondly, regulatory requirements. COVID-19 has obviously been an accelerant to these factors, but not a prime driver in itself. ■

WHILST IT WAS FOUND THAT OVER 90% OF FINANCIAL ADVISORY PROFESSIONALS CONSIDERED ESG INVESTMENTS SOME OF THE TIME, JUST 23% DID SO ALL OF THE TIME.

VANIA FRANCESCHELLI

VICE-PRESIDENT OF FECIF, BRUSSELS

AFFARI ESTERI OF ANASF, ITALY

THE IMPORTANCE OF FIGHTING FOR GENDER EQUALITY IN THE FINANCIAL ADVICE INDUSTRY

■ UP IN THE NEWS—OPINION

Gender equality is a key point in the 2030 Agenda for Sustainable Development adopted at the United Nations Sustainable Development Summit on 25th September 2015. The plan set by the Agenda is formed by 17 goals that aim to preserve our planet for future generations, to ensure the prosperity of all human beings, to foster peaceful, just and inclusive societies and to enhance global partnership among all countries, stakeholders and people.

If we focus on the gender gap topic, some progress has been achieved over past years and decades: more women are going to school, are able to make their own life choices and have reached leadership roles, both in political and corporate scenarios. Legislation is also beginning to protect women's rights and freedoms. However, many challenges must still be overcome as several laws and norms are uneven and outdated and violence is always present as 1 in 5 women, between the ages of 15 and 49, report at least one episode of physical violence (based only on reported cases, which are the minority). Women are also still underrepresented at various levels of political leadership and in working environments compared to men. Pay equality for the same tasks and jobs should be the norm, but it's still a taboo in many advanced economies as well.

Moreover, the outbreak of the COVID-19 emergency could put at risk part of the progress achieved in the last few decades, as the pandemic may emphasize already-existing inequalities in all social and governance fields. This is due to the fact that women are more severely hit by the health and economic effects of the virus. In fact, the amount of unpaid work that women carry out has increased because of school closures and the rise of necessary care for older people. According to United Nations data, 60% of women work in the informal economy and this could determine a greater risk of falling into poverty. The necessary lockdown measures have led to a steep increase in the cases of domestic violence against women and girls, as many were trapped with their abusers, according to data and reports collected by national authorities as well as organizations like the Human Rights Watch that works closely with the UN.

Although difficulties for women increased during the pandemic, this could be an opportunity to enhance responsibility towards gender equality and develop targeted response by keeping in mind the gender impact when developing COVID-19 response plans, budgeting and resources. This emergency could be a chance for radical, positive action to redress long-standing inequalities in multiple areas of women's lives and build a more just and resilient world.

For this reason, UN Women, the United Nations organization that is the global champion for gender equality, has developed five priorities to mitigate the impact of COVID-19 on women:

1. Gender-based violence, including domestic violence, is mitigated and reduced
2. Social protection and economic stimulus packages serve women and girls
3. People support and practice equal sharing of care work
4. Women and girls lead and participate in COVID-19 response planning and decision-making
5. Data and coordination mechanisms include gender perspectives

This situation is deeply linked to the financial advising industry as well. Our reality lacks an equal and even representation between men and women: the CFP (Certified Financial Planner) Board, a financial advisor organization based in the US, states that only 23% (of its 86,000 members) are women. In Europe the situation is similar, with around 20% of financial advisers being women, clearly a minority. This is in strong contrast with results emerging from multiple studies, such as the one carried out by Assogestioni, the Italian association responsible for asset management firms. This survey highlighted how 40.3% of Italian citizens would prefer investing in a company or mutual funds led by women and 39.9% would do so by choosing a female financial advisor as a reference point. It is therefore clear that the presence of women in the advising industry is below the demand required by the public and this represents a chance for improvement and evolution.

A question naturally arises: why is it so important to have a fair representation of women in our profession? The same study by Assogestioni, in accordance with many others rolled out by Accenture, Milliman and other firms, proved that female financial advisors tend to be more likely to keep a cool head when talking about investing, a field where men (on average) appear to lose their nerves more easily. This seems to be due to the fact that women have a wider vision, based on achieving the goals agreed with their clients in the longer term, while men tend to be more worried about preserving their customers' wealth in the short and immediate term.

At the same time, having an appropriate proportion of women is important for advising teams, composed of different financial advisors working together, asset management firms that need to link the trading operations of funds with the retail and institutional investors, and even for the industry as a whole. The positive effect for all these categories is represented by diversity, the enhanced value brought by variety. Women can offer a different point of view and diverse skills and attitudes, bringing additional motivation and better results in teams. This is the reason behind the choice of many firms to encourage diversity in terms of gender, culture and background.

A last important aspect is that women often prefer to be followed or advised by another woman. This is due possibly to a deeper understanding and affinity that results in a much more shared horizon and empathy in goals achievement. Being surrounded with collogues of the opposite sex is a way to enrich everybody's own views and knowledge, for both men and women. This is why gender equality should be in everybody's interest and something to fight for. ■

PENSION REFORM IN EUROPE: MAKE WAY FOR THE 4TH PILLAR?

SIMON COLBOC

FEPI SECRETARY GENERAL

FECIF, BRUSSELS

■ UP IN THE NEWS—OPINION

A wide-ranging study on retirement across Europe conducted in 2020 by the FECIF European Pensions Institute (FEPI) shows that current pension reforms, however ambitious, are far from enough to address the scale of the issue.

Fortunately, European households have accumulated considerable reserves in savings and investments not identified by retirement finance statistics. This 'invisible' wealth of assets represents the hidden '4th pillar' of retirement systems.

However, these investments need to be managed in a completely different way to address the retirement gap – this requires considerable advances in advice and technology.

We generally see pensions and retirement systems as resting on three pillars

The first one is mandatory, a state-run pay-as-you-go system in which contributions from the productive sectors of the economy are redistributed to pensioners. This represents today the bulk of pensions in many European countries, contributing over 70% of pensioners' income in countries like Germany, France, Italy and Spain.

The second pillar is made up of employer-managed funded pension schemes, whether 'Defined Benefits' (guaranteeing a lifetime income in relation to salary and years of service) or 'Defined Contributions' (accumulating a pension pot made available to the participant at retirement). These represent a very significant proportion of pensioners' income in countries like the Netherlands, Denmark and the UK.

The third pillar consists of individual retirement savings made by households to supplement 1st and 2nd pillar provisions. This pillar is the focus of the European Union's effort to boost retirement savings via the creation of the Pan European Personal Pension (PEPP) products, and also local initiatives like the French PER.

This pension structure can no longer be reformed

Maintaining the long-term balance of contributions while avoiding civic unrest on pensions is not easy for governments. Most countries across Europe have been tinkering with Pension reforms for over 30 years now, and it seems they have stretched current efforts about as far as they can go. Demographic changes and worsening dependency ratios (number of pensioners vs. active population) are putting untenable pressure on the pension systems.

So-called 'parametric' reforms, adjusting the parameters without changing the overall structure of retirement systems have reached their limits, as people are not ready to work longer even though we live far older than our grandparents, pension contributions are increasing labour costs and the purchasing power of pensions is worsening.

Recent reforms (from NEST in the UK to the launch of PEPPs) have integrated the learnings of the past and the advances of behavioural finance to develop better and targeted solutions, yet even in the most optimistic projections, the assets accumulated by such products will only address a limited part of the pension gap.

The solution might well lie outside the box, but it still needs considerable work

In reality, there is a lot of room to manoeuvre – provided we accept the need to look outside the box. Current pension systems (both first, second and third pillar) might have reached their limits, but there is an alternative.

European households are sitting on a massive amount of savings, over €30tn in financial savings. These assets are not usually considered when analysing the pension gap, because they sit in life insurance, savings accounts or other forms of financial investments not usually associated with pensions.

However, providing for retirement is one of the key reasons why households have built such savings. If we consider that about a third of these assets are earmarked towards retirement, the assets represent some €10tn aimed at providing long-term financial security to European households.

The good news is that these €10tn do go a long way towards bridging the pension funding gap. The not-so-good news is that this money is not invested in a way that would support the investors' goals. Most of it is parked in products providing liquidity and capital guarantees in the short term, at the expense of long-term returns. Therefore, it is very likely to provide disappointing returns over the long period of time during which it will be invested. The result is simple: households are losing massively in terms of long-term purchasing power, so they are not meeting their goals.

Getting on the right path

A significant shift in saving and investing behaviour needs to take place across Europe if we are to see the 4th pension pillar contribute meaningfully to the long-term financial security of households.
Beyond changes in legislation (e.g. no longer 'forcing' investments towards guaranteed products with poor long-term prospects) and product design, three changes need to take place: (1) enabling consumers to go through a proper financial planning exercise, to define clearly their goals, priorities and time horizon; (2) Enabling savers to set up a risk-based investment approach to reach these goals; and (3) ensuring consumers can access IT-augmented advice to prepare and implement their financial planning. These changes were supposed to be helped by MiFID II, IDD and other European regulations, but we have to admit there is still a lot of work to do.

This article is largely inspired by the research conducted on retirement savings in Europe by FECIF and CMI strategies for FEPI in 2020. A full Executive Summary can be found here. ■

CÉDRIC KOHLER

HEAD OF ADVISORY
FUNDANA

DRAWDOWN ANALYSIS

SHOW ME YOUR DRAWDOWN, I'LL TELL YOU WHO YOU ARE.

■ INVESTING—EXPERTS

Cédric Kohler, CFA, joined Fundana in 2011 as Head of Advisory.
Before this, he worked for Lombard Odier & Cie, for Citadel Investment Group in Chicago, for Merrill Lynch in New York and for UBS in New York, London and Zurich.
He holds a Masters in Economics and Finance from Warwick University and a Bachelors in Economics and Business from HEC. Mr. Kohler is a member of the Swiss Fund and Asset Management Association's Alternative Investment Council.

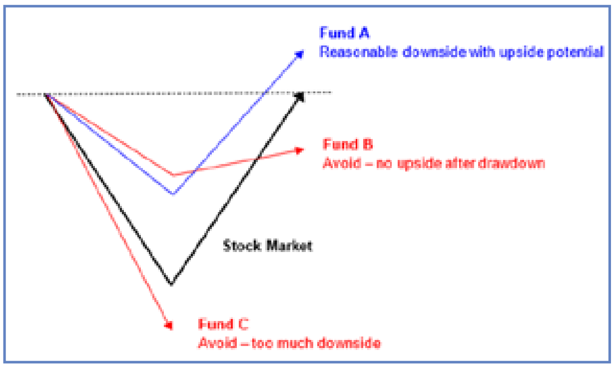
This article was published in GSCGI/ SAIFA's WealthGram on July/August 2020 (www.gscgi.ch).

For many investors, experiencing drawdowns can be an emotional roller coaster. At first, a 5% correction can be exciting as it can be seen as a buying opportunity. At -10%, however, anxiety kicks in quickly and now the question becomes: is it still a buying opportunity or rather time to reduce risk? At -15%, all the plans for a good year are now gone and after a few percent more, capitulation typically leads to a massive risk reduction as stress is at a maximum. Unfortunately, this is typically when the market makes a bottom and starts to rise again. Indeed, for our generation, markets have always rebounded. And those rallies are the most hated by investors as they watch markets rise without being fully invested, leaving them lagging the market at the end of the year. With investors going through so many emotions, it is easy to make serious mistakes and to ruin a track record.

However, as painful as these drawdowns might be, they also represent excellent opportunities to analyse your managers and refine your manager selection. At Fundana, we like to say that monitoring our managers is at least as important as the initial manager assessment. The COVID-19 crisis is certainly providing another opportunity to separate the good managers from the bad and more importantly from the ugly.

After decades of manager selection and monitoring, we have developed a simple yet robust tool that enables us to assess the quality of managers during a drawdown. We call it the V-Shape analysis and a stylized version is shown in the graph below.

V-SHAPE ANALYSIS



The idea is to compare a manager's drawdown versus the market. Here we will use fundamental Long/Short Equity managers to explain the concept. While these managers are primarily stock pickers, we want to make sure that they are also good risk managers. Over the long run, and with enough market corrections, it becomes as important to be a good risk manager as it is to be a good stock picker.

Scenario 1 – Too much downside

The first check is to see if a manager does worse than the market on the way down. From the chart above, we can see that Fund C loses more than the market. This is already a bad sign as Long/Short Equity managers are supposed to protect the downside and hence reduce an investor's portfolio volatility. In addition, the fund will now need to take more risk if he wants to recover the high watermark. That situation is quite dangerous because if the market has another leg down, the fund will now lose a lot more than the market, putting itself in a position where recovering those loses will be next to impossible. Not surprisingly, Fund C types are to be avoided, even if they have recovered during previous crises. It may work a few times until it doesn't, and you end up with an accident in your portfolio.

Scenario 2 – Too little upside

Another common outcome is a fund that protects the downside but that does not participate during the market rebound, like Fund B. This is usually because managers cut risk massively at the worst time or because the Short book is not constructed properly. While the initial protection is welcome, these funds end up the year behind the markets and make for poor investments. Being able to participate in rebounds is as important as protecting the downside!

Scenario 3 – Getting it just right

What we should always be looking for are funds like Fund A. The manager limits the downside with a sound portfolio construction and good risk management and yet manages to capture the upside. Because he lost less than the market on the way down, all he needs to do is to capture the rebound to finish ahead of the market at the end of the drawdown. Over the years, we have observed that the very best managers tend to reduce Net and Gross exposures as the market corrects while increasing certain position sizes on a stock-by-stock basis. In doing so, the manager reduces the directionality risk and the balance sheet risk in case the market gets even worse, but keeps sufficient upside potential thanks to a higher concentration level in certain stocks. Basically, they are transferring the market risk to a stock specific risk which is the risk these managers know best. Indeed, a good risk manager is not only someone who can reduce risk but also someone who knows when to put the risk back on.

INDEED, A GOOD RISK MANAGER IS NOT ONLY SOMEONE WHO CAN REDUCE RISK BUT ALSO SOMEONE WHO KNOWS WHEN TO PUT THE RISK BACK ON.

CORRECTLY ANALYZING A MANAGER'S DRAWDOWN CANNOT BE DONE SIMPLY BY LOOKING AT HIS RETURNS. ONE NEEDS TO UNDERSTAND IN DETAIL HOW THEIR PORTFOLIO CHANGES.

In addition, a fund like Fund A is in a fantastic position. He is up on the year, while markets might still be down, and that puts the manager in a position of strength as this provides him plenty of investment choices going forward. The manager has buying power to profit from current market opportunities and can chose how and when he wants to take risk. If the market continues to stabilize, we can expect strong results from the fund. If the market goes through another correction, this manager will also have an advantage as his YTD cushion would provide him additional buying power later on.

One quickly understands that correctly analyzing a manager's drawdown cannot be done simply by looking at his returns. One needs to understand in detail how their portfolio changes during such a period. Simply looking at returns, one could conclude erroneously that the manager did the right thing while in reality they may have increased risk unduly in one stock or sector. Hence having resources dedicated to these analyses is paramount.

The track record does still matter

Whilst the V-Shape analysis looks just at a crisis period, the size of the drawdown also has to be put in perspective with the manager's prior performance. Indeed, it might be acceptable to keep a manager who loses 8% during a drawdown if they generated a 30% return over the previous cycle. However, you may want to reduce a manager who only lost 5% but had only returned 10% prior to the drawdown. It is also important to put in context these loses versus the manager's expected future performance given the new environment and portfolio.

Conclusions

Drawdowns are always nerve wracking for investors. However, they do provide unique opportunities to better understand your managers and how good they are at risk management. Ultimately, these periods should be used to refine your manager selection and make your portfolios more resilient for the future. ■

MARGIN CALLS
HOW CAN INVESTORS PROTECT THEIR POSITION?

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■ **INVESTING—EXPERTS**

INTRODUCTION

Following the recent market shakedown, banks have been issuing margin calls to their counterparties.

Who is affected? Broadly speaking, two types of investors:
The first category are wealthy clients who have been investing in stock markets on a leveraged basis, through so-called Lombard loans, which are secured against a portfolio of liquid assets like equities and bonds.
The other category comprises counterparties who have entered into derivatives transactions or secured lending agreements with banks.

In simple terms, a margin call is the demand by the bank to increase the collateral or to reduce the credit exposure of the bank by repaying a part of the loan.

In times that are already challenging enough, the margin calls have caught many investors off-guard. Banks typically allow not more than two days to top up the collateral. This often requires affected investors to source substantial liquidity amounts to meet the bank's request, which can prove difficult in the context of a general market sell-off.

The present contribution provides a brief overview of the legal framework and main issues arising under Swiss law, including the rights and remedies available to affected parties.

LEGAL FRAMEWORK

Primarily contractual provisions—
In practice, lending transactions are subject to contractual freedom. Very few statutory provisions apply. In a lending transaction, the contractual documentation ("**Transaction Documents**"), typically consist of a (framework) credit facility agreement and of a (general) pledge agreement, in each case between a bank and a client. The Transaction Documents specify, inter alia, the following parameters:

- *The maximum credit amount or credit limit.*

IF A BORROWER FAILS TO HONOUR THE MARGIN CALL, ALL OUTSTANDING AMOUNTS UNDER THE TRANSACTION DOCUMENTS AUTOMATICALLY BECOME DUE AND PAYABLE.

- *The use the borrower can make of such credit amount:* for example, a current account overdraft, a fixed term advance, a guarantee or as margin cover for OTC derivative transactions (forwards, futures, options, swaps, etc.).
- *The eligible collateral:* this will ordinarily include all borrower's present and future assets, claims and rights deposited with the bank. The bank will often require wide discretion to determine what eligible collateral is. It will typically be defined as cash, cash-equivalent assets or other assets acceptable to the bank (often time "at its sole discretion").

The bank will not consider every type of collateral as equally eligible for lending. Indeed, the lending value or Loan-to-value ("**LTV**") for an asset against which the bank is prepared to lend is calculated based on various risk parameters. The LTV is the ratio of a loan to the value of an asset, expressed in percentage. As a rule of thumb, assets with low volatility and/or high liquidity are considered safer than more volatile and illiquid asset classes. Hence, a diversified portfolio of stocks has a higher lending value compared to a single stock, while an investment grade bond portfolio has typically a higher lending value than an equity portfolio. Assets are valued on a "mark to market" basis, with daily valuations.

The Transaction Documents will also define the conditions under which the bank is entitled to issue a margin call. This will be the case, when the total outstanding amounts including accrued interest exceed the Lending Value of the collateral.

In general, borrowers can comply with the margin call by either selling collateral, by closing open positions (in derivatives), by supplying additional assets considered eligible collateral, or by providing funds.

If a borrower fails to honour the margin call, all outstanding amounts under the Transaction Documents automatically become due and payable. Accordingly, the bank is authorized to freely liquidate all collateral and to set off the liquidation proceeds against the outstanding amounts, or to close out open positions and/or transactions.

Obligations of the bank—Contractual provisions typically grant banks wide discretion at virtually every step in the lifecycle of a credit transaction, including for issuing mar-gin calls. Nonetheless, the bank remains bound by certain restrictions when issuing a margin call and liquidating collateral.

Obligation to issue a margin call before liquidating the assets—Under certain standard clauses found in Transaction Documents, banks are authorized, but not obliged, to issue a margin call in order to inform the borrower about such shortfall and request immediate adjustment of the overdrawn position. Such provisions may conflict with the contractual provisions agreed between the parties in other asset management/advisory documentation, and with Swiss law, thereby overriding the standard clauses of the Transaction Documents.

Where the bank acts as a discretionary asset manager of the client, the duty of diligence and faithful performance (Art. 398(2) CO) dictates that the bank notifies the client of all important events in relation to the management mandate. In our view, this includes an obligation for the bank to inform the client of any margin deficiency. The bank is therefore required to monitor the collateral value and take the necessary measures, i.e. issue a margin call, in case of a collateral shortfall, not only to protect its own interests, but also to limit the risk of losses to the client.

The same holds true, when the parties are bound by a general advisory agreement, under which the bank provides only investment advice to the client, based on his or her risk profile. In our opinion, where a bank advises a client in relation to his or her portfolio, it also has the obligation to follow up on the changes in collateral value, issue a margin call where necessary and advise the investor to adjust the portfolio accordingly (by either selling positions to reduce the credit exposure or posting additional collateral).

The situation may vary if the bank provides only sporadic advice to the client. The Swiss Federal Supreme Court ruled that under such agreements, the bank is, in principle, neither obliged to monitor the client's portfolio nor to warn the client unless there is an express prior agreement or practice between the parties.

Consequently, even where the bank has contractually reserved its right to issue a margin call before liquidating the assets, it may nonetheless be obliged to do so based on the applicable investment agreements. In that sense, the margin call can be even considered a protecting mechanism for a borrower.

Whenever the bank issues a margin call, it must (i) indicate the amount of collateral called and (ii) set the time limit to post it. The Geneva Court of Appeal ruled that absent these prerequisites, the bank is exposed to liability.

Obligation to exercise its discretion with care—A typical contractual clause may read as follows: *"the Bank may at its sole discretion, at any time and without notice to the Borrower, adjust with immediate effect the percentage figures mentioned under "Lending Value", "Margin-Call Level" and "Close-out Level" to reflect - in particular but not limited to - changes in economic, market or liquidity conditions".*

As a matter of principle, the Swiss Federal Court and scholars question whether it is at all permissible to grant a contractual party such broad discretion. In any event, the bank must always exercise its right to adjust the contractual parameters in good faith and not be abusive.

WHENEVER THE BANK ISSUES A MARGIN CALL, IT MUST:
(I) INDICATE THE AMOUNT OF COLLATERAL CALLED, AND
(II) SET THE TIME LIMIT TO POST IT.

BANKS COMMUNICATE A COLLATERAL SHORTFALL WITHOUT FURTHER EXPLANATION TO THE CLIENTS. AN INVESTOR IS THUS UNABLE TO UNDERSTAND, REACT AND CHALLENGE THE BANK'S CALCULATION.

This is particularly true when issuing a margin call. In practice, the Transaction Documents are often silent on the detailed requirements for margin calls, the level of information required to communicate to the investor, and the rules applying to liquidation of assets, in particular, for those without tradeable price. In practice, banks communicate a collateral shortfall without further explanation to the clients. An investor is thus unable to understand, react and – most importantly – challenge the bank's calculation. This is particularly difficult given the time pressure they are under.

Under its obligations to provide an accounting, a bank must communicate to the borrower the calculation details and all relevant parameters of the margin call. Otherwise, the borrower will never be able to make informed choices, especially regarding steps required to protect his or her interests.

Obligation in connection with the liquidation of assets—When liquidating collateral, and although the bank may privilege its own interests, it still owes a duty of care and loyalty and is obliged to act in good faith and avoid damage to the borrower, provided this is compatible with the bank's own legitimate interests.

The prevalent view among authors is that the bank is not liable to the borrower for bad timing when liquidating collateral, i.e. where its value recovers after the liquidation. However, there may be arguably situations where the bank can delay or time the execution of the relevant selling order to minimize the impact on the market price. For instance, in highly volatile markets the liquidation should be spread over successive days. Also, for large positions, the liquidation strategy should aim at minimizing the volatility risks and market impact, according to the principle of best execution.

Finally, when selecting the collateral to be liquidated, the bank must take into account the requests of the borrower, if this is compatible with the bank's legitimate interests.

Such requests are instructions that the bank must carry out according to the best execution principle.

Obligations of the bank in connection with liquidation of collateral:

—Private liquidation vs. debt collection proceedings?

Where the collateral consists of intermediated securities, a liquidation of the collateral by the bank, outside of the framework of debt collection proceedings, is only permissible if the securities are traded on a representative market.

A market is considered representative if it allows to determine an adequate price that rules out the possibility of the borrower being overcharged. The specific requirements vary depending on the method of realization. Where the bank acquires the collateral in its own name (Selbsteintritt), stricter requirements apply than in the case of a sale to an independent third party.

—*Obligation to exercise its rights moderately*

In line with what has been said above, the Commercial Court of Zurich held that the exercise of a right to liquidate an asset may be considered abusive if it is detrimental to the other party and if it can be avoided by an alternative, less detrimental method that could achieve the same objective (Commercial Court of Zurich HG090170 of 22 August 2011).

—*Obligation to provide an accounting*

In connection with the liquidation of collateral, the bank must provide an accounting. This is relatively straightforward for exchange-traded securities (a transaction advice and internal bank documents indicating the exact time of the trade are generally sufficient). It is however more difficult for non-traded securities or derivative instruments, or where the bank acquires the collateral in its own name (Selbsteintritt). Here the bank owes the borrower an accounting of the liquidation procedure and parameters to value the options/derivatives (Geneva Court of Appeal ACJC/1515/2019 of 4 October 2019).

SELECTED ISSUES

Material Adverse Change-clauses—In more sophisticated situations, the relevant agreements will also include certain representations and warranties of the borrower and define certain events of default which may entitle the bank to cancel the credit limit, declare all outstanding amounts due and payable, close-out open positions and liquidate the collateral. If any of the representations and warranties are breached, or any other close-out event or termination reasons occur, which the parties may have agreed separately, the bank may declare all loans due and liquidate the assets.

Among the events of defaults, certain credit agreements contain so-called material adverse change clauses ("MAC-clauses"): *"material adverse changes (for important reasons beyond the influence of the Bank, in particular if the Bank — at its sole discretion — considers that the Borrower's financial status and/or earning situation has deteriorated considerably, or if the Borrower's assets have become exposed to a major threat)"*.

The exercise of a discretionary right of determination must always be made in good faith and not be abusive. Also, the limit of Art. 27 para. 2 CC must be observed, which protects a contractual party against excessive commitment.

THE EXERCISE OF A DISCRETIONARY RIGHT OF DETERMINATION MUST ALWAYS BE MADE IN GOOD FAITH AND NOT BE ABUSIVE.

A RECURRING SOURCE OF PROBLEMS IS THE VALUATION OF ILLIQUID ASSETS AND DERIVATIVE INSTRUMENTS, AND OF COLLATERAL THAT THE BANK ACQUIRES IN ITS OWN NAME.

Especially in the case of MAC-clauses in loan agreements the bank must exercise the greatest restraint before it cuts off the borrower's liquidity supply solely based on a material adverse effect alleged but disputed by the debtor.

Valuation inconsistencies—A recurring source of problems is the valuation of illiquid assets and derivative instruments, and of collateral that the bank acquires in its own name (*Selbsteintritt*).

Problems arise when the bank intends to acquire certain assets at a self-defined market value, which is not derived from the official closing prices, but in addition considers a set of non-transparent factors such as market impact, volatility and currency risk. These factors are not published on official data sources and are determined at the sole discretion of the bank.

In the same vein, in situations where the bank closes-out open derivative positions (or even where the client wishes to do so following a margin call), determining the market price of derivatives can prove a complex exercise. This is exacerbated by the fact that often the bank is at the same time lender and derivative counterparty.

Especially in bumpy markets, the bank will take different pricing assumptions (such as spreads or implied volatilities or currency exchange rates that are off-market), which may lead to distorted valuations.

All these situations could be remedied if the parties contractually agreed in advance on a process for the liquidation of such assets and thereby largely contractualize the duty of care of the bank (e.g. number of quotes to be queried, designation of the market participants to be queried, selection of the valuation method including relevant parameters, transparency on all elements of the valuation, including any fees and commissions).

Impact of Covid-19—Certain banks may be tempted to invoke Covid-19 for triggering the application of MAC-clauses. To do so validly, the bank must demonstrate that the financial situation of the borrower has deteriorated due to Covid-19. A mere abstract assumption would not suffice, in particular when the borrower is a wealthy individual as opposed to a company in a sector particularly affected by the Covid-19 crisis.

By the same token, clients may invoke Covid-19 when faced with a margin call with very short notice to post collateral. In highly volatile markets and the current difficulties everyone is facing due to the various governmental measures (lockdown, clients stranded in foreign countries, etc.), the principle of good faith commands that the banks exercise their right with moderation, which is all the more a requirement when they know that clients will inevitably face a liquidity crunch or, more generally, difficulties in accessing funds to honour the margin call.

That said, the Covid-19 crisis will usually not meet the requirement to qualify as *force majeure* (see Coronavirus: a force majeure event under Swiss law?). Thus, it will not excuse a refusal to post collateral, at least as long as the financial infrastructure is still functional, funds can still be cleared and no measures on capital have been enacted.

AVAILABLE REMEDIES

Temporary restraint orders in order to allow a foreclosure of assets—A borrower who fears that the liquidation of his or her collateral is imminent and is unjustified may apply for a temporary restraint order with the competent court in Switzerland, prohibiting the bank to liquidate the collateral. The applicant must demonstrate that he or she has a credible claim on the merits, that the announced liquidation threatens to cause a harm not easily reparable and that the measure is urgent and proportionate.

According to the case law of the Commercial Court of Zurich, the threatened liquidation of shares may constitute in certain circumstances a harm not easily reparable. This is typically the case where an asset cannot easily be replaced by the borrower (following the liquidation) or where the liquidation would cause a damage that cannot easily be quantified (typically where the valuation of such asset is not straightforward).

Damages—Pursuant to Art. 31 para. 4 FISA, the bank is liable to pay damages to the borrower if it violates its statutory obligation to give advance notice of liquidation, either because it sets the time limit too short, or because the notice - without justification - is not issued at all. Also, investors may in some circumstances claim damages for breach of the contractual duties to inform, to warn, or to act with due diligence, as well as for breach of best execution duty. Excessive commissions, miscalculations, misevaluation of the OTC derivatives may also give rise to damages claims.

(No) influence of standstill on debt collection?—On 18 March 2020, the Swiss government issued a general stay on debt collection proceedings as part of its measures to support the economy in the wake of the Covid-19 pandemic.

If the collateral comprises intermediated securities and to the extent that the agreement is silent and does not foresee a liquidation via private sale (or the same is not possible for other reasons), the stay would provide a temporary relief to borrowers.

In practice however, most banks reserve the liquidation of collateral via private realization as opposed to debt collection, so that this temporary relief would apply only in exceptional circumstances.

INVESTORS MAY IN SOME CIRCUMSTANCES CLAIM DAMAGES FOR BREACH OF THE CONTRACTUAL DUTIES TO INFORM, TO WARN, OR TO ACT WITH DUE DILIGENCE...

IF POSSIBLE, HONOUR THE MARGIN CALL, EVEN IN SITUATIONS WHERE THEY CONTEST THE BANK'S POSITION, AND RESERVE YOUR RIGHTS.

KEY TAKEAWAYS & RECOMMENDATIONS

Based on the above, investors are advised to take the following steps when faced with a margin call and/or a liquidation of collateral by the bank.

Request parameters and calculation details—The first measure is to immediately request the bank for the calculation details of the margin call and a valuation of any derivatives positions. This will help the investor to understand and assess whether the collateral required is effectively due and whether the bank has abided by its obligations and exercised its rights correctly.

If possible, honour the margin call and reserve your rights—It may often be complicated to fully assess the situation due to the time constraints and the imminent threat of liquidation of assets. Under Swiss law, a claimant is obliged to mitigate its damage. Consequently, we advise investors wherever possible to honour the margin call, even in situations where they contest the bank's position.

The investor should however highlight the relevant breaches and expressly reserve all rights to avoid any implied waiver of rights and ratification of any potential breaches committed by the bank.

Object in writing to the margin call, the liquidation and the corresponding transactions and resulting balances—Where honouring the margin call is not possible, clients should swiftly object to the margin call, the subsequent liquidations and all corresponding transactions carried out on the accounts, as well as the current and former account balances. Such objection must be notified in timely fashion to the bank in writing, typically within 7 to 30 days, in accordance with the rele-vant contractual provisions.

* * *

The above measures allow to assess the merits of legal action against the bank, be it in form of damages or other type of recourse. In any case, a timely reaction as soon as a margin call is received will allow an investor to protect his or her position. ■

LA FONTAINE FABLES by LUKÁŠ KÁNDL

The Animals ill with the Plague - 170 x 245 cm - oil on canvas

In 2019, I decided to interpret Jean de La Fontaine's Fables. 246 fables, 246 paintings, different sizes. La Fontaine inspired a lot of artists, but over the centuries, all the fables have never been represented in painting and never by a single artist. That will take me about 5 - 6 years to realize this objective. Then I will print a book with all the Fables associated with my own reinterpretation.

"Lukáš Kándl illustrates the fables with the scalpel or the fine, pointed spear of a laser. He cuts the characters out and places them on a neutral background, not into an action nor in a landscape, simply in his magical and realistic way, unveiling thus the heart of the fable. He transforms seventeenth-century morals into knowledge of the present".

Professor Gerhard HABARTA

La Fontaine - 50 x 40 cm
oil on canvas

The Arbiter, the Hospitaler, and the Hermit - 46 x 162 cm
oil on canvas

The Rat and the Elephant
162 x 46cm
oil on canvas

Born in Prague in 1944 and graduated from the Prague Academy of Fine Arts, Lukáš Kándl adopts the old masters technics of oil on canvas, panel and copper. Leader of the Magic Realism movement, he counts about 100 solo exhibitions and over 400 group shows. Amongst solo shows to come, include:
- Villa Berberich - Bad-Säckingen (D) - September 11 - October 9, 2022
- Grataloup museum - Chevreuse (F) - October 15, 2022 - March 1st, 2023
And the Libellule show: " Paradisiac Hell or Hellish Paradise?" - Viechtach (D) - October 8, 2022 - February 26, 2023
Plus several collective exhibitions: ***www.kandl.net***

MONEY, STABILITY, AND FREE SOCIETIES

STEVE H. HANKE

PROFESSOR, JOHNS HOPKINS UNIVERSITY

■ INVESTING—GLOBAL ECONOMY

Steve H. Hanke is a Professor of Applied Economics at the Johns Hopkins University and is one of the world's leading experts on troubled currencies and hyperinflation.

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Monetary instability poses a threat to free societies. Indeed, currency instability, banking crises, soaring inflation, sovereign debt defaults, and economic booms and busts all have a common source: monetary instability. Furthermore, all these ills induced by monetary instability bring with them calls for policy changes, many of which threaten free societies.

One who understood this simple fact was Karl Schiller, who was the German Finance Minister from 1966 until 1972. Schiller's mantra was clear and uncompromising: "Stability is not everything, but without stability, everything is nothing" (Marsh 1992: 30).

Well, Schiller's mantra is my mantra.

I offer three regime changes that would enhance the stability in what Jacques de Larosière (2014) has asserted is an international monetary "anti-system."
First, the U.S. dollar and the euro should be formally, loosely linked together.
Second, most central banks in developing countries should be mothballed and replaced by currency boards.
Third, private currency boards should be permitted to enter the international monetary sphere.

On the Dollar-Euro Linkage

In 1944, the Bretton Woods agreement established a new global monetary system. Its hallmark was exchange rate stability. That stability was accompanied by a general acceleration of growth in the postwar golden age. By 1973, the system had been swept into the dustbin by the broom of President Richard Nixon. With that, the world entered an era of flexible, unstable exchange rates, de Larosière's anti-system.

This exchange rate instability creates problems—big problems. Just look back to the onset of the Great Recession in 2008. As it turns out, one of the few who had a laser focus on what he deems the most important price in the world, the dollar-euro exchange rate, was Robert Mundell.

A founding father of supply-side economics, Mundell is always focused on prices. That certainly separates Mundell from Ben Bernanke, who was chairman of the Federal Reserve back in September 2008. Bernanke saw fit to ignore fluctuations in the value of the dollar. Indeed, changes in the dollar's exchange-rate value did not appear as one of the six metrics on "Bernanke's Dashboard"—the one the chairman used to gauge the appropriateness of monetary policy (Wessel 2009).

Just what did Mundell take stock of in the months surrounding the collapse of Lehman Brothers, Inc. (Mundell 2009)? He observed a wild swing in the dollar-euro exchange rate (see Table 1).

TABLE 1
THE 2008 CRISIS: A SUPPLY-SIDE DASHBOARD

	Euro/USD ($ per €)	USD/Euro (€ per $)	Price of Gold (per oz)	Price of Oil (per bbl)	CPI (YoY change)
July 2008	1.5758	0.6346	$925.40	$133.37	5.6%
November 2008	1.2744	0.7847	$723.85	$57.31	1.1%
% Change	−19.13%	+23.66%	−21.78%	−57.03%	
Change in % Points					−4.5% pts
	Sharp Euro Depreciation	Sharp USD Appreciation	Sharp Price Decline	Sharp Price Decline	Sharp CPI Decline

SOURCES: U.S Bureau of Labor Statistics, Federal Reserve (FRED), and Bloomberg.

In the July–November 2008 period, the greenback appreciated almost 24 percent against the euro. Accompanying that swing was an even sharper one in the price of oil. It plunged by 57 percent. Gold, too, had a sharp fall of almost 22 percent. And, consistent with Mundell's supply-side theories, changes in exchange rates transmit inflation (or deflation) into economies, and they can do so rapidly. Not surprisingly, then, the annual rate of inflation in the United States moved from an alarming rate of 5.6 percent in July 2008 to an outright deflation of 2.1 percent a year later. This 7.7 percentage-point swing is truly stunning.

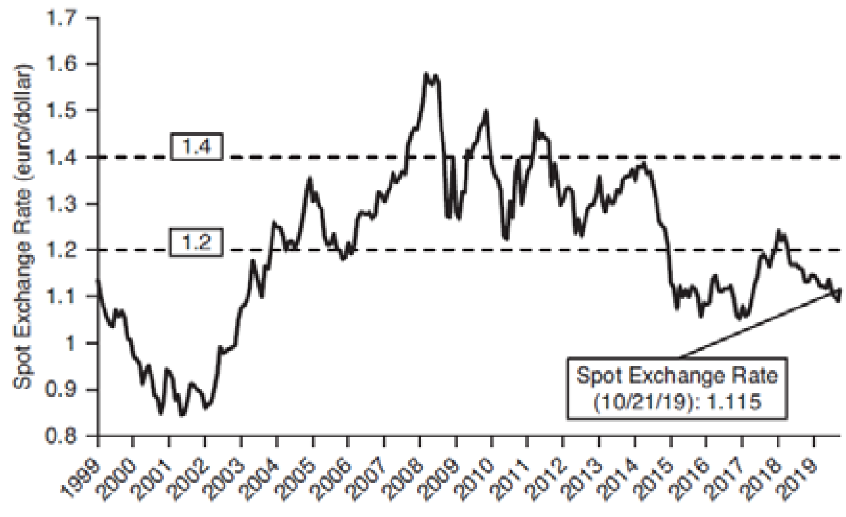
So, in terms of monetary policy, Mundell saw the obvious: the Fed was too tight—massively too tight. The dollar was soaring and commodity prices were collapsing. Fed Chairman Bernanke saw none of this because exchange rates weren't even on his dashboard. Alas, the Fed's massive monetary squeeze and resulting unstable dollar plunged the United States into what would become known as the Great Recession. The instability also generated an avalanche of legal and regulatory changes, such as the Dodd-Frank legislation. These changes restricted economic freedom.

So, in the interest of stability and economic freedom, it is time to jettison the international monetary anti-system. Just what has to be stabilized? The world's two most important currencies—the dollar and the euro—should, via formal agreement, trade in a zone of stability ($1.20–$1.40 per euro, for example). Under such an agreement, the European Central Bank (ECB) would be obliged to maintain this zone of stability by defending a weak dollar via dollar purchases. Likewise, the U.S. Treasury (UST) would be obliged to defend a weak euro by purchasing euros.

Just what would have happened under such a system (counterfactually) since the introduction of the euro in 1999 is depicted

THE INSTABILITY ALSO GENERATED AN AVALANCHE OF LEGAL AND REGULATORY CHANGES (SUCH AS DODD-FRANK). THESE CHANGES RESTRICTED ECONOMIC FREEDOM.

FIGURE 1
Euro/Dollar Exchange Rate
($ per €)



Source: Bloomberg.

in Figure 1. When the euro-dollar exchange rate was less than $1.20 per euro and the euro was weak, the UST would have been purchasing euros (in the 1999–2003 and the 2014–2019 periods). When the euro-dollar exchange rate was above $1.40 per euro and the dollar was weak, the ECB would have been purchasing dollars (in some of the 2007–2011 period).

IN OUR DRAFT LAW FOR SUCH A CURRENCY BOARD, WE PROPOSED THAT ITS HOME OFFICES AND RESERVES BE LOCATED IN SWITZERLAND AND THAT IT BE GOVERNED UNDER SWISS LAW.

On Currency Boards for Developing Countries

On Private Currency Boards

For many years, my long-time currency board collaborator Kurt Schuler and I have advocated on behalf of private currency boards (Hanke and Schuler 1994). In our draft law for such a currency board, we proposed that its home offices and reserves be located in Switzerland and that it be governed under Swiss law.

With the advent of cryptocurrencies, the prospect of our idea, or something close to it, is close to becoming a reality. Indeed, the white paper issued by the Libra Association (2019) explicitly states that the Libra cryptocurrency would be similar to a currency board. In broad terms, that is correct. However, Libra is not yet a reality and, as Steve Forbes (2019: 15) recently pointed out:

"Nonetheless, regulatory pressures have forced a number of companies that were partnering with Facebook on this project to drop out. And this gets to the real reason the idea of Libra is so troubling to so many politicians, government bureaucrats, banks and economists the world over: Libra could

do to central banks what Uber and Lyft did to the taxi cartels—bust up their monopolies, or, to coin a phrase, give them a run for their money."

Central banks are clearly feeling the competitive threat posed by the prospect of private currency boards (like Libra). Indeed, a recent report on digital currencies by the Official Monetary and Financial Institutions Forum in London and IBM presents results from a survey of 23 central banks (OMFIF and IBM 2019). Half of the respondents indicated that they perceived the widespread use of decentralized, private digital currencies as a real threat. As the central bankers put it, private currencies would potentially "disturb the global financial system and undermine the sovereignty of monetary authorities" (OMFIF and IBM 2019: 19).

Not surprisingly, the Bank for International Settlements (BIS) has recently changed its position toward digital currencies. The BIS had been opposed to the introduction of such currencies, whether they be private or public. Now, the BIS has tasked Benoît Coeuré, who sits on the BIS Executive Board, with the development of central bank digital currencies to combat private challengers. As Financial Times reportage recently recounted: *"BIS officials believe central banks should pool their resources to fend off potentially disruptive competition from better funded private sector rivals"* (Kaminska 2019: 4).

Conclusion

To thrive, free societies must experience stable money.

With the advent of central banking, particularly in developing countries, a great deal of instability ensued. And with instability, laws and regulations have been introduced that have restricted individuals' economic freedom.

Stability in the monetary realm would be promoted if the center was made stable by linking the U.S. dollar and euro exchange rates.

The periphery would be made stable by mothballing central banks and replacing them with currency boards that issue currencies that are clones of the currencies issued at the center—the U.S. dollar or euro.

The prospect of private currency boards—which are backed by fiat currencies, baskets of currencies (like SDRs) or gold—appear to be a promising reality.

The competitive forces that will be unleashed by the private alternatives would be a great stabilizer and enhance economic freedom and free societies.

THE COMPETITIVE FORCES THAT WILL BE UNLEASHED BY THE PRIVATE ALTERNATIVES WOULD BE A GREAT STABILIZER AND ENHANCE ECONOMIC FREEDOM AND FREE SOCIETIES.

EUROBONDS: A FURTHER THREAT TO THE LONG-RUN VIABILITY OF THE EUROPEAN UNION

DAN J. MITCHELL

FOUNDER AND CHAIRMAN OF THE CENTER FOR FREEDOM AND PROSPERITY

■ **INVESTING—TAX CORNER**

Dan Mitchell is Chairman of the Center for Freedom and Prosperity, a pro-market public policy organization he founded in 2000. His major research interests include tax reform, international tax competition, the economic burden of government spending, and other fiscal policy issues.

Motivated in part by a sensible desire for free trade, six nations from Western Europe signed the Treaty of Rome in 1957, thus creating the European Economic Community (EEC). Sort of a European version of the North American Free Trade Agreement (now known as USMCA).

Some supporters of the EEC also were motivated by a desire for some form of political unification and their efforts eventually led to the 1992 Maastricht Treaty, which created the European Union – along with increased powers for a Brussels-based bureaucracy (the European Commission).

There are significant reasons to think that this evolution – from a Europe based on free trade and mutual recognition to a Europe based on supranational governance – was an unfortunate development.

Back in 2015, I warned that this system would *"morph over time into a transfer union. And that means more handouts, more subsidies, more harmonization, more bailouts, more centralization, and more bureaucracy."*

A few years earlier, when many of Europe's welfare states were dealing with a fiscal crisis, I specifically explained why it would be a very bad idea to have "eurobonds," which would mean – for all intents and purposes – that reasonably well governed nations such as Germany and Sweden would be co-signing loans for poorly governed countries such as Italy and Greece.

Well, this bad idea has resurfaced. Politicians from several European nations are using the coronavirus as an excuse ("never let a crisis go to waste") to push for a so-called common debt instrument.

Here are the relevant parts of the letter:

Signed by

Sophie Wilmès, Prime Minister of Belgium
Emmanuel Macron, President of the French Republic
Kyriakos Mitsotakis, Prime Minister of Greece
Leo Varadkar, Taoiseach of Ireland
Giuseppe Conte, President of the Council of Ministers of Italy
Xavier Bettel, Prime Minister of Luxemburg
António Costa, Prime Minister of Portugal
Janez Janša, Prime Minister of Slovenia
Pedro Sánchez, Prime Minister of Spain

[...] we need to work on a common debt instrument issued by a European institution to raise funds on the market on the same basis and to the benefits of all Member States, thus ensuring stable long term financing... The case for such a common instrument is strong, since we are all facing a symmetric external shock, for which no country bears responsibility, but whose negative consequences are endured by all. And we are collectively accountable for an effective and united European response. This common debt instrument should have sufficient size and long maturity to be fully efficient... The funds collected will be targeted to finance in all Member States the necessary investments in the healthcare system and temporary policies to protect our economies and social model. [...]

Lots of aspirational language, of course, but no flowery words change the fact that "collectively accountable" means European-wide debt and "social model" means welfare state.

I wrote last year that globalization is good whereas global governance is bad. Well, this is the European version.

The Wall Street Journal opined against the concept. Here's some background information:

[...] Bad crises tend to produce worse policy... We speak of proposals for "corona bonds," an idea floated as a fiscal solution to Europe's deepening pandemic. Italian Prime Minister Giuseppe Conte launched the effort, and French President Emmanuel Macron this week joined Mr. Conte and seven other leaders in backing such a bond issue for health-care expenditures and economic recovery. Some 400 economists have joined the chorus. ...The bonds would be backed collectively by member governments. The proceeds could be allocated to members such as Italy that otherwise couldn't borrow from private markets. ...Calls for euro bonds last hit a crescendo during the debt crises of 2010-12, when they were pitched to fund bailouts of Greece and others. But the idea has never gone anywhere because it would transform the eurozone into something voters didn't approve when the currency was created in the 1990s. [...]

And here's the editorial's explanation of why eurobonds would be a very bad idea:

[...] Europeans were promised the euro would not become an excuse or vehicle for large fiscal transfers between member states. ...Proponents say corona bonds are a special case due to the unfolding economic emergency. But the Italian government that now can't finance its own recovery was also one of the worst fiscal offenders before Covid-19... Claims that the corona bond would be temporary aren't credible because European elites have wanted such a facility for years... Voters can assume that, if they get these bonds in a crisis, they'll be stuck with this facility forever. ...euro bonds would create profound governance problems. ... With corona bonds, German and Dutch taxpayers for the first time are being asked to write a blank check to Italy and perhaps others.[...]

Amen.

"GLOBALIZATION IS GOOD WHEREAS GLOBAL GOVERNANCE IS BAD"

WELL, THIS IS THE EUROPEAN VERSION.

Once the camel's nose is under the tent, it would simply be a matter of time before eurobonds would become a vehicle for bigger government in general and more country-to-country transfers in particular.

Hopefully this terrible idea will be blocked by nations such as Germany, Sweden, and the Netherlands (this satirical video will give you an idea of the tension between the European nations that foot the bills and the ones looking for handouts).

Some advocates for eurobonds say there's nothing to worry about since the European Commission and related pan-European bureaucracies currently don't spend much money, at least when measured as a share of overall economic output. Which is why I sometimes warn my European friends that the United States is an example of why they should be vigilant.

THE LESSON TO BE LEARNED IS THAT MORE CENTRALIZATION IS A VERY BAD IDEA, PARTICULARLY IF THAT CENTRALIZED FORM OF GOVERNMENT GAINS FISCAL POWER.

POPULATON, GDP, AND FEDERAL REVENUE, SPENDING & DEBT AVERAGES BY DECADE

DECADE	Population Growth	REAL ESTIMATED GDP & GDP GROWTH Annual Average Growth Rate	TOTAL REVENUE Annual Average as a % of Est. GDP / GDP	TOTAL SPENDING Annual Average as a % of Est. GDP / GDP	NON INTEREST SPENDING Annual Average as a % of Est. GDP / GDP	PUBLIC DEBT Annual Average as a % of Est. GDP / GDP	YEARS OF SURPLUS	YEARS OF DEFICIT
1790s	34.82%	6.31%	1.90%	1.95%	1.01%	24.33%	6	4
1800s	32.28%	3.71%	2.32%	1.59%	0.93%	13.07%	9	1
1810s	29.34%	3.11%	2.63%	2.85%	2.24%	10.78%	5	5
1820s	30.33%	4.41%	2.57%	1.93%	1.44%	9.40%	8	2
1830s	28.94%	3.59%	2.27%	1.76%	1.73%	0.80%	7	3
1840s	32.07%	4.95%	1.44%	1.68%	1.60%	1.46%	4	5
1850s	30.79%	5.39%	1.66%	1.63%	1.55%	1.43%	7	3
1860s	23.87%	3.13%	3.62%	6.64%	5.63%	22.98%	5	5
1870s	22.56%	5.28%	3.67%	3.19%	1.94%	25.57%	10	0
1880s	22.52%	5.21%	2.94%	2.12%	1.69%	12.55%	10	0
1890s	18.10%	3.27%	2.36%	2.46%	2.22%	6.91%	4	6
1900s	19.11%	2.49%	2.12%	2.06%	1.99%	4.18%	5	5
1910s	13.42%	2.72%	3.30%	6.46%	6.19%	10.40%	4	6
1920s	13.50%	3.14%	4.56%	3.67%	2.70%	22.65%	10	0
1930s	6.52%	2.12%	5.19%	8.47%	8.73%	38.41%	0	10
1940s	14.14%	5.96%	14.82%	24.08%	22.75%	78.41%	3	7
1950s	16.65%	3.91%	17.08%	17.35%	16.10%	53.35%	4	6
1960s	11.63%	4.40%	17.35%	18.15%	16.91%	35.48%	1	9
1970s	9.42%	3.21%	17.37%	19.61%	18.13%	25.66%	0	10
1980s	8.72%	3.24%	17.65%	21.59%	18.78%	35.14%	0	10
1990s	111.90%	3.34%	18.17%	19.65%	16.82%	43.80%	3	7
2000s	8.70%	1.73%	16.57%	19.97%	18.44%	39.26%	1	9
2010s	2.24%	1.95%	16.17%	21.71%	20.33%	70.81%	0	4

For much of American history, the central government in Washington was very small, as envisioned by the Founders. But beginning with the so-called Progressive Era and then dramatically accelerating under the failed policies of Hoover and Roosevelt, the federal government has expanded dramatically in both size and scope.

The lesson to be learned is that more centralization is a very bad idea, particularly if that centralized form of government gains fiscal power.

That's especially true for Europe since the burden of government spending at the national level already is excessive. Eurobonds would exacerbate the damage by creating a new European-wide method of spending money. ■

* * *

P.S.: While eurobonds are a very bad idea, it would be even worse (akin to the U.S. approving the 16th Amendment) if the European Union somehow got the authority to directly impose taxes.

DUNCAN TEED
US TAX LAWYER
ALPINE ADVISORS
FRANCE

HOW UNCLE SAM GETS MOST OF THE PIZZA

▪ INVESTING—TAX CORNER

So, you've been living in the US, maybe you were born there, or attended university and then stayed.You've worked hard, built up some savings, maybe founded a successful business.

Now you are heading elsewhere in the world. Maybe your spouse wants to be closer to family overseas or a new opportunity opens up; whatever the reason, you're going to expatriate.

Your old friend "Uncle" Sam calls you, "Let's have a little party before you go, meet me at the pizza parlor." So, a party for you, feels great! You often end up picking up the tab when you get together with Sam, but this time should be different, it is your farewell meal.

At the agreed-upon time, Sam is at the pizza parlor, with a large pizza in front of him; the pizza is cut in ten slices. He is already eating four of these at once (40% of the pizza), this is Uncle Sam's excessive style. Meanwhile, you get drinks, napkins, you're a civilized person after all. By the time you are ready to eat Sam is done with his first four slices and is hungrily eyeing the remaining six slices.

"Ah, gee, I'm sorry I took so much and didn't wait." Sam says, "I'm just anxious with you leaving; not sure what I'll do when you're gone, but here, I'll only take a little more and leave the rest to you." Suddenly, Sam points behind you and exclaims, "Look, it's Roger Federer!" You turn, to see someone wearing a tennis polo but otherwise bearing no resemblance to Roger Federer.

When you turn back to Sam you find that despite his reassurances, he is again taking a lot of the pizza. He has taken two more slices and cut a third slice in half while you were distracted, essentially taking about 40% of the remaining pizza (so he has taken about 60%-64% of the total pizza).

Some farewell party this is! Sam knows this is your favorite pizza and still he took over half of it and then left you with the bill too! It seems your dear friend Uncle Sam doesn't want you to leave and is going to make it painful to do so.

Now, replace pizza with your total worldwide estate and your old friend Uncle Sam with the US government and you have an idea of what the proposed Ultra-Millionaire's tax, including an exit tax, will be like. Elizabeth Warren and a few colleagues from the House have proposed a federal wealth tax. This is classic Robin Hood tactics and no matter your personal political or economic thoughts on the issue the idea currently has broad support within the United States.

The Wealth Tax

So, what is this wealth tax? It is a proposed annual tax that targets the wealthy, specifically those with over $50 million in worldwide assets. Read that again, worldwide assets, not just US assets. Such households will face an annual tax equal to 2% of their household asset value. If you have over a billion in assets, then you are looking at a 6% tax on amounts over $1 billion.

This proposal includes: (i) an increase in the IRS enforcement budget, (ii) a minimum (but undefined) audit rate for those subject to the tax, and (iii) a new 40% exit tax on net worth of anyone who renounces their US citizenship (and the use of FATCA and IGA data to uncover individuals who would be subject to this exit tax).

The Pizza Robbery / Exit Tax

You know who is an even easier target for taxes than rich Americans? Rich American citizens who are expatriating! They won't even be able to vote (post expatriation), so the arrangement is perfect!

This is the part of the proposed wealth tax covered in the pizza story above. Essentially, any US citizen who expatriates and has over $50 million in assets will be hit with a 40% wealth tax. Not pleasant, but the argument may be that if you stayed put you would face the estate tax at similar rates when you died. Here is the fun twist, you may not be escaping the estate tax even after expatriation. Depending on your expatriation status and who you make gifts or bequests to, another 40% tax could be payable by the recipient. As an expatriate, any gifts or bequests you make to a US resident or citizen will be subject to a 40% tax. This how you end up with only about 4 out of 10 slices of pizza.

Potential Planning

There is already an exit tax in the US. It applies to citizens and certain long-term residents. If they have over $2 million in assets they are taxed on the unrealized gains of their assets upon expatriation. Several strategies exist for planning for this tax. You can establish a trust of which you (as the to-be-expatriate) are not a beneficiary. Assets within the trust will not then be part of your household assets and therefore escape the tax. So, you save money by not being able to use it (though your family can). Other potential strategies are highly dependent on the specific circumstances of the expatriating individual.

Examples

A few examples help illustrate the proposed wealth tax: [*All individuals in these examples are US citizens*]

An individual, Eric, with a small business valued at $25 million; retirement and investment accounts of $10 million, and real estate and other assets totalling $12 million.

- Pays no wealth tax as total household wealth is $47 million.

A business founder, Sue, with a large stake in a public company; total household assets valued at $300 million.

- Annually pays 2% of total household assets over $50 million to $1 billion; in this instance, 2% of $250 million leads to an annual wealth tax liability of $5 million.

Head of household with large investments and global property portfolio; total household assets of $10 billion.

- Annually pays $19 million on the taxable 2% wealth of $950 million up to $1 billion, and then $540 million on the $9 billion in excess of the first $1 billion. Leading to a total annual tax liability of $559 million (even if all these assets are outside the US).

A few examples of the exit tax portion of the proposed legislation:

An individual, Eric, with a small business valued at $25 million; retirement and investment accounts of $10 million, and real estate and other assets totalling $12 million; decides to expatriate.

- Pays no exit tax as total household wealth is $47 million (still may be subject to existing US exit tax). [*The existing expatriation law applies to certain individuals with assets over $2 million in value*]
- Assume Eric's business is valued at $30 million, putting household assets at $52 million; now Eric will face an exit tax of $800,000 upon expatriation.

A business founder, Sue, with a large stake in a public company; total household assets valued at $300 million; decides to expatriate.

- Will face an exit tax of 40% on $250 million; $100 million (even if Sue has been a dual-national and is returning to her home country, and even if her business is located there).

Head of household with large investments and global property portfolio; total household assets of $10 billion.

- Will face an exit tax of $380 million.

Currently *(Summer 2021)*, the wealth tax is simply a proposal. Biden's administration stated its view of tax reform differs from Warren's. Some U.S. constitutional scholars argue a federal wealth tax constitutes a "direct tax", which is unconstitutional and therefore invalid; big surprise – others argue the opposite!

While this is only a proposal right now, the current expatriation process often takes several months to process. If tax planning is desired, such planning is best performed several years in advance of actual expatriation. Even if this proposal does not become a law, it does highlight that rich individuals expatriating are a popular target for revenue raising. The current exit tax (taxing gains on most assets of expatriating individuals with over $2 million in assets) is quite punitive. Based on the current proposal the situation for expatriates is unlikely to improve in the near term.

The best time to address potential entanglements with US taxes is before being subjected to them. If you have any questions about investing in the US, working there, or potentially immigrating into the US please reach out to discuss the matter. ■

IF TAX PLANNING IS DESIRED, SUCH PLANNING IS BEST PERFORMED SEVERAL YEARS IN ADVANCE OF ACTUAL EXPATRIATION.

F I F A: FOUNDATION OF INDEPENDENT FINANCIAL ADVISORS

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▪ THE LIFE OF ASSOCIATIONS

FIFA is a Partner Association of CIFA.

INTRODUCTION

Independent Financial Advisors (IFAs) and Mutual Fund Distributors (MFDs) have provided yeoman's service in channelizing household savings into financial instruments especially Mutual Funds for realizing investor's long term goals. More than 85% of long term funds in Mutual Funds are mobilized thru distributors (Banks, National Distributors and IFAs). MFDs/IFAs on their own and as sub-brokers of National Distributors in turn mobilize two thirds (67%) of the same.

The financial markets and Mutual Funds have witnessed a dramatic growth over the last 2 decades in spite of the huge volatility and dramatic global and macro events. To meet these challenges IFAs needed come together on a common platform to educate and empower themselves to render excellent service to the ever-growing investor class in India.

The Securities and Exchange Board of India has been periodically bringing in regulations in order to promote and protect the interest of the Indian Investors. The regulator also expressed the need for all MFDs/IFAs to come together under one banner to create a common voice which could give feedback and pro-actively interact with the policy makers for development of the industry.

Keeping the above objective in mind, "Foundation of Independent Financial Advisors" (FIFA) – was set up as a not-for-profit company under section 25 of the Companies Act, 1956. The foundation has received its Certificate of Incorporation on 15th February 2012. We have completed 10 very eventful years.

FIFA's BELIEFS

- We believe that the benefits of investing via Mutual Funds are predominantly enjoyed by Corporates, Ultra HNIs, HNIs and few others. However, the Higher Middle Income, Middle Income and Lower Middle-Class households have not been adequately penetrated because of fewer feet on Street (Only 20,000 active distributors).

- As a young and developing Nation, we will witness a huge explosion of people moving from lower incomes to middle income and the resulting need to save money.
- These households will need Mutual fund distributors / IFAs to guide them to achieve their financial goals and protect them from getting into Ponzi scheme/ wrong products.
- If there are sufficient distributors/advisors to cater to this growing section of the society the industry AUM of 33.6 Lakh Crores can well be 100 Lakh Crore by 2030.

FIFA—Main Objectives

- To enable members to achieve "Excellence" in their service to Clients.
- To promote financial inclusion and retail penetration.
- To pro-actively interact with policymakers and regulators to ensure that IFA community's views are considered while formulating policies for the development of the industry.
- FIFA endeavors to reactivate the IFA's who have left the field and to add 100,000 new IFA's across the country to cater to the needs of the investors.

FIFA—Activities

Since its inception in February 2012, FIFA has been engaged in numerous discussions and dialogue with various stakeholders with a view to develop, grow and nurture the Mutual Fund industry.

FIFA and its members have been conducting various programs across the length and breadth of the country on Financial Literacy and Investor Awareness so as to enable greater financial inclusion and retail penetration.

It simultaneously has been conducting Knowledge Sharing programs for IFAs to improve the financial advisory practice so as to lead to better investor experiences

FIFA has also initiated and conducts research based Industry Studies. Its Study on Expense Ratios of Mutual Funds was published in June 2016 and July 2018, where it compared the expense ratios for 25 countries across the Globe in the backdrop of Morningstar 2015 GFIE Report & 2017 GFIE Report. This study demolished the myth that India has high expense ratios. In fact, the study establishes that Indian Mutual Funds maybe having the lowest weighted average cost. This study was also used to communicate to SEBI, which was basing its actions for reducing the Total Expense Ratios to the Morningstar GFIE Reports. FIFA also held meetings with Morningstar teams to point out the inconsistencies and inaccuracies in their reports which had created problems to the IFA community in India.

Due to its sincere efforts in the development of the Mutual Fund Industry, FIFA has been invited several times for discussions by SEBI. FIFA has also been part of the consultative process with SEBI on steps to Re-energies the Mutual Fund Industry and also for the Regulation for Investment Advisors. FIFA was also invited by the Ministry of Finance in New Delhi to discuss steps to be taken to re-energize the Mutual Fund Industry.

SINCE ITS INCEPTION IN FEBRUARY 2012, FIFA HAS BEEN ENGAGED IN NUMEROUS DISCUSSIONS AND DIALOGUE WITH VARIOUS STAKEHOLDERS.

FIFA HAS BECOME A TRULY REPRESENTATIVE PAN-INDIA ASSOCIATION OF IFA'S.

FIFA has taken steps to bring various local associations of IFAs and association of Banks and National Distributors under one banner to make joint representations on behalf of the whole distribution community to the government, regulator and industry. Local Association of Indore, Pune, Andhra Pradesh, Chennai & Gwalior are also members of FIFA.

The successful journey of FIFA so far can be appreciated, by looking at the following data (*1 USD=Rs 80):

Particulars	March 2012	December 2021
Industry AUM	Rs 5,87,217 crores *(USD 85100 mill approx.)*	Rs 37,56,683 crores *(USD 469,585 mill approx.)**
FIFA Membership	200	▸2,500
FIFA Members AUM	IRs 10,000 crores *(USD 145 mill approx.)*	▸Rs 2,20,000 crores *(USD 24,531 mill approx.)*

In aggregate, the AUMs handled by the members of FIFA is higher than the AUM of the largest bank/National Distributor.

FIFA also published a Detailed Study on Investor Behavior carried out by an Independent Agency; Final mile to provide a Road-map for higher penetration of MF. The Investor is at the center of this study and insights on Investor Behavior will help all stakeholders the AMC, regulator, government and distributors for a balanced growth of the Industry.

FIFA has also been holding annual conferences – recently the 6th annual conference was held to share the experiences of some high performing IFAs, deliberate on the impact of changes in equity and debt markets and promote networking amongst the IFA community.

FIFA circulates monthly newsletters to its members to update them on its activities and any important developments.

FIFA—Membership

FIFA has become a truly representative pan-India association of IFA's. We represent some of the leading IFAs. FIFA currently has over 2746 members, spread across 315 cities in 30 States & Union Territories, and advice in aggregate clients on assets exceeding Rs 220,000 crores.

Besides having members in the Metros, we also have members in cities like Amravati, Guwahati, Ranchi, Chiplun, Chinsurah, Hardoi, Jamshedpur, and Solapur to name a few.

AWARDS

From time to time, FIFA has been recognized or its contributions at different forums by various bodies/ funds. One such award received was from SBI Mutual Fund in 2017 where FIFA was conferred with the Star Award 2017.

Mr. Dhruv Mehta, Chairman, FIFA along with other members receiving award at the SBI conference held in Hyderabad, on 9th & 10th September 2017.

PROFILE: Shri Dhruv Mehta, Chairman of FIFA

Shri Dhruv Mehta, Chairman of Federation of Independent Financial Advisors (FIFA) and a practicing independent financial Advisor (IFA) is based in Mumbai. He is a qualified Chartered Accountant and a Cost Accountant. He has in depth knowledge on a range of financial products including bonds, equities, mutual funds, private equity funds, real estate funds & structured products.

In 2003, he set up his own Wealth Management Firm, under his name and has been managing surpluses of over US $ 200 mn for various family offices, corporates and High Net worth individuals.

Prior to setting up his own firm he has spent 14 years at Savita Group, a leader in petroleum specialties, initially heading the finance function of Savita Chemicals and successfully leading its IPO in 1994.

Dhruv Mehta has also spent 2 years with A F Ferguson and Company – a well known accounting and audit firm, and another 5 years in the Corporate Finance Department in Searle India Limited, a Pharmaceutical and Agrochemicals Multinational company.

He is presently the Chairman of Sapient Wealth Advisors & Brokers Pvt Ltd and is also the Director on Shriram Wealth Advisors Limited (SWAL); Shriram Asset Management Company; Malabar Capital Advisor (P) Ltd and Diamines & Chemicals Ltd.

He has actively contributed to the Annual Wealth Creation Studies conducted by Motilal Oswal Securities (One of India's leading Financial Services Company) as a Professional Consultant and has been ranked as one of the top performers by the large mutual funds in the category of an Independent Financial Advisor. ■

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Finanzplaner Forum, Germany
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CONVENTION OF INDEPENDENT FINANCIAL ADVISORS

A NON-PROFIT FOUNDATION

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 regroups 70+ professional associations, which represent more than one million individuals or legal entities involved in the financial intermediation worldwide.In 2007, CIFA, through its active participation in the works of various United Nations organisms, obtained the «special consultative status» with the United Nations in the framework of the Economic and Social Council (ECOSOC). In 2015, CIFA has obtained the «general consultative status» with the UN-ECOSOC. CIFA is the only NGO within global finance with such a status!

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