CONVENTION OF INDEPENDENT
FINANCIAL ADVISORS
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with the Economic and Social Council of the United Nations

White paper

10th international forum of the CIFA

April 25-27, 2012, Monaco

2012, electoral year: what challenges for the financial system?

Report of round tables and debates

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Xth International CIFA Forum

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2012, election year: what challenges for the international financial system?

Report of round tables and debates

from left to right : Guy R. Cohen, Hanifa Mezoui, Jean-Pierre Diserens, H.E. Nassir Abdulaziz Al-Nasser, Marc Nasser Tavakolian, Marina Cohen, Mrs. Al-NAsser.

Wednesday, April 25

Opening speech by Pierre Christodoulidis,
Chairman of the CIFA Foundation

First of all, I would like to express my gratitude for such a large turnout here at the tenth International CIFA forum. I've entitled my talk "Get outraged or speak out?" In the digital age, the public wants the truth and demands accountability from the government, supervisory bodies, and oversight committees. At the same time, certain states are on the verge of bankruptcy and have adopted toxic practices from the financial world. To borrow the term suggested by Stéphane Hessel (*Indignez-vous!* [*Time for Outrage*], Paris, 2010), this has outraged everyone. In response to this general sentiment of protest, Europeans now seem less united than ever, while the Congressional debates in the United States are interminable: it doesn't appear that the Dodd Franck Act, which is intended to reduce excess speculation and the insatiable greed of certain bankers, responds adequately to the challenges at hand. What can be expected of a law that is made up of 2.300 pages, versus the 36 pages of the Glass Steagall Act (repealed in 1999)? If outrage doesn't aim to shock the system it is nonetheless worthwhile to pay attention to the insurrectionary reactions: when the debate makes its way to the streets and is taken up by the masses, it is often already too late. As Ernesto Laclau has shown, a democracy can't ensure its durability unless it establishes an equilibrium between the institutions and the needs of the people while simultaneously avoiding the pitfalls of populism. The CIFA specifically endeavors to maintain this unstable equilibrium by reporting abuses, misdeeds, and dysfunctions in the financial system to the United Nations. We have gathered here to discuss these dysfunctions as well as solutions.

H.E. Nassir Abdulaziz Al-Nasser and Jean-Pierre Diserens.

Speech by His Excellency
Nassir Adbulaziz Al-Nasser,
President of the 66th Session of the United Nations General Assembly

I am honored to join you here today at the tenth annual international CIFA Forum in the beautiful principality of Monaco. I would like to thank Mr. Christodoulidis for the opportunity to speak to such an audience of professionals from the financial sector. I'm very impressed by CIFA: its ideals, the way that it is structured and what it has already accomplished, especially considering how new this organization, an NGO with a special advisory status towards the Nations' economic and social council of the United Nations. CIFA is the first organization of the financial sector to be awarded this status by the United Nations, and I extend my congratulations. This forum attests to CIFA's capacity to be on the cutting edge of the debate regarding economic and financial policies on the global level. Your attention to ways of promoting sustainable and balanced development is in accordance with our preoccupation regarding global governance. This is, in fact, one of the guiding principles of the work done by the General Assembly of the United Nations. As the President of the General Assembly, one of the main focal points of my work is researching how to improve worldwide governance and innovative financial methods. The financial markets require greater attention to ethics and morals. The nominal increases in the prices of non-sustainable assets cannot contribute to long-term and equitable growth. I myself believe that we must work together to resolve this crisis, because there isn't one person alone who has the answers. In 1944, at the Dumbarton Oakes conference, the Allied forces agreed on how to structure the future UN. In addition to keeping the peace, the charter of the United Nations authorizes the General Assembly and ECOSOC regarding economic and development questions in accordance with the rule, "One nation, one vote." At the same time, the founding members chose to entrust macroeconomic problems to international institutions where their right to vote in collective deliberations is increased. The Monterrey Conference in 2002 initiated annual meetings between ECOSOC, the institutions of Bretton Woods and the World Trade Organization and the United Nations Conference on Trade and Development (UNCTAD). I had the pleasure of addressing the 13th session of UNCTAD last weekend in Doha, where I focused in particular on the role of the General Assembly in promoting sustainable development in trade, which I see as being closely connected to our discussion today. The first follow-up conference for Monterrey was in Doha in 2008, when the economic and financial crisis started. The context was a difficult one as the member States called for a high-level conference addressing the theme of the economic and financial crisis in 2009. A certain number of points of view emerged, but they highlighted differing political interests. The result could have been better if the conference had benefitted independent financier consultants such as those represented by CIFA. In this regard, it is possible to see the considerable added value that an organization such as yours can provide. Under my presidency, the General Assembly has endeavored to participate in the resolution of the global crisis while the G20 has given itself a mandate for international economic cooperation. A dialogue between the G20 and the General Assembly is established via the intermediary of the country presiding over the G20 before and after each summit. The General Assembly instructed me to have three thematic debates over the course of the present session regarding macroeconomic problems. They relate to:

- The excessive volatility of the price of merchandise, particularly raw materials;
- Rating agencies;
- Global governance.

In the previous session, I was also instructed to discuss with the member states the best method for pursuing the works initiated at the time of the 2009 conference regarding the global economic and financial crisis. This is the reason why, aware of the great interest that the member states have in all of these themes, I invited the Secretary General Ban Ki-Moon to co-preside with me over a high-level thematic debate that will take place on May 17th and 18th. The objective is to research recovery in growth in a sustainable and equitable manner while accounting for the needs of the most vulnerable persons. CIFA helped us in preparing for this event and contributed its expertise. The main lesson of the global economic and financial crisis is simple: the existing structures related to global economic governance have not evolved in the appropriate way. They do not sufficiently account for today's economic and geopolitical realities. Most of these current institutions need to be modernized, especially in light of the growing importance of emerging economies. We must act collectively to find solutions to problems such as multilateral commerce, migration, sovereign debt, and fiscal cooperation. In this context, it is important to keep in mind the legitimacy of the United Nations as the only universal and multilateral organization. I'm convinced that reaffirming this legitimacy in macroeconomic matters is the tool that we need in order to respond to the ethical, political, and economic challenges of the 21st century. The United Nations is the appropriate authority to advance the health of the world's economy so that it can feed the population of each village, city, and nation across the world. I'm pleased to know that we can count on the cooperation of our civil society partners like CIFA.

Speech by Laura Dupuy Lassere,
President of the Human Rights Council

I would like to congratulate CIFA for organizing its tenth international forum, which brings together renowned experts whose reflections will facilitate the debates dedicated to ethics, politics, and finance. The financial crisis started in the developed world. The rescue of private financial institutions left very few public resources available for financing social protection nets. The impact on populations was not accounted for, while this type of crisis had an impact on human rights, in particular cultural, economic, and social rights. According to the International Labour Organisation, there are 75 million unemployed young people and 150 million people live under extreme poverty conditions. This is the reason why the works of the International Labour Conference in 2012 will bear on the ways to resolve unemployment among the young and to offer a foundation for universal social protection. The rate of unemployment, exclusion, and poverty threaten social cohesion. The states' primary responsibility is to encourage development and social cohesion. The private sector, including financial actors, also has an important role to play in terms of investment and employment. Governments, international organizations, companies of all sizes, and citizens must also be able to work in tandem. It is within this context that the Human Rights Council adopted the *Human Rights Guiding Principles for the financial world* in 2011.

Under these guiding principles, the world of business must ensure that its activities do no produce adverse secondary effects on human rights. In addition, the Council established a work group at the beginning of 2012 that aims to make the business world aware of these principles. We look forward to the ideas and reflections on this theme that CIFA will contribute. The council will also examine the directive on the eradication of extreme poverty, presented by the Special Rapporteur next September. Economic growth will not be sustainable in the long term unless it is inclusive and aims to reduce poverty and inequalities. Sustainable development requires an environment that respects human rights and this is why the Human Rights Council is especially attentive to the works of CIFA.

Speech by Mr. Guy R. Cohen,

President of CIFA's international forum organization committee

I'm very pleased to welcome you to Monaco for this tenth international CIFA forum. This is the second year in a row that the forum has taken place in Monaco. In fact, the Principality of Monaco exemplifies the observation of the moral standards and imperatives for sustainable development combined with a high level of ethics. As His Excellency the President of the UN General Assembly and the President of the Human Rights Council superbly explained, and as the recent research in economic sciences has shown (especially that of the winner of the Nobel Prize in economics, Amartya Sen and Mohammed Yunus, as well as that of Ernst Fehr, for example), we at CIFA are convinced that morality and finance must mix in order to guarantee betterment and well-being, and that it's imperative to look at the financial system in a new, innovative way so that it can be renewed in terms of conduct. Research into profit and competition requires reciprocal and respectful cooperation. I would like to cordially thank all of those who have helped us to organize this forum.

H.E. Marco Piccinini.

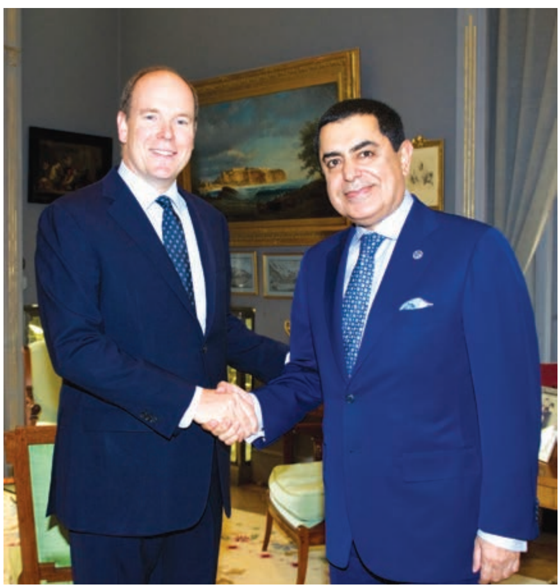
Remarks by Mr. Marco Piccinini,
Minister of Finances and Economy, Monaco

What solutions will the decision-makers of democratic countries adopt to provide the financial system with improved governance ? As Winston Churchill said, “Politicians occasionally stumble over the truth, but most of the time they will pick themselves up and continue on.” Finance is undoubtedly the most important industry in the world, though it is not the most efficient. The economic and financial system has become completely integrated, and global markets operate 24hrs out of 24hrs around the world, thus according to identical rules; however economic and political governance is fragmented and so fails to respond promptly to major crises in an efficient manner. Furthermore, one might have the distinct impression that certain governments are more interested in the next elections than in the next generations.

There are great challenges ahead in terms of global governance, as the President of the United Nations general assembly has just explained. CIFA has likewise identified these challenges.

Given it’s small size, Monaco can not provide exhaustive answers to these complex issues. However, we can share our success story thanks also to our governance system which is well adapted to the realities of our Nation. The Monegasque Government is independent from the political parties, but is nonetheless subjected to the effective control of the elected assembly. The Government is therefore not «obsessed» with elections and thus can maintain

healthy public finances, without mortgaging the future with electoral promises. Result: public debt is non-existent, there has been a structural surplus budget for several decades, through strict budgetary discipline guaranteeing our international reputation.
Moreover the Principality's constitutional reserve fund assures the country's financial independence for the years to come. The government can thus finance long-term measures without jeopardizing the stability of the public accounts.
I wish therefore to stress that the sustainable outcome of such a constitutional and economic model, may provide an opportunity to think about the vital link between an effective political governance and healthy public finances.
I will conclude by saying once again how pleased we are to welcome the CIFA international forum to Monaco and would like to take this occasion to congratulate your organization.



H.S.H. Prince Albert of Monaco and H.E. Nassir Abdulaziz Al-Nasser.

Economic and financial news

by William K. Black and Daniel Mitchell

Daniel Mitchell: I'm very pessimistic about the eurozone crisis. Even for Germany and Holland, it's just a question of time before the level of debt goes above 90% of the GDP. Economists often propose this limit as the threshold at which there is a high likelihood that the debt will snowball. Certainly, Japan's level of debt has surpassed 200% of the GDP without any serious problems (Japan's debt is essentially detained by its residents). There is the risk of contamination: the rising financial instability in southern Europe can reach northern Europe, followed by the United States and the rest of the world.

William K. Black: I completely share my interlocutor's fears. The recession is gaining ground in Europe. These recessions are creating an explosive debt. Spain and Greece were pushed towards the recession. The unemployment rates and value and asset losses rival those of the Great Depression. The risk is no longer just economic: the European Union's movement towards integration is also being put into danger. The extreme right is making advances. The economic danger has become a social and political danger.

Daniel Mitchell: I do in fact think that we have to fear for social and political stability in Europe. In Europe, austerity implies an increase in taxes, not a decrease in spending. According to the Keynesian theory, there needs to be more spending in the recessive phase, but I think that today this would run the risk of leading

to nefarious side effects for the economy. I admire countries like Monaco, Australia, and Switzerland, who have successfully limited their public spending.
I also agree with my interlocutor's diagnosis: there's the risk that five or ten years from now, there will be an erosion of democratic principles. Especially in the southern European economies, the people have the impression that things are imposed upon them from on high, by the Brussels technocracy or by the IMF, for example.

William Black: We've just learned that the United Kingdom has just gone back into a recession. In terms of the eurozone, it's clear that there are differences between what are known as the peripheral countries and those of the center. Equally confronted with economic difficulties, the countries of the center have significant levels of wealth. The fiscal policies of countries that are peripheral to the eurozone are subjected to the troika (the Central European Bank, the European Commission, the IMF) and must respect the stability and growth pact. The German model, based on exports, can't be transposed to these countries because of a simple mathematical reason: all of these countries can't be net exporters.
The major risk thus lies with the process of reducing salaries within European countries.
The Greeks, and then the Portuguese, the Italians, and the Spanish have already started this process. This will have a devastating effect and the people won't accept it. It's hard not to imagine that an unemployment rate of 50% among the young – as is currently the case in Spain – won't lead to social repercussions and

protests against the governments, even though they were democratically elected.

Daniel Mitchell: I agree with what you said, but I'd like us to remember that it's not possible to consume more than one produces over the long term. However, this is what has happened in a certain number of countries in the south. In this context, the question that arises is: what ways are there to increase production so that standards of living don't go down? Of course, not all countries can be net exporters, but at least, they shouldn't consume more than they produce. I don't know how to get these economies in the south up and running again and this is why I'm rather pessimistic.

William Black: Within the context of its reflections and of this forum in particular, CIFA is asking itself how to avoid recessions and the outbreak of new financial crises. The report of the financial crisis commission of inquiry, published in January of 2010, teaches us that the lack of independence in terms of consultation, as well as conflicts of interest, are primarily to blame. Without ethics or a way to combat conflicts of interest, the financial system can only self-destruct.

Matthieu Ricard.

Is money the source of happiness?
by Matthieu Ricard

Today, altruism is not a luxury but a necessity. We must seek out values, ethics, and cooperation. Otherwise, we risk encountering more and more difficulties. Until the beginning of the 20th century, economists believed that the economy had to be considered based on the interest of individuals. There was no place in economic theory for human values, for altruism. But is this true? Money obviously doesn't buy happiness, except for those who experience serious material misery and cannot cover their basic living costs. For everyone else, money doesn't buy happiness unless they give it to others. Moreover, having wealth is synonymous with dissatisfaction. In the United States, recent studies show that an increase in income level per inhabitant does not affect the level of satisfaction in life: happiness does not increase the more that one owns. On the other hand, those who take care of others and those who act charitably or generously experience greater levels of happiness. The quest for personal happiness therefore must involve giving. Happiness is not achieved by accumulating wealth, but by offering it. For people are not independent or self-sufficient beings: the reality of humankind is made of interdependencies. In other words, the happiness of others becomes an objective itself and also for our own selfish satisfaction. A society in which everyone cooperates with each other thus turns out to be more harmonious and efficient. The objective of integrating ethical parameters into economic rationality is thus a

necessity.
But is this altruistic rhetoric completely disconnected from reality? Is it completely utopian and vain? According to a recent study by Ernst Fehr, professor of economics at the University of Zurich, these incentives to act altruistically make it possible, even for selfish people, to maximize common interest and to choose systems based on cooperation. In most cases, altruistic cooperation has been shown to be more profitable for each individual than competitiveness. Ernst Fehr has demonstrated that altruism is profitable (even for those who are not fundamentally generous) and that it can be learned.
Therefore, rather than measuring growth based only on GDP and the creation of wealth, we should integrate other parameters into our reasoning. In the spirit of the measure taken by Bhutan, which decided to measure the GNH (gross national happiness), it would be necessary to correlate the evaluation of wealth with that of the betterment provided to individuals: well-being is not simply a by-product of economic growth. Quantifying the quotient of well-being was also the subject of a report and has been recommended by the Stiglitz commission (the commission of Sen, Stiglitz, and Fitoussi, whose report was submitted to the French Republic in 2010). The economy has everything to win in becoming more moral.

Cérémonie of Delivery of the *Universal Declaration of the Rights and Duties of the Entrepreneur*

by Jean Rognetta and Jean-Pierre Diserens

Jean Rognetta: A CIFA – PME Finance group was created to determine what could be done in terms of the rights and duties in entrepreneurship. “Undertaking does not mean taking.” This work group formulated a charter of proper behavior for entrepreneurs: the Universal Declaration of the Rights and Duties of the Entrepreneur, which CIFA will submit to the United Nations the next time it convenes.

Jean Pierre Diserens: I would like to thank you for all the work accomplished in terms of creating this declaration. This work is vital and completely corresponds to our Charter of Rights and Duties of the Investor that CIFA created and submitted to the United Nations in 2008. Entrepreneurs are also investors; they use their own resources to create added value and employment. 89% of the jobs in Switzerland come from companies with less than 10 employees. It is therefore very important, both for employment and for the moralization of the economy, to defend private businesses and medium-sized enterprises while encouraging entrepreneurs to respect a strict code of conduct.

Thursday, 26th of April

Finance and elections

Why has the international financial system become so harmful today?

round table
1

Moderator : Pierre Christodoulidis, Chairman of the CIFA Foundation, Geneva, Switzerland.
Participants :
• Professor William K. Black, criminologist who specializes in financial crime, Associate Professor of Economics and Law at the University of Missouri, Kansas City, United States.
• Jacques Potdevin, former President of the European Federation of Accountants (FEE), member of the International Federation of Accountants (IFAC), Paris, France.
• Gildas Hita de Nercy, Head of the research department and associate at Exane Derivatives, Paris, France.

Moderator: Despite their ambitions, the economists couldn't have been able to predict the crisis that we've been having since 2008. In this context, what uses do their analyses and predictions serve?

William K. Black: The economists are the severest danger confronting the economy. Alan Greenspan thought that fraud couldn't exist. From there, he concluded that regulation was pointless. For example, he didn't want to guard against the liar loans. The entities responsible for regulating didn't deem it useful to play their part until July 14, 2008. This was a serious error that led to the crisis, entirely attributable to the economists surrounding Greenspan.

Gildas Hita de Nercy: It's also necessary to add that the work of the economists was not facilitated: there are numerous products on the market whose composition is unknown. For derivative products, the underlying assets have at least two essential characteristics:

- on the one hand, it's imagined that they can't default;
- on the other, the derivative market is based above all on confidence. When this market is framed according to the Black-Scholes model, there's no problem. But the CDS (Credit Default Swaps) don't respond to this constraint: since the beginning of the new millennium, they've been the source of the crisis. Most frequently, they constitute toxic products. Why? The CDS represent a transfer of credit. But confidence isn't something that monetizes itself. Once a sale is made to someone who doesn't know the client and doesn't know the exact composition of the product they're buying, there is a serious risk.

Moderator: In this situation, what can be done to evaluate the risk and real value of derivative products?

Gildas Hita de Nercy: It's not possible to evaluate the transfer of credit: it depends on the trust existing between participants who know each other. The only ones in the world who can get the sovereign CDS market to work are the central bankers. If the CEB had had the capacity to sell credit default swaps on the

Greek debt at 200 basis points, the effects would have beneficial for everyone. But the primes collected by the bankers for two years reached 1800 basis points.

Moderator: But up until 2002-2003, the CFTC controlled these products?

William K. Black: The Commodities Future Modernisation Act was adopted during the last year of Bill Clinton's presidency. However, the law, which was also adopted under Alan Greenspan's term with the FED, suppressed most anti-fraud measures. This demonstrates the uselessness and powerlessness of control measures.

Moderator: It seems like the states have also used toxic and derivative products and are not above reproach. What do you think?

Jacques Potdevin: The states' primary error was in not being able to present viable accounts.
Would a bank give a loan to a company under these conditions? Nonetheless, this is what happened for the countries: Greece's accounts were false. It was recently discovered that there was an error by 50 billion in Germany's federal state accounts! The first problem of the states is that they don't have adapted accounting: there are only four countries in the world that use accruals accounting systems for working out their budget. All the other countries keep cash-basis accounts. In addition, most local communities don't function equally, apart from keeping cash accounts.

As a consequence, there is a distortion between a world of sophistication where the underlying assets aren't even known, and the countries issuing bonds that still use cash-based accounts. However, until 2011, the risk-free rate was still the state bond issuing rate. By creating sovereign CDS, it was hoped that the gains would compensate for possible future losses...

Gildas Hita de Nercy: It would be useful to establish a consensus regarding the idea that this kind of product has no place on the market. And it's possible to eradicate this kind of product: five financial actors hold 90% of the CDS market. At the very least, it's important to ensure that the guarantor is solvent.

Moderator: Would it be useful to advocate for the restoration of regulatory instruments such as the CFTC? Shadow banking represents 40% of finance. Growth of this "sector" is considerable, as it has gone from 21 trillion euros to 46 trillion euros in a few years, or half of banking assets.

JacquesPotdevin: Half the movements in fact come from systems that are neither regulated nor controlled. However, globalization implies global regulation, which is, unfortunately, complicated to implement. The G20 wanted to put into place a system comprised of a certain number of control mechanisms. Guarantees are based on the fight against fraud and external control of the execution of the budget according to accrual accounting.
Therefore, beforehand all of the financial actors need to adopt an accounting system that the authorities and

regulators can read – this hasn't been done yet.

William K. Black: The fight against accounting fraud is certainly the primary weapon that the regulators have. This is where both the problem and the solution lie. Without underwriting, a liar loan usually betrays this fraud in the accounts. If there is no underwriting for insurance, it's the same thing. Honest banks obviously don't have recourse to these kinds of practices. The rules can only be changed by the law. The financial industry won't change these rules itself because it profits. In the very short term, the revenues are too great for those issuing these toxic products to agree to auto-regulate.

Jacques Potdevin: To ensure improved regulation, it would also be better to control the rating agencies: their evaluation methodology is not transparent, not for rating states or companies. Therefore, it's necessary to reject this system where the ratings attributed to products cannot be backed up, especially since the ratings agencies are paid by those whom they rate. This doesn't make sense. Also, it is essential to establish an international regulation that is applied uniformly. In terms of regulation, Europe could perhaps be a model, but this is not sufficient because it would just be a matter of crossing the borders in order to escape the regulation. Basel III will be set up in Europe while in the United States, Basel III is no longer observed. Europe alone doesn't have the resources to impose a global regulation. In particular, it needs to come to an agreement with New Zealand, India, and China.

Gildas Hita de Nercy: I myself think that we don't need to wait for the international community to come to an agreement before we act. We don't have the time. It's possible to imagine a form of protectionism for the capital markets: for example, it could be decided that no European banks should make CDS. With a logic specifically its own, Brazil decided to tax inflows. The eurozone could give an example from this point of view, because its market reached a critical size with more than 10,000 billion dollars.

William K. Black: In terms of the application of regulations at the international level, I am in agreement with you that this is not necessary: what's important is to make progress starting now. If Europe had forbidden CDS or liar loans prior to 2008, would this have been penalized? No, because it would have led to profit. It is beneficial to lose business when it's unhealthy.
In addition, the application of a regulation does not provide the necessary protection against crises: Europe put Basel II into place much more quickly than the United States did. However, the crisis in Europe was worse than in the United States.

Gildas Hita de Nercy: To summarize what we've said, and review the dysfunctions in the financial system, I think that the hypotheses about pure and perfect competition described by the Nobel laureate in economics, Gérard Debreu, can serve as a reference point. Essentially, he postulates that there are five conditions for ensuring that liberalism works properly. These are atomicity, rationality, homogeneity, transparency, and mobility. Reviewing these makes it possible to take a comprehensive look at the dysfunctions of the current system.

First, the atomicity of agents: no financial actor in any market should be able to distort prices. It's clear that the logic of "too big to fail" doesn't work here. The criterion of the rationality of the agents implies that they are informed. This takes us back to the requirement of accounting that is kept accurately and in a way that can be read by everyone. To fulfill the requirement of homogeneity, it's a good idea to consider the standards that we must accept. But why aren't standards applied to financial products, as they are to most other types of products? Transparency, as mentioned previously, is the fourth condition. Finally, mobility, the free entry onto the market: the private sector is infinitely more mobile and reactive than the public sectors; obvious decisions in the public sector take time to be made, while reaction times take nanoseconds on the financial markets.

What solutions will future democratic leaders implement to build a virtuous financial system?

Moderator : Daniel Mitchell, Senior Fellow, Cato Institute, Washington DC, United States.
Participants :
• Peter Andrews, Head of Economics of Financial Regulation, FSA (Financial Services Authority), London, United Kingdom.
• Hans-Peter Bauer, Member of the Board of the Basel Committee on Governance, Senior Advisor to the Wolfsberg Group, Switzerland.
• Olivier Delamarche, founder of Platinum Wealth Management, Paris, France.
• Paul Atkins, Former commissioner of the Securities & Exchange Commission, Washington, DC, United States.

Peter Andrews : If a virtuous financial system is a stable system, then the question comes down to determining the causes of the financial crises and the resources that politicians have for remedying them. I see three principal causes for the crisis of the financial system: 1) there is not enough capital in the banks and the financial institutions. The banks should have to recapitalize. 2) Political leaders are not capable (or don't want to take the necessary risks) of re-establishing the stability of the financial systems. Also, often they don't understand finance and don't know how to lead the fight against unacceptable financial practices. In the United Kingdom, the politicians have left the cost of regulation to weigh more on consumers (investors and savers) than on the bankers. Is this acceptable? 3) Competition between the bank establishments pushes them to a tug-of-war. As for the resources that the politicians have at their disposal, it's important to distinguish at least two: the promulgation of restrictive legislation and state intervention in the financial economy.

Hans Peter Bauer: When speaking of the "crisis of the financial system," the financial crisis of 2007 needs to be distinguished from the sovereign debt crisis that we're experiencing today. For the 2007 crisis, the responsibility has been attributed to the private financial actors while forgetting the mistakes made by the central banks and regulators. However, this is a systemic crisis: the institutional authorities therefore are partially responsible as well. Of course, the banks shouldn't have used the leverage effect in their statements and should have limited themselves to their own capital. But the regulators should have prevented them from having recourse to these dangerous practices. Legislation should have re-separated investment banks from retail banks, returning to what was required by the Glass Steagall Act – especially since the integrated banks are susceptible to not properly addressing the conflicts of interest between sales and purchases. The last point that the crisis of 2007 made clear: it's true that the remuneration of traders and bank leaders appears disproportionate (not very "virtuous," even immoral); the financial actors who profit from this exaggerated compensation should also participate in the losses.
As for the sovereign debt crisis, the lack of politicians' budgetary discipline is the primary cause. Therefore,

it's not a real financial crisis, but a crisis linked to a lack of control over public spending. The financial sector is not responsible for this. Politicians, who require a high level of virtue from financial actors, should therefore start to apply their own requirements to themselves. They won't be the last ones to rig public accounts. Therefore, it's not a reform of the financial system that must be undertaken for this debt crisis, but rather a radical reform so that politicians will manage public finances.

Olivier Delamarche: I agree with what has just been said about the responsibility of the politicians: A. Greenspan prevented the bankers from assuming the risks that they nonetheless deliberately took. The central banks gravely sinned in their management of the 2007-2008 crisis. Politicians need to accept the fact that every economy has its cycles and that every economy will have a recession period from time to time. In other words, it's not virtuous to shirk responsibility: the state is not to systematically be the guarantor for default private creditors, because otherwise it puts itself into difficult situations. Today, we're confronted with a debt crisis that has reached 240% of the GDP in Japan and has heavily struck Europe and the United States. This is the result of this interventionist policy: the massive injections of liquidities by the central banks were mistakes that we're paying the price for today. Interventionism was not only an illegitimate and immoral evasion, but it has also proven to be ineffective, as evidenced by the policy of quantitative easing led by the Bank of England. The experts estimate that only 3% of the funds injected benefited the economy. It is known that monetary development must be similar to the growth of the economy; the central banks should therefore demonstrate greater rigor.

Paul Atkins: Yes, stimulus measures in the financial sector are inappropriate. Let us also remember that integrity depends on people: virtue cannot be decreed, and it cannot be imposed by way of regulations. In the United States, the lack of ethics and the immoderate faith of the actors in the financial sectors in the virtues of the debt leverage effect on growth are the direct cause of the subprime crisis. To compensate for this deficiency, a system of transparency and duties was replaced by inapplicable regulations. The role of the regulatory authorities (like the SEC) was reinforced and new authorities were created to try to re-establish ethical standards to regulate the financial system. The Dodd Franck Act (which is made up of 2300 pages) thus created fourteen agencies. But, two years after the promulgation of this law, it is clear that what this legislation created above all was uncertainty, which does not play in favor of reviving the growth and health of the financial system.

Moderator: None of you seems to grant political leaders a great margin of maneuver for moralizing the financial system. Their role is to correctly manage pubic finances and to let the financial actors assume their responsibilities. You don't seem to consider a political tool that is the default. Could a central bank go bankrupt?

Olivier Delamarche: Since it issues money, it can't technically go bankrupt. A country can still default on its payments. Here, there is a problem of scale: what could be done for Iceland can't be done for the rest of the world. If a default in payment by Iceland or Greece can be supported, it would be much more difficult if it were Japan, for example. Therefore, the states need to protect themselves against this risk. The English have thus planned for the Glass Steagall Act to go into effect in 2017 or 2018, which seems too late for me: it should be applied now because certain banks continue to increase their balance rather than lowering it (+ 11 % in 2011). And the risk is colossal: the total of the balance of the BNP Paribas equals France's GDP.

I'd like to add that the reform of the financial system also depends on the central banks, which should serve as examples. However, as the unconventional monetary policies (quantitative easing) have shown, this is not always the case.

round table

#3

Political power vs. financial power: can legislators emancipate themselves in order to better manage financial crises?

Moderator : Steve Young, Global Executive Director of the Caux Round Table, Saint-Paul, United States.
Participants :
• Roger Nightingale, economist, London, United Kingdom.
• Hans Geiger, Professor of public economics, Professor Emeritus at the Université de Zurich, Switzerland.
• Lord Daniel Brennan, lawyer, Co-President of the Scientific Council of the think tank Financial Integrity, representative of the Bar at the Council of the International Bar Association, member of the House of Lords, London, United Kingdom.

Daniel Brennan : As a member of the House of Lords, an assembly comprised of non-elected members, I must say, as a preamble to this round table, that politicians do not know and do not understand finance; in the event of crisis, they react and conform to the expectations of the electors. A politician's objective is therefore not to manage crises "well", but to manage crises according to what the electors understand of the solutions to be implemented. Therefore, for politicians, the objective is not to make themselves independent of the financial sector. They don't even dream of it, because the only dependency that they experience is that which they feel towards the electorate.

Hans Geiger: Yes. I'd like to add that the title of the round table seems a little nonsensical to me: ever since Karl Marx, we've known that it's the economy (the infrastructure) that sets the stakes, not politics. In this context, how are politics pertinent in finding a solution? In so far as those making the political decisions are influenced by economic and financial lobbies. In sum, politicians are caught between their electorate, on the one hand, and economic and financial power, on the other. Politicians therefore only have a very weak margin for maneuver.

Roger Nightingale: Without wishing to dramatize, I'd like to point out that our experience of the past fifty years shows that we have still avoided a certain number of crises. However, politicians cannot avoid all economic crises. What's essential is that they ensure that they don't get worse once they manifest themselves.

Moderator: Is it necessary to be resigned to the capacity of politicians to resolve the crises?

Daniel Brennan: In the House of Lords, there are many talented and competent people who are likely to envision solutions to different crises. But the assembly is not elected, and a non-elected assembly is more capable of providing an efficient solution than one that has been democratically elected. Essentially, an elected house must participate in a long, cumbersome process before making any legislation: the public needs to be polled, there need to be public and participatory debates... Most of the time, these constraints prevent politicians (I mean women and men who are elected democratically, whether they are members of the executive or legislative powers) from resolving or preventing the crises. However, they can make contributions in terms of researching solutions.

Moderator: Are there other political authorities that would be likely to play any effective roles, such as the central banks or regulatory authorities (such as the SEC in the United States)?

Roger Nightingale: Certainly. Also, it's necessary to not present the problem in overly simplistic terms. For example, there are three parts involved in our crisis: the governments, the central banks, and the commercial banks. Even though it is generally thought that the government is against the banks, they are all in fact moving in the same direction. The insolvent debts that appeared at the time of the subprime crisis were transferred from the banks to the states, which saved them, and then the central banks aided the governments. The contagion continues. In fine, the central banks will be obligated to create inflation in order to manage the crisis and taxpayers will pay the tab.

Moderator: Who to turn to find a solution if not the democratically elected politicians, the regulatory bodies, and the central banks are all not in a position to correctly manage the crises? We have also spoken of the necessary moralization of the financial sector and of its practices. Who is in a position to instigate this ethical conduct?

Daniel Brennan: I think that part of the answer lies with the actions of civil society. These past twenty years, the financial system has been strongly influenced by traders, or people with solid mathematical training but with no economic experience. If we want to change this model, we must encourage business schools to integrate the appropriate education into their syllabi, also including training in ethical and moral values. For several years, I have wanted to create a center of excellence (financed by the City) dedicated to corporate governance: the employees of the City could meet members of Parliament and civic leaders there and talk to them about ethical and moral questions. Because in my mind, a government alone cannot define the ethical norms for private activity, knowing that the ultimate responsibility is on the individuals, their conscience, and their sense of morality.

Hans Geiger: Yes, in a democracy, civil society should be able to manage crises effectively and itself impose the rules needed to build a virtuous financial system. But to operate well, democracy needs a well-educated population – which doesn't exist anywhere.

Roger Nightingale: Civil society may be the authority that we turn to in a democratic state. But its rights cannot be overridden by its leaders. The regulators and the managers of the central banks are not elected democratically – which is abnormal, considering their power – while the people can get rid of politicians who don't meet their expectations. In addition, at the time of the 2007-2008 crisis, taxpayer money was given to the banks without the people being consulted in advance. If the people had been asked via a referendum, I believe that these banks would have gone bankrupt a long time ago. It seems to me a necessity to democratically implicate the people in major decisions (especially those connected to the regulation of the financial system).

Hans Geiger: In this regard, the case of Iceland is particularly telling: in 2008, the level of Iceland's debt reached nine times its GDP. Via referendum, the Icelandic people, who were consulted democratically two times (in 2009 and 2011), decided to default and to not reimburse its public debts. Today, this island is rated better than Ireland. To me, it seems that better democratic and civic participation in economic and financial governance is not only the citizens' legitimate right, but a common aspiration and a solution that has often shown itself to be efficient.

Can the eurozone survive?

Moderator : Daniel Mitchell, Senior Fellow, Cato Institute, Washington DC, United States.
Participants :
• Stephanie Kelton, Assistant Professor of Macroeconomics at the University of Missouri, Kansas City, United States.
• Olivier Delamarche, founder of Platinum Wealth Management, Paris, France.
• Christian Parisot, chief economist at Aurel BGC, Paris, France.

Stephanie Kelton : I've been studying the euro since 1995 – when people were starting to discuss the establishment of the single currency. Above all, the euro suffers from an original design flaw: the Treaty of Maastricht created a single central bank and a single monetary policy; but it didn't set up a fiscal institution corresponding to the American federal reserve. However, one central bank alone cannot under any circumstances help with revitalization after a macroeconomic shock for the simple reason that in the eurozone, each member state remains in control of its fiscal policy. Thus, when an economic recession leads to the reduction of fiscal revenue, the markets can only observe the extraordinary disparity of the eurozone, which reveals itself to be completely torn. The appeals of the state bonds issued are grossly unequal. The countries that are most affected are unable to reimburse their debts and suffer an increase in rates, which considerably increases the weight of their debt.
But what is unsettling is that the solution suggested

for resolving the crisis is precisely that which will exacerbate it: the austerity required in the countries undergoing difficulties will aggravate their deficit and thus increase the level of debt. It's not possible to ask the United States, when it no longer has the means, to secure the markets. In my view, the only authority capable of restoring the equilibrium is the Central European Bank. In other words, to guarantee the survival of the eurozone, there are two requirements that need to be met: 1) there needs to be more economic integration and stronger economic governance in Europe; 2) the European authorities must assume their responsibilities and help the states experiencing difficulties without constricting them with excess austerity.

Christian Parisot: I'm not as confident in the effectiveness of the Central European Bank: banking easing, or the 3-year loans the CEB has agreed to make to the banks, can certainly be reinvested in state bonds. But this banking easing is essentially a short-term action. Thus, the CEB must agree to take farther-reaching measures while accounting in particular for the rejection of austerity measures by the European populations.

Olivier Delamarche: Quantitative easing is inefficient. The only buyers of sovereign debt are the central national banks: the money is therefore just changing pockets. Quantitative easing makes it possible to buy some time, but that's all: the three years of reprieve for Greece cost 400 billion euros. Is this efficient? It is necessary to assume additional costs again for the other countries?

Christian Parisot: All the same, quantitative easing still made it possible to organize Greece's partial default. This gain is not negligible: Europe gave the bankers the time they needed to make provisions for the losses to come. However, such an unconventional monetary policy as an emergency measure which isn't enough to definitively resolve the euro crisis. In this context, does Europe have enough firewalls to be able to make loans to medium-sized countries? The only perennial resolution is with better European integration and the establishment of a federal European system: the eurozone countries can't be excluded (the treaties do not provide for it). But will Germany agree to relax its position on euro bonds and will it support European federalism that would make it possible to redistribute wealth better and to make less violent adjustments?

Olivier Delamarche: I don't subscribe to the euro bond types of mechanisms, which add debt to debt. As for EFSF and ESM mechanisms, they highlight a lack of common sense, in so far as the states that could be helped are also guarantors of a part of the sums that can be borrowed. I worry that the euro will explode if the solution consists of regulating debt by going further into debt or by issuing paper money. The case of Japan is telling in this regard: its situation today is similar to what it was twenty years ago.

Moderator: Could fiscal union be a solution?

Olivier Delamarche: This could have been a good idea, but it's too late for it to be of any concern.

Stephanie Kelton: I think that the chances that we'll see fiscal union one day are very low; however, it's important to allow the authorities to implement a countercyclical fiscal policy. The Central European Bank must play its part and recognize that, no matter what the government's fiscal intentions, each Executive may see its economy suffering for cyclical reasons.
Germany is experiencing a surplus in its current account, as are Luxembourg, Holland, and Estonia, albeit on a smaller scale. The German economy represents 27% of the eurozone; Luxembourg, Holland, and Estonia combined represent an additional 13%. All the other countries suffer from heavy deficits in the balances of their current payments, and this leads to a budget deficit, financed by private investors. Above all, it's necessary to understand that these deficits cannot be controlled. It is therefore necessary to accept that the central European bank intervenes in order to establish a fund that governments can have recourse to, if necessary: it is not a question of loaning to the states but directly crediting the public accounts of the states. In order to be effective, this mechanism would cost the European Union the equivalent of 10% of its GDP. But it would diminish the states' debts. To counterbalance this, the central bank could require the states to commit to paying back debts, which the treaties have already arranged. Each member state, within the context of the European semester, must in fact present its stability program at the beginning of the year to the

European Commission, presenting the trajectory of deleveraging its public finances. In any event, it's important to keep in mind that a diminishment of the debt/GDP ratio is greatly facilitated by economic growth, as perfectly illustrated by the example of the United States following the second world war: America's GDP surpassed its debt by 125% in 1946 and 37% in 1970 thanks to growth.

Christian Parisot: I share this point of view: the only solution for sustainably exiting the crisis is to activate growth. But, under pressure from Germany, there's been a desire to restructure too quickly and it was announced that there would be a return to equilibrium in three years. To do this, budget cuts were made instead of reducing the structural deficit. In fact, the remediation will translate into weak growth in Europe over the course of the years to come.

Moderator: Will Germany agree to give up its current policies?

Stephanie Kelton: No, I think it will resist, because it fears that this will lead to high inflation. In addition, Germany has the legal means to prevent such interventions from the CEB: article 127 of the Treaty on the Functioning of the European Union (from the Treaty of Lisbon), which defines the role of the CEB, does not provide for such an action. Therefore, the treaties would need to be modified, which would be a long and complex process, before an intergovernmental conference could really meet about such an important subject. Finally, we should note that the German notion of growth rests above all on making structural reforms with the objective of reviving competitiveness, especially in terms of the labor market and the liberalization of services. Thus far, Germany has rejected all classical Keynesian reflation. Here, therefore, there is potentially a major divergence with the countries in southern Europe regarding the resources to be implemented within the context of a growth policy.

Moderator: Let's make a few predictions: how many countries currently within the eurozone won't be there anymore in five years?

Stephanie Kelton: It's possible that Greece will no longer be there.

Christian Parisot: Europe doesn't have a choice: it has to get it out of the crisis from above. This is why I say that all the countries that are currently members of the eurozone will be in five years from now. The CEB bought more than 200 billion euros in debt on the secondary market, which is far from negligible. If the risk becomes extreme, the CEB will intervene again, no matter what the presiding monetary rhetoric is. Also, institutionally, it is impossible to isolate a country, including at the economic and monetary levels.

M. Olivier Delamarche: I actually only see two possibilities: either all countries are again a part of the eurozone, or none. I myself think that the existence of the eurozone, on the whole, is very precarious.

Friday, 27th of April

Ethics and Finance

round table

5

How to fight against the predatory power of finance against the real economy?

Moderator : Steve Young, Global Executive Director of the Caux Round Table, Saint Paul, United States.
Participants :
• Gilles Duteil, Director of CETFI, Université Paul Cézanne d'Aix-en-Provence, France.
• Gunther Capelle-Blancard, Director of the Centre d'études prospectives CEPII, Paris, France.

Gunther Capelle-Blancard: I'm not adept at dissociating the real sector from the financial one, for the latter is indeed real. However, the comparison between the trend in the development of transactions in different markets and the trend in the development of the global GDP shows a gap: starting in 1980, financial values increased considerably more than values in the real sector, whereas the trends followed parallel development between 1945 and the 1970's. Since 1980, the size of the market of derivative products has doubled every 3 years. All western countries have seen a disconnect between the growth in bank assets and growth in the GDP. Thus, bank assets of the United Kingdom represent 500% of the GDP and the profits before taxes of the largest banks each more than 800 billion dollars. Before the crisis in 2007, the financial activities of the United States represented less than 10% of the added value and 35% of the profits of all companies. The total bank assets represent 100,000 billion dollars, or more than the global GDP (around 60 billion dollars). If you add bank assets, shares, and bonds, this reaches 4 to 5 times the size of the banking GDP. The levels of remuneration in the financial sector are also very high and disconnected from economic activity: the average salary in finance and insurance is more than 80% of the average in the private sector (in France, 50%). In the face of these statistics, the predatory power of finance over the economy is undeniable. Jean Peyrelevade also defined this predatory effect of finance: "considered predatory are all sectors [...] where the share in the total profit of the entire productive mechanism is significantly higher than its share in the total added value, weighted by the capitalistic intensity of each sector [...] More simply put, predation is characterized by an over-remuneration of capital versus its average output for the entire economy.[1]" Socially, the demand is very high to limit this predation, and, to respond to this expectation, several works were carried out by the IMF and the European Commission. What should really be done to contain this sphere? Two means have been proposed: regulation and taxation.

Gilles Duteil : Making a distinction between the real economy and a supposed virtual economy disturbs me as well. Part of finance is, of course, "virtual"; but finance nurtures all of the real economy – this is its primary role and its reason for existence. Be that

1. Jean Peyrelevade, "Théorie de la prédation" (Theory of Predation), in *Rapport moral sur l'Argent dans le monde 2010*, Association d'économie financière – Caisse des Dépôts, Paris, 2010, p. 55.

as it may, the question of its predatory power and its control is at the heart of the current debates. But in order to control this predation, it's necessary to ask the following question: when was there a separation? and why? The first thing to note is that since 1986, there has been a trend towards deregulation, and it seems that things have gone too far in this direction. In this sense, it seems to me that re-regulation is necessary and inevitable. The problem will be to design and apply an international regulation that will be simultaneously effective and simple. But, from this point of view, it's important to indicate at least two problems: on the one hand, the regulations currently in effect are often opaque and therefore cannot be applied. This opacity is the consequence, at least in part, of the influence of the Anglo-Saxon legal system, which encourages unnecessary pages – and thus, complexity – in normative documents. Simple contracts, for example, based solely on the Commercial Code or the Code of Obligations, are becoming more and more rare and the jurists have the infuriating tendency to produce documents that are ever more detailed and that exceed 500 pages. Such documents are incomprehensible and therefore cannot be applied. Therefore, for the future, it is important for regulations that will provide a framework for financial power to be designed in a simple way. In addition, there is a second problem with regulation: it is written by lawyers. However, lawyers and financial mathematicians rarely understand each other. Legislative texts about finance can sometimes not be understood by either lawyers or by financiers. Therefore, there needs to be real cooperation between

these two professions so that the regulations can be comprehensible and applicable.
As for taxation, the second defense available to limit financial predation, I think that it is inefficient and that it can prove to be counterproductive. The main risk is that the financial actors are inclined to shift the burdens to investors and savers.

Gunther Capelle-Blancard: It is clear that it's regulation above all that will make it possible to reduce the risks of predation. However, it needs to be combined with appropriate taxation. The problem with regulation is that it is synonymous with complexity because of the very nature of the products that it intends to regulate, and not just for formal reasons. However, I agree that complexity is often synonymous with opacity. It's necessary to regulate so as to encourage the applicability of legal texts. But the financial sector also needs to be taxed quite simply for fiscal reasons, because the effective tax rate for the big banks is very low and quite below the tax rates for companies. The problem is that so far, all the taxation projects have failed. This is for the simple reason that they have not met their objective. For example, let's take the Tobin tax: in accordance with its purpose, its establishment inevitably led to an increase in transaction costs.

Gilles Duteil: Unless the financial actors will pass on the cost of this tax to the investors and savers, on the one hand, and to the independent financial consultants, on the other. Regulation is therefore at the heart of the system to put into place to keep the little guys (independent intermediaries and consumers) from getting hurt. This is also the sense of the current legislation: the direction is towards ultra-protection of the consumer (see the law of August 2010). This regulation will also make it possible to better establish the status of the financial intermediaries: the profession suffers from some notoriety, which can be explained by several recent scams. Regulation will guarantee consumers against all kinds of scams and, in so doing, will enhance the reputation and guarantee the status of the intermediaries.

Gunther Capelle-Blancard: Certainly. But I would like to once again highlight the capacity of the banks to achieve fiscal optimization, the reason for which I also advocate for setting up taxation that is specific to the financial sector. My point wasn't in favor of increasing taxes overall, because general taxation is already too high in Europe. I think that taxation should be a lever for fighting against the predatory power of finance.

Should the power of the rating agencies be regulated?

round table
6

Moderator : Steve Young, Global Executive Director of the Caux Round Table, Saint Paul, United States.
Participants :
• François Veverka, Former managing director of European operations of Standard & Poor's, Associate of BANQUEFINANCE, Paris, France.
• Paul Atkins, Former commissioner of the Securities & Exchange Commission, United States.

Moderator : This round table is undoubtedly one of the most important in the forum because its conclusions could contribute to the proper dissemination of information in the markets. Three essential questions arise at the outset: 1) Why are there only three ratings agencies, all in the United States, that inform the markets across the world? These agencies are extremely important: if investors don't have the right information, the prices will be wrong. There are a few initiatives to remedy this. In early April in Germany, some private financial actors suggested that a new European agency be created[2]. This new agency, if it sees the light of day, will be a non-profit and financed to the tune of 600 billion euros by independent financial actors. Its sole mission will be to rate sovereign debts. Can initiatives of this type improve the quality of information on the market ?

2. Roland Berger's strategy firm worked on this subject and has just announced that it succeeded in raising 300 million euros to contribute to the financing of the agency.

2) Since the 1930's, all financial actors have tried to guarantee the proper and viable dissemination of information to investors. However, the ratings agencies have committed some serious mistakes that caused the subprime crisis. Also, the ratings of the state bonds are disputable: if I myself consider that the fall of the American AAA last summer makes sense, other observers think it's inappropriate. What should we think about the ratings proposed by the agencies? Should we be rating the ratings agencies?
3) Finally, a third problem, that of a possible conflict of interest, should be highlighted: today, the ratings agencies are paid by the issuers (that is, those who use the information supplied by the agencies to decide whether or not to buy products). If those who are rated pay to be rated, what value can be attributed to these ratings? It seems to me that ratings should be investor ratings, not issuer ratings. What do you think?

Paul Atkins: The limited number of ratings agencies can be explained historically: at the end of the 1960's, when Wall Street was staffed by a lot of small insurance brokers, a crisis saw the light of day because of the considerable increase in transactions at a time when computing didn't exist. All the transactions had to be recorded in the registers ad hoc, and the stock exchange had to close regularly to make sure everything was correct. In the face of this crisis, amplified by the aversion of the market induced by the first oil shock and responsible for the disappearance of numerous insurance brokers, the FTC required the latter to prepare for their possible losses so as to protect their clients in case of a crash. Within the context of needing to evaluate these various instruments, an organism with the aim of regrouping all of the country's ratings agencies was created. However, this initiative remained in its embryonic phase because the commissioners never gave their formal approval. This situation benefited three large American agencies because new competing agencies could upset the system by providing controversial information. The system was then perpetuated, doubtlessly because of the general negligence of all the financial actors who relied on it. However, the subprime crisis reveals that this system is fallible and failing. A ratings process that is much more transparent needs to be put into place. Certainly, in 2006, the Credit Ratings Agency Reform Act was adopted in order to specify the role of these ratings agencies, but it was already too late. What is there to do now? The Dodd Franck Act regulates the ratings agencies, and the SEC can also monitor them. It can, for example, know the evaluation methodologies used by the agencies. But there needs to be more transparency: each financial actor must be in a position to utilize the methodologies, parameters, and ratings criteria employed by the agencies.

François Veverka: Ratings were created in the United States one hundred and fifty years ago. For a long time, this activity remained marginal compared to others. Then, in the 1970's, an economy of debt was entered into, and the activity became more important. In parallel, the increasing complexity of products led to the growing usage of ratings, including for regulatory ends. For example, the internal models

developed by the banks need to be evaluated by the ratings agencies. The rating process is therefore not only an informational instrument to be used by investors, a promotional resource to be used by issuers, but also a way to control usage by regulators. The agencies are therefore very useful. Without them, the markets would be more volatile and less reliable. As for the problem of agencies failing, without wanting to absolve them of their mistakes that led to the different crises, particularly the subprime crisis, it's important to also not ignore the responsibilities of the other financial actors. For example, investors need more than the agencies' ratings; these ratings are a part of the information to be considered when making decisions. On the one hand, we can't advocate for responsible investing and, on the other, absolve the investors of their responsibility by only placing it onto the ratings agencies. In addition, it's important to highlight that most of the time, the agencies produce quality work: out of more than one million ratings attributed each year to Standard & Poors for 20,000 issuers, the correlation matrices reach 99.9%. In other words, the performance is good, despite the rare counter-examples that are so well-known.
As for the question of a possible conflict of interest, I don't think that the fact that the issuers pay the agencies is the most important problem. Another approach consists of having the ratings paid for by the investors, but this is incompatible with the necessarily public character of the rating process, which is in the name of respecting the criteria of rationality and transparency on the markets. In addition, a ratings agency model that rests at least partially on public

funding has been mentioned. This is an idea that is regularly presented again and again by European governments and the European Commission. But how credible will evaluations of the risk of sovereign debts be?

However, the for-profit status of these agencies is problematic: in a market that is enjoying strong growth, where the products to be evaluated are becoming more and more complex and numerous, the agencies are experiencing problems in terms of resources. At the beginning of the new millennium, with a growth rate of 40% for structured markets and the ascension to power of global actors (like J.P. Morgan and BNP Paribas), the agencies, which couldn't keep up, had to indicate that they were no longer able to rate properly. Therefore, it was necessary to impose a best efforts obligation onto the agencies. This is the reason why the firewalls, such as public supervision, had to be put into place.

Finally, concerning the quasi-monopoly that the three agencies sharing the market have, I think that it's imperative to open the market to competition.

However, the European regulator is in the process of imposing rules that only the major players will be in a position to observe. Paradoxically, the Brussels regulatory projects will secure the dominant position of the three agencies because they are the only ones capable of responding to these new rules.

Conclusions of the 10th International CIFA Forum

Speech by Mrs. Hanifa Mezoui

Special Coordinator of the Office of the President of the General Assembly of the United Nations

I would like to congratulate your President, your Secretary-General, and your entire team for this forum and the quality of the debates. CIFA is the only financial NGO that has a special consultative status with the Economic and Social Council of the United Nations. Thus, its recommendations support the considerations of the UN. The President of the General Assembly, His Excellency Al-Nasser, invited representatives from your NGO to attend high-level meetings about the financial and economic state of the world where the Secretary-General of the United Nations and numerous heads of state and government will be present to discuss the current state of affairs. The exchanges that took place over the course of this forum are at the heart of the matter. The recommendations that CIFA makes to the UN today will be debated tomorrow within the General Assembly of the United Nations and will take part in overall considerations of how to improve global governance and research into how to restart growth in a sustainable and equitable manner. We hope that collaboration between CIFA and the United Nations will continue in the years to come.

Closing Speech by Jean-Pierre Diserens

Secretary-General of CIFA

The following are the guidelines of the principal recommendations that we would like to submit to the United Nations the next 17th and 18th of May:

1) There can be growth without financial investments. Our markets must encourage the flux of capital towards the productive sector to stimulate job creation.

2) Financial intermediaries should be compensated on a pro rata basis for their contribution to growth. Toxic products and services deserve no compensation; work should be continued in this domain.

3) The sovereign states have the responsibility of promoting economic growth. They must show themselves to be responsible and rapidly reduce structural deficits.

4) Financial intermediaries should not exonerate themselves from the responsibilities that they have towards their clients. Independent financial consultants should take positions that are favorable and useful to their clients. Under no circumstances should they harm their clients: this is the Hippocratic oath.

5) A sustainable evaluation, where there is a high level of information regarding financial products, is absolutely indispensable. The information provided

by the ratings agencies should be free of all conflicts of interest. CIFA supports recommendations in favor of the creation of a non-profit ratings agency financed by an independent foundation.

CIFA's next forum will take place on the 24th, 25th, and 26th of April, 2013.

Appendix

From left to right: Jean Rognetta, H.E. Nassir Abdulaziz Al-Nasser and Jean-Pierre Diserens.

Universal Declaration of the Rights and Obligations of the Entrepreneur

PREAMBLE

Whereas free enterprise is a natural right of man, but that this freedom must be respectful of the human context and of the sociological and ecological environment in which the company operates,

Whereas the Member States of the Organization of the United Nations pledged to achieve, in cooperation with the Organization of the United Nations, respect for and observance of human rights and fundamental freedoms,

Whereas the creation and development of a company offer to man the possibility of individual achievement, to make himself useful socially and to obtain recognition of his peers, thus exceeding the profit he derives from it,

Whereas any business is legitimate, as it actively contributes to human development and well-being of the community of men,

Whereas the entrepreneur and its sponsors are legitimate when having as a motivation to grow the business as well as making a profit, as this motivation is part of a common utility,

Whereas considering the positive consequences of entrepreneurship on people, society and environment, and that ignorance, forgetfulness or contempt of the rights and interests of human beings are the source of misery, troubles and misfortunes of the peoples
Representatives of global civil society have thus resolved to proclaim in a solemn declaration, the Rights and Duties

of the Entrepreneur as a common standard of achievement for all peoples and all nations so that all entrepreneurs, keeping this Declaration constantly in mind, shall strive to ensure that their enterprise contributes positively to the development and well-being the human community

ARTICLE 1.

Every human being is free to undertake any trade or business of its choice. The entrepreneur must respect the laws and practices as well as the human, economic, social and environmental context of each country in which it operates

ARTICLE 2.

The Entrepreneur, as well as its sponsors, has the right to derive a profit from its enterprise in the form of its choice, once the contributions from and the value added by the employees and other participants in the life of the enterprise will have been fairly remunerated.

ARTICLE 3.

The Entrepreneur shall freely decide the legal form of its business as well as to partner with individuals or corporation of its choice. In such case it shall set up rules of governance allowing its partners to understand, in a clear and transparent manner the decision making and execution process thereof.

ARTICLE 4.

The Entrepreneur and its enterprise shall abide by the Universal Declaration of Human Rights, particularly in its relations with its employees, customers and suppliers and employees thereof.

The Entrepreneur has duties to the community in which solely the free and full development of its enterprise is *possible.*

In exercising its rights and the enjoyment of freedoms, the Entrepreneur is subject only to limitations established by law solely for the purpose of securing due recognition and respect for rights and freedoms of others and of meeting the just requirements of morality, public order and general welfare in a democratic society.

ARTICLE 5.

The Entrepreneur will ensure compliance with its natural environment. The Entrepreneur will operate so that its activities are sustained and do not compromise the environment for and the rights of future generations.

ARTICLE 6.

States must guarantee the freedom of enterprise. States will see that their laws and regulations be written in plain language, understandable by all and to the stability and perenniality of this whole.

States shall proceed to tax collection proportionate to the services rendered by the state to the enterprises as a whole.

No Contractor shall be deprived of its enterprise save for exceptional circumstances and provided that it is fairly compensated.

ARTICLE 7.

International Organizations will see that the principles of this Declaration by States be enforced and shall include them in any international treaty concerning entrepreneurship.

Monte-Carlo, April 25, 2012

Participated in the drafting of this declaration:

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