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White paper

XIIth International CIFA Forum

April 23-25 2014, Monaco

The New Paradigm For Wealth Managers

Report of round tables and debates

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OPENING CEREMONY

Jean-Pierre DISERENS, Secretary-General, CIFA

I am very pleased to welcome you all to the XII[th] International CIFA Forum. I would like to thank all those who are here, as well as the representatives of Monaco. Let me give the floor to our president, Pierre Christodoulidis, who will make the opening remarks.

Pierre CHRISTODOULIDIS, President, CIFA

The Bishop's diagonal or the insoluble reallocation of capital in our advanced economies

One of the most debated discussions of the last few months was not launched by a progressive economist or one opposed to consensus opinions, but by L. Summers, one of the most conservative among all. Although he no longer holds a public mandate, he nevertheless is a consultant to the D.E. SHAW hedge fund and often a public speaker at conferences for $ 135,000 each.
What is the cardinal point in this debate, causing infinite waves into the pond? "Are bubbles the crutch we need to achieve growth in our system." Back in 2008, the Fed managed to halt the financial panic thanks to a very important rescue plan. The funds advanced by the FED then have eventually been reimbursed almost in full despite the fact that "the overall activity has not increased and economic growth remains weak", noted Mr Summers

during the IMF's annual conference, whilst interest rates remained quite low or near zero.

The following four main factors seem to endorse L. Summers' observations:

– The steady decline of interest rates over the last three decades, perceived as a normal trend;
– The fall in productivity over the last 15 years;
– The contraction in domestic demand since the 1980s;
– The stagnation of productive investments, if not non-existent at all, and of new capital creation.

The main capital holders no longer seek to maximise their profits through pursuing continuous production increase, but by withdrawing a larger share of the achieved added value.

The productive system appears to be permanently broken, causing deep social tensions able to undermine even further its very foundations. The dangerously rising inequalities are destroying little by little the middle class, which is the guarantor of stability within democratic institutions. The increase of mass unemployment leads inevitably to lower income both private (i.e. return on capital), and public (i.e. decrease of tax revenues). Hence, massive unemployment weighs on public spending due to the constant increase of relative unemployment compensations.

The economist Alvin Hansen noted in the 1930s the "secular stagnation", which was caused, in his opinion, by the slowdown in demographic growth and by a contraction in technological innovation. However, these are not the factors that Summers was pointing out to. The disappointing economic performance of advanced economies alone does not explain their over-indebtedness, but it is associated to it. Lorenzo Bini Smaghi, former member of ECB Board says that "it is not austerity that weakens growth, to the contrary slow growth makes austerity necessary".

Summers calls on the restoration of the growth "virtuous circle". His opponents speak of an "expansionary austerity" in order to rid the economy of what is ailing. US Republicans aim at contracting the "crushing weight of the social state", while, in K. Rogoff's opinion, economic stagnation is due to governments' inability to manage debt. P. Krugman, although agreeing with Mr Summers' observations, he refutes his conclusions. His argument is that all available tools are far from having all been used in full: large corporations have a significant level of treasury capital which is not being reinvested. US non-financial corporations do hold about $2,800 billion, of which Apple alone accounts for $150 billion. James Saft noted in the New York Times (26/11/13) that, in 1970, intangible assets of US companies accounted for 5 percent of total assets, while in 2010 this number has increased to ... 60 percent. Despite an injection of $ 4,000 billion, the economy is unable to pick up.

Robert Reich, former Secretary of Labour under B. Clinton, has just published an article entitled "Inequality for All" in which he notes that, in 1978, the average US salary amounted to $ 48,000 p.a. whereas today it only amounts to $ 34,000.

The average income of the 1 percent of the wealthiest population rose from $ 393,000 in 1978 to $ 1.1 million. Over the last 5 consecutive years, 1 percent of the population accounted for 90% of GDP growth, and 99 percent of the population accounted for the remaining 10 percent. In other words, 450 people alone are worth as much as 150 million of the poorest Americans.

The present situation is showing similarities with the wealth's accumulation of the 1920s, which led to the Great Depression.

In this context, we can easily state that the banks' lending to SMEs is practically non-existent, as banks prefer to "stockpile" their excess liquidity with their central bank. The only credits easily renewed are those in favour of much larger industrial corporations, which incidentally have no trouble accessing the capital market at absurdly low interest rates. And, what do they do with this liquidity? They repurchase their own shares in the open market.

The more liquidity is either saved or used through "financialization", at the expense of productive investment and employment, the more the real economy is bound to contract, thus threatening economic stability and social peace.

Who will have the courage to denounce this Gordian knot and to stop the vicious spiral of economic contraction? Who will be courageous enough to point out the responsibilities for such suicidal behaviours? It is through the successive round tables that will be held during this Forum's next three days that we shall try to answer these questions.

H.E. Mr. John W. ASHE

President of the 68th Session of the General Assembly of the United Nations

Ladies and Gentlemen, Greetings one and all.

Although I cannot be with you today in person, I appreciate the opportunity to share some thoughts with you through this message.

I was pleased to learn that your Convention launched a Global Partnership for Development with the World Jewellery Organisation on the occasion of the Partnerships event I co-hosted earlier this month with the Economic and Social Council (ECOSOC) at UN Headquarters in New York.

The Partnerships event was part of a series of events that I am hosting to help "set the stage" for the development agenda that will succeed the universally known Millennium Development Goals (MDGs) in the post 2015 era. The processes to define this new agenda were launched at the Rio+20 Conference in 2012, when Heads of State and Government agreed that the post-2015 development agenda should integrate the economic, social and environmental dimensions of sustainable development in a balanced manner. They also underscored the need to strengthen our global partnership for development. Indeed it is through the pooling of our efforts, ideas and resources that we can achieve the future that we all want.

As supporters of Goal #8 of the MDGs, which calls for a global partnership for development, you know and understand the importance of partnerships and you have expressed your commitment to join us in successfully eradicating poverty. However, successfully implementing the new agenda that will succeed the MDGs will mean expanding our sense of partnership and taking it further.

In the ongoing discussions in New York, there is a common understanding that financing the new agenda comes with enormous costs. The fulfilment of Official Development Assistance (ODA) commitments will be critical, as will domestic resource mobilization primarily through tax revenue; however, public funds will need to be complemented by innovative sources of financing and multi-stakeholder partnerships. Further, our sense of partnership must include public and private, local, regional and national, domestic and international resources that come in the form of innovation, technology, research, human capacity, and cross-sectoral partnerships. Partnerships at the national and regional levels will also be important. So too will be the engagement of the private sector, who can play a key role in ending poverty, creating decent jobs, expanding infrastructure, sustaining livelihoods, and bringing societies useful products and services. A supportive international enabling environment, which includes stable macroeconomic policies, supportive and reliable infrastructure, a well-educated and capable population, markets conducive to fair trade, and access to credit are key to success.

Yet responsible engagement is necessary and the business sector must look at how it can become more people-centered and embrace sustainable consumption and production patterns. In this regard, I would like to remind you of another platform where the business community can engage in the post-2015 process: the UN Global Compact. To date, ten-thousand (10,000) companies – including numerous small and medium enterprises (SMEs) – have joined the UN Global Compact and committed to universal principles and corporate sustainability.

Today, more and more businesses understand that beyond financial risks, they must also give due consideration to economic, social and environmental risks to ensure their resilience in a world in constant flux. Similarly, investors are increasingly looking beyond financial results to also examine the economic, social and environmental performance of companies. There is a growing sense that sustainability in business is critical and I am pleased to see that CIFA, along with many companies and business groups, is actively contributing to the post-2015 process.

In your discussions over the next two days, I encourage you to examine all of the many ways the private sector can contribute to creating greater well-being for all people on a thriving and prosperous planet.

Thank you.

ECOSOC Roundtable with UN high representatives and the civil society: addressing ongoing and emerging challenges for meeting the MDGs in 2015 and for sustaining development gains in the future

Hanifa MEZOUI, Moderator

This roundtable takes place at a time when the world is lurching from crisis to crisis – political transformation, infectious diseases, environmental degradation, poverty, nuclear and biological weapons, terrorism, just to name a few. How can we ensure that the global partnership for development is not threatened? We already see a few positive developments, for instance, the importance of simultaneously addressing the emerging challenges of food, climate and energy. The need for comprehensive reform of the financial architecture is accepted by the UN, but the only change everyone agrees on is on the part of the private sector. We have seen changes in the private sector, for instance the cooperation between business, governments and civil society, but it is not enough. Setting the stage for post-2015 is a daunting but inspiring task for the UN, and it reminds us of the call for peace, justice, equality, accountability and environmental preservation, and we must not only include the people making this call but include them in designing and implementing the post-2015 sustainable development agenda. Achieving this will require a global partnership for innovative thinking and renewed vigour and impetus, and CIFA has become an invaluable partner in this process. We will listen to the insights of the panel, confident that they will be instrumental in advancing the implementation of the SDGs through innovative multi-stakeholder partnerships.

Andrei ABRAMOV, Chief, DESA NGO Branch

I always look forward to working together with CIFA for many reasons, firstly because it is one of the NGOs which both preaches and does what it preaches, and secondly because of its expertise. I will give you an indication of the current thinking at the UN, though we are in the middle of the process, which will probably last until the end of September. I just want to convey to you greetings and best wishes from the President ECOSOC, who is unable to be here because of ongoing coordination management sessions, but he said that CIFA's and the UN's ideals coincide in many ways, and he very much appreciates the work you are doing. Let me start with ongoing and emerging challenges in the current world economy and the status of the MDGs and the post-2015 development agenda, including how to finance sustainable development. The global economic outlook as projected by the UN remains broadly positive, with global gross product expected to grow 3% in 2014, a slight improvement over 2013. The improved prospects rely on two main factors, strengthened recovery in major developed economies and stabilisation of growth in major emerging economies.

Since the Euro area has emerged from protracted recession, all major economic areas are aligned on the same upward trajectory for the first time since 2011. However, projected growth is still insufficient to narrow the output gap. The unemployment situation remains weak, as long-lasting effects from the financial crisis continue to weigh on labour markets in many countries. The Euro area faces the most challenging situation, with unemployment of 27% in Greece and Spain and youth unemployment of over 50%. Unemployment has declined in the US but still remains high. The situation in developing and transition countries is mixed, with very high rates in North Africa and Western Asia. Progress on the MDGs can be reported in many areas, with several key targets having been met. However, progress is far from sufficient, and has been uneven across regions and income groups. Rising inequality has increased the challenge and has left many groups behind. The world has reached the poverty reduction target five years ahead of schedule; the proportion of those living on less than USD1.25 a day fell from 47% in 1990 to 22% in 2010. Over two billion people gained access to water resources, mortality from malaria fell by over 25%, and death rates from malaria will likely be halved by 2015. The proportion of slum dwellers is declining, with over 200 million benefiting from improved water, sanitation, and housing. Finally, the proportion of undernourished people declined from 23% in 1990 to 14.9% in 2010. However, more action is needed in many areas, such as environmental sustainability. CO_2 emissions are 46% higher than in 1990, and growth is accelerating. Forests continue to be lost rapidly. Overall progress in child health, access to education and learning outcomes still needs to be addressed. Progress on MDG aid is also mixed – debt burdens are lower and market access has improved, but inequalities have increased in both developed and developing countries. Tackling inequalities will be critical for accelerating progress toward achieving the MDGs and the post-2015 goals.

The discussions on the post-2015 agenda have achieved a broad consensus on the importance of poverty eradication, which will remain at the core of the agenda. The importance of sustainable development in economic, social and environmental terms is also widely recognised. Abundant human, financial and technological resources offer unique opportunities to achieve this, but we must join our efforts to achieve this. While the MDGs addressed challenges of access to basic services, the new paradigm addresses complex challenges of inequality, governance, growth, peace and security and is applicable to developed and developing countries. Whereas the previous paradigm accepted that development was for developing countries and climate change for developed countries, the new goals should be based on close interaction between development and climate change. We see a radical change in this paradigm, relying on targets agreed on by everyone. The rise of the global South requires a global partnership and multi-stakeholder involvement. UN members have agreed that this agenda requires a coherent approach which balances all three aspects of sustainable development. The agenda will provide a single framework and set of goals while respecting national priorities. Intergovernmental negotiations on the post-2015 agenda involve an open working group on sustainable development and an expert working group on sustainable development financing. They will both conclude their work by September, after which member states will start negotiations. The open working group has identified 19 focus areas which it is considering in depth with a view to consolidating them in the form of a set of sustainable development goals for consideration by the General Assembly. This proposal will be complemented by the report of the intergovernmental committee of experts on sustainable development financing. We support the work of both groups.

This report will also inform intergovernmental negotiations on a new sustainable development agenda and preparatory work for the third international conference on Financing for Development in 2015. Several key themes have emerged in its ongoing discussions, firstly that the Monterey Consensus and the Doha Declaration provide the basis for a comprehensive financial framework beyond 2015. Estimated financial needs for sustainable development provide considerable challenges, yet global savings are estimated at USD18 trillion annually, so the challenge lies in providing sufficient financial incentives. There is strong consensus that all types of financial flows will be necessary, and they will need to be seen as complementary. For example, private finance will be more efficient than public in many instances, but it is of short-term nature, so public financing and policies will remain the basis for a financing framework. Efficient development assistance will remain crucial, and the primary responsibility for this will remain with governments. Sustainable and equitable growth is a precondition for raising domestic resources, and the global agenda can support countries by creating an enabling environment for growth. However, private financing is increasingly seen as a major source of financing, though it still remains insufficient in both developed and developing countries. The enabling environment has to be improved nationally and internationally, and the underlying incentives for investors need to be better understood, as it has become increasingly short-term. The development of inclusive and stable domestic financial sectors is also essential, as they can provide a conduit for long-term investment.

Ruth Engo BAMELA, President, African Action on AIDS

I am happy to have been invited by CIFA to this important meeting that could usher new ways to present, implement, monitor and evaluate the MDGs for a long term change in Africa. AAA (African Action on AIDS) was founded 23 years ago to support children affected by AIDS. Creating stronger and healthier communities, we increase the ability of local people to take care of their own children. AAA was established by the African Diaspora in the USA. As member of UN-ECOSOC since 2003, we have been bringing local voice to global debates. AAA's work is based on three programs:

The first is 'JUST KNOW' that emphasizes the local language concept of MAYEM MA BO meaning, I KNOW and I DO. We believe that people should understand their bodies and get the kind of knowledge that leads to positive behavior for the betterment of their own lives.

The second is 'HEALTH before WEALTH', which is an idea that rose from our experience in villages where microcredit is practiced. We empower people for disease prevention to enable them to work effectively, save and use their savings to grow.

The last is "WOMEN's ECONOMIC AUTONOMY", the main tool being educational scholarships for vulnerable girls that lead to financial autonomy therefore greatly reducing the risk of being infected with HIV through sexual abuses based on economic needs.

Solidarity, collaboration and partnerships among social actors on global and local levels (village chiefs, schools, UN) are essential for the realization of the three programs. We are positively present wherever our members are including Africa, Europe, Hong Kong, USA and we will continue to grow.

As for the MDGs, we started by observing two characteristics: One positive, that allowed us to understand that MDGs function at individual and global level. The success in one has an impact on others and facilitates the scaling-up process. The negative characteristic is a perfect reminder of depressive Africa presented as a series of lacks. It is very difficult in that context to realize positive things. A special MDG should be introduced that does not only refer to a lack of something but also highlights things being well done! This negative characteristic is our biggest challenge. I hope that the coming MDGs will remove the negativity surrounding African development. These communities continue to wait for a future that at this rate may never come, and if it ever did, the belief that it will be as a result of someone else's activity and not that of the people themselves is definitely depressing! The MDGs should emphasize knowledge that allows anyone to understand their problems fully, allowing them to find possible solutions. The I FACTOR emphasizes that every individual should have their own input into the problems they face. Not everything should come from outside, though we also emphasize teamwork, locally and globally. Indeed, when local and international people work as a team, more positive energy can be generated, leading to focused and tangible results measured in tangible spaces like villages, schools, local councils.

This led AAA to choose the MDGs we thought would help communities understand that Community Poverty aggravates the vulnerability of each member. Therefore, cultivating community spirit could remove common barriers to success and joy. We therefore adopted MDGs 2, 3, 6 and 8. We decided that COMMUNITY MOBILIZATION would be our long term and main tool, with each action preceded by training and debates, to ensure at least the following: a) People are aware of their collective problems; b) They get practical knowledge of different options to solve the problem at stake; c) The importance for each member to take personal responsibility and get involved; d) The need to understand that seeking external partnership does not eliminate local efforts or contribution but also that the community should envisage living without total external help; e) The importance of team work and endurance. Mobilization also means knowing and doing. We have to create a Show-and-Tell of sorts, transmitting the message most of the time in local languages geared toward reducing preventable diseases leading to death. When you go to a kitchen and everything is on the floor, you have to explain the consequences of placing drinking water on the floor!

EDUCATION, of women and younger girls is our second focus. It takes the form of a scholarship with the objective to increase the pool of vulnerable girls eligible for continuing into secondary, professional schools and

University. Since 2007, we've had a steady flow of 25 students each year of all levels. The selection is based on the following: a) Give preference to total orphans (lost father and mother); b) When possible, place sisters separated at parents' death in same schools; c) A new girl is enrolled only if we have the means to support her education in at least one whole level (i.e. secondary); d) Same importance given to school education and life skills. Girls must learn to wash their hands and to sleep under mosquito nets. These scholarships are expensive because they have to be sustainable, and they have to involve not just academia but everyday life. For example, we teach them to dress responsibly - if you go to the market to buy a plantain, you should avoid dressing as if you were going to the opera house, because you may be charged based on your external looks! The lesson that has been learned is that, when vulnerable girls are placed in an environment suitable for pursuing education and are encouraged to do so, they are more likely to succeed. Recipients are encouraged to develop a network, understanding that they must grow to become agents of change in their communities. One of the girls who graduated is now financing another girl. Each girl entering AAA signs a letter of commitment that they will help others even before they earn a regular salary. Some secondary school girls signed an engagement to fetch water for an elderly woman in their community. Another decided to contribute some of what she earned babysitting. All aspects of PREVENTIVE HEALTH are part of our work. AAA's Preventive health plan is a package of essential actions to avoid diseases in our communities. The plan includes: AIDS screening test; Malaria prevention; Hand washing with soap; Drinking potable water; Dignified/clean toilets; De-worming; Vaccination; Body and mouth hygiene, etc. To ensure that communities have clean water, AAA builds wells in villages, ensuring that maintenance funds come from the contribution of each family - 300 francs CFA a month - and 125 francs a year for each school child. This behavior is not only cheaper, but also sustainable because it places the "I FACTOR" in the centre of health. Indeed, in a country like mine where people are busy from Thursday to Saturday burying the dead, preventing diseases is cheaper than curing. To sustain this behavior in 2008, AAA introduced Water Stations. This innovation was registered by the African Regional Intellectual Property Organization (OAPI) as a useful tool for health prevention.

An important aspect of disease prevention is the impact of malaria. Malaria is the highest cause of ill health in Cameroon (40%). While malaria programs tend to mostly focus on children aged under five, AAA objective is to draw attention on 3 groups including: a) Pregnant women, because, when malaria parasites bind to the placenta they can cause inflammatory reactions that could lead to spontaneous abortions, still births and babies born with low weight; b) People Living with HIV/AIDS. Their defense system is weak and this explains why malaria is more frequent and severe with cases of treatment failure both resulting in deaths. AAA therefore tends to combine HIV/AIDS and malaria prevention activities; Systematic protection of school children living in orphanages and dormitories because of a high percentage of school absenteeism due to malaria. The vision of AAA is to hook mosquito treated bed nets in all institutions lodging school children.

Finally, AAA believes in progress through networking and partnership. Indeed, AAA opens each year with a Networking Day, drawing attention on solidarity and collaboration as essential ingredients to progress and community building. Dialogue among actors increases knowledge, technical skills and facilitates the sharing of human resources, which all serve to broaden the dissemination of successful strategies as well as lessons

from problems encountered. AAA various partnerships, go from local to global including with UNAIDS, Batonga Foundation, CPC, USAID, CIFA, Governments' institutions, Private sector; Mayors, village Chiefs, Nurses and Medical doctors. We sign conventions with local communities to ensure that they also do their part.
To conclude, we would like to draw attention on 2 ideas that are at the centre of AAA actions: a) "Most intimate aspects of development are virtual and impalpable like happiness, health and joy" by Prof. Joseph Kizerbo; b) "The doctor of the future will give no medicine but will interest his patients in the care of human frame, in diet and in the cause and prevention of disease", by Thomas Edison.

Pamela BERNABEI, Secretary General, International Ontopsychology Association

The activities of the International Ontopsychology Association (AIO) are constantly organized within the framework of the 8 Millennium Development Goals (MDGs) achievements, with a special focus on education (2nd MDG), environmental sustainability (7th MDG) and global partnership for development (8th MDG). From this triad, you can reach the remaining five goals. We use the pedagogical approach of the ontopsychology method: "*the art of educating a man/person to a social function*", a method which has a precise background and provides tools for training young people and entrepreneurs.
Many projects that have already been launched through this new pedagogy. We build education centers, places of humanistic and scientific culture capable of providing great benefits to the operators and to all local willing people. This is not meant to fully assist people but to encourage them to assume full responsibility in order to provide in a practical, efficient and cultural way superior services; thus we are effectively pursuing meritocracy.

The AIO has set up, with its global experience spanning through more than 40 years, a new approach to corporate social responsibility related not only to the single enterprise, but to the community as a whole. Our CSR strategy is based on meritocracy, meaning that when you start a project or an investment, reciprocity between those who give and those who receive has to be in place. For instance, if something is being done for the region - how much are stakeholders doing, by taking into consideration as well what they have received? In other words, replacing the "one-way street" system with a "one to one" reciprocity method, very much on the basis of the Latin principle "do ut des". This way, you can get immediate feedbacks like: (a) finding out early on whether or not you are wasting your time, (b) whether results, whether or not results can be reasonably expected, and (c) whether or not there could be a need to correct the implementation of your project on the basis, for instance, of cultural variables that have not been taken into account initially merely because of lack of knowledge.

In practical terms, the CSR based on the AIO approach is aimed at elevating CSR from its marginal role and place it within the strategic core business. The core business of the entrepreneurial investment has to embrace a CSR added-value system as well. Hence, the paradigm gets reversed: instead of being a peripheral, additional, supporting or mediation activity, the CSR becomes "the" core business.

This reciprocal meritocracy feature leads to a situation where both the operator promoting a project and the operator in charge of it lie with the entire community and the whole region where the interested stakeholders live and work. That's why it is recognized as a CSR of "public good", supported by private resources coming from the different stakeholders acting in perfect harmony with their common scope. At the same time, stakeholders reinforce their engagement for the good of all.

At this point, another feature of our way of working comes into play: precisely by transferring responsibility to the different stakeholders of the community where a project is being implemented, all the CSR projects become tailor-made to the cultural and geographical peculiarities, thus removing the enduring traces of colonialism which often emerge within some CSR strategies.

CSR led to the birth of a new entrepreneurial generation, to a new model of enterprise based on ethics since the very beginning. Several faculties and university courses, teaching this new way of doing business, have been created especially in emerging countries.

We tried to integrate our work with the MDG framework. Then, we realized that we have been operating in the "MDG way" for many years, and delivering results since. Now, after almost thirty years, the answer is there, it is replicable and sustainable, as the current many projects clearly attest.

Today, as we stand together, our strength is to see our academic institutions flourishing, and our students empowered and succeeding in their respective societies. We all benefit from Professor Antonio Meneghetti's precious foresight, which places our institutions at the "avant-garde" of international teaching and training with its additional components of corporate social responsibility (CSR).

Michèle VIANÈS, President, Regards de Femmes

The MDGs have not been fully achieved since 250 million of children and their families remain unregistered, and millions of children are born every year without being registered. This denies them the most basic right: an identity. These children are basically invisible; their rights are limited to basic healthcare, education, and basic social benefits such as housing and social protection. Often, the most disadvantaged and marginalized children are affected the most, such as those from rural areas, indigenous communities or children with disabilities. Girls are affected more than boys. Lack of proper documentation is an impediment to countering early marriage, human trafficking and the exploitation and abuse of children. Formal registration at birth is critical for gender equality. The lack of registration seems to impact girls, who are denied a formal identity, and mothers as well, whose children are unregistered. The Convention, aimed at eliminating all forms of discrimination against women, clearly states that women have equal rights with respect to the nationality of their children. Why is this not happening? Laws allowing discrimination and excluding women are a continuing problem, such as those forbidding a woman to independently register a child. Women face great difficulty if the father is absent, if they are single mothers, and if they do not have equal rights with regard to the nationality of their children. Regards de Femmes and several NGOs in Francophone Africa are working to remedy these issues in a number of countries. We are proposing a standalone goal on gender equality for post-2015, including a proper indicator for birth registration coverage.

What needs to be done? Firstly, governments need to eliminate discriminatory practices and laws against women and girls. This includes ensuring equality of spouses with regard to registration. Secondly, they need to ensure that registration becomes compulsory, free and accessible without discrimination. Thirdly, families and communities must be informed of the importance of registration; community leaders and the media normally play an important role in raising awareness. Finally, innovative approaches must be promoted, such as ICT, SMS and online registration systems. Birth registration, in short, must be simple, straightforward and available to all. It is a necessary precondition for all individuals to participate in social, cultural and civil life, and it is essential to ensure the full participation of women and girls in public and economic life.

Steve YOUNG, Global Executive Director, Caux Round Table, St. Paul, Minnesota, US

I will talk about money. I intend to be somewhat challenging and not part of the team. The image I thought of was the story about the emperor with no clothes. How does this relate to this great moral cause of our time – bringing economic justice to the people of the world? I want to suggest that the process we have seen with the MDGs, and what we will see for the next set of goals, is something like an emperor with no clothes, in the sense that the goals and the process do not talk about money. Nothing can get done unless we have money: Ruth can get nothing done without it, and can only go so far with volunteers, and someone had to pay for Pamela's centres. Someone has to hire a public official to give birth certificates to every young child and to maintain a register. Who is talking about where the money will come from? The current MDGs are all statements of outcome – we will eradicate extreme poverty and hunger, but you cannot do so without economic growth, which is all about creating and circulating money. Secondly, universal primary education involves school buildings, teachers, retirement funds for the teachers. How do you empower women if you do not give them access to economic activity? How do you reduce child mortality without education, clinics, doctors, or antibiotics? How do you take care of mothers without money? How will you combat diseases such as malaria or HIV without money? Regarding environmental sustainability, it is very easy to have a sustainable environment with advanced capitalism – you just pay a lot of money. You retrofit all the buildings, increase the efficiency of all engines, and process hydrocarbons in different ways. Who will pay for it? Regarding the global partnership for development, I am a bit cynical when I hear NGOs and UN people talking about partnerships with the private sector. It is a request for charity by civil society and international organisations, which exposes that reality that neither civil society nor government generate wealth. The only way they can get wealth is with a private sector business community giving it to them through charity and taxes.

That private sector economy needs thoughtful long-term financial investment, and here there is an alignment to some extent, because CIFA is channelling the capital to opportunities to create more wealth. The emphasis of this approach is different from that of a lot of intermediaries, who are more interested in short-term gains on investments rather than long-term wealth creation. The MDGs and SDGs talk about increasing the capital stock of humanity; it is an asset-based approach, and the work of capitalism has to be put at the centre of the process. It should not be civil society organisations or the UN at the centre, but business and wealth creation. However, that raises various problems, such as whether we can trust markets or whether markets can deliver public goods. We do not have confidence that markets can deliver public goods, but we need to talk about that. My suggestion is that the UN brings in business and domesticates it and trains it, because without something like work, people will not get anywhere. Secondly, we need a property system. We hear a lot of talk about human dignity and entitlements, but property is the real manifestation of human dignity, because without this material substructure, we cannot express our personal dignity and freedom. Finally, the Financial Standards Board has created a set of standards for nations to manage their financial and economic structures in a way that generates growth. The MDGs and SDGs should be integrated with a set of parameters about how to grow countries and economies responsibly in a way to generate money and give everyone a better life.

Francois LORIOT, President, Bar Association for Inter-Governmental Organizations and Vice-President, AIFOMD

The MDG issue has been a very personal one for me for the last 15 years. I was closely involved since their adoption in 2001, in trying to educate people, to promote, implement and also improve them. Three items in particular emerge from this discussion for me. Perhaps the most important is the wealth creation, as without wealth no MDG is possible. The two other essential aspects are education and justice.
The MDGs began with the Millennium Declaration, which was adopted in 2000 by 190 'states and governments' officials in New York after a few months of discussion by experts in camera. When state leaders were invited to celebrate the new millennium, they were given this piece of paper and were asked to subscribe to it. The Declaration was intended to come up with the MDGs.
Most of you might not have been aware of this at that time but, in reality, it was the first time in History that there was a consensus to establish a charter of new humanitarian rights; the only missing piece was money and how to acquire this vital financial resource. However, even if the money issue was only theoretical at the time, there were people who still firmly believed in the charter efforts, and they must be commended for what they have achieved with very little money. This shows that when you have the participation of the community, people will believe in you and will also contribute, not only in terms of charity but also because they spot business opportunities, meaning that the MDGs can also contribute to the economy.
Pamela's approach has integrated the MDGs into the educational system, as well as into the CSR concept, which is very important to help those in the business sector to go beyond philanthropy. I have seen some of her achievements in Brazil, where young entrepreneurs have been able to start successful businesses, despite their little resources, because they firmly believed that MDGs

could be instrumental in convincing others. Andrei told us about the ongoing consultations that will lead to the SDGs. However, we still have to achieve the first eight MDGs! At the beginning, MDGs were developed without the contribution of the private sector, academia or civil society organizations. However, some improvement emerged, in that the civil society is becoming increasingly involved. Moreover, CIFA is attending meetings with member states of the UN focused on how to recognize the interests of civil society, as well as those of the private sector, in order to improve the MDGs' implementation and define tools leading to effective results. Therefore, this new opportunity to engage in exchanges with CSO is extremely important. Michèle told us about those who are born but not registered, as this situation unfortunately exists in so many countries. I have observed this in Thailand, India and Brazil. I visited mines in Bolivia and India where families live day and night since many years; babies are born there, but there is no registry, so no census of the population is ever done. The UN has recognized that 60 million or more people are in a state of slavery, because they have no identity or because they work for nothing.
It is a critical situation. They have no access to primary education because their mothers cannot read or write and do not even know what registration means. Again, we are back to the basic MDGs. These basic MDGs do not go back only to 2000, but to the end of the Second World War, when UNESCO and the International Labour Organization were created to develop norms for decent working conditions to be applied across the world. Therefore, when we speak of the MDGs, we are speaking of something which we have been dreaming about for the last 40-60 years, which has already been codified. However, two things are missing and they could actually be considered as the ninth and tenth MDGs. The ninth MDG should be access to justice. Investors who want to contribute something also need to

be protected by a system of justice, to ensure that there are results, that the community benefits, and that there is wealth creation. That is what CIFA has been doing over the last number of years – trying to convince States that they must be investor-friendly, as otherwise there cannot be investment and wealth creation. The other element is that those who want to register themselves also need access to justice. This ninth MDG would be intended to implement the first eight MDGs, which remains at this stage little more than a daydream. Access to justice would give some concrete reality to them. Access to MDG/SDG education could become the 10th MDG. This has been missing since 2001, when the MDGs were launched. After signing up the statement, States' leaders returned to their own countries and remained silent; no one spoke about the important agreement they had just signed up to. There was no education, no training, no promotion with regard to what could be done with MDGs, and it was left only to a few experts at the UN and in other organizations to implement them.

In conclusion, CIFA should require wealth creation to preside over the new SDGs; before claiming any new humanitarian goals, we need to know how they will be financed, with what resources they will be achieved. In second place, there should also be education and training as to what SDG mean, how they will be articulated, and how they can be put into operation. Finally, justice remains necessary for the new SDGs, to ensure that there exists the possibility of justice recourse in case of dissatisfaction or wrongdoings or when the parties involved are deprived of their right to benefit.

Protection of the Private Sphere, the Fight against Terrorism and Internet Surveillance: How to Reconcile these Priorities?

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

Access is an international non-profit organisation that defends and extends digital rights all over the world. It combines policy, technology and a global movement of users to fight for open and secure communications. I will share some thoughts on privacy and security. We are approaching the first anniversary of the disclosures of former NSA contractor Edward Snowden. These disclosures reveal the extent of the surveillance undertaken by the NSA and its partners, but what is frightening is that we have only scratched the surface, and what we do know is chilling. Every email, Facebook post, phone call and bank transaction can be intercepted, and inferences about you can be drawn. This capacity is not limited to the NSA or GCHQ, but any intelligence agency with adequate resources and sophistication can undertake it, and details about your personal life have more than likely been put into a database, where inferences about your revenue, your tastes, your political beliefs, your spirituality and your sexuality can be inferred. Those seeking to infringe on our privacy argue that it is necessary for security, but this supposed balance is a false one – when privacy is pitted against security, it is a lose-lose situation for citizens and for business, leaving us with neither.

What are we left with? Governments are increasingly failing to uphold human rights and the rule of law. The revelations on mass surveillance have made public the appetite of governments to collect data on populations without regard to due process or the principles of necessity and proportionality. This approach means that everyone is increasingly viewed as potential suspects by governments, and moreover, governments have long been undermining the security of communications infrastructure through the deliberate weakening of encryption standards, coercing companies to build in vulnerabilities, or active exploitation of known vulnerabilities. This is done to facilitate surveillance in the name of national security, but leaves us with deliberate national insecurity. However, it does not end there – in addition to being coerced, companies are not implementing sufficient security standards. Further, many companies operate on a model of collecting and interpreting user data for targeted advertising. Recent studies have shown that some companies can know more about us than we know ourselves. The result of these security threats is that users are deprived of the control needed to protect against the risks they may be exposed to, such as identity theft, online fraud or worse. There may always be a need for limited surveillance, but this must be for legitimate national security or law enforcement purposes, and must be conducted with judicial oversight and respect for due process. It is important to reflect on where we go from here. We need to restore the trust we have lost and to restore predictability over the rule of law and the protection of our rights and freedoms. All sectors, business, civil society and government, have important roles in securing the right to privacy.

Dr Hans GEIGER, Prof. Emeritus University of Zurich, Switzerland

Raegan explained how dangerous the intrusion of the NSA was into the private sphere. I would ask whether that is the biggest problem, and would argue it is not.
I want to look at three documents of the many thousands disclosed by Snowden, just by way of illustration. The first one discusses the five classes of access, and if you

look at the map, you can see it is worldwide. The next one illustrates electronic data collection, and shows that it is very intensive in the Near East, and quite intensive in China, Germany and the US. The third one shows the intensity of data collection on mobile phone location, which shows that at the end of 2012 there were five billion registrations per day. My question is whether these NSA activities are a major problem for the private sphere, and I say it is not. Why? The NSA's problem is finding a needle in a haystack, or more precisely, how to find a blade of hay in a haystack. This job needs thousands of very well-educated and trained people, meaning bankers and financial advisers. You are the solution to the problem, not for the private individual, rather for Big Brother. Why is this? We all follow the international standards on combating money laundering, the financing of terrorism and proliferation rules, as given in FATF-GAFI 2012. This was officially developed to promote policies to protect the global financial system against money laundering, etc. However, the third rule says that the widest range of predicated offences should be included if possible, and the ninth that the private sphere has no priority, in other words, that secrecy laws should never inhibit the implementation of the over 40 recommendations. The 11th rule says banks should keep all records for five years to enable them to comply swiftly with information requests from the competent authorities – the latter meaning Big Brother, and 'swiftly' meaning easily and secretly. The 20th says that if a financial institution suspects that funds are the proceeds of criminal activity – and remember that there should be the widest possible interpretation – they are required by law to report the suspicion to the Financial Intelligence Unit. The 21st says that financial institutions are protected by law from civil and criminal liability for breaches of any restrictions on disclosure of information. Furthermore, they are prohibited from disclosing the fact

that a suspicious transaction report has been filed. There are some areas which are highly risky, and private banking is among them, so there is increased liability to carefully monitor all transactions and business.
Regarding the list of predicated offences, I could ask you to find a single offence that is not included. Anything you do wrong is a reportable offence, including tax crimes or corruption. Corruption is an interesting subject; there is a Corruption Perception Index, set up by Transparency International, which classifies corruption in various countries. They very good countries are the Nordic countries, and include Australia, Singapore, Canada and Switzerland. The US is at the end of that group, so it is not too corrupt. The next group includes France, and Spain; Italy is in position 69, with an index of 43. Now, if you do business with Italian clients or work for an Italian company, you have a problem, because you are supposed to be working in a corrupt environment where you have to report whatever you do. You have an even bigger problem if you are from Argentina. Therefore, you as advisers are the solution for Big Brother, and the problem for your client.

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

I would like to return to philosophical principles. I will take the various questions that were raised by the panel and present my opinion. I am a privacy lawyer, and I advise on European Data Protection laws. I have seen a lot of companies struggle both with protecting the information they amass from consumers and with responding to government access requests, which they are seeing more of, so it is a difficult time for them.
Let me start with the first proposition. Does the fight against terrorism and the endeavour towards security require the total destruction of the private sphere, public

freedom and economic freedom? The answer is no; it is about finding the right balance. Privacy is understood as a fundamental value, but so is security, and there are times when it is important to protect it. We make this balance on a micro level every day of our lives, and it also happens on a macro level. The key is getting that balance right, and one of those things we have learned from the Snowden disclosures is that we might not be getting it right. My next theme is that it should also be about transparency. What shocked a lot of people was how much was going on without their being aware of it; others said they should have been aware of it already, but what shocked many people was how intense it was. Therefore, in order to make informed judgements about balance, we need to transparency about where it takes place and how it is performed. Some of the legal norms are the appropriate ones to apply and should not be changed, such as the concepts of proportionality and necessity found in Article 8 the European Convention on Human Rights. For example, the European Court recently struck down the European Data Retention Directive, under which communications and traffic data would be retained for between six months and two years for use by law enforcement and intelligence agencies. The Court found that it was disproportionate given the threat. That is a good example of getting the balance right, where lawmakers have to decide to pull back on the more intrusive exercises and establish a more reasonable balance. Secondly, is the protection of the private sphere compatible with the Internet? The answer has to be yes, but the problem is that regulation is at such a nascent stage, and companies and governments are struggling to understand the regulatory environment about access to information. Interestingly, a lot of national laws are starting to be applied extraterritorially in this area. A few years back the European Data Protection authorities issued a paper stating that any website deploying cookies triggers EU Data Protection law. The regulators never actually enforced this, but they were anxious to ensure there was some regulation in that space.

We have to restore some degree of regulation over Internet activity and some protection of privacy, and there are two solutions. Firstly, it will involve stronger regulation, and this is being driven on the European side by proposals for new European Data Protection regulations, including specific protections for Internet privacy, one being the right to be forgotten. Further, under this new regulation we might see users able to take their data with them when they move service providers. Secondly, there is also a role for technological solutions, whether through enhanced privacy settings or identity management. Finally, the panel is asked who owns the information on the Internet. My view is that, while everyone has an interest in their own information, it is probably inappropriate to give rights over it. Information is what creates e-commerce economies, and creating hard rights would create a chilling effect. What we should do is to create a system of rules establishing accountability that anyone handling that information has to abide by; businesses need to be transparent, to use adequate security and be responsible in handling government access requests.

Pierre CHRISTODOULIDIS

I will address the first question to Raegan. Louis Brandeis in his 1890 essay believed that the right to privacy was part of the common law, which is not really the case in real life. The EU enacted its Data Protection Directive in 1995, which highlights consumer protection and individual privacy, and its central concept is that personal information cannot be collected or used for other purposes than initially intended to without express individual consent. What would you say about this principle, which is obviously violated by states?

Raegan MACDONALD

The right to privacy is a fundamental right in the EU, both with respect to a right to a private life and also to protection of personal data. The issue of how this translates into the digital environment is complicated, and it relates to the idea of balance. It comes down to how much you are able to control your life and information. This does not mean it has to be applied in a black-and-white way; a relationship has to be cultivated, and this is why rules and principles are important. The new EU Data Protection regulations will make the rules much clearer and more enforceable; many of the rules give more control to individuals over their data and also information about who can access their data. Companies should also be more transparent in their data processing and should practice data protection techniques, such as only collecting data for strictly defined purposes. All these principles are in this legislation, and it creates a good balance.

Pierre CHRISTODOULIDIS

Judith Jarvis Thomson believes that privacy issues can be addressed in terms of violation of property and personal rights, which is the reductionist approach, whereas Richard Posner has a more materialistic approach, in that data should be protected, because when accessed it loses its value. However, he is much more adamant concerning the defence of corporate privacy. Some theorists relate privacy rights more to the notion of liberty and autonomy than others. What is your opinion?

Hans GEIGER

Privacy will be better protected between individuals and between companies, but this does not apply to the State. The State has a right to all your information but cannot exercise it due to lack of resources, so it uses the banks, and the banks are not even allowed to tell you about it. The big issue is not between private individuals, but between individuals and the State or the company, and this Directive does not help with that.

Pierre CHRISTODOULIDIS

Is privacy tied to liberty or security?

Raegan MACDONALD

We should aim to have both. We can use technology and participate in a digital world, but we have to be aware of the exchange we are making and to ensure it is necessary and proportionate. The 'Underwear Bomber' was enough to introduce body scanners in the EU. When the scanners were first introduced the images were stored and shared by TSA agents; that is not a necessary and proportionate way of doing it. Now they have different scanners that do not store data and do not give identifying characteristics; that is a more reasonable approach.

Daniel COOPER

The problem with the privacy and property rights issue is that it assumes perfect information and equal bargaining power; if government decides you are to be subjected to intrusive security technologies, you do not have much say in it.

Pierre CHRISTODOULIDIS

That relates to the question of privacy versus security, but what we want to know is why this collection of information is becoming so all-pervasive. The private sphere has never been more threatened as since the advent of these technological advances. Who will stop this threat? Where does all this information go and why?

Daniel COOPER

Private enterprises are effectively becoming intermediaries for the government, because they can amass all this information in a way that was not possible previously, and it is interesting both for their own enterprises and for government. It is a worrying trend, and I do not know how to address that other than through legal oversight and principles to ensure government acts reasonably and proportionally.

Pierre CHRISTODOULIDIS

Is the issue of privacy related to liberty? We are paying these people to make it work, but not to spy on us.

Hans GEIGER

The technological environment has changed, so the rules of society have changed as well. You have the option of not using a cell phone, an aeroplane or the Internet, but if you want to take advantage of these possibilities you lose something. It is important that you know what you are losing and what is being done with your data. We did not have car accidents before we had cars.

Raegan MACDONALD

That was because people were driving drunk and did not have seatbelts. You are free to opt out, but this is how people communicate and connect. However, we also need privacy and trust, because we depend on the Internet to manage critical infrastructure, conduct business and banking. We need to tell governments that blanket mass-surveillance is not okay, and that it is not okay for other countries to collaborate with these spy agencies for no reason. We are innocent until proven guilty by a court, but when under mass surveillance we are all presumed guilty at some point, and all this data can be used against us. That is not liberty.

Pierre CHRISTODOULIDIS

Who should guarantee the privacy of individuals? Who will hold the State accountable for taking your information?

Daniel COOPER

Perhaps the European model of independent regulatory oversight by courts is a good model. There has to be some degree of accountability through a court system. Regarding the earlier question, you have to trade off some privacy to ensure a degree of liberty; JS Mill said that there have to be restrictions on liberty so that everyone can enjoy it, and you may have to face restrictions on privacy to have a secure life. It would not be a good idea to enshrine privacy so that governments could not act on a proportionate and reasonable suspicion. It is about getting the balance right.

Dan BRENNAN

It was suggested on a BBC programme that the government security agency had real-time recordings of telephone calls planning the Enniskillen bombing. The government would not confirm or deny whether there was such evidence because the security interests were too great. Should the government be able to frustrate a prosecution by not providing evidence? Secondly, regarding international terrorism, it is plain that they plan over electronic communications, and that information is passed around the world between different agencies. How do we stop that activity effectively?

Pierre CHRISTODOULIDIS

When it is related to public safety, other norms should apply, but to use these methods when people are engaging in normal activities, then the implications of this information gathering start becoming dangerous. I do not think that the police would look at insurance records if they were looking for a bomb; in the case of a criminal issue, they should do their traditional work, with new tools, but not pre-emptively.

STEVE YOUNG

The concept of privacy is subject to a reasonable expectation in the 4th Amendment of the US Constitution. Who gets to set the reasonable expectations? When you are going on the Internet in China, you get a screen from the security services which gives nine conditions for accessing the Internet, one of them being that you have no right of privacy. This is taken from the West; when we download Facebook we get a long contract which nobody reads, and we bind ourselves to it. The Chinese seem to have invented a way forward for the security state, where you have no expectation of privacy if you use the Internet. What is the answer to that?

DANIEL COOPER

That points up a fundamental difference between US and European perceptions. US businesses will frequently extinguish any expectation of privacy among workers, whereas in Europe the attitude is that it is a fundamental right. I would personally prefer the European model, being an employee who thinks there should be some reasonable expectation of privacy. The concern would be where the state adopts such an approach.

RAEGAN MACDONALD

Coming back to the question about fighting terrorism, it does have an international flavour, but what we are looking at is what we have to give away in order to fight it. I will give you two examples of legislation where this blank-check excuse has been used. The Data Retention Directive, which has been declared invalid, was put in place in 2006, immediately after the London and Madrid bombings. Since then, the European Commission has never been able to demonstrate why it was necessary or how it stopped terrorism or crime. However, it did provide a lot of useful information to law enforcement in various member states. The Polish police used it for divorce cases, whereas in Ireland the Justice Minister told the police to stop using it as a social network. Those are not legitimate uses. The second example is SWIFT. There is an international agreement called the Terrorist Financing Tracking Programme, under which the US has access to every transaction through SWIFT, but to this day it has not been able to solve or prevent any terrorist attacks on its basis. However, there is quite a bit of espionage that goes on through it, both on corporations domestically and internationally, and against us. That was another of the Snowden revelations.

Theme 1: World Growth After the Crisis, the Recovery? Is the Liquidity Created by Central Banks Sufficient to Create Growth?

Myret ZAKI, Deputy Editor-in-Chief, Bilan Magazine, Geneva, Switzerland

We will start by asking whether there is really a recovery, how sustainable is the recovery in the US, whether growth is returning in the wake of the QE experiment, and whether the liquidity created by central banks is really fostering growth. Michel Girardin is a well-known economist, and is a professor of economics and finance in Geneva and Lausanne. He founded MacroGuide in 2013 after having spent 25 years as chief economist in the Swiss banking sector. He has also run equity and hedge funds.

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

I have identified four main issues, the first being how sustainable the recovery in the US and Japan is. Secondly, we regularly hear the IMF warning of deflation in the Eurozone. How serious is this? Thirdly, we are keen to rely on the growth potential of global markets. Is this still the case? Finally, we will put all this together and explore the issue of what growth might rely on, and whether it is possible to grow out of the debt problem. Starting with the US and Japan, when you talk about recovery and the US economy, or indeed any economy, you have to talk about central banks. We can start by saying that the larger the balance sheet, the more difficult it is for the Fed to explain what it is actually doing. I teach a course just on that, and it is very hard to explain what a central bank is doing when it has an unconventional policy. There is an inverse relationship between the size of the Fed's balance sheet and the height of its Presidents, starting with Paul Volcker in the 1980s. It is the opposite in Switzerland, where the correlation is positive. The Swiss National Bank (SNB) is the most aggressive central bank in the world, with a balance sheet that is 85% of GDP. When we talk about central banks, the Fed is the only one, with the possible exception of Switzerland, which has a dual mandate. Normally a central bank focuses solely on inflation, with the notion that if you take care of that, the economy takes care of itself. The Fed has actually stated that it wants full employment, so under Greenspan, Bernanke and Yellen, though she has moved away from quantifying the employment targets, the idea is that the Fed will keep a loose hand on the liquidity tap as long as unemployment reaches its target of 6.5%. We are almost there, which is probably why it has said that it wants to enlarge its spectrum of indicators. We see a fall in the unemployment rate, and we know that the Fed will keep accommodative monetary conditions as long as it is unsure that the rate is trending down, but we see that part of the fall in the unemployment rate from 10% to 6.5% is due to the decreasing participation rate, either because of the ageing population or because of discouraged unemployed dropping out of the labour force. Therefore, we cannot be sure that the drop in unemployment marks an improvement in the US economy, which is why the Fed will probably continue exiting gradually its unconventional policy, reduce its purchases of bonds and mortgage-backed securities, and raise interest rates next year. When we talk about the US economy, the changes in GDP are pointing in the right direction, and monetary policy remains very loose. We also see that when this trend reverses, it has always been followed by a recession. So if the monetary policy is no longer accommodative, it will be a sign that the US economy is doing well and recovering. The good news is that the US economy is back into recovery; the bad news is that the engine is the same that propelled it into the crisis of 2007; i.e. much of it is due to improvement in the housing sector. Looking at the affordability index, highlighting mortgage payments as a percentage of median family income versus the average, if we assume that the Fed starts tightening rates next year and the mortgage rate starts going up, along with housing prices and disposable income, then the percentage paid on mortgages will go back to the peak it reached before the crisis. We still have some time, and we hope to find some new engines for growth other than lowering interest rates, boosting housing and creating a credit bubble. Regarding Japan, also an economy which is heading into recovery, the Bank of Japan is aggressively printing money. Its target is to double the base money supply, with an inflation target of 2%. The problem in Japan is that inflation is negative. People might ask why, if inflation is a problem, there is also a problem with negative inflation. The first problem is that it not only raises the debt burden but also the cost of capital, raising interest rates. More importantly, falling prices tend to encourage deferred purchases and reduced consumption. Inflation is currently back into positive territory, which is good news; the bad news is that much of this inflation is due to the fall of the Yen, a clear consequence of money printing, and less so because of an overheating economy. I always say there are three types of inflation, the good, the bad and the ugly. Good inflation is where the economy overheats, and demand grows in excess of supply; that is what the BoJ is targeting. Bad inflation is due to the oil price, and the ugly type is a possible, though very unlikely, consequence of a loss of confidence in paper money, resulting in hyperinflation. We can say that Japan has inflation, but it is the good type and it is below wage increases, so real wages are still negative. Abenomics has three so-called arrows, the first being monetary policy, the second being fiscal. Japan carries very high levels of debt, over 200% of GDP; it had to increase VAT in April, so there will probably be a slump in Q2. Going forward, there are still a lot of structural issues: the problem of an ageing population is most acute in Japan. 5% of the population was 65 or older in 1965; by 2050 this figure will be 40%. These issues will have to be addressed. Since 1990, the entire stimulus from the BoJ has failed to prop up GDP. It worked in the 1980s, but then the bubble burst in 1989, land prices collapsed and banks stopped lending. This is a problem of banks not playing the game. You may have seen this in France in the form of the 'Sarko-trade': you take money from the central bank and buy bonds from the government, because you think this is less risky than lending money. Regarding deflation in the Eurozone, if we look at the evolution of price indices, it is already negative for some countries, in what we call the periphery, a more polite version of the PIIGS (Portugal, Ireland, Italy, Greece and Spain). Inflation is already negative in these countries, whereas in Germany, the Netherlands and France there are some signs that inflation is slowing down. Growth is going in the right direction. GDP is now back in positive territory, with consumer sentiment improving. The problem of the Eurozone is twofold: credit is not doing well, as the banks are not playing the game of passing the liquidity of the central bank to the real economy, and the Euro is too strong, slowing exports, which are currently not growing at all.

Regarding central banks, I was talking about how difficult it is to explain unconventional policies. Operation Twist is when they tried to twist the yield curve – they bought long-term bonds and sold short-term bonds to try to flatten the yield curve. They also do things like that in the ECB, and in July 2012 there was a lot of fears about the collapse of the Euro. Draghi brought together all the speculators who were betting on this and said everything possible would be done to prevent it. That speech was not followed by action, and there was a rally in bonds, with interest rates collapsing; Italian debt is now close to that of the US. However, when we assess where the economy is going, there is a fundamental asymmetry when it comes to central banks; if they want to slow the economy because they think there is too much credit, they just raise interest rates. However, when they do the opposite, there is no guarantee it will work. My teacher in economics told me that a central bank can bring the donkey to the fountain but cannot force it to drink. Apparently it is much easier to push a donkey than to pull it. What do we mean by that? Basically, the central bank opens the tap and invites the commercial banks, i.e. the donkey, to come and drink – to take the free liquidity and lend it to the real economy. Unless the banks are nationalised and are forced to do it, they will not. Japan is the textbook case where the central bank opened the tap, interest rates were lowered to zero, but the banks did not lend, because they were already full of bad loans.

Looking at the evolution of bank lending, US horses seem to be thirstier than in the Eurozone, as bank lending is positive there as opposed to negative in the Eurozone. Why is that? They did something clever in the US, TARP, which involved cleaning the balance sheets of the banks, so that when the Fed brought in QE, this money could go back to the real economy. No such thing was done in Europe – the balance sheets of the banks do not allow them to provide more credit. The problem is that, on one hand, you want these banks to provide more credit to the economy because that is what is driving the economy, and, on the other, you are telling them that you need more capital. How do you increase capital ratios? You either raise fresh capital in the form of equity or reduce the size of the balance sheet. The second is probably easier to do, so this is why they are not providing credit, and the money being injected by the

ECB is going back on its balance sheet. They are even ready to lose money on that: the interest rates they pay to the ECB are lower than the interest rates they get. That is the fundamental asymmetry of monetary policy, and that is why I say it is better for a central bank to take pre-emptive action and try to prevent a bubble forming than to wait for the bubble to grow and try to reflate the economy by injecting liquidity when it bursts. There is no assurance that it will work. Central banks are attempting to change their mindset regarding asset prices; Alan Greenspan used to say that we do not know how to measure bubbles, so we just do not do anything – his message was that we know there is a bubble when it bursts. Nowadays they are thinking more in terms of integrating asset prices, particularly housing prices, in an attempt to act more preemptively as it is easier to close the tap, whereas if you try to act later and try to revive the economy, you have no assurance it will work.

The third theme is emerging markets. There is the idea that emerging market growth is strong, and we see that it has been strong, with growth in the region of 6%, but China is slowing now, and growth is converging downwards towards the GDP of developed economies. The world was on its head until the crisis, with strong growth in emerging markets and low growth in developed economies, with Sarkozy going to China and begging for money. However, now the picture is slowly reversing, with the US back on track and the developed economies growing, albeit slowly. We have a paradigm shift in the emerging markets, especially in China; the People's Bank of China will be slowing credit supply, spelling a major change for the economy. Public debt-to-GDP is low in China, but the problem is not so much public debt; the regions are more in debt than the government, and there is also the corporate sector. Complacent banks have been providing credit to large sectors for unproductive investments, and now the picture is changing. Therefore, there is definitely a slowdown, and the question is whether it will be a soft landing or a hard one. We can assume that the central bank has huge reserves, so it will use part of them to ensure it is soft. I made some projections to see what the world economy could look like in 2050. Looking at China or India, they have always been number one or two worldwide. In the 20^{th} century, China's GDP fell dramatically in comparison with the rest of the world, but in 1978 the reforms opened the economy and it started growing again. I assumed 6% for China and a bit more for India, 2.5% for the US and 1.5% in the Eurozone. The BRIC economies will represent a third of the world economy by 2050, doubling current levels; adjusting for the fact that their currencies are undervalued, we get a figure of over 50%. Therefore, emerging markets are slowing, but the numbers are still higher than in developed countries, so we can expect that they will become major actors in the world economy in the long run.

Finally, regarding the question of whether growth or austerity will solve the debt problem, take the example of the Great Depression. After the Crash of 1929, various mistakes were made – the central bank kept raising interest rates, the economy was shrinking, but President Hoover was obsessed with balancing the budget, so he raised taxes and cut subsidies, which was when the Depression became the Great Depression. GDP fell by 45%, public debt rose to 33%, the debt-to-GDP ratio rose from 16% to 40%. Roosevelt came in and engaged in spending, which caused the economy to recover – public debt rose to 62%, GDP rose in the same proportion, so debt-to-GDP stayed flat. US debt-to-GDP was 70% in 1950, and 35% in 1980, but it was not because of austerity. Debt was rising, but GDP was rising even faster. People say that this was a consequence of the war and the baby boom, and of course this is true. However, we should not be obsessed with austerity and balancing the budget; you can also balance the budget or even lower debt-to-GDP by increasing growth. One example of this is what is happening now in the US. Two encouraging factors are evident. The Boston Consulting Group has a report comparing wage rates in the US and China – USD25 in the US as opposed to USD6, but in the US the increase was USD15-25 as opposed to USD0.7-6 in China. Taking into account productivity, transport costs, etc., a lot of companies are starting to think of repatriating their production, and we are beginning to see some computers again being assembled in the US.

The other major change is in the energy sector: with what is happening with shale gas in Texas, at some point the US will become self-sufficient in both oil and gas. Gas consumption will take over from oil between 2020 and 2030. The US currently imports close to 60% of its oil, whereas this will fall by half, and in terms of gas it will become a net exporter. That is the kind of paradigm change which could trigger sustainable growth in the US, and we will see whether we find other examples. I will finish with a word on equity markets. Goldilocks gets lost in the words, enters a house and sees three bowls inside – in the French version it is chocolate, and in the English version it is porridge. She tastes the big bowl, and it is much too hot; the middle one is much too cold, and the small one is perfect. Typing 'Goldilocks strategy' into Google will bring up a lot of investment strategy sites relating to the idea that, if the world economy is not too hot it is not overheating, and if it is not too cold it is not in deflation. Therefore, there is sufficient growth for the corporate sector to generate earnings but not enough growth to cause inflation. This is where we are today, which is why I am in the optimist camp. The macroeconomic scenario is positive for the financial markets. The only thing to look at is valuation, because you can have a good story, but there is always a price to pay, and valuations are above average;

they are not yet in bubble territory, but they are beginning to be not as fairly valued as they were six months ago.

Myret ZAKI
Is there anyone in the room who would challenge Michel's views about the fact that we are actually seeing a recovery in the developed economies?

Roger NIGHTINGALE

It seems to me that the data implies that there is no recovery in developed economies. Things are not too bad in the US, but not good. In Europe they are absolutely frightful, and it is bizarre that anyone living in this continent could think there is a recovery going on. We know how bad the numbers are, and how good some other data is. One of the best pieces of data from my point of view is the popularity of incumbent governments within any reasonable democracy; where the electorate are opposing the incumbents, it is almost certainly because of the inadequate behaviour of the economy, and incumbents nearly everywhere in the world are very unpopular.

Hans GEIGER

I tend to look at the balance sheet first, and most States are broke because they are all indebted. They only exist because their national banks keep the interest rate at zero, but as soon as the financial markets become more normal, meaning an interest rate of 2%, these balance sheets will explode.

Michel GIRARDIN

The fact that interest rates are low is clearly helping governments. The public debt issue has been with us for a long time, and debt-to-GDP in Germany is high. I would say that the problem has more to do with too much credit rather than too much debt, and it is often related to housing. It takes time for high public debt to disappear, but I just wanted to illustrate that you do not necessarily need austerity to make this happen.

William K BLACK, Associate Professor of Economics and Law, University of Missouri, Kansas City, USA

Olli Rehn has said that it will take Spain ten years to get out of the crisis, and he is the most optimistic of them. We in the US do not understand why there is no urgency about the fact that a third of Europe is in levels of unemployment greater than in the Great Depression. The ECB's supposed policy is to ensure that no country goes into deflation, yet now Draghi has said that it is a great thing for countries with severe unemployment.

Michel GIRARDIN

We always talk about a debt problem in the Eurozone, but whenever they reach the debt ceiling in the US, they just raise the ceiling. The debt in the US is actually higher than in the Eurozone; the only difference is that there is not just one Ministry of Finance, and I believe the only way out is to create a federal state out of Europe.

Pierre CHRISTODOULIDIS

Michel mentioned that the banks are receiving a lot of money, but they are not circulating it to SMEs and are happy to return it to the central bank. How would you propose to re-launch the economy?

Michel GIRARDIN

The US is purchasing troubled assets, not just Treasury bonds but also mortgage-backed securities which caused the crisis, and the ECB is doing something similar, telling the banks they can use troubled assets as collateral.

Myret ZAKI

I would challenge you on the Goldilocks theory; inflation is present, but we do not measure it in the right way. Financial markets are overvalued, but inflation is at the same level as in 2007; the real estate and derivatives markets are bubbles and we just refuse to see it. Let me introduce our other panellists. Olivier Ferrari was an asset manager for pension funds before deciding to look very closely at sustainable development management and founding CONINCO. Patrick Lecoy is Managing Director of Export Assistance and Development in Monaco, and has over 20 years' experience in export credit risk management. He is internationally recognised in trade finance and structured commodity finance.
Patrick, do you believe developed economies are on track to recover?

Patrick LECOY, Managing Director, Export Assistance and Development, Monaco

Unfortunately that is not the case at this stage. Regarding Michel's presentation, the improving situation in the US is fictional; I have read quite a lot about it and spoken to a lot of well informed people. Last month the US reported 300,000 new jobs, but the real problem is twofold. Firstly, the active population is declining, because many people are so desperate that they do not even register and fall out of statistics. Secondly, the construction sector is not picking up at all. We thought a couple of years ago that it might pick up, but it is completely flat, and as long as it does not take off, I do not see how other countries which act as followers of the US can improve. Talking about China, they have been subcontractors of the Western world, so it is logical to see China not performing as well as in the past. The exchange rate of the Brazilian Real is disastrous, and growth rates are really low and should be zero in 2-3 years.

I would also like to comment on banks. Basel III is a prudential constraint on banks, and there is good reason for it, but banks are not lending to SMEs. I have been in this sector for over 20 years, and banks used to do two things, finance firms and take risks, whereas now any bank will tell you they do not take risks anymore. A second issue, which affects mainly SMEs, and sometimes multinationals, is about the new regulations on governance and compliance. A lot of banks are becoming paranoid, and their customer procedures go way too far; the only thing they do not request is DNA. Therefore, all the commercial projects are being delayed. I provide services to a major company in Monaco that works with the UN, supplying rations to peacekeepers. When you have peacekeepers in DRC, with the UN as the only counterparty, they consider that the risk is too great, and you have a hard time explaining to the banks that the risk is not in the DRC, because the paying entity is the UN in New York. Therefore, a lot of behaviour has to change. Am I very optimistic for the Western world? No. Am I quite optimistic for the emerging countries? Yes, despite a deterioration in the BRICs. How do we define emerging countries? Africa has been the new El Dorado for China for several years. There is oil in Mozambique, Uganda, South Sudan; there are a lot of commodities, and we observe a sort of global race as to who will grab them first. China has had the means to finance the legal entities in Africa, they can explore, build the platforms and so on. The question from our perspective is whether we want to leave this field to China, and the answer is clearly no. Something new is happening in Africa, the emergence of a solid local financial sector, which did not exist ten years ago. When you had a significant commercial project in Africa ten years ago, you would never be able to access local money. I am thinking especially about sub-Saharan Africa, including both the French- and English-speaking countries. You have new banking networks at pan-African level, and investors in infrastructure projects can now access funds locally. The main concern is still the level of interest rates, which are significantly higher than in Western countries. All this confirms a phenomenon which affected 15 years ago most public-private partnerships. You can structure very good projects on a PPP basis if you have contacts with the Islamic Development Bank, the African Development Bank, bilateral donors or international development institutions. One of my jobs is to benchmark the behaviour of multinationals, and for instance within the chemical sector – it is the basis of all the other industries, so it is a very good indicator – they all closed their offices in Africa 15 years ago, whereas today they are all redeploying their efforts anew.

Myret ZAKI

Olivier, as a long-time investment professional, how would you position your portfolio in order to take advantage of these opportunities?

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

I have three points to make. Firstly, the big problem is that finance needs to serve people, not finance. This needs to be addressed. Secondly, the States are ready to collapse; the question is when. Public debt is unsustainable; we have to add the liabilities of the social security system to this debt, and it is unbelievable when calculated. Thirdly, we need to integrate a new paradigm which has been achieved, so I choose to trust the real economy and not the QE concept.
Regarding portfolio construction, I believe one that favours a strategic allocation of assets based on the global context that I anticipate. I am committed to a sustainable economy for a sustainable finance. The recent crises have shown that we must return to a vision of sustainable industrial economic development. We have lived according to a

concept of exponential economic growth based on asset accumulation for 200 years, and this has resulted in a globalised economy. We are now seeing a concept of growth by asset replacement, implying that less wealth will be created than previously, but pockets of added value still remain. My colleagues and I expect a period of shared growth until 2016; however, it is important to remember that the context will be highly volatile, with corrections of 10-15%. We have decided to pay particular attention to sustainable development, as this represents a new opportunity for economic deployment and for portfolios. This approach is associated with a commitment to microfinance, which has started to create a banking system in Africa, generating profits which are attractive to investors and representing a substitute for public debt. We are in Africa, Asia and South America where this system is slowly growing in importance, and we are pushing our clients in that direction. We complete this approach with infrastructural investments – the model is PPP, but you are a direct owner of the infrastructure, so you can choose what to invest in, meaning that the asset is preserved if something happens with public debt. The ageing world population phenomenon represents considerable potential for economic development. There will be 70 million more pensioners in the US in 2030, 20% of the population, but this number will almost double in the following decade. China did not have a social security system for a long time. There will be 240 million pensioners in 2030, 17% of the population; in India this figure is just 130 million, but it will also double in ten years. We will have 160 million pensioners in Europe, or 3%. This new paradigm will mean an opportunity for the investor to achieve a real return on assets. Today a lot of funds are taking positions which integrate these kinds of opportunities. When people retire, the market transformation will be risky, because we need to decapitalise to meet the retirement costs. However, at the same time people need to be occupied during the day, and we need to think about what we can offer to this ageing population, which will be close to a billion people in the next 25 years.

Myret ZAKI

You are looking at all the sectors that could benefit from this, pharma, leisure, real estate, etc.

Olivier FERRARI

Regarding real estate, entire new residential areas are being created for the purpose. Furthermore, the environment also provides huge opportunities, in the form of green tech. 60% of what is being built today will need to be retrofitted, which is a huge opportunity. However, there is a problem: I remember that at the start of the 1980s we were advising people to invest in the emerging market, and no one would do it. You would lose around 50% of your assets in 5-7 years, but then you would realise 600% in added value after another five years. It is exactly the same with green tech; I do not know whether to invest today or tomorrow, but this movement is underway, and we have to provide our clients with a sustainable investment, considering that the environment is the biggest issue after the economy.

From the floor

Mr Girardin, I read that Japan is opening up to immigration, which is a cultural U-turn. Do you think this is just about inspiring more positive sentiment, or is it a long-term change?

Michel GIRARDIN

Japan is most severely affected by the ageing population issue, so there is no alternative – you either lower benefits to retired people, raise taxes to fund pensions, or favour immigration, and you have to do it now.

From the floor

The population is growing, as Mr Ferrari said, but I do not see this as an opportunity but a threat, given climate change and poverty. Secondly, you cannot have growth without energy, and one thing I do not read in the mainstream media is that cheap oil, which is the best energy we have at the moment, is coming to an end. Shale oil and gas is not a solution, because it is costly. When this happens, it will change how we live, move and create. Do the speakers take this into consideration when planning their investments?

Patrick LECOY

Regarding growing populations, especially in developing countries, whether it is a threat or an opportunity depends on how you look at it. There are two different views on microfinance; if you are talking about agriculture, it can generate subsistence farming, but it cannot generate economic farming. I have a hard time understanding how this represents a growth opportunity; it will help people feed themselves, but it is not a growth generator for Western companies. There is a school of thought believing that microfinance could generate indeed economic projects, but only small in nature. Yet there is a huge need for capacity-building at local level. Most of the experienced people in the West have priorities other than educating people in developing countries. Regarding green tech, it does not come out of the blue. The companies financing biotech are those which are attacked because they pollute the planet; they are the ones putting hundreds of millions into developing green technology. It is an opportunity. Taking cheap oil for instance, Ghana is next to Nigeria, the sixth largest oil producer in the world, and they pay an arm and a leg for it. Do we need to focus on green tech or on preferential oil prices at regional level to help them generate economic growth? I do not know, but green tech will take years before it is productive. This changes all the time, because every day we discover new gas and oil reserves, but the latest estimates are 2060-2070.

Michel GIRARDIN

Regarding population, we have to think not about our generation but the generations to come. I spoke about newly-retired people representing a good opportunity, and you can see this in Germany; old people are arriving on the market, and they need to decapitalise the pension funds. We expect the global population to grow for the next 20-30 years, and at the same time you have the boom in retirees. During this time we will have to invest in enterprises that impact positively the environment. It is not only about renewable energy, but waste management, transportation, materials, biology, and everything else. This is the opportunity for today, and we need it today. We need to accept a high level of unemployment, but we will arrive at the end of global population growth. We will see a slow decline in unemployment over the next 25 years, not because we have created new jobs but because we have the newly retired people.

From the floor

It is difficult to see the glass as being half-full. For whom is Africa an El Dorado? The collapse of organised Western economies is leading everyone, East and West, to the battle over Africa, but they are coming not for growth but to grab – wood, oil, mines, etc. That is my first point. The second is about microfinance. The loans are very expensive; you can die trying to repay it, and then they run away with your small savings, and nobody says anything. I have lost two loans in microfinance.

Patrick LECOY

Regarding your first question, it is a fair one, but we need to be intellectually honest, because Africa also has huge responsibility for the fact that the level of assistance the Western world has wanted to give it has not succeeded because of corruption. Major international organisations have tried to promote projects and extend loans via the various ministries of finance, especially in sub-Saharan Africa, with about 70% of these loans being confiscated by corrupt State officials. This is improving, but we need to keep it in mind. Secondly, if you had asked your question 15 years ago I would have agreed; today, I can only agree partially, because I make a clear distinction between China and Western Europe and the US. The latter have understood that if they want to be efficient in these countries they have to invest and take risks. They do not have a choice anymore - Angola has a lot of oil, and it now insists that investors create local entities, invoice in the local currency, work with local banks, and not repatriate profits. Nobody in the West is against that, because we need to generate a local economy in Africa. China is in the business of grabbing natural resources by financing mining and ports.

Michel GIRARDIN

Regarding microfinance, I was at first shocked by the high interest rates on the loans they provide, but it is for a very short period, and it works; generally it is the women who manage the loans and they do it very well. The panel was on growth, and it is very easy to be negative about the problems, but I look for solutions. Debt is a problem, and one possible solution is growth, especially sustainable growth. We talk about peak oil, but over the next 20 years the US will be self-sufficient in terms of energy, with huge implications both economic and geopolitical. This is a positive change; we are looking at sustainable, structural growth, and we should focus on that.

William K BLACK

You have to look for problems to be able to fix them. Microcredit is much more complex and varies across the globe. Your experience is far from unusual; in fact it is far worse in many countries. It is disastrous in Andhra Pradesh in India, a region where it was most dominant, in Bosnia and in Peru. It is pervasively fraudulent and a means of removing enormous wealth from very poor people. It is more successful in other places, but there is no single model, and the attempt to simply replicate the Grameen model has been a failure.

Myret ZAKI

Microcredit is a huge subject and could be a topic of next year's session.

From the floor

Africa is a treasure and there is a way to exploit it and to find solutions, but the problem is the mentality of the investor. The Chinese invest in people – they create an infrastructure, they create trust, which is why conditions are favourable for them. The West will not be able to benefit from what Africa offers if they do not involve themselves in the social issues of Africans. Regarding corruption, I feel it is an excuse for the investor not to get involved. Corruption exists, but while leaders need to feed their people, investors hold the bargaining power. Leaders will not say no to investors who want to become involved in healthcare or anything else. I think it is just an excuse for not moving forward.

Theme 2: SME Financing and Large Enterprises – What are the Challenges and Innovative Solutions for the Future?

MYRET ZAKI

SMEs are no longer getting the credit they need. Banks are increasingly less interested in the business of credit and loans to smaller enterprises, as they restrain from taking risks on their balance sheets, and there is also the securitization phenomenon to take into account. Jean Rognetta is a journalist; he founded PME Finance in 2010, an independent non-profit think tank bringing together leading entrepreneurs, financiers and politicians. He does a lot of promotion for SMEs and specialises in venture capital, technology transfer and innovation finance. Steve Young is the Global Executive Director of Caux Round Table, and was recognised as one of the 23 leaders who founded the global CSR movement. He edits and publishes Pegasus, a monthly newsletter on capitalism, finance and ethical government. Steve is a graduate of Harvard Law School.

JEAN ROGNETTA, PRESIDENT, PME FINANCE, PARIS, FRANCE

I have some figures to give you. Yesterday I was having dinner with the president of a Spanish bank, and he told me that in the last few years four out of ten banks went bust and were absorbed; in the same time period 22% of companies, more than one in five, went bust. This is what has been happening to the whole of southern Europe for the last few years. The French Government has a majority in parliament, but 100 MPs on its side have declared they will vote against the economic plan for EUR50 billion over three years, which means that France is basically dancing over a cliff without knowing it. There is a real risk that France will be pushed over the Spanish-Italian cliff and that the Euro crisis will re-emerge, except that France represents a systemic risk as it is far too big to be helped by anyone, including Germany. This links directly with entrepreneurship. 80% of deposits in Spain are in the hands of six banks, but that is not only a Spanish phenomenon; 75% of British deposits are controlled by four banks. It could hardly be argued that this is a favourable climate for entrepreneurship. You can now create a global company with 300 people, but you need USD100 million, which come out of the financial system. Today's theme is about finding innovative ways to fund entrepreneurs in Europe, where the economic, financial and institutional crises have not been resolved, and this remains a crucial issue.

STEVE YOUNG, GLOBAL EXECUTIVE DIRECTOR, CAUX ROUND TABLE, WASHINGTON D.C., USA

I would like to suggest a big idea to you, but I apologise in advance that the details have not been entirely worked out. However, as a result of conversations of recent months, I think the overall form of this idea will commend itself to you. Firstly, on SMEs and the notion of innovation, I would like to effect a transition from the previous panel about growth, because we did not quite get into the issue of how we will achieve growth, who will invest in whom, what the new products and services will be, who will create the jobs and what they will be paid. The panel this afternoon will talk about the real as against the financialised economy; this is a word we do not have in English, but it captures a lot of the things that have gone wrong. Let me comment on SMEs, because they are overlooked. We as people have a limitation – we prefer to look up rather than down, and in this respect the focus of the CSR movement is on size and scale. We think about the big companies, JP Morgan, GM, Ford, Deutsche Bank, etc. However, if you look at who generates most of the world's GDP and who employs most of the world's people, it is tiny companies. Last year I heard that 93% of Italian GDP is produced by firms of 200 employees or less. It is possible that reflects an Italian tradition, but it is true around the world. Secondly, most SMEs are family-owned; they are not in the liquid part of the economy, in the financial services, they are not public companies and do not issue stocks. What do familyowned companies do? They make things, run restaurants, hire people, take in money; they are where real economic activity takes place, and they are systematically ignored. I have raised this several times in CSR circles to academics and leading NGOs, and I have got blank looks. It is true that a little company in St. Paul, Minnesota where I live is not that important, but ten million or ten billion such companies add up to a lot of importance. What should we think about? I want to suggest a shift of our way of thinking about capitalism to one that will assist small companies, and companies in general, as opposed to finance. I want to suggest that what we have evolved, particularly in recent decades, is what I call profit and loss capitalism. We have forgotten balance sheet-, asset-based capitalism, which I would submit was fundamentally what was going on in the first 150 years of capitalism. Reading Adam Smith, he talks about stock. What is the purpose of a company? The purpose of a company for Adam Smith is not to sell shares, which will have a 26% gain on their first day, and on which the insiders get to cash out. That is not the purpose of a company. The purpose of a company – and his famous example was a pin company – was to be in the business of making pins with a growth curve in the capital value of the company. Therefore, the profit and loss statements were interim reporting documents on the way towards amassing capital wealth.

I want to suggest, in the context of CIFA, that this vision of capitalism aligns with the business and interests of IFAs, because your real objective for your clients is for them to appreciate capital over time. Recently it has been about protecting capital, which tells you that something went wrong in the system – if you are worried about protecting capitalism, then capitalism has failed. The point of capitalism is to increase capital, not destroy it. USD14 trillion of equity had been lost worldwide by January 2009. That is destruction. How can you say capitalism was a success if you destroy that amount of wealth? It did come back a little, but the amount of liquidity which the public sector of the world injected into the world economy in 2008 was about USD14 trillion, so you inject about the same amount of liquidity and that stabilises things. However, then you leave the issue of all this liquidity. What will happen to it? Looking at this phenomenon of putting out pieces of paper for investors which can lose value – many of the instruments went to zero – that is not a successful capitalism, but rather is related to profit and loss capitalism, where you are chasing short-term amounts of money. However, the profits that were made in subprime mortgages and CDOs, and even in CDSs, were nominal, in the sense that over a timeline of 2-3 years they would evaporate. For example, in 2008 Citigroup made a net profit of USD1.2 billion in trading subprime mortgages and CDOs, and if you are leading the group, you will be paying bonuses to people. When all was said and done, four or five years later, Citigroup had to write off USD193 billion worth of value. Let us be generous and say they made USD5 billion in the good years, but then they write off USD193. What rational creature would say this was successful business? They were bailed out by the American Government and taxpayers, without whom the bank would be gone. The board of directors of that bank would have completely failed in their fiduciary obligation to protect the assets of the owners. Why? They were chasing ghosts, short-term profits, and totally forgot about the balance sheet obligations. Lehman Brothers and Bear

Stearns both went under. Why? They loaded their balance sheets with crap, toxic assets. What is a toxic asset? It is an asset you do not want to have. How did they get into toxic assets? They were making short-term profits. I want to suggest that the way we account for wealth is 100 years out of date, and we need to rethink it. These are numbers from about three days ago. Let us take 3M, a Minnesota company, and consider market value, enterprise value and book value. Market value for 3M, according to all the investors in the world, is USD91.76 billion, and the book value is USD17.5 billion. Where is the value of 3M? It is not in the hard assets. It is not on the books. Interestingly enough, if you calculate enterprise value using present net discounted value and multipliers, you get more than the market value. General Motors has a market value of USD54.24 billion and a book value of USD39.5 billion, so they are closer, but there is still a big gap. Looking at General Electric, the market value is USD267.53 billion, but the book value is only USD130 billion. Over 50% of the value is goodwill. Where is it, and what does it consist of? Yet the market says it considers it to be real. Delta Airlines is half-real, but real enough for people to risk their money. Consider it from the investor's point of view; if you are buying any of these companies, you are putting your money out there, and half of it may disappear. The theory is that you are buying net present capitalised value of future earnings. Goldman Sachs has changed a great deal. The value of Goldman in 2005 was something like 98% goodwill, but now the market does not have high expectations of this company; they are basically pricing it at its book value, which means that if you are an owner and it goes bust tomorrow, you may get your money back. JP Morgan Chase is about the same – it has 208 in market value but a book value of 204. There is no goodwill in these two companies. BP is 167 in market value and 129 in book value; the market likes Exxon better, so it is 435 and

174. Here we come to the new economy: Google's market value is 362, but a calculation of expected earnings is only 311, and the book value is only 91. Facebook's market value is 155, discounted cash flow is 139, but book value is 15.47, which includes 11.45 cash in short term, and if you take that out, this company is sitting on about USD4 billion in hard assets, justifying a market price of USD155 billion. Macys, a retail store, has a market price of 21.08 with a book value of 6.2. Target has a market value of 37 and a book value of 16.2.

What is the point of this with respect to SMEs? We do not have a way of adequately measuring the true value of things on our balance sheets. We are scaring people away from investing in the real economy because we do not have good accounting conventions. What has capitalism done? Looking at 1820, when capitalism took off, GDP per capita went from about USD1,500 per year to GDP20,000. Think of the difference in a human life. This was an era when average life expectancy was 35 years, your teeth fell out at 22, you died if you got a disease. Think of the life you are living today. That difference, I would argue, was made possible by capitalism. What we are talking about here, in terms of growth, the real economy, what SMEs produce, is the substance of good human life and, potentially, social justice. How can we rethink balance sheets so that both large and small firms can be presented to people as a good buy for the future? This is a theory of what makes a successful firm. You have capital which you invest in some sort of process which produces something which you sell to customers, and hopefully at a sustainable profit. You want low volatility, because that gives you maximum value of your stream of income, and that already takes you away from speculation in the markets. A point which is overlooked is return on capital – without it you go out of business, you just have a transaction. There needs to be a rolling process, where you always have enough liquidity, and in order to maintain the stock of capital there needs to be a return. What capital do we need to run a successful business? We have grown up with an accounting system dominated by financial firms which tells us it is finance capital. When I ask MBA students how to start a business, they tell me you need a business plan, but in that plan you need reputational capital, human capital and social capital before you get finance capital. Each needs to be shown on a balance sheet. Small SMEs in the US not only cannot get bank loans, but they cannot get venture capital either, because significant venture capital wants to come in after the business has proven all these things. They want what we call low-hanging fruit. It is almost impossible to get from zero to USD3 million, the level at which you hire your first people, unless you are already known or you have your own money. Remember the numbers for the companies I gave you? A huge part of their value was intangible, and our accounting system and financial structure tends to overlook intangibles. I suggest that we need a new kind of capital account as the basis for a new kind of balance sheet. According to this, social capital plus reputational capital and human capital gives you finance capital, which then permits you to buy physical capital; if you do not have the intangibles, it would be very hard to get the tangibles. What are your intangible assets? It turns out that your intangible assets line up with your CSR stakeholder categories – your reputation concerns your customers, your human capital is about your employees, your social and cultural capital relates to your investors. The way you treat people is also tied to reputation, along with community support. Internal social capital relates to stakeholders, whereas external social capital is the community. A few years ago the then-chair of the Caux Round Table was talking to the global VP of 3M to try to persuade him to invest in poor countries in Africa, and he said that it was crazy; 3M was not going into Sierra Leone because the social capital was missing. I said that they were in Singapore. The difference between Singapore and Sierra Leone comes under the heading of social capital. The Lee Kuan Yew team put together a social capital package, starting in 1965, and they now have one of the highest GDPs per capita in the world. It is a remarkable achievement. Another factor that assets are related to risk management; if you have good risk management and low risk you have a higher quality asset, whereas if you have bad risk management and high risk, you have a liability. Risk management is usually in your relationships with your customers. For example, GM knew a long time ago that the ignition in certain cars was so weak that if you turned it too hard, or the keychain was too heavy, it would go off and your engine would stop. 12 people have been killed. Richard Posner's son wrote an article in which he asked why we were worried, because the incremental chance of death was 0.0078. However, they were hauled before Congress, and they have a huge problem, because they put their customers at risk without disclosure, and knew about it for at least 6-7 years. They mismanaged the customer relationship, which is a liability that will show up in lower sales and in their stock price, as part of the stock price is the market factoring in all this trouble. What would a new balance sheet look like? You would have the traditional section with financial capital, assets, liabilities and net, but then you have to figure out how to measure reputational capital, put it in Dollar terms, and do the same thing for human capital. One way of thinking about this is to take the current employee body and estimate their future earnings; if the value is low, the Board will force me to take better care of the employees. Finally, if we have this kind of balance sheet, and SMEs can come up with high asset values, they will establish themselves as worthy of investment and attract more money.

Myret ZAKI

Before discussing innovative solutions for financing SMEs, can each of you give your diagnoses as to why banks are losing interest in giving credit to SMEs? It started in Switzerland in the 1990s, when banks began engaging in totally different businesses.

Steve YOUNG

The entire industry was seduced into chasing higher short-term profits, and the critical changeover moment was the abolition of Glass-Steagall, when we basically went to universal banking. Banks could make a loan and make 5%, or trade commodities and make 20%, without understanding they were moving into an entirely different realm of business. People did not look at the risks. The herd instinct takes over, and if I hear that someone has made 20%, I chase the 20%. Everyone makes money in the early phases of a bubble, except when you have invested in the peak when it crashes. The intellectual background of the industry was the Chicago School of Economics and Milton Friedman's argument that the purpose of the large corporation is to bring home cash for owners, but this business that finance is now in is about contract rights, not real things. Each of these scandals, the Tulip mania or the South Sea or Mississippi Bubbles, had to do with contract rights. Apparently they had primitive futures contracts in the Tulip mania; someone would write out a contract for tulip crops without owning any, and that piece of paper would be sold on. These pyramids are based on contract rights – the superficial returns are higher and they are less work. A loan requires due diligence, but if a CDO is triple A I buy it. Had Moody's and S&P's done due diligence, which they did not, the structure would have collapsed.

Jean ROGNETTA

The short answer to your question is Basel III. The deeper answer is that it relates to a more structural problem. The traditional continental European model of financing entrepreneurs through loans is giving way to a more disintermediated model, which is more of an American one, via the UK. There is a cultural change; we in Europe are going into a new model, and doing so with considerable pain. That is one part of the answer. SMEs are not financed in the US either, so it is not just a matter of banks. What would you rather inherit, a shirt-making company in St Paul's, or inherit USD1 million and use it to set up your own company? The point is that the small family-owned companies created after the war in Italy and that make up 90% of GDP were actually created by the grandfather, and they have underinvested and under-innovating everywhere. It is the SME problem; if you want to finance SMEs you have to finance innovation in SMEs, not just start-ups.

Steve YOUNG

There is a chicken-and-egg problem; I have inherited my father's shoe company, I go to my banker, and he wants to fund dot-coms. The other thing is that the amount of money needed is tiny compared to what Wall Street is doing. These companies need USD250,000 to buy a new machine, and the sophisticated financial people look at it and say it is boring. Then I have to squeeze labour costs in order to keep profits up and put myself in a downward spiral.

Jean ROGNETTA

That is why I suspect there are reverse economies of scale. Too big to fail is too big to finance the real economy.

Myret ZAKI

Banks are never going back, are they? Who will now take over this role? Could regulation, to a certain extent, force banks to finance SMEs?

Steve YOUNG

Small banks are going out of business, because the returns are not there and the regulators are clamping down in terms of the kind of capital you can have. Venture capital for small companies is evaporating. Bigger banks will lend you USD25 million if you have a four-year track record. This is a structural problem which relates to the lack of job creation and growth worldwide, and no one is talking about it. Regarding new regulations, the way people react to them is to game them. There is also the matter of unintended consequences. Stock options were a big issue in the US, so a proposal was made to expense them, and a lot of companies are now doing this. The result of this is that they are only giving stock options to the top 2-3 people, instead of the management who actually run the corporation. We need to create a system of incentives for people to invest in SMEs. What might those incentives be?

Pierre CHRISTODOULIDIS

Engineering companies cannot get spare parts in France. Small companies could be created for this purpose but nobody helps in terms of encouraging people to set them up or giving them credit.

Jean ROGNETTA

The only regulation that might work is a strict antitrust law that breaks up big banks. That will not happen any time soon, but even if it did happen somewhere, it would not result in small banks lending to local businesses. I do not believe there is any going back; there is no intention of regulating banks to require from them to do something they are no longer even equipped to do. They have neither the people nor the software. A nascent answer is crowd funding, because that could shorten the link between the saver and the entrepreneur. That is embryonic at best, and extremely risky, but certainly worth exploring, particularly for independent financial advisers. Someone who puts significant amounts of money into crowd funding needs a significant amount of advice.

STEVE YOUNG

Crowd funding is trendy in the US, but in terms of risk, at some point someone will put money into a project and it will turn out to be fraudulent, and then there will be SEC disclosure requirements. We have been thinking about how the new technologies could be used to create new investment structures. People have cell phones even in villages in underdeveloped countries; everyone is connected, and if you get the right information exchange going, money can be raised; somehow that is then allocated to small projects and I get a return. We might be able to sidestep the problem if someone could step up and make this happen.

JEAN ROGNETTA

We launched a professional newsletter in 1997 called Electronic Commerce, and we chronicled the emergence of small US players in France which no one cared about when the Internet bubble exploded. They are at the end of the model and Amazon will probably buy them and gain 15% market share on goods distribution. That is the effect of Internet on distribution in France, even though the French were quite renowned in this area. Something like that will happen in finance, and there is a considerable chance that some American start-ups will do to European banks what Amazon has achieved in the book industry.

Steve YOUNG

It is also a matter of structure. Lots of people went into Bitcoin, and then the exchange went bankrupt. There are a lot of real problems and risks associated with this.

Myret ZAKI

If Google and Facebook start doing e-payments using their enormous client databases, who will regulate their payment system? They are about to get banking licences, but will people trust them with their money?

Jean ROGNETTA

PME FINANCE have a position on this. The idea of a private currency is Hayek's idea; it has never existed, and I would advise against going into the experiments before they gain any kind of credibility. However, crowd funding is extremely small, but it is emerging, and it creates moral hazard for entrepreneurs. The French entrepreneurs who have raised most money out of crowd funding had the idea of putting the contents on hard drives onto the domestic cloud, and they raised USD1.2 million in a fortnight. They are honest and say they will use it to develop their product, but I am sure less honest people are extremely attracted by the business model of selling a non-existent product on the Internet. I believe in the development of crowd funding as long as it is considered in financial law, as long as that law is not simply modified to defend existing financial interests.

Steve YOUNG

There are a couple of problems that need to be solved. The traditional expectation of an investor is to gain some control over a company, whereas crowd funding has no guarantee. Another thing that is needed is an insurance feature, some instrument that tells me what my rights are.

There is a role for the state in providing a fund to get this off the ground, or else providing reinsurance for a private sector guarantee fund; in any case, there needs to be a fund to guarantee some kind of return to the small investor, but then we have to work out the pricing.

FROM THE FLOOR

There is no competition in the banking industry from people who have experience in the real industry. I think they cannot do it at the moment because of regulatory barriers preventing successful people from doing so. Do you think these regulations are justified or should be changed?

JEAN ROGNETTA

I think you are saying that customers with a digital customer relationship, such as Google, or that have a billing relationship with customers, are ready to go into banking. Nobody will be carrying credit cards in five years; I have lost my wallet but never my phone. My answer to the question as to whether the digital environment will lead to digital players who are not currently recognised as banking players today is yes; I do not know whether it will involve crowd funding or some other methods.

STEVE YOUNG

The regulatory structure for banking is as complex as those for agriculture and food, because there are huge stakes for societies and governments. Opening the gates to crowd funding might result in credit bubbles, so governments will want to clamp down on that. Secondly, there is responsibility for deposits, but that is easier because the new industry does not take deposits; they go directly to the companies. Another problem is due diligence; we need competition for the ratings agencies, because Moody's and

S&P will not rate SMEs, as there is no money in it. When someone starts a company, they need someone to do a balance sheet analysis and give them a rating, and when it is entered into the database the money flows that way. All this could be done, but who will do it?

From the floor

The Sarkozy government brought in the TEPA Law, which was one of the best things it did. Under this regime, the State controls the money; you pay your tax and half of it goes to a small company which has been introduced to you by an IFA. You have to leave your money in for five years, and if it is successful you have a buyback, the entrepreneur can retain the majority or it gets larger. Experiences from other countries can help in this respect, and I do not think crowd funding is a permanent solution, but things can be adapted to each country and allow solutions which are sustainable in the long term.

Jean ROGNETTA

I think TEPA actually reflected lack of courage. Instead of abolishing the wealth tax, the Sarkozy government created a tax incentive of 75% for investment in SMEs. The result was that people were not spending their money and doing due diligence, but just spending their tax money without regard to the investment. This disorganised all the economic incentives for investment. Coming back to an earlier point of Steve's, the role of government used to be to give subsidies, but we have moved on to a model of tax credit subsidy which actually works better. However, we are faced with such a fundamental crisis, not just of sovereign debt but of sovereign funding, that there is a question about their sustainability. Using what is left of public credibility to lower the risk of SMEs is probably the way forward.

Leong Sze HIAN

Steve mentioned Singapore as having very high per capita GDP. We have an SME financing scheme under which the government guarantees most of the loans in case they cannot be recovered. We have innovation and productivity credit schemes for SMEs under which the government covers most of the cost. Where an SME increases employee wages, the government covers the cost for three years. Why are other countries not doing the same things?

Paul RESNICK

I have just come back from India, and the country is full of energy and enthusiasm to succeed, not to find excuses to fail. My call would be to get up and do something. The banking sector has let us down, but that does not mean we have failed. Our essence is creativity, and there is a gap. Capitalism abhors a vacuum, and that is our opportunity. I have founded ten businesses, many of them rubbish, but I still want to do it. We should not give up and spend our time looking for excuses.

William K BLACK

The act that just passed in the US on crowd funding actually goes up to USD1 billion in assets, so it was sold as being for SMEs but has next to nothing to do with them. It is designed to greatly weaken securities regulation for about 80% of corporations.

From the floor

The problem is that the smaller local institutions are always bought up by the big names, because in banking you need to know the person you are lending to. It is always good to have some cooperative institutions for this reason. Banks are increasingly closing offices and going online, so I do not see how people can get loans from institutions who do not even know them.

Jean ROGNETTA

That is exactly the problem. We have to create a situation where someone who knows the market, probably a financial adviser, can access it in order to offer finance to the local entrepreneur.

Steve YOUNG

I was on the SME lending facility for the City of St Paul and have been very involved with our refugee communities. One thing I learned is that, until the 1980s, in small and regional banking you could make what they used to call a character loan, which you did not need to document with financials, but gradually the theory of finance and risk analysis coming from the schools was taken over by the regulators and pushed all the way down, so it disappeared.

Theme 3: Liberal economy and taxes: two incompatible notions?

MYRET ZAKI

We are witnessing authoritative policies to crack down on evaders of all kinds, but what are the real motivations behind those policies? What are the motives of governments and are they all perfectly legitimate? Are financial centres fighting against each other, and are there protectionist policies de-facto enforced in order to defend offshore centres and bring down competitors? What is the landscape currently? Vincent Bénard will begin. He graduated in engineering, and worked from 1990 to 2006 in various positions for the French Ministry of Planning, and in 2006 joined the Turgot Institute, a libertarian think tank, as an economic analyst. Since then, he has published numerous press articles analysing State regulatory failures and advocating free market solutions. He also published two major studies about the housing crisis and the subprime crisis.

VINCENT BÉNARD, SENIOR ANALYST, TURGOT INSTITUTE, PARIS, FRANCE

Coming from a liberal (or, for the US audience, libertarian) think tank, some of you would expect that I say that taxation and liberal values are not compatible, since taxation is about coercion, and fundamentally contradicts liberty. But as States exist and are likely to last for a while, I've to take a more pragmatic approach and answer with another question, "what would be a taxation system the closest to liberal values, in the real world ?"
The question of taxation and liberal values, as you can see, is not a technical one. It's a philosophical one, and technicalities only derive from philosophical and

ethical considerations. I'll shortly develop five points of my definition of what could be the characteristics of a "liberally acceptable" taxation system.

1. Limited Purpose of the state

We can't separate the taxation from the second plate of the State's balance, expenditures. What does the State makes with the money it takes? John Locke defined the role of a limited state in an harmonious society, as the protector and guarantor of property rights, and not more. It's trivial to say that today, States have gone widely beyond that limit. Nowadays, States are in education business, healthcare business, subsidies, banks bailouts, and so on.

And, even if you imagine a tax mix that could be "technically" liberally correct (we will see how later), to feed a State with such an anti liberal portfolio of interventions, it doesn't make a liberal tax system. Stockpiling even brightly designed taxes to feed a greedy State can't be a libertarian thing. A liberal taxation has to serve the purpose of a limited State, ideally centered around its lockean core functions.

2. Tax institutions should operate strictly under the rule of law

And I mean, here, "the rule of the good law", based on traditional english common law. In many countries, Tax services, like IRS or French DGI, have been granted special powers by governments.

For example, French tax services can use fiscal investigations without suspicion of fraud, only to put pressure on someone. In France, journalists making investigations on prominent government figures end up frequently with a fiscal control: this practice should of course be banned from every civilized country.

But there's worse. In France and several others countries, tax services benefit from the reversal of the normal charge of proof before courts: in many cases, you, the taxpayer, have to prove that the supposed under-declaration of your revenues made by tax service are false. So tax control plus fantasy assumptions by IRS-like services can be used to put coercion on “subversive people”.

There has been a scandal in Germany, where the tax service used data bought by corruption to prosecute some prominent tax evaders. The French government wanted to authorize such practice by law, but has been banned from doing so by our highest jurisdiction, the constitutional council. Even if you don’t like tax fraudsters, and I don’t, their defendant rights should be the same as ordinary defendants: if unlawful means can be used as way of proof by prosecutors against defendants in cases of fiscal evasion, it will soon become a common feature of our justice in any other case, with terrific consequences on the reliability of “proofs” used for convictions.

Fiscal investigations, as other law infringements cases, should be operated exclusively under the control of a judge and should never be arbitrary. And I consider that automatic data collection on every citizen is obviously arbitrary investigation, as automatic exchanges of financial data between countries are arbitrary investigations. Privacy is an essential feature of the “liberty pact” linking citizen and so called democracies. Privacy is not only a matter of legality, as people who say “if you’ve nothing to hide, you’ve nothing to fear” would like us to believe. First, notice that government can blur the lines between what’s legal or not. Very vague definitions of what some crimes are increase the risk for honest people, to be prosecuted in good faith. But there’s more: privacy is about intimacy, modesty, sense of decency. You wouldn’t like to see your conversations with your doctor listened by the government, or anyone else. It’s the same with your money: once you regularly paid your tax bill, government is not entitled to know what you do with your money, your conversations

with your banker, your accountant, and so on.
Data collection, and international exchange of data, should be authorized only upon serious suspicions of fraud, backed by tangible elements, brought by a judge, under a normal legal procedure. Agreements exist between most democracies, including so-called tax havens, to operate in that frame. Therefore, we don't need extraordinary procedures.
A liberal tax system should end all these anomalies and operate exclusively within regular judicial procedures.

3. There should be no "behavioral Taxation". Taxes should be as neutral as possible

Of course, taxation can never be 100% neutral. The many the behavior changes, the more taxes are introduced on just about anything. But in a society of liberty, taxation should not be used by a government to incentivize or coerce some of our choices.
This point can be viewed either on ethical or utilitarian grounds. Ethical, because behind every tax shelter or special deduction, there is the victory of a lobby over the rest of us. Utilitarian, because in nearly all cases, economic outcomes of government-created tax shelters are bad, and sometimes disastrous. As said another speaker here, when people invest their tax money instead of their disposable money, they're prone to malinvestment. This has been widely observed in France, in the housing field, where tax deductions have financed huge numbers of homes nobody wanted to live in, in places where there was no demand for low-end rentals.
Another distortion I want to talk about, is more insidious, and is spread all over the world. It's differential treatment of dividends (taxed) and interest on loans (exempted) in most corporate taxes. This distortion incentivize firms to over leverage their balance sheet, meaning they're less sound in difficult economic times. Numerous studies,

including from IMF, have underlined that this distortion has no more economic justification. But it's a huge indirect subsidy to those whose job is to lend money: banks.
Taxation should be viewed as a way to fund the State, not to change our behaviors, or giving an advantage to some against others.

4. No double taxation, thus no wealth taxes !
One of the most disgracious feature of most tax codes is that households pay several times taxes on the same dollar, through wealth or Real Estate taxes. When you've paid regular taxes on your wages and other revenues, you should be set free with taxes: the money has been taxed once. But it doesn't happen in actually in the real world. You use one part of your disposable income to build wealth, often beginning with your home. And then the State comes and says: "hey, you've to pay annually a tax on the wealth you built with your own money". It's like paying a rent to the State for owning things, even though you've already paid to the state the right to earn the money and sprend it. You're not really the owners of your wealth any more.
Beyond this moral argument, wealth taxes are economically harmful too: in France, wealth tax brings less than €4Bns/Yr in state coffers, but has caused the flight of more than €400Bns out of the country, according to very conservative estimates from the Montaigne Institute, a French economic think tank. This flight of money comes with the flight of the brains and experiences of those who have created it, most of them being definitively lost for France once they've made their lives abroad. So the loss for the country goes far beyond money and equity.
That's why we should favor a system with taxes on flows (revenue, consumption), but not on savings and wealth.

5. Tax Fairness doesn't exist, don't try to use the concept to justify over-taxation

Progressive taxation is often justified on the ground of "tax fairness". But this notion has no objective definition. In France, progressive taxes are viewed as "fair", but in most former Eastern countries, they've been a factor of tax avoidance, so many of them came back to a flat tax. So what's fair? I don't know. But what's more efficient? We can guess. In fact, in most countries which set up flat taxes, we've seen a huge increase in tax compliance, tax "civism", from population, especially from business people. Even the IMF, which doesn't promotes flat taxes, has acknowledged this fact on its publications. And aren't "fair things", "accepted things" ?

So we can suggest that governments should try to keep taxation reasonable, and it would work better than abuse of taxpayer coercion to achieve budget goals.

A good flat tax has no tax shelter, no tax loophole, and lets the most of your success revenue in your pocket. So you're not tempted to cheat the system by grabbing government-funded advantages, and you are not discouraged to try to succeed. Flat tax is not a "liberal tax" per se: if the government uses the product of the flat tax to fund illiberal activities (see #1), this is not part of a liberal system. But from a technical point of view, flat taxes have a better liberal record than progressive ones, which are always plagued by tax exemptions who benefit to few lobbies.

Conclusion

To summarize, a liberal society is about freedom of choice and voluntary acceptance of exchange. A liberal taxation system would be the one which doesn't interfere with people choices, serves a State with limited purpose, and lets most of the fruit of your success in your pocket, so it would be mostly accepted without the need for State coercion.

Needless to say, current tax systems all over the world don't follow these rules.

MYRET ZAKI

To challenge Vincent, William Black is going to speak. He teaches economics and law at the University of Missouri. He is a white-collar criminologist, directed the Institute for Fraud Prevention, and published The Best Way to Rob a Bank in 2005, which was a bestseller. Mr Black helped the World Bank develop anti-corruption initiatives and testified to the US Congress about the financial crisis.

WILLIAM K BLACK

I am not here to criticise; I will add that I personally experienced this kind of arbitrary use of power. I too do not know what a fair tax system is, but last week I presented on behavioural finance at Duke, and some hotshot lawyers who were present told me that their clients wanted the equivalent of platinum status when they dealt with the government; that was what they thought was a fair tax system. I will respond to and build on Dr Geiger's remarks, when he expressed his disgust with bureaucrats and the concept that they were working for Big Brother in attempting to prevent terrorism, money laundering, tax fraud and corruption. This hit home when I thought of not only my sins but those of my family, who are all or have been bureaucrats. Most of these people served in the Second World War and some got bronze stars, whereas others were navigators in planes. We are not very apologetic for all of these things, and we do not quite get Ronald Reagan's famous joke about the scariest nine words in the English language, 'I'm from the Government and I'm here to help you,' because we do quite a lot of that. These are the people who run into burning buildings to rescue kids they have never met, or the police officers that sometimes do very bad things but sometimes save people's lives. We do not feel particularly bad about this, and in the realm we came from, we did pretty well, and a whole lot better than the private sector. George Akerlof and Paul Romer wrote in 1993 that neither the economists nor the public saw that Savings and Loan deregulation was bound to produce looting, nor could they be aware of how serious it could be, so regulators who understood what was happening found lukewarm support, and that if we learn from experience, history need not repeat itself. We did not learn, but there is the concept that the regulators can actually be ahead of the curve, very much so in this case. What I will talk about is what Dr Geiger was most concerned about, which was the concept of making criminal referrals, and as someone who has made criminal referrals and testified in support of them, I will give you some reasons why we do these things. The US has roughly 1.5 million people employed by the criminal justice system, of which 2,000 do FBI white-collar investigations, meaning there are about two per industry, and that has important implications. Firstly, an FBI agent will not have expertise in any particular industry, and also that they are not looking for crime; they wait for criminal referrals, or Suspicious Activity Reports. The fact is that banks do not make criminal referrals against their CEOs. Whistleblowers are episodic at best, the quality of their evidence may be poor, and they may have no idea what the CEO is doing, so only the regulators can make the criminal referrals. There is considerable proof of this. Before the S&L regulators geared up their criminal referrals system and appointed coordinators, there were no prosecutors, whereas our agency alone made over 30,000 criminal referrals. We prioritised what became known as the Top 100 List in meetings with the FBI – these were the top 100 fraud schemes. Our first priority was to close to fraudulent entities, and then to prosecute in order to create deterrents. We had 1,000-2,000 FBI agents assigned to the S&L industry at the peak of our activity, and we had a

90% conviction rate against the best defence lawyers in the world. We also brought several thousand enforcement actions and 800 civil and administrative freeze actions.

Regarding the current crisis, where the criminality is vastly greater, the US regulatory agencies eliminated the entire function of criminal referral coordinators, and the number of filed referrals is zero. When a reporter asked the Office of Thrift Supervision about this, they asked why they would do this, when it was the job of the banks. They did absolutely nothing. They had a total of 120 FBI agents dealing with this crisis in 2007. They are dealing almost entirely with minor cases, and have not prosecuted a single elite banker who caused the crisis. They decided that the only place they could get expertise was with the Mortgage Bankers Association, with whom they formed a trade association in 2007. The MBA then provided a definition under which the CEO is never responsible for fraud. What did we do? We looked for unambiguous signals of accounting fraud, one of which is not underwriting. We saw and acted on these things in the S&L debacle. Many people call this the subprime crisis, but it has far more to do with liars' loans, and by 2006, 50-60% of all loans called subprime were also liar's loans, where a loan is made without verifying borrower income. This lending practice began during the S&L crisis, and we drove it out of business while dealing with the overall crisis. The biggest and worst of the S&Ls, Long Beach Savings, voluntarily gave up its charter and converted into a mortgage bank for the sole purpose of escaping our jurisdiction. It changed its name to Meriquest; we nailed them before they left, and they were nailed three times by subsequent federal and state investigations. What foreshadowed the crisis is that Citi and Washington Mutual rushed to acquire its operations, and they both originated massive amounts of fraudulent loans. Were it not for these criminal referrals, the S&L debacle would also have been measured in trillions of dollars rather than USD150 billion. However, as early as 1983, there were 300 of these frauds, and they were growing by 50% annually. More than 100 new fraudulent entities were being created every year. The re-regulation of S&L began a year after the passing of the deregulation act, whereas in the current crisis, re-regulation began 15 years after deregulation. We looked at every failure that came through and determined the patterns. Because we were making these criminal referrals, we started working for the first time with the FBI and Justice Department, beginning the process of educating both parties. Our referrer would meet with his counterparties at least every three months, get feedback on each referral, and edit them to improve their quality. This was training for the FBI and Justice Department, who had no idea how fraudulent banks operated, and we were learning what they needed to make a case. Then we trained FBI agents and US attorneys, and served as experts and fact witnesses.

What do we provide? We provide expertise and we provide resources, and these are essential; if you do not have them you fail. Our resources dwarfed those of the FBI in terms of weight of expertise. We learned a recipe for these frauds that has continued in the current crisis, and it is the recipe for not just a lender but also for a purchaser of loans. The fact that these recipes for the buyer and the seller are so similar is a major part of the story. The recipe is as follows: grow really rapidly by buying really bad loans but at a premium yield, while employing extreme leverage and providing grossly inadequate allowances for losses. This produces three sure things. The lender or buyer will report record income in the near term – under modern executive compensation, they will promptly be made incredibly wealthy. There have been zero claw-backs, by the way, in the US context. Finally, the lender or buyer will eventually suffer catastrophic losses, because at the time they are made these loans have negative expected value. The risk of prosecution from criminal referrals is an essential first step to preventing this kind of fraud, and the same logic applies to tax crimes.

Regarding the tells, the first is that it is usually too good to be true, with massive profits on really risky assets with minimal losses. The second is the deliberate creation of adverse selection by eviscerating underwriting and controls, and the third is that the allowance for loan and lease losses will fall as everything gets worse. Charles Keating, the most notorious fraud of the S&L era, sent a letter to virtually everyone powerful in Washington. This letter said that the Bank Board's new strategy was to come after S&Ls that were reporting the highest profits, even though they were reporting minimal losses; that was an accurate description of what we had done. He claimed it was an arbitrary investigation, a prime factor in stagnation, Nazi-like, like Jupiter eating his children. Akerlof and Romer make the point that you would not run a bank this way if you were trying to make money: if you were taking a very risky asset, you would do superb underwriting, because that would be your only chance to succeed in your gamble. Everything they warned about 20 years ago has happened in the current crisis. The provisions were a joke, and they had reached a level that was last seen in the S&L debacle. They are literally putting aside 1c on the Dollar for losses, and their losses were in the 50c range.

What else did the criminal referrals do? They put pressure on the Justice Department to actually prosecute, and it often hates to prosecute elite white-collar crime. This forced them to act because referrals were growing into the tens of thousands. Our biggest problem was dealing with the prominent politicians who were batting for the most fraudulent S&Ls, and once those S&Ls were revealed as frauds, it became toxic for them to become involved.

Daniel MITCHELL, Senior Fellow, Cato Institute, Washington D.C., USA

We will not be fighting on this panel, because our first speaker said that the State has some legitimate functions, and we should judge taxes on whether they are used for legitimate functions. Fighting fraud in the libertarian world would be part of the legitimate functions of the state, so maybe Bill has let us know he favours libertarian small government. However, he did not talk about our topic, tax policy in the liberal economy, so I will look at some points we should consider not only what is happening today but might happen in the future.

Firstly, looking at the average top tax rate in OECD countries, in 1980 it was 67-68%, and now we are down in the low 40s. The class warfare opposed to tax policy has faded away. Why? And why is there a counterattack by high-tax nations and the OECD to force information sharing? Looking at US data for indirect foreign investment from 1976-2012, there was very little cross-border passive investment in the mid-1970s, and it has exploded dramatically over time; in other words, globalisation significantly increased how much money was crossing borders as investors diversified and found new opportunities. This has expanded trade, but in financial services rather than goods. However, the US is one of the best tax havens in the world, because some of the State laws give investors a lot of confidentiality, and a non-resident foreigner can invest in stocks and bonds in the US with full confidence that the US Government does not tax capital gains or interest, and does not require reporting. The US does not have statutory bank secrecy, so they might respond to a request from France for information. However, in most cases you can invest assets in the US without much danger that your home country will know about it. FATCA might be changing this, but it is a one-way street, because the Treasury does not have the authority to collect this information, so it has nothing to share. The House of Representatives will not pass legislation to allow it, and it will not happen in the Senate after the November elections. Therefore, we have this big increase in global capital movement, with the US being a major beneficiary, in part because it is a tax haven, but also because of lower global communications costs. The moral of the story is that globalisation has tied the hands of the political class, because they know capital has gained the ability to fly across the border, but that is why the EU and OECD want to set up global information sharing. When there is a single gas station in town, it has a monopoly and can charge what it likes, but if five new ones come to town, the customer has a choice, and that is what has been happening in global economics. Governments had to lower their tax rates or the money would go to the US. The reduction in tax rates started right after Reagan and Thatcher started doing so, and even French and German politicians followed suit. That is the good news, but the bad news is that we are moving to a system of worldwide taxation. The US has the worst worldwide taxation system – it taxes savings and investment income, labour income and corporate income, and it bullies other nations to comply. Doing enough of this eliminates tax competition as a constraint on government, because a US citizen has much less tax freedom than citizens of other nations, because the ability to escape the tax burden by moving wealth to other jurisdictions has been limited, as we have forced the rest of the world to act on behalf of the IRS. The IRS will follow me if I go to the Cayman Islands, Hong Kong, or Luxembourg, so there is no competitive constraint on the US Government raising taxes in the future. My fear is that, as the OECD, the EU and the Multilateral Convention expand, the rest of the world will follow suit toward worldwide taxation of all forms of income, and that would be bad for the global economy. Countries have seen big increases in spending and need to dramatically change their fiscal policies to avoid worsening the debt problem, so you can see why politicians want to destroy tax competition and undermine economic liberty – they know that if people have the freedom to escape, they will not be able to raise taxes. Regarding the future, what you have seen happening in the PIIGS in the short run will happen to the so-called well-managed countries of the world unless government spending should be controlled. That is why there should be as much tax competition as possible, because politicians will only do the right thing when they have no other opportunity.

Daniel BRENNAN, Co-Chairman, Advisory Board, Global Financial Integrity

I will give you a different picture about taxation, and it concerns where we are in the development of new taxation standards around the world. What is the basic Western concept of tax in society? People coexist with enterprise, and they give power to the government to levy taxes in order to produce a functioning society and economy. The key question is the balance between people and enterprise, a balance which, in the UK, is not solely directed at higher taxes. For example, the corporate tax has been reduced to 20%, and the income relief system called EIS gives 50% relief on seed capital investment in certain industries and 30% once the business gets going. Major tax concessions are occurring as part of the balance between people and enterprise. We have reduced the top rate of tax from 50% to 45%, and people are talking about a tax of 1% per annum on property worth over GBP2 million. Our VAT is now 20%, which is very high. The people in the enterprise portions of society do a deal with government on the balance, and the question is how that balance has worked out. Recession has led to austerity in most of Europe, leading to a big emphasis on tax revenue and an interest in tax justice. Google, Apple, Starbucks have come before parliamentary committees to explain why they do not pay tax in the UK. Starbucks pays GBP7-8 million per year, which is a joke. The public respond to this by asking why enterprise does not pay tax and asks politicians to ensure they do. This has been the key motivator of the renewed interest in tax; it has motivated the G8 and the G20, who asked the OECD to produce standards and provisions, and EU has developed more standards and schemes. This has all happened in the last 2-3 years, and, whatever the motivations, the reality is that ordinary people expect everyone to pay tax.

What are the key factors for enforcing this? The US pursued the Swiss banking system, and in Germany Uli Hoeness was convicted of tax evasion and jailed. The scheme where Indian big money goes to Switzerland or Mauritius and is recycled back into India without paying tax is now being attacked by the Indian Government. The UK is attacking tax havens, not to destroy offshore tax, but to create transparency. Enforcement in these regards is very significant, and it is happening everywhere in the Western world. Automatic exchange of tax information is nothing new; NAFTA required it since the beginning, between the US and Canada and Canada and Mexico, but not yet between the US and Mexico. Why? It is estimated that USD50 billion pass from Mexico to the US annually in illicit cash flows. The NAFTA system has been in place for the last 15-20 years, and applying this to Europe does not have the same drawbacks as it has for the US. The tax regimes will involve free exchange between governments of individual and company tax information. The UK Government has announced that it will insist that financial institutions have to disclose the true beneficial owners of assets, and Europe is doing the same in the next year or two. There is no logical reason for corporate and individual investors not to declare their ownership of the deposits in question. Finally, on country-by-country reporting, globalisation, as Daniel pointed out, has consequences – if you make a profit by paying very little tax, governments will not accept it, because their publics will not accept it. This is a political reality which cannot be ignored, and country-by-country reporting simply ensures that multinationals declare what they make, where, and what taxes they pay. Why not costs and consequences for globalisation as well as just profit?

Global Financial Integrity produces lots of information on these issues, and it is not designed to penalise the rich, but to ensure we all pay the tax we should. Is it part of some international tax conspiracy? It is too early to tell, but at the moment it is the product of public will translated into political effort. All this progress in the last couple of years is an incredible phenomenon. The fact is that the world will chase tax globally as well as domestically, through all the means I have described. Why am I confident these changes will come through? It is basically because the public will not accept that which they now know, which they did not previously know or understand, about how tax operates both domestically and internationally. Regarding the questions we are posed today, taxpayers are behind this fight, but the prospect of the fiscal state is very slight. There will be a mishmash of different types of tax arrangements, and the only principle to be applied will be taxpayer justice.

Myret ZAKI

Do you think the crackdown on tax evasion will create a renewed need for privacy and confidentiality, and a search for opaque tax regimes?

Daniel MITCHELL

Governments are trying to destroy privacy and confidentiality so they can move back to the economically destructive tax rates of the 1960s and 1970s. Once governments think we are captive, tax rates will go up, the economy will go down, and combined with poorly designed entitlement programmes, the Western world is in deep trouble. The easiest way to avoid high taxes, especially on savings and investments, is not to save and invest, leading to a weaker economy in the future, at the same time as ageing populations will lead to greater demands.

VINCENT BÉNARD

Tax havens are sovereign entities, and if their people decide that their tax regimes should be less coercive, it is their right, and they are having a lot of economic success. It is a new form of imperialism. I see more problems with this attempt to harmonise than fiscal ones.

WILLIAM K BLACK

Remember the people I mentioned who went into the evil bureaucracy and paid taxes 2-3 times higher than you pay now? Why are we suddenly so whiny about vastly lower taxes? Regarding the vast financial growth that was supposed to come from cutting taxes, have people forgotten the financial crisis? None of the PIIGS were the banks, though they were the only pigs; instead they were labelled 'Stimulus'. I was talking about taxes, because this is the only case we have of a regime that is required to make criminal referrals and does so. HSBC's teller windows were tailor-made to process money-laundering cash more rapidly; think how different the world would have been if its top people had been imprisoned. We have not tried enforcing the law. We need to get away from this hysteria about the supposed debt burden on sovereign currencies, which is mostly a transfer payment, and focus on resources as opposed to money. Talking about giving up sovereignty, the Eurozone meant giving up critical parts of it, so that policy is now dictated to these countries. They should be so lucky as to have high taxes, as that would enable them to have some kind of recovery.

Daniel BRENNAN

I do not accept these notions of tax conspiracy or imperialism. The electorate in Europe know pretty well everything that is going on when crises happen, and you cannot repeat the tax arrangements of yesterday or ignore the rule of law. We underestimate the power of modern democracy through the power of modern communication. The public will not buy this stuff anymore, and that is why politicians are reacting to it.

Myret ZAKI

We need to talk about double standards. Senator Carl Levin's investigation in 2006 revealed that there were USD1.6 trillion of untaxed US money. Swiss banks were holding USD50-100 billion, just 1% of this money. What is the US Government doing to get back the other 99%, if this is really their objective?

Daniel MITCHELL

Carl Levin wants to destroy the corporate laws in Nevada and Delaware, but the US can bully Switzerland, but not Delaware. The US Congress could pass a law to make incorporation law a national issue, but Senators from the affected states would filibuster it. There is hypocrisy there, but it is that number, because Carl Levin deliberately mixes tax avoidance with tax evasion. Most of it is legal tax avoidance, and a lot of what happens in the UK is because of the UK Government's transfer pricing rules. Starbucks is doing what everyone does, and politicians can change that.

Myret ZAKI

The UK is against tax evasion by UK citizens, but not against people who hide their money in the UK and Crown dependencies.

Daniel BRENNAN

The critical point in changing OECD policy is to change transfer pricing rules; it will happen. There are of course double standards; this kind of system does not change overnight, but this programme is a worldwide one, over 2-3 years.

Daniel MITCHELL

Just because you have a minority strategy does not mean it is superior and will be emulated by the world.

From the floor

The US has the largest prison population in the world, so it does not seem that tax policy should be dictated by the need to increase the prison population.

William K BLACK

We are overrun with CEOs in those prisons.

From the floor

Were all countries to adopt the US policy, the competitive tax advantage would no longer be there. There are other means to attract capital, and countries will have to compete in other ways. These things move in cycles.

Daniel MITCHELL

Countries compete in things like rule of law and regulatory policy. The US Constitution was about limiting majoritarianism, and having demagogic politicians inflaming populations will lead in a bad direction. I worry that, instead of responding the correct way by bringing taxes back down, politicians will try to pit different groups against each other.

William K BLACK

We have already seen this, because the test bed for austerity here was Latin America, and a series of nations have elected the kinds of leaders that cause Daniel to lose sleep. That will continue to happen if you keep gratuitously creating ruinous levels of unemployment through austerity. Money does not go where it is best in any societal sense; if all the millionaires get together in Monaco, their tax burden will be really low. Do we conclude that Monaco has better policies? Bring back Ayn Rand; have all these people who think they are the productive class go off on a lark, and we will see what happens to the economy. I am betting there will be a disaster.

Pierre CHIRSTODOULIDIS

I would like to underline that it is not the private sector that has brought Greece to its current situation, but the public sector through thievery and corruption. If I do not bank my profits every year and do not declare it, am I committing a tax offence?

From the floor

The last three Prime Ministers in Italy have not been elected, but appointed by the President, so there is no more democracy there.

Daniel MITCHELL

A lot of the austerity in Europe has been about squeezing the private sector with higher tax rates and not reducing government spending, which is what is necessary to stabilise these countries in the long run. It is ultimately about how much the private sector can bear to support the public sector. During the 1800s until the 1900s, we had a functioning society with a government burden of less than 10% of GDP, whereas now it is 40%. Is government that much better now? Is Germany getting better government than Switzerland or France? The state is too big, and higher taxes do not cure that problem.

Vincent BÉNARD

States that get too big tend to forget their primary mission, such as tracking fraud. Had the US done this properly it would not have had to spend USD787 billion on TARP. All States must focus on the original purpose of States, the protection of property rights and a well-functioning judicial system, and reducing the periphery of the State to its core.

Daniel BRENNAN

The globalised world is borderless on many issues, such as tax. There is no obligation to keep your money in institutional banking. The idea that the State has grown out of all proportion betrays a level of historical inexperience. Following the Second World War, every major European country set up health, transport and education systems because the people said it was what society should give them. The State did have to be reined in over time when it started doing too much, but intellectual thought governed by slogans will not come to sensible conclusions.

From the floor

Regarding automatic exchange of information, we basically consider this as a tool for the government to find out what citizens have and the right to expropriate them. Automatic exchange of information is extremely dangerous because you lose the ownership of not only the information but the assets as well.

Theme 4: Real Economy or 'Financialised' Economy: Which is the Right Model?

Myret ZAKI

Leong Sze Hian is an alumnus of Harvard and formerly President of the Society of Financial Service Professionals. He has authored four books, has hosted a daily radio show and has a daily newspaper column. He has served as Honorary Consul for Jamaica and founding adviser of the Financial Planning Associations of Brunei and Indonesia.

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

The CIFA President's opening remarks talked about the problems of the Western world, but Singapore has solved them, and has had 5-6% economic growth for the past 40 years. It has had around 2% unemployment for the past 30 years, and almost zero external public debt. It has been creating jobs at 5-6% per year for the past 40 years or more. Why do other countries find this so difficult? Practically every week a head of state comes to this country and expresses a wish to emulate it, but no one seems to have done it. This country has a training programme for civil servants to learn about its economic and social development system. I will talk about what most people do not know about this economic miracle. It has the number one city for investment potential, is among the top three countries for foreign trade and investment, and is the second most competitive in the world. The country has the largest number of top rankings in the world. However, press freedom ranks at 150 – this country has sued practically every major newspaper for defamation, has the 126th most unhappy people in the world, and the fastest workers. It also has the lowest fertility rates in the world. It was ranked by the Economist as the most expensive city in the world. One in ten workers earn less than USD700, one in six less than USD960, and one in four less than USD1,200. Taking as our definition of poverty that half the median income is at poverty level, 25% of the working population are poor, the highest of all high-income countries. This is the main reason this country has been so successful but no other country will ever be able to emulate it. It is the only country in the world that spends nothing on healthcare, pensions or public housing. Last year the Government reported a surplus of USD3.6 billion, but using IMF reporting standards it was USD36 billion, probably the highest surpluses of any country in the last 30 years. All media is owned by the Government. The story of this country's success is that, if you tax your citizens a lot and give back very few benefits, you have lots of excess and can do wonders with it – you can have the largest casinos in the world, you can have Formula One, you can volunteer to host the first Youth Olympic Games, etc. Whereas in European countries you have high taxes, but give back more in benefits than were collected, in this country it looks as if taxes are very low, but taking indirect taxes into account, such as social security and out-of-pocket expenses for healthcare, education and so on, it is probably the country with the highest taxes and lowest benefits in the world. There is neither transparency nor accountability. It has the most free trade agreements in the world, and this policy has been continuous for 40 years because it has always had one ruling party. There has not been a strike for the last 30 years or more, and it is the most open country in the world as regards labour policy; you can come to Singapore as a tourist and look for a job. It is the most friendly country for business; when there is a recession they cut pension contributions and overtime. Its private sector is dominated by government-linked companies; we do not have a problem with bank lending, because the biggest bank is government-owned. There is only one labour union, and its head is a cabinet minister.

Myret ZAKI

We will now discuss the new environment of the financialised economy. Has the financial market taken the real economy hostage? Are the regularly recurring crises hurting the real economy, and how can we get out of this cycle?

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

I have been a financial reporter since the mid-1980s, before which I was on Wall Street for a few years. Looking back over the time I have been a financial reporter, even since 1998, we have had a lot more financial crises than the previous period. I have been in this business for 30 years, and the latter half has seemed to consist of more and more frequent crises. Though this is anecdotal, I do not think it is coincidental that this happened at the same time that the financial contribution to GDP increased, going from 3.5% in the 1980s to over 8%. We have all of these booms and busts which are quite debilitating, each one getting bigger, and I think it has to do with the overall contribution of the financial sector to the economy.

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

Yes, it has grown dramatically. When we talk about the real economy we are talking about the actual use of human capital, and when we talk about the financial economy we mean money and the price of money. One way to look at it is the total market capitalisation as a percentage of GDP, and in 1990 the figure was 57.6%, whereas in 1999, at the peak of the Internet boom, it was 162%. It was down to

115% by 2003, rose again to 141% by 2007, and is now 115%. The total credit market is even bigger – in 1999 the total credit market was 120% of GDP, whereas by 2009 it was 284%; it is now down to 245%. When the financial economy grows too much, the real economy starts to get sick.

Myret ZAKI

The derivatives market is now something like USD800,000 billion in nominal contracts. The real economy is the foundation of the financial economy.

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

Financial crises are hugely destabilising because of the link between the two economies. The US has an interesting banking history, because prior to the 1930s crises were very frequent; banks were very small and geographically dependent. What are the root causes of these financial crises? Canada, for example, has not had a history of crises, even with a history of economic depression. Where there is a public sector that can co-opt the banking sector into credit allocation that does not make economic sense, you will have systemic crises. There is no doubt that securitisation is a good thing overall, but it is important to move away from the use of derivatives as a risk-masking tool, and if we are serious about dealing with banking crises, we need to deal with the regulatory structure. However, all the regulations, including Basel, encourage increased concentration of risk, so in a few years there will be another crisis and we will blame the private sector instead of the incentives they operate under.

Roger NIGHTINGALE

The world economy is heading towards depression and has been for a considerable time; the data seems to confirm what is happening, and the reason is there is excess supply. People want to buy less than is being produced, and that is causing the collateral problems it always does. The authorities see only one solution to this, and that is to create extra liquidity with a view to persuading the private sector to borrow and spend more, which works to some degree, but also generates enough liquidity for the financial community to grow, and more importantly, to misbehave. Every time there has been a sustained period of liquidity growth, the financial community has misbehaved – in the 1920s it was US insurance companies, and insurance companies in Japan in the 1980s. You cannot get away with very easy money for a long time without this, and the only way to solve it is to tighten money. Why did the Fed raise interest rates sharply in 1980 and kept them high for 18 months, despite low inflation and a strong currency? It was because of financial misbehaviour. I often go to see these people and try to persuade them otherwise, but they will do it.

Leong Sze HIAN

The engine of growth for Singapore for the past 30 years has been the financial sector, and it is now the third biggest in the world. Of course, in Singapore, the stock market is not overwhelmingly large compared to the real economy. But even if our stock market is not huge, we are now number three in terms of global financial transactions, and every financial crisis has been a godsend, because this country has been able to lead the race. It has estimated reserves of USD1 trillion, and that is how every crisis is solved; in the 2008 crisis, the Government paid the wages of workers so that companies could keep them working.

Louise C. BENNETTS

Regarding what Roger said about liquidity, one of the overlooked issues after 2008 was the role of monetary policy in the creation of these asset bubbles. Savers cannot put their money in the bank and be confident it will keep its worth, so they buy real estate because there is an incentive to do so. This happens all the time, and until we get to a point where people have confidence in the banking sector, the boom-bust cycle will continue. Furthermore, the incentives matter, because you can also design incentives that people will want to adhere to.

Myret ZAKI

The incentives system has remained almost unchanged since 2008, and attempts to place thresholds on bonuses have failed. The proprietary trading limits are not working either.

Gretchen MORGENSON

There is also the 'too big to fail' problem: if these banks misbehaved, you would assume being allowed to fail would be the penalty to create incentives against misbehaviour. However, this option was eliminated during the 2008 crisis: major banks were so interconnected and so politically powerful, and became even more so after the crisis. The penalty for driving your business into the ground is zero, and until that changes we cannot address this problem.

Louise C. BENNETTS

Some banks that behaved responsibly, on the other hand, were penalised during the crisis, and that does not send a good message to the market.

Gretchen MORGENSON

They were also penalised by the market, because if you ran your business responsibly, your multiples would not be to your shareholders' expectations, so you would end up being acquired by one of the too-big-to-fail banks.

Roger NIGHTINGALE

The solution might be to get banks out of this area, and managed only by owner-managed companies. The problem with these banks is that they gamble and get huge bonuses if they win, but if they lose, the shareholder and taxpayer suffers. We should not allow the banks to operate in things for which they are psychologically and, in my view, intellectually, incapable of handling.

Myret ZAKI

How realistic is this, given that we have merged them and they are more than ever stock companies rather than partnerships?

Gretchen MORGENSON

They are encouraged to become bigger because the government guarantee is there for them. They do not want to be broken up and are extremely powerful.

Roger NIGHTINGALE

Why do the politicians let themselves be pushed around by the banks that cause the problems? We had two banks, the Bank of Scotland and the Royal Bank of Scotland; the Prime Minister at the time was Gordon Brown, and the Chancellor of the Exchequer was Alistair Darling, both from Scotland. Someone in the Treasury put together a plan on the back of an envelope to save the banks, and this involved giving billions of pounds to the banks. This man was knighted before we even knew how bad this plan would be.

Louise C. BENNETTS

I think the too-big-to-fail issue is something of a myth, that the market is big enough to absorb a shock. Regarding moving these activities out, a lot of bankers have gone into hedge funds and so on, but the problem is this farcical systemic designation process, where banking regulations are imposed on organisations which are not inherently systemic. We need to address this because it is creating various other issues which will haunt us in future.

Leong Sze HIAN

No bank in Singapore has ever failed; its largest bank is effectively government-owned and government-controlled. The ownership system is different here than anywhere else.

ASSOCIATIONS DAY

CHAIRMEN'S WELCOME ADDRESS

VINCENT J DERUDDER, CHAIRMAN, FECIF, BRUSSELS, BELGIUM

First of all, I would like to congratulate Jean-Pierre Diserens, Pierre Christodoulidis and Richard Smouha for having launched CIFA a few years ago and for doing a fantastic job in taking the message outside Europe. The purpose of this association day is to give the real intermediaries a chance to speak, so it is a learning session.

ZOLTAN LUTTENBERGER, PHD

We did our best to engage the best speakers worldwide, and I hope we can contribute to the development of the financial services industry, especially financial advice and financial planning. We will address topics like suitability and fiduciary standards and new trends in financial advice. I was involved in household insurance as a part-time job in 1989; fortunately, I did it the right way, because I did not know what I was doing. It was a little complex because of all the riders, and I had to investigate people profiles in order to set the right coverage. I could do three policies an hour, but others did more because they did not do it in the right way. The point is, I did not know I was giving comprehensive advice as a fiduciary. A couple of years later I saw advisers on commission in Switzerland who did fiduciary advice. My message is that discussion is very important, and it is worth promoting diverse business models instead of single solutions.

The Six Historical Forms of Liberalism

Philippe POIRIER, Team Leader (Political Studies), Luxembourg Parliament, Luxembourg

Three difficulties are to be faced when talking about liberalism. The first one is that we have different political traditions, not only between North America and Europe but inside North America as well. The second difficulty is that it is not a coherent doctrine; it consists of different doctrines, on economics, politics, culture, and so on. The third difficulty is that it has been a strategy developed by political actors, private companies and NGOs to try to define their own liberalisms. Attempting to define liberalism, I will analyse six dimensions. The first is political liberalism, the second classical, the third conservative, the fourth new liberalism, the fifth social liberalism, and the last cultural liberalism.

Political liberalism came from three authors in political philosophy, John Locke, Montesquieu, and Constant. John Locke, in Two Treatises of Government, developed two important ideas very important to understanding political liberalism. First of all, in the first part of the essay, he said that no government can be justified by appeal to the divine right of kings, the State, or God. This was the first tentative attempt to secularise the concept of politics in England. The second part of the Treatise outlines a theory of civil society; John Locke explains the State of nature in terms of respect for property, civilisation, legitimate governance, and the consent of the people. The second work is The Spirit of the Law by Montesquieu. Montesquieu's work focuses on political liberty, which for him means two things. First of all, political liberty is not possible in a despotic political system and requires two things, the separation and equilibrium of government powers, and robust due process and the right to a fair trial, the presumption of innocence, the proportionality of punishment and respect for private life. Benjamin Constant drew a distinction between the liberty of the Ancients and the liberty of the Moderns. The liberty of the Ancients for him was a participatory republican liberty which gave the citizens a right to directly influence politics and vote in the public assembly. The liberty of the Moderns, in contrast, was based on civil liberties, the rule of law, and freedom from excessive state interference. Direct participation was limited as a necessary consequence of the size of modern States, and the inevitable result of the creation of a commercial society in which almost everybody must earn a living through work.

After political liberalism we have classical liberalism, which was developed first of all by the Physiocrats, but also by the famous Adam Smith and David Ricardo. The Physiocrats, a group of writers in the 18th century, concentrated their work on three things. Firstly, they considered the natural order that allowed human beings to live together; men did not come together via a somewhat arbitrary social contract. Secondly was individualism and laissez-faire; they believed that self-interest was a motivation for each segment of the economy. Each individual is best suited to determine what he wants out of life and what work would provide him with it. The third concept they developed was investment capital; they recognised that capital was needed for labourers and farmers to start the production process, and both were in favour of using some of each year's profits to increase productivity. Capital was also needed to sustain labourers, farmers and other producers. There is an opportunity cost and risk in using capital for something other than land ownership, and interest is promoted as a strategic function in the economy. Adam Smith in his famous The Wealth of Nations addressed the motivation for economic activity, the cause of price movements, the distribution of wealth and the policies the

State should follow to maximise wealth. He wrote that as long as supply, demand, prices and competition were left free of government regulation, the pursuit of material self-interest rather than altruism would maximise the wealth of a society. He also thought that free international trade would increase wealth through specialisation in production, and opposed restrictive trade preferences, State grants of monopolies, employer organisations and trade unions. Government should be limited to defence, public works and the administration of justice, financed by taxation of income. David Ricardo, in The Principles of Political Economy and Taxation, developed the same argument, but argued for mutual benefit from international trade, even if one party is more competitive in every possible area than the trading counterpart, and that a nation should concentrate on sectors where they have a comparative advantage.

Following classical liberalism we have conservative liberalism. Conservative liberalism was developed by three authors, though I will just talk about two, Edmund Burke and Alexis de Tocqueville. Edmund Burke, in Reflection on the French Revolution, insisted on two things. Firstly, he made a comparison between the Glorious Revolution in Great Britain and the French Revolution, saying that the latter was not a liberal revolution, because it refused to maintain the traditions of the French state on civil liberties and the right to different Parlements which had pre-existed the Revolution, which was completely different from the Glorious Revolution. He also said another thing which is important for understanding conservative liberalism, that we need a State, not just to maintain justice or civil liberties, but also to create a context of economic stability for business. Tocqueville gives another version of conservative liberalism; in Democracy in America, he developed three arguments, the first being an analysis of the functioning of different forms of political association.

The problem of our modern society, for him, is its individualism. The second argument was a radical critique of modern democracy, as it may be adept at inventing new forms of tyranny, where individuals are merely interested in their private lives and refuse to participate in the public sphere, ensuring that the State progressively became the main societal actor. The third argument he developed concerned the responsibility of private companies, not just economic but also social.

Next we have another form of liberalism, which we call the new liberalism, following CB MacPherson and Leo Strauss. This is composed of three schools, the school of Jena, the school of Lausanne, and the Chicago School. Jena focused their work on understanding the subjective choices of individuals, and also made a great contribution on the subjective theory of value, marginality in price theory, the formulation of the economic calculation problem, and marginal utility. Lausanne devised the theory of general equilibrium. Walras demonstrates this by beginning with a simple equation and then increasing its complexity, from a 2% barter system to exchange including multi-parties, and ended with credit and money. I will not talk about the Chicago School because I am sure you know it very well, but I will discuss social liberalism.

Social liberalism is a traditional part of liberalism, and was developed by the second Cambridge School, led by JM Keynes. We forget now that Keynes led the Liberal Party in England during the 1920s and 1930s, so he was not a socialist or a social democrat; he was a liberal, but a social liberal, which is an important distinction. Firstly, Keynes argued that private sector decisions are sometimes inefficient at maintaining economic development. Unlike socialism, which requires permanent and direct intervention, he underlined that the role of the State is sometimes required in an economic crisis, but at the end of such a crisis, the State should withdraw its intervention.

Following social liberalism, we have the last type, cultural liberalism. This type is very interesting, because it is probably better known in North America than in Europe. This concept was based on two things, firstly a radical critique of the role of the State, not only in the economy but also in cultural life. It also upheld the principle argued by Theroux at the end of the 19th century, that society should not impose any specific code of behaviour and should defend the rights of nonconformists to express their own identity however they see fit, as long as they do not harm anyone. Therefore, the State and society have no roles; we have a pure anarchism based on the individual. The State has no role in terms of the economy, justice, or social and moral values. This kind of liberalism supports the rights of sexual minorities, environmental rights, and so on, as well as the use of referenda to decide on political questions.
I would like to conclude by talking about two authors, Constant and Tocqueville. Why am I doing this? There are two reasons, that Western democracies are seeing a crisis of legitimacy on the part of the State, as well as a crisis of representative democracy, and we need to confront these.

New Trends in Financial Advice

Zoltan LUTTENBERGER

The first panel is an introduction to today's topics, and the sequence of speakers reflects this. First we have Shawn Brayman, Board member of the US Financial Planning Association. He will give us an overview of what is going on in the world in terms of financial advice, planning and regulation. Then Thomas Abel, the founding Chairman of the largest financial planning association in Germany, will tell us about financial advice and planning in Germany. Marta Gellova from the Czech FECIF, will be next, and will try to compare a bigger country with a smaller one; you will see that there is very little difference between these markets.

Shawn BRAYMAN, Financial Planning Association (US) Board Member, President of Planplus Inc., Canada

We are going into the trenches where financial advisers work every day with their clients and what that means. The four main areas are advice around lending, investments and insurance, which are product-centric; and then you have non-product advice in the financial world. There are two million insurance advisers in India, and about 50,000 investment advisers, and 1,500 financial planners; a very small number of those 1,500 actually do legitimate financial planning. Very little, if any, advice is done in the lending area; aside from when people try to cheat the system, the advice is a qualification test, and if you actually Google 'Debt Management,' most of the hits will concern how to get out of trouble when you have too much debt, how you consolidate loans, get out of bank debt, etc. Non-product advice is a very small sector; a small minority of the 140,000 CFPs globally are going comprehensive financial planning, and if you look back to the beginning of the industry 40 years ago, it was conceived of as a way of selling insurance and investments. It had nothing to do with the best interests of the client; it was just a better way of selling more products to the same audience. Financial planning is difficult – it takes more education and work, which is why most people focus on the investment and insurance side when it comes to advice. Two main sources of pressure are changing the model. One is regulatory, and there is no single country that is not undergoing some kind of reform in this area. The UK, Australia, the Netherlands and Finland have banned commissions, and in those countries a lot of companies have stopped delivering advice because it is not as easy to demonstrate value when you are asking the client for money as opposed to having commissions buried in the products. The UK remains a leader, with a lot of different forms of guidance; in Europe we have MIFID II and transparency and suitability changes; countries like India have introduced regulations where advisers must declare they are being paid by the client or are selling. We have CRM II in Canada, which is basically changing the nature of disclosure and transparency. Our statements from next year have to make a full breakdown of all the fees the client is paying, and this will change how people perceive the value they are getting in terms of advice. Regarding Singapore, a balanced scorecard is being introduced where they are actually talking about commission claw-back, under which up to 30% of commissions on all your clients can be recovered. Malaysia is following Singapore, and there are also changes in Hong Kong and the US. Therefore, this is happening everywhere in the world, and the truth is, I love the regulator. I have spent 30 years going around the world talking about the best interests of the client and taking a fiduciary approach, meeting companies who say that they will do it as soon as the regulator forces them to do so, but in the meantime they will have agency sales forces and pyramid structures to move as much product as possible. The regulator is the only source of changes in

behaviour I have seen in that time, until now.
Some of you may be familiar with robo-advisers in the US, which is not a surprise. These are automated mechanisms for portfolio rebalancing, tax harvesting, and so on, a lot of those things investment advisers used to hold out as their value, and for miniscule fees. Vanguard is entering this space, with a 0.3% AUM fee. I can go online as a consumer and have a taxoptimised, automatically rebalanced portfolio giving me exposure to the marketplace; that is a compelling story, and we have to expect it will change how people are behaving to advisers. The technology can be used either to intermediate or disintermediate, and both are happening in the market. The rate of adoption of technology is accelerating, and some of these robo-adviser firms have raised over USD95 million in capital, just in the last few weeks, to expand their businesses. Regarding what this space looks like, you have a number of companies that are 100% technology automated. Some of them introduce advisers into the mix, and the scope of the advice can range from investment management to full financial planning. Some are using technology as an intermediation device with customers, whereas others are effectively fully automated and moving into financial planning, not just investment management. What does this mean for advisers? Most advisers in the US and Canada have made their living on an AUM fee of 1.5-3%, and that is basically how they run their businesses; that will have to drop because of competition and disclosure, because once clients understand the fees they have been paying they will demand more value. Change in the insurance sector is slower in a lot of countries, so more salespeople are remaining in that sector, but there will be increasing focus on non-product advice. Looking at the sector breakdown globally, the financial services sector still accounts for 20% of the entire market, double oil and gas, healthcare, and practically every other sector. It

makes up 23% of Canadian GDP and 32-33% of markets. It is insane; the sector has made too much money, and the pendulum will swing back as a result of technology and regulation. Advisers will have to demonstrate their value: the product manufacturers will want to cut out the intermediaries, and the intermediaries will try to keep as much value as possible by focusing on speciality areas like divorce planning or cross-border planning. There will be a real challenge for advisers to demonstrate their value to the client, and that will be a lot more difficult than a lot of advisers are used to. Finally, a lot of advisers are lazy; it is a lot of work to add real value, and they want it all to be automated, but the problem is that the automation also makes it easier to cut them out. There will be great opportunities for financial advisers who can demonstrate value and take a more comprehensive approach, not just in providing access to product.

Thomas ABEL, President, NFPB Network Financial Planners, Germany

I will make two or three points on this topic. One of them concerns online advice for everyone; a German bank is now going to the market with a robo-adviser. The second is about financial life planning, which might not be a very new approach, but it might be the niche which separates financial planning from financial advice. Finally, I will discuss some points about what is happening in Germany. Let us look at the financial advisory business. We heard that there are some robo-advisers, and we might ask who will use these facilities. Yesterday we heard about monopolists in certain segments, such as Amazon and Google, and online advice might prove to be the next. Vanguard is a good example, as they are the second-largest asset manager after Blackrock, and they have a lot of marketing power to enable them to do this. My guess is that younger people will be the biggest initial users. My company's client base consists mostly of older people, 50-60 and above, and I am guessing that not many of these will use online advice. The next point is whether financial planning advice is still a people business or whether we can put it all online. My guess is that some parts of our business could be delegated to these online tools, whereas some cannot be. The first mover is a small bank which is the first fee-only bank in Germany; it has been operating for 5-6 years now, and some months ago it started to offer online portfolio-building. This is the same approach used by Vanguard – you can build up your own portfolio online, but if you have questions you can call a real person to ask about your personal situation and receive financial planning advice. A lot of people who talk about this approach in Germany say that no one ever uses it. I do not know how many have joined, but as we have seen in the US, it will grow and more players will join in. Going back to Shawn's points about how we justify what we charge for our advice, what value we deliver, and whether we are giving investment advice or more than that. George Kinder argued that we should give lifetime financial planning, not just insurance or investment. The advantage is that there are no regulatory issues involved, because it is not related to products. Some online writers discuss financial life planning, and argue that we should not make the mistake of trying to solve our clients' problems; we should figure out their problems and let them solve the problems by themselves. A lot of our customers, on the other hand, think they do not have problems or think they have financial goals, but we do not have financial goals, we have life goals. An American blogger writes about robo-advisers and argues that all professionals should eventually have a niche. This could be an opportunity for financial planners to go into financial life planning, and talk not just about the outcome of asset management or insurance but about life goals and problems in order to justify their advice. I like George

Kinder's approach, and it is worthwhile reading The Seven Stages of Money Maturity. He says that financial life planning is the first stage of the financial planning process, as without it financial planning is inefficient and probably off the mark. This is the main point I want to make. We need to talk about the customer's goals and wishes, not just because the regulator wants us to do so, but because our approach should be to put the customer in the middle. Customers will stay for transparency and quality of financial advice.

The third point concerns the fees we get, and whether they are commission-based or fee-based, but the approach in the first place should be fiduciary, and should involve transparency and quality in terms of the advice we give. You need to tell the customer that how you get paid is not just a regulatory issue. This could be a niche in which financial advisers could justify their fees if online approaches are successful. Finally, regarding fee-only advice, a new German regulation will enter into force in August, meaning that a financial adviser can register as only giving fee-based advice. This approach was extensively discussed for about a year; it already exists in the insurance sector, and only 177 people are registered to give fee-based insurance advice in the country. Therefore, I wonder how many financial advisers will register as fee-only from August; hopefully there will be more than 177, but I fear there will be much fewer than people expect. We are mostly paid fees for assets under management, so I am not sure whether you could say if this is fee-based or commission-based. It is declared so that the customer knows it, and we collect it, but I am not sure, so this is an issue to be discussed. The MIFID II regulation has to be brought into force with a two-year gap, so I expect Germany to be one of the last countries to put it in place. This will affect only a small part of the advisory business, because the banks can collect commissions further down the line. My guess is that financial advice in Germany will still be driven by commissions, because if the regulator, like those of the UK and the Netherlands, do not say commissions are not allowed anymore, only a small segment of the market will declare themselves as fee-only. Germany will opt out, because the industry lobbyists are strong and well-funded. What we are seeing is that the regulations on qualification levels will be toughened; we have these international standards, so one positive point is that the whole financial and insurance advice segment will have to be more qualified than in the past. Germany was an oasis for everyone; you could sell products with high commissions to anyone without a qualification in the financial industry, but this is now gone. I am guessing that a lot of the things we are seeing in Germany will be the same in your countries, so we will see what the future will bring in terms of online advice and life planning as a niche of financial planning.

MARTA GELLOVA, FECIF BOARD MEMBER, CZECH REPUBLIC

The new trends are not really new; they are old basic rules we have been discussing for years. It is just that I am looking at them from a slightly new angle. What are they? We know about the trend from sales to advice, and from a more passive approach to a more proactive service, which is what the market needs and what the advisers have to do. Our market is 20 years old; there was a big space and a lot of advisers wanted sales, so they sold contracts rather than giving advice and keeping up the relationship. That is changing now, because the clients all have financial products, contracts, investments, etc. We also need to educate the clients, because they do not have the information, so we are basically engaging in financial literacy, telling them they should think about their future. Everything used to be arranged by the state, and somehow the mentality is that someone will look after them when they grow old, which is not the case anymore. We also have to educate the advisers, because there are new products, technologies, methods, and regulations. We are not the product distributors anymore; we are the clients' advocates, and at the moment groups and institutions are being established to help clients sue the insurance and investment companies, perhaps they have chosen the wrong product for the company or the client does not know enough about it. There are so many of them that there are advisers and lawyers on the side of the clients helping them to get their rights, so we are more and more on the side of the clients. Investment performance is not the only issue; we also need to fulfil the clients' goals. We think that profit-sharing schemes, as well as commissions, are the way forward, because then the adviser is linked with the client for a long time and has to find the right product. We think we should move clients more toward investment. We went through a process of privatisation where there was a lot of fraud and other issues, therefore the clients did not trust investments at all, and in the beginning it was more about insurance. That is changing as well, and it needs to be changed to ensure the future of the clients. Clients can now search on the Internet and find out a lot of things, so they are becoming more informed and educated; at the same time, better educated clients give advisers twice as much business, require less attention in the future, involve a more efficient advisory process and lead to better margins for the adviser.

Regarding new technologies, Shawn mentioned that they can be intermediate or disintermediate, but we think we can use them to communicate with the client, because they expect it. They are on the Internet a lot of the time and need to communicate with the adviser, so let us use it as a means of communication as well as of standard-setting. Some advisers do client training. The client can log into certain webpages for webinar lessons and receive

information by email, and in that way you communicate with the client and keep them informed.
Regarding the creation of professional standards, the adviser needs to be more informed than the client, as otherwise there is no added value, so we need to keep learning. We created an investment simulator with some advisory companies on the EFPA website, and an adviser or a client can use this to practice dealing with an investment, and actually see what the result of the decisions are. Because we use the real historical data, you can see what would have happened to the client's money, and what would happen if you alter the time period. It is a real tool for advisers to use in order test themselves and even to show clients what could happen to their money if they are or are not looked after.
We use another tool to teach students how to create a financial plan; so it is not just about products that have to be included, but also about finding out what the client needs. Students of any age need toys and games, they need to compete and learn by practice. People hear and forget, see and remember, do and understand, and then show to the client. Finally, we need to continue offering a proactive service, ensuring that we have bettereducated clients and have better educated advisers.
I would like to add a little more to the commission problem. We face a different regulatory approach in the Czech Republic, which is putting a ceiling on how much an adviser can earn, because, rather than a fixed sum, they charge a percentage and tell you how much you can earn. It really works in practice, because we started pension reform on 1 January 2013, but it collapsed because no one sold the products. I believe Germany has a proposal like that at the moment. It is another way to regulate the amount people can earn.

Thomas ABEL

The question I have is how the government measures this. We had a system in the health insurance industry where the customer paid up to 15 monthly installments, but this was cut down to six. Do you have to declare your income?

Marta GELLOVA

No, they basically just came up with it. It is about EUR40 per contract.

Zoltan LUTTENBERGER

Moving to a comprehensive approach requires assembling a team with the requisite knowledge. Messing up families' finances means messing up the economy's finances, so you should think about whether and how to do this kind of advice. Doctors, who are supposed to act as a kind of fiduciary, through the Hippocratic Oath, have several conflicts of interest. They are often systematically wrongly educated. We do workshops on financial life planning and natural medicine. What you have to ask yourself is whether you are able to heal your client's finances, and whether all the other experts, like the client's doctor, are able to manage the client's overall wellbeing.

From the floor

We are not problem solvers anymore but problem finders, and this is the art of financial planning. The client is now waiting for us to find the true problem, and, as I explain to my students, a client is like an iceberg, in that what he says is one-tenth of the problem. Our work is not to solve the one problem but to find out why this problem has arisen. You were speaking about educating the client; a good financial adviser or planner must be a pedagogue. Do you believe we need to improve the processes the companies are applying to the clients?

Shawn BRAYMAN

The processes are fine, but they involve a lot of work, and if the regulator does not put something in place, it would not happen, because people would not put in the extra time, but take the easiest route. Thankfully, the regulators are addressing this. This is not an X or Y generation issue; information is there in front of us all the time, and whereas we used to come to these conferences to get this information and take it back to those who could not get it otherwise, that is no longer the case. We cannot be blind about this. My parents are 85 and have a discount brokerage account – they do things online. The game plan has changed.

Links Between Corruption and Organised Crime

Gilles DUTEIL, Director of CETFI, Aix-Marseille University, Aix-en-Provence

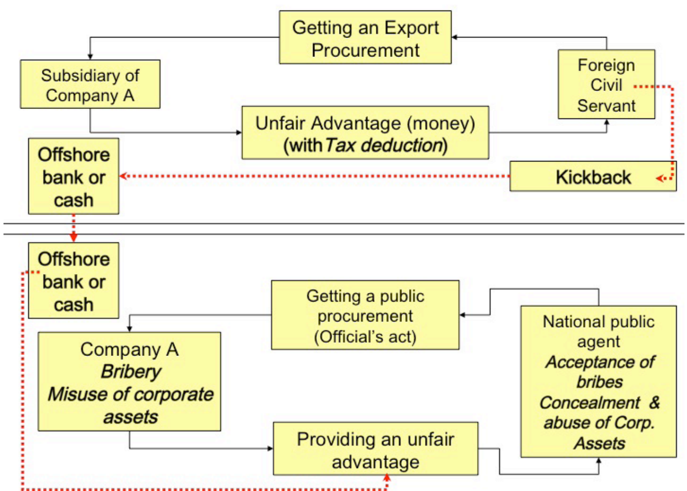
Let us talk about criminal advice, because corruption is now an affair of organised crime. We have all heard about corruption in our countries, but we have to make a different analysis. A long time ago organised crime used corrupt officials to get what they wanted, as it was the easiest method. Organised crime, such as drug trafficking, smuggling, organ trafficking, extortion, etc., was widely reported in the media. Few states have escaped the negative impact of corruption scandals involving businessmen or even senior officials. However, before 2011 very little research was conducted on the links between corruption and organised crime and their financial impact, as they have usually been treated as separate phenomena. We had to wait until 2004 until the Council of Europe examined the links between organised crime and corruption and developed a strategic concept in order to fight corruption by criminal organisations. Europol was first to work on the topic by regularly publishing its assessment reports since 2004. However, we had to wait until 2012 for the beginning of the Special Committee on Organised Crime, Corruption and Money Laundering to analyse the problem rigorously. The report was published a few months ago, and its goal is to identify how member states can improve the effectiveness of their responses to the challenge posed by this phenomenon.

Organised crime does not seek to govern but to profit, and such organisations are parasitic in nature. They seek to master the social and political fields in which they operate in order to avoid prosecution, and do this by invading politics and decision-making bodies in order to obtain the desired decision. The shortest route to this is through corruption. The main difficulty in prosecuting corruption is that it proceeds secretly, meaning that there is little chance of prosecuting the briber and the bribe-taker. We increased the level of penalties in France two years ago, but we have not seen an increase in prosecutions. It is no use applying higher penalties if there is nobody to prosecute. Let us look at the peculiarities of corruption. It is not the usual binary corruption with two participants, a briber who induces a bribe-taker to give him an unfair advantage, and it is not only money which is involved; in some cases it is a sexual relationship. It involves anything which goes against one's function in order to obtain what one should not have. The criminal structure does not deal directly with the local authorities for any personal advantage in cases of serious crime. Mafia corruption is not binary but triangular – the criminal structure is the third pole trying to control the other two, namely the commercial company and the public authority. Examples are not lacking. The most obvious example is the payment of a tax in order to protect your business from threats of fire, destruction, and so on, which come from the very people offering protection. It becomes life insurance for some people – they just pay to stay alive; this is different from that offered in Luxembourg, but still efficient in criminal terms. A more sophisticated level is control of workers' unions which can trigger strikes on command to force the company to obey the diktat of the criminal structure; for example, change of supplier to a designated third-party company. Controlling strikes is also a way to raise price pressure on the authorities. During the 1990s, it cost 4.5 times more to collect a cubic metre of garbage in New York than in Los Angeles. The construction industry in New York was subjected to rackets by Mafia families such as Genovese and Gambino by using the threat of strikes against the company which supplied concrete. Alternatively, the threat of violence can be used to eliminate a competing bidder for a public

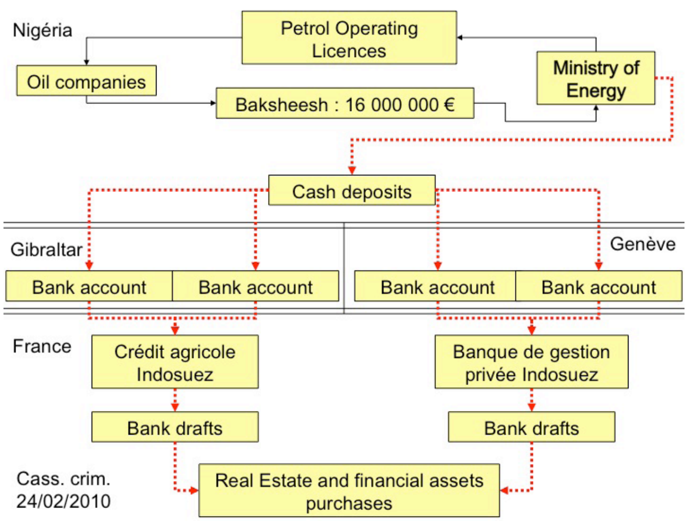
procurement.
The more it is believed that corruption is endemic to the process, the more it will be taken advantage of. I will quote some surveys that were conducted in France at different times: in November 2010, 64% believed that political leaders were corrupt, whereas in October 2011 the percentage rose to 69%, and in April 2013, the belief was that all political leaders were corrupt. It is very significant in a country like France that corruption is believed to be at a very high level, so you can imagine what it is in some African or Asian countries. Why do criminal organisations engage in corruption? The main aim is to facilitate criminal activity, but it has been observed in recent years that corruption facilitates specific financial crimes which different from the traditional business of organised crime, such as damage to the environment, misuse of public assistance and European subsidies, bid-rigging in public procurement, money laundering and rigging of the health insurance sector. Corruption is often used to facilitate traditional criminal activities such as drug trafficking; for example, it requires a distribution system that requires cooperation by an impressive number of officials at the site of production, throughout the distribution routes, and in the countries of final destination. The profit generated by this activity is so great as to readily enable corruption. A recent example, from September 2013, was the discovery of 1.38 tonnes of cocaine in Paris on an Air France flight 385 from Caracas. The drugs were discovered on bags that were not assigned to any registered passenger. An estimated EUR25 million was dedicated for bribery along the route from Columbia to Paris, because the suitcases did not go through customs but were sent straight to trucks for delivery in Germany, and perhaps one of the corrupt individuals did not have the expected amount of money, so he gave the customs the information. This is a very good example, because it was the first time a large amount of

pure cocaine was stopped on an Air France flight. How many flights were there before this one was stopped? It was not the first time it happened, and it was just by chance that one person along the corruption chain was frustrated enough to give information. Another example is human trafficking, which is often facilitated by corrupt customs officials who become part of a complex network developed by organised crime in some countries to ensure the so-called commodity is delivered wherever required. It is also used in VAT fraud, which represents an estimated loss of EUR100 billion a year for European budgets, and EUR15 billion for France alone. All that is required is to create the scheme, raise a share company, invite some traders, and forge the documents to cheat the state out of the money. It is not like tax fraud, where there is no declaration; they made fraudulent declarations and claim VAT credits. Corruption is also used for money laundering. It has long been accepted that criminal organisations are only motivated by profit, and protection of criminal assets is a primary concern. Therefore, a corrupt relationship is developed for this purpose through the banking and finance profession as well as the public and private sector. Although countermeasures have been developed, the financial sector remains vulnerable, and indeed, the available tools and means for infiltration are more efficient for the criminal organisations than owning the institutions, given the financial investment, the necessary technical skills, and the preference of criminal structures to stay clear of the operational levels where offences are committed. The problem of non-European countries, in terms of corruption, also has to be analysed. For example, Chinese criminal organisations operating within their own communities in European countries use corruption to obtain key documents such as visas, residence permits and even university degrees. This was done at Toulon, where the President was given money to issue a diploma without

an exam; the President and a civil servant were fired.
Let us analyse financial flow by looking at real cases. It is sometimes astonishing how far criminal organisations can go to get money. There are four types of corruption scheme. First of all, a public official will arrange a public procurement for a company, and this official will be given an unfair advantage. Meanwhile, a subsidiary of this company will give a foreign civil servant an unfair advantage, money, but this is invoiced to the company, and in this country, commercial commissions are tax-deductible. The foreign official will get an export procurement in exchange. Let us look at where the money goes. Part of the money given to the foreign civil servant, maybe 70%, was kicked back to an offshore bank, and then to another offshore back under the control of the first company, and this money financed the corruption system in the first country. That is how to organise a corruption system in your home country using the subsidiary's money.

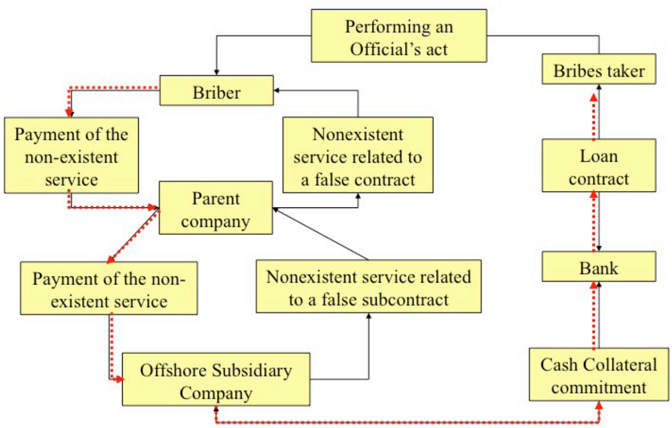


A second scheme has been used in Nigeria. Oil companies gave a kickback of EUR16 million to someone at the Ministry of Energy to secure petroleum licences, which were issued. This money was deposited in two banks in Gibraltar and two in Switzerland, and when the money was put in those accounts, it was wired to banks in France. Using a bank draft, that corrupt civil servant bought real estate and financial assets. This case is not imaginary; it was the subject of a judgement in the Supreme Court on 21 February 2010. That is a typical scheme for what is done with the proceeds of corruption. Sometimes the banker will also be corrupt and will not report anomalies. I remember a case of VAT fraud where a gang of three people, one of them a German blonde were looking for a banker to launder the proceeds, and they went to different banks until they found one. He was two years from retirement, had recently lost his wife and was given a date with the German blonde against the wire. The banker went to prison on corruption and money-laundering charges and lost everything.



Regarding the third pattern of corruption which we find, a bribe-taker was asked to perform an official act in favour of the briber, but contrary to a normal corruption scheme, where the money would just be sent to the bribe-taker, it enters a sophisticated system in order to avoid being traced. The briber gave the money in return for a non-existent service on a false contract written by a parent company close to the briber. The parent company then sent the money as payment for the non-existent service to an offshore subsidiary with a false sub-contract. The bribe-taker received the money in a way which was difficult for investigators to uncover. The briber paid the parent company for a non-existent service, and the company sent the money to its offshore subsidiary. The money went as a cash collateral commitment to a third-party bank in order to issue a loan contract for the benefit of the bribe-taker. That is very clever, because the bribe-taker would get the money as a loan, and the police would very rarely think to check how such a loan was executed. Perhaps the bribe-taker would pay the first, second or even third monthly instalments, but would then claim bankruptcy. That is a way you can easily launder money. Back-to-back loans are very dangerous. It was a practice for some time in Luxembourg, and in Mauritius it is called a cash collateral commitment. When you hear about this sort of scheme, it is invariably criminal, so you have to be careful.

Finally, good progress has been made to improve the fight against corruption and criminal organisations separately, but a lot remains to be done on the links between these two phenomena, especially in terms gathering the necessary quantitative information in order to build an effective and suitable legislative policy. Avenues to explore, as suggested by the EU, include the dynamics between classical and financial criminal activities in organised crime in order to identify occurrences of corruption. Secondly, the specific vulnerabilities of the private sector to corruption need to be identified, mainly in the banking and financial sector. Thirdly, the links between organised crime and corruption need to be determined and distinguished in order to define a starting point for reviewing the effectiveness of the measures currently in force.



Vincent J. DERUDDER

The European Commission is planning a revision of all the existing regulations, in technical terms an impact assessment, and one of the points to be discussed is the famous ban on commissions' issue, which originally came from Finland and the UK, but at the end of the day it does not appear to be a convincing move. I just want to give you two numbers extracted from a report by PwC for the Commission. Only 5% of consumers are concerned by the type of remuneration given to the intermediary, meaning that only a small number are concerned about whether it is fee-based or commission-based. The second point is that only 8% of the approximately 500,000 intermediaries are considering working on a fee basis only, which is close to the number our German friend mentioned this morning.

Paul STANFIELD, CEO, FEIFA, England

I have been in the industry for 23 years, and worked in mainland Europe as well as the UK, but for the last five years have been based on England, so have seen RDR and its result at first hand. I am involved in FEIFA, the Federation of European IFAs, and quite heavily involved in the Europe-wide intermediary business, but also very focused on the UK business.

Daniel NICOLAES, Chairman, BZB, Belgium

I am chairman of the BZB, which is the Belgian professional association of intermediaries. BZB was founded 15 years ago, and we have a very close cooperation with our French-speaking colleagues in Belgium. We have also had a very close partnership with CIFA for some years now. Our association focuses particularly on defending the collective and individual rights of all financial intermediaries.

David CHARLET, Chairman, ANACOFI, France, New elected President of FECIF, Europe

ANACOFI is the main French representative association for IFAs. It was created ten years ago, and we do our best not only to be representative but to communicate our ideas to the authorities. Our association is what is called a co-regulator, so we are not only an association but also part of the national authority in a way.

Vania FRANCESCHELLI, ANASF, Italy

ANASF is the association for IFAs in Italy, and represents 12,000 people. I am also responsible for a new financial advisory project for my region.

Aldo VARENNA, FECIF Board Member, Italy

I have been a member of CIFA for 12 years, and I was responsible for foreign affairs for 15 years for our association. I am on the Executive Board of FECIF, as well as the Executive Board of the Italian branch of the EFPA.

Vincent J. DERUDDER

Paul, will you start by discussing the commission versus fee situation? Do you have any idea of how many IFAs have moved from commissions to fee-only, and what is the atmosphere in the country?

Paul STANFIELD

A lot of the advisers I spoke to in the run-up to the RDR expressed a lot of fear and concern as to how they would cope in the new world. The good news is that most of them are now much more confident and in a lot of cases are doing more business than before, and generally speaking, the view in the IFA sector is now quite positive. You can look at the Commission argument from a number of different angles, but the UK IFA perspective is that it has not necessarily been bad, having made a lot of business owners look more closely at what they do and create more streamlined and profitable businesses. There is also the view that there is a disenfranchisement of advice from the mass market; I think that the argument that a lot of people suddenly cannot access independent financial advice is a little misleading, because they did not do so anyway in the past. There is no doubt that some people have been excluded, but it is up to governments and regulators to find a way for our industry to provide advice to that sector of the public in a simple manner.

Daniel NICOLAES

Selling a financial product is not a crime. There is often a view in the regulatory sphere that all intermediaries are crooks, that we are selling the wrong products to the wrong clientele. It is not a crime if you do it correctly with respect to your client and the rules. Secondly, the global financial crisis was not caused by selling financial products, but by greed, both on the bank side and on the consumer side; they all wanted high yields without any risk, and that is impossible. How did Belgium cope with the financial crisis? First of all, the regulatory framework was reorganised, with the National Bank being placed in charge of macro- and micro-prudential supervision of the banks, and supervision concerning the conduct of rules and financial intermediaries being given to the FSMA. That was the first step. It is important to note that all the people who were responsible for supervision and regulation before the financial crisis are still in the same positions now, so from that point of view nothing has changed. - I am afraid we have not learned certain lessons from the crisis. Secondly, since last year we have the second step, Twin Peaks II – we will be introducing the MIFID regulations into the insurance sector, especially for financial instruments. What will we have to do? We will have to profile our clients, taking into account their investments' suitability and appropriateness. Regarding commissions, there will be no ban imposed, but there will be a transparency requirement. The regulator is still working on how this is to be regulated, but our association, BZB, is still lobbying for total cost ratio transparency so that the consumer knows what the total costs of an investment are. This would be much better, because if you only have to take transparency of commission into account, the consumer still does not know the total costs involved in the investment. When a consumer invests EUR100,000, he wants to know how much of that will be invested in that kind of product. We also have reverse proof of innocence, meaning that when a customer notices that a product is not meeting expectations, the IFA is always responsible until he can prove otherwise. Therefore, he will have to prove in court that he followed the rules of conduct, profiled his client correctly, did an appropriateness test, and so on. Finally, he also has to prove his knowledge concerning the products that he is advising on. 80-90% of all IFAs in Belgium are already compliant with these rules of conduct, but now we will need them to prove this on paper.

David CHARLET

We have class B intermediaries in France. The problem with MIFID's proposal is that we will receive commissions if we are tied, but not if we are independent. Independent financial advisers in the French market charge fees of 3%; the bulk of these fees are for advice, not for individuals but for companies. Independents make up around 10% of the financial market, slightly over 10% of the insurance market, and around 10% of the banking market. Studies have shown that only one client in 300 wants to know about how much we earn, so it does not matter; what they want is a result, and that is all.

It is important to remember that MIFID has introduced the notion of independent advisers, and that investment firms are required to clarify the basis of the advice they provide, i.e., whether it is on an independent basis or not. This means that Italian investment firms and banks may choose to allow the tied-agents to provide advice on an independent basis. However, it is important to remember that, in any business model, advice must be independent in the best interest of the customer. This is especially true with regard to remuneration policies and practices; if remuneration is based on services as a whole, conflicts of interest between the advisers and the customers are more readily avoided. Therefore, the main focus should be on client needs. Transparency is the key element. Investment firms and banks in Italy will have to shift their focus away from remuneration policies based on sales value. The top priority must be client needs. I do not know whether removing commissions will change the Italian business model to fee-only. The transaction process is likely to differ from one country to another, and it is likely at first that investors will not understand the meaning of this change. Although under MIFID II investment firms and banks may choose to include independent advisers in the range of their services, independent advisers currently represent only a small portion of the market, 400 as against 30,000 tied-agents. The customers do not understand the change from tied-agents to independent advisers. However, focus on customers should mean that investment advice does not involve too many technicalities. Transparency and constant assessment of client needs are at the heart of the matter, and so the advice needs to be perfectly tailored to their individual profiles. The benefits implied by the definition of investment advice might not be in the interests of Italian clients, for at least two reasons. Many investors, particularly those who are not affluent, may not be willing to be pay direct fees for advice. Advisers, on the other hand, may focus on affluent clients because they are more profitable.

Aldo VARENNA

The profession was just beginning when I started 29 years ago, and in that period I was referred to as a financial adviser, but I actually offered only one or two products in that capacity. Now we offer asset management and everything else, so it is incredible how the profession has grown up. However, the situation has worsened. Secondly, regarding regulation, my position is no fee, no advice. Thirdly, the client needs us because the market is changing. The term 'risk on, risk off' was just introduced a year ago; the market used to be much simpler, and there were no Euro or debt crises. The market is more difficult than it used to be. We must accustom ourselves to the fact that the normal situation is market volatility, and the client needs us for this reason. We have a new generation of clients. The new generation uses computers, email and analysis, so physical contact is not enough, we need to explain more and provide more education. Clients are not all the same. This is a good opportunity to re-evaluate our relationship with the client, and for re-segmentation if we do not do enough. Some clients want only to control the risk, some want a complete personal financial plan, some want only a fiscal review and analysis, and so on. Therefore, the client should have a specific role with regard to our advice. Every nation has different cultures, and advisers need to take this into account. The Mediterranean and Latin American markets look for more contact, whereas Scandinavia tends to operate online without direct contact. The seventh point relates to risk research, and two months ago we had an event at which we reviewed the Italian market and what the top client wants. Firstly, the client wanted to trust the adviser, and secondly, there had to be a good relationship.

Portfolio monitoring was the third priority, and the fourth was performance. Sometimes the main priority of a client will be performance, but often the affluent clients prioritise risk control. Cost was last in order of priority. My eighth point concerns the future, because in the future we will see MIFID being applied differently in each country. It is a nightmare situation in Italy, because our two main intuitions are the National Bank and the CONSOB, and their approach is very stringent; they feel that the clients are poor and do not understand. Some of our colleagues from abroad complain because they cannot get their clients to pay 4%, but in Italy our clients pay 1%, as the market requires this. We need to understand that the market has become poorer, so we need either more clients or richer ones; there is no alternative. More regulation exacerbates this problem, as does increasing competition. The normal interest rate is minimal, and if you buy a bond with a duration of 10-15 years, you might lose money. What can we do to fight the new regulations? There is little we can do, but we need to try our best, and if we want to serve not only our current clients but also future clients we need to promote our personal brand. Capacity involves energy and time; we need to increase our capacity to understand the market, and we must learn new things every day. Finally, I have a blog where every day I write something about the market, risk and so on, and I send a newsletter to my clients. I also host conferences with our partners.

Vincent J. DERUDDER

I would like to make one remark. The consumer associations in Brussels keep saying that they never asked for these regulations. This was devised by the politicians and the regulators because they want to control the business.

From the floor

We have noticed in Switzerland that the regulations were written for the big institutions like UBS and Credit Suisse, and this was done because of lack of time, but they are also being applied to the independent asset managers. Have you noticed the same trend?

David CHARLET

Yes, of course we do. We have quite a large regulatory agency, and they have people who can work on the specific problems of small businesses and entities. However, they do tend to first create regulations for the big operators and afterwards they try to put arrangements in place for the smaller companies. We are part of the regulatory body in France, and in this special situation we can vote on such a regulatory regime. This situation is not such a bad one, but when it comes to my discussions with economists, I am one of the few who can report on an increase in business. We have made gains each year for the last decade, so the situation is not so bad, but it is not a normal situation.

Daniel NICOLAES

Size does not always matter, but what they are proposing for the intermediaries is based on the large institutions. We had 11,000-12,000 tied-agents ten years ago, but at the moment we have 3,800, so with all the administrative burdens and procedures, size does matter, and many of the intermediaries are obliged to merge in order to comply with all the rules. This is a natural development which we are seeing. It will not be the biggest or strongest who will succeed but the most flexible.

From the floor

The UK has quite a large and vibrant IFA sector, more so than most of mainland Europe, and one of the things we have seen is that, while regulation has been specific to that sector, there is no doubt that the regulator believes bigger is better, and that they would prefer to deal with a smaller number of very large companies. The reason is that they can fine them, whereas they are worried that the small players will just close their doors. It is not a very positive way of looking at it, but it is what the regulator does.

FROM THE FLOOR

One of the concepts emerging in the US is what they call neutral compensation grids; so the FPA is compensation neutral in terms of disclosure, but if neutral compensation grids do not direct or bias the advisor towards one group of products or another, it can remove some of the potential conflict. Has there been any discussion of that in Europe?

DAVID CHARLET

The only discussion is over conflicts of interest. The idea is on the table in some European countries, but the main concern is whether there will be fees or commissions, or whether a national authority can choose a mixed regime. One of the two national authorities proposed maximum commission levels for certain types of product, but the Ministry would not discuss it.

PAUL STANFIELD

There is a very strong argument in the UK that this should have happened instead of the RDR solution. Back in the early 1990s we had what were called LAUTRO rates, under which there were standard commission rates for every type of business, but the regulator then allowed payments of 120-130% of LAUTRO, and ultimately 220%, so it was a ridiculous situation. They put a framework in place that would probably have worked quite well and allowed the industry to just ride over it rough-shod. here is a very strong argument that the regulator should just have set commission levels. It would have been much easier and cheaper, and perhaps the industry would have adapted to it much more easily.

Aldo VARENNA

There are different regulations in Italy for when a private banker employs someone internally than if he employs a tied-agent. Regarding commissions, there is no maximum level, and we try to argue that transparency is the best way to approach the problem, but in the last 2-3 years the banks have been proposing exotic kinds of bonds.

Daniel NICOLAES

The Twin Peaks II regulations require that financial intermediary formulate their own procedure for avoiding conflicts of interest, so that the product with the highest commission will not be sold. However, we need to be transparent about the highest cost ratio, as is considered in the PRIPs framework, and that in combination with a ceiling on total costs could be a good way forward. Nevertheless, it should also be one of our tasks to inform consumers that there is no such thing as a free lunch. No commission and no fee means no advice, and a financial intermediary should be able to move from sales to advice, as he has a long-term relationship with the client, and that would be one of his plus points.

The Suitability and Fiduciary Standards

ZOLTAN LUTTENBERGER

There are two key concepts on advice. The fiduciary requirement is much more about the behaviour of the adviser, and in many countries there are laws in that area. There are, on the other hand, the MIFID-style requirements, which provide concrete requirements on the process. You as advisers need to comply with both, which is quite a challenge.

PAUL RESNIK, CO-FOUNDER, FINAMETRICA, AUSTRALIA

I will start with a quote from Karl Marx. I visited his grave in Highgate Cemetery and saw that the quote was not the one I expected. 'It is not the role of the philosopher to describe the world, but to change it.' What I would like to argue is that the last part of the suitability process is getting the client's informed consent, and that is the fundamental concept of change. You can only get informed consent when there is both transparency and some encouragement to make decisions. Without that there is nothing. We have come from a world that has oscillated between two options, the open market and its standard response, paternalistic governance. The third option is informed consent, collaborative decision making leading to a decision someone lives with, not one imposed from outside. This is where fiduciary behaviour and the suitability process align. This is my 46th year in financial services; I started when I was 16, and for the last 20 years I have been talking about investors' rights. I did not know I was doing so, but it was probably in the first one or two sessions that I realised that the whole issue has to do with confidence in the integrity of capital. I am fed up with stories about how it is too hard to do or that we are all overwhelmed; go to India or Africa and see people take responsibility for their future. My great claim is to change things one piece at a time, by starting at the bottom. What is a risk profile? That is the fundamental challenge. We need a methodology that makes an investment suitable for the client. There are three variables, and if you do not get the client to understand and take responsibility, you will be giving advice which is your projection of what is important. The first thing is the amount of risk they need to take to achieve their goals – the family balance sheet projected outward with assumptions of performance, adjusted by an individual's capacity for loss. You then ask whether that is consistent with their financial risk tolerance, a psychological attribute which tends to be persistent as against circumstances and time. What has changed is individuals' perception of risk, whereas their actual risk tolerance tends to be consistent. That conversation is the essence of financial planning, and I would like to argue that it is the essence of liberal democracy. The alternative to having that kind of discussion is what we have in India, with 3% of people's savings in productive assets, and declining – it is in gold, property development and term deposits.

Tony MAHABIR, Chair, CIFPs, Canada

The difference between a professional and a con artist is intentions. Professionals have great intentions, whereas a con artist is out to help themselves. I am assuming that all the professionals here have the best interests of their clients at heart. Most companies do not make products to take advantage of people, but because they really believe it is a great product. I believe in my profession, my country, my industry, and I am passionate about fiduciary duty and suitability standards. There is room for both, and we need to understand the strengths and weaknesses. My job as a businessman is to look at the trend and then modify the business model to evolve. A social media persona said that the learners will inherit the world, while the learned find themselves well equipped, knowledgeable and skilful to deal with a world that no longer exists. Financial services plays a major role in the Canadian economy, employing over 700,000 people, generating USD263 billion, and contributing 7% to the total GDP. Since the financial crisis, it has been ranked as one of the soundest financial sectors in the world. There are unintended consequences when you start to play around with that, so you have to move very carefully. I am not a teacher or a lecturer; I am a practitioner of wealth management who works with clients every day to make great decisions. There are two standards, fiduciary and suitability, and the reality is that they are not the same. It is not one model over the other; the nice thing about free enterprise is that you can choose whatever model you want, but there are advantages and drawbacks to each. You cannot wait for regulators to make decisions, so adopt best practices and evolve. Regarding the Canadian landscape, a lot of groups want the status quo and are lobbying against change, which means that you need to differentiate yourself to the extent that competition is not relevant by making a unique selling proposition.

The methods of compensation do not necessary contradict fiduciary responsibility, though the media may try to frame one as being superior. A fiduciary has the highest level of accountability to the client, and must make recommendations that are best for the client, even if they result in less income. Because it is a more comprehensive and robust approach, their revenue streams are multiple, so they define their revenue per client on total lifetime value. They are paid by any of the three methods, because each segment has its own options.

Suitability is a lower standard, meaning the advisor makes recommendations appropriate for the client at that time, for what they are qualified to sell at that moment. A mutual fund adviser's role is limited to that – they are not holding themselves out to be a lifestyle manager. Clients probably will not get comprehensive advice, and that suits many of them, because they want a simple transaction. Research by the University of Georgia established that a fiduciary adviser will meet with a client twice on average before making a recommendation, and that is because they are dealing with a more comprehensive holistic approach. An adviser with a suitability standard typically does the investigation at the first meeting. We need as many business models as possible in a free market, because competition prevents monopoly. We should offer a choice if our competitors do not. Why are we waiting for the regulators to tell us to do so? An adviser who takes on a fiduciary role should do so in writing, so that expectations are managed properly. An adviser who will not do so may not include that in their business model, and I came from a firm 19 years ago that did nothing but suitability. I could not find a firm that employed a fiduciary standard, so I created my own. Provide disclosure on your fee structure – regardless of the relationship, give disclosure in advance on any commissions the adviser may get in terms of executing transactions, ongoing fees, or referral fees, and provide a sample statement. Canada is now bringing in reforms whereby every source of compensation has to be disclosed to the client at least once a year. Regarding the current status in Canada, waiting for the regulations to change will take a very long time, because a lot of the industry associations are lobbying against it. We will be waiting a long time for a fiduciary standard in Canada. Finally, what you do defines what you are, not the regulator, so if how I am paid determines the quality of my advice, that tells us who the adviser is. It is a personal choice: if you choose to be a fiduciary, a change of heart can only be chosen, not imposed. I choose to operate as a fiduciary, but I also employ advisers who just choose to meet the suitability standard.

Susan JORDAN, Director, PBP, England

Looking at this from a practical perspective, it is a very positive message for advisers in the UK. Prior to joining PBP in January, I worked in a business consultancy department of a consultancy firm, and the mission was to make most of the client firms RDR-ready. We did this through workshops, help guides and in one-to-one consultancy sessions.

We do business management with regulation and financial planning. Business management is the basis of any business; you have to be in business on purpose.

This process has made IFA businesses look at what they do and how they deliver the service to clients. The system was tripartite, in which the clients paid the product provider and not the adviser, which would not add value to the businesses, so they have worked hard to address this.

What would businesses look like without a regulator? Most businesses are ethical, and provide suitable advice to clients. We suggest you write an operations manual and business plan without the regulator in mind.

Regarding the UK regulator, suitability is key to everything they do. Whenever they do themed reviews of firms, suitability is always at the heart of the process, and the aim is to determine whether the advice that the firm provided was suitable. The first paper issued by the regulator concerned behavioural finance, but they have not quite understood that it is not all about the product as opposed to advice, so work still needs to be done there.

Moving to financial planning, our sister company is a financial planning firm, so we know how it works on a day-to-day basis. It is basically just a business model, and we are seeing much more in terms of financial planning. We recently did a survey on accredited firms; these firms need to be accredited by the Institute of Financial Planning, and they need to jump through hoops to get that status.

We were pleased with the results, because it established that good firms are putting in place really good systems and processes. They have very robust investment philosophies, and they are engaged with the clients and the clients understand their value. That is a good basis on which to deliver, and because of the systems they have in place they are naturally compliant. The client is at the heart of what they do. We are also seeing changes in how they deliver advice to those clients with smaller investments or new-generation clients. They are implementing a lot of good B2B or B2C websites.

I just want to mention and dispel some myths we have heard many times before. The first is that clients will not pay fees; they will pay fees, and in terms of what that entails for adviser charging, it does not look too different from a commission, because it is on a percentage basis.

What has changed is how they charge; it used to be 3% on the initial commission and 0.5% on the renewal, but now that has changed, and frequently they will charge 1% for the advice, 1% for the implementation and 1% for the ongoing service of advice. People may not be aware that, because the agreement is between the client and the adviser, the client can turn that payment off, which encourages IFAs to look after their clients.

Secondly, there is the idea that being independent is too difficult, whereas 90% of current advisers remain independent.

Thirdly, it was estimated that 60% would leave the industry, but in reality it was 20%, primarily because they did not want to get the qualifications; the firms we work with are going for level six.

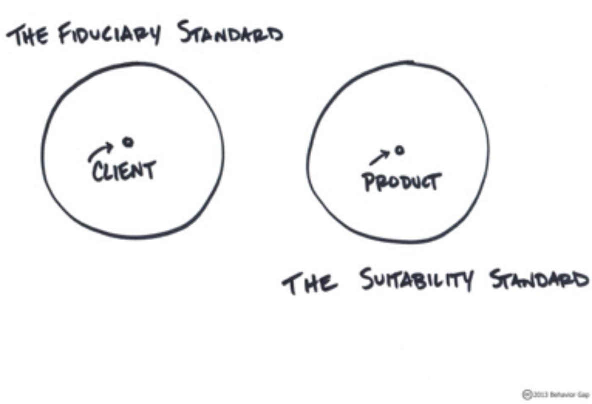
It has also been said that small companies will be worse off, which is not the case; many small firms are thriving post-RDR, even though there has been a lot of consolidation.

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

We have heard a lot of things about what has been happening all over the world. It is good that there is an organisation like FECIF which can lobby for us, but what inspires me most is that we have our clients. According to the regulators and public opinion, we as an industry made a big mess of everything we did to our clients.

It is about expectations and how we can manage them with our clients. It is not one-size-fits-all. An adviser in Brazil has a different kind of client than in Belgium or the Netherlands. The last two are neighbours, but they are totally different worlds in terms of how the financial industry operates and how the clients experience what they get out of it.

I am a private wealth financial planner and I like to do number-crunching, but if my client is not interested in that and simply wants to know whether they should buy a product, 80% of the time they will buy it or make a decision in their portfolio. The solution can be a product; there is nothing wrong with this, and instead of being annoyed with the regulator, maybe we should just think about what is in it for me as an advisor to be compliant and whether it harms my clients. We have to realize that clients put a lot of trust in us!



Regarding the discussion over fiduciary versus suitability, there is the difference that the product has to suit the client's needs. Is it about the product? Or should it be the client? Do we need an instrument such as a financial plan? We see a trend in developed economies where plans are also being sold as a product, and the client needs someone between him and a stupid decision. It might be a good opportunity for an adviser to be that person. Some clients need a plan for that; others need guidance. I strongly believe in the process, and that process can be a combination of selling the products or giving another type of advice. So, for example, big insurance companies create products, but they also want to sell products to every kind of client. It is probably the case that someone who needs advice the most is unable to pay for that advice, and that is the big challenge, to play our role and ask the right questions. Where a big and complex portfolio is concerned, you will see that the more questions you ask the more feedback you get. You cannot profile a client, you cannot see what is happening in his life, in only half an hour using only a quick check box questionnaire, and that life might look different tomorrow or in two years. My life is related to investments, and at the end of the day an investment is just one of the solutions. It is fun to talk about how the markets will develop and the kind of complex products we will create, but in the end it can be very boring to the client, because ultimately it is either the right or the wrong solution.

Zoltan LUTTENBERGER

The common message from the panel is the importance of your behaviour as an adviser and how you deliver financial advice or planning. This is the central point, rather than any question about commissions or fees, because that discussion is a little misleading if you have not answered that first question about your business model.

Tobias MAAG, Board member, FPSB, Brazil

We all face similar challenges and opportunities. We have much to learn from all of you, because financial planning is a very young profession in Brazil, and still being a developing country, we tend to over-regulate. The legislation is at an early stage but it is improving. Brazil has tried to learn from other countries' experiences and to avoid their mistakes, having set up the famous Chinese wall between those who give advice, those who sell and those who manage. The problem is that people come to me and want me to be involved in everything, whereas by law I cannot. The certifications we have for distribution channels and consultants are still at a very low level, which is very misleading to the public; I went for the exam and know what it is. The legislation has also become friendlier to international diversification. The controls have been drastically improved, which has its good and bad sides, but as a product-driven country we need some rules to mitigate risk. The main regulator is the Central Bank, which delegates power to the CWM, our local SEC, and the self-regulation body for banks and brokerages, ANBIMA. ANBIMA is a senior partner in IBCPF, our industry institute, and the banks have agreed to certify 70% of its bankers by 2016. We are the fastest growing country in terms of CFPs, with 5,500 today.

Suitability is in place, but fiduciary standards are a little more difficult to identify in the regulations. Suitability was revived by CWM last November, and what is requested is investment experience and the amount of money. Then you have to check the time horizon; long-term in Brazil is normally a year. We started learning in the late 1990s that we could start planning, so it is moving on.

The other thing you need to look at is objectives. There is a problem with the definition if independence; many people claim to be independent but work in a family office employing 50 people, and then you have real independents. You are free to document your client's objectives in different ways, but you need to do it. You have to define risk tolerance, and today the approach is more numerical than a risk profile approach. One very positive development in the last revision was that we started to talk about suitability, not just process. One of the requirements is that a new document has to be drawn up every two years. Institutions have to have an internal protocol, in terms of what it will do when it identifies discrepancies between the profile of the client and the reality, and what is important for the regulator is that there is a description of that process. Not only do you have to redraft the document every two years, but you also have to rebalance the recommendations to your clients. Process relevance has to be outlined, and control criteria have to be adopted to determine which documents will be accepted.

Fiduciary standards are at an early stage, but there is a presumption, which came from the financial industry, that someone on the board of a company needs fiduciary standards vis-à-vis the stakeholders, employees and clients. The term is used mainly in the fund industry, which is very strong in Brazil. The general terms are similar, and the CFB professionals need to embrace fiduciary obligations independently of the chosen business model and whether they are paid by commission or by fee. We are still mainly commission-driven. I have focused mainly on offshore business, in helping people with international diversification, but when it comes to local issues it is very difficult. Much of our approach depends on our clients – many of them tend to ignore charges if we do not tell them about them. It is not enough to have someone selling a product; you also need people who will buy it. A question I keep asking myself is the hidden agenda of regulators and institutions, whether they are not just about self-protection if something goes wrong. I wanted to invite you to look at Brazil, for opportunities, partnerships and exchange of information. We have lots to learn from you, and maybe we can also offer something. There are ways of doing business in Brazil; you just need to know there are some differences. You need a little more patience and humour, and there are great opportunities to be had. You will enjoy it if you appreciate the differences. There are many good things to see and experience, many good business opportunities and some risks. You can invest through ADRs and buy funds which already invest in this market. Good information is available from IBCPF.

ZOLTAN LUTTENBERGER

My personal message is that if your colleagues are actually independent, you can make your own independent decision on your business model, and if your future business model is different from your current one, the key word is transition.

CLOSING REMARKS

Cosima F. BARONE

The association day is really a must within the CIFA Forum, because every country gets a chance to communicate how they do business at the national level and how regulation impacts the various business models across the globe. We need to know each other better. As the world becomes increasingly globalized, some kind of harmonization especially regarding regulation is evidently sought out.

Jean-Pierre DISERENS

I can give you the dates of the next CIFA forum. It will start on 22 April 2015 and go on until 24 April. CIFA's Board has decided to expand Friday the 23rd events to the entire day. There will be, on top of the various round tables taking place during the day especially focusing on topics of interest to the national associations, a special event in the evening to close joyfully the whole "Associations' Day". Therefore, we would also like you to inform the members of your associations to attend the Forum actively. Exchanging thoughts and ideas is vital for our activities, because what emerges from the CIFA's Forum is what we will ultimately bring to the attention of the UN officials and the various UN institutions with which CIFA constructively interacts. A special focus for CIFA is to highlight what needs to be improved. Our profession is currently in full expansion and transformation mode across the globe. The lack of trust on the part of the consumer towards the traditional financial institutions is regrettable and we must actively suggest changes that will reverse the situation and enhance trust.
All members of CIFA, i.e. the national associations, are welcome to bring a delegation if they feel it is necessary.

It is not only a matter of attending the Forum. The quality networking between the associations taking place during the Forum finally greatly benefits the profession. I must remind the audience that CIFA is the only financial professional association represented at UN level. The UN is increasingly gaining power at a time when the traditional global financial system loses credibility and might collapse. The question is not if, but when it collapses. For example, institutions like the OECD are losing credibility; we do not know what the OECD is good for and whether or not it is a tax cartel run by certain governments. More importantly, CIFA is focusing its efforts to recreate credibility at UN level and is especially aiming at rebuilding trust between the investor and the financial services' industry.
I will outline now the resolutions of this year's Forum which are going to be issued by the Foundation Board today. CIFA will be presenting the positions we have taken today at the conference that the UN Alliance of Civilizations will hold in Bali in September. We feel that culture and civilization have a huge impact on global finance. Moreover, if we want a more progressive financial system evolving in the right direction, we cannot rely only on Anglo-Saxon culture in finance. The cultural aspect has to be introduced into the new financial system likely to be implemented in the next 10-15 years. Our time horizon is to focus on the next generations, not the next 2-3 months.
We will also follow the hearings of the Economic and Social Council (ECOSOC) that will take place in New York on the 19-21 May, and we will be with the General Assembly in New York on 5-6 June. We are in a very new situation, where the UN is opening up for partnerships with the private sector. We are the first ones to be there, and we have to use this opportunity to place ourselves optimally in order to have a significant impact within the next 20 years, especially as the new financial system emerges.
Here are the resolutions. Firstly, we adopt comprehensive,

sustainable development goals (SDG) in partnership with the private sector for all nations in a timely manner given humanity's continuing need to evolve towards more prosperity and justice.

Secondly, we would suggest that it should be a priority for every government to foster economic growth, because we believe that sustainable development can only be achieved through wealth creation and not by subsidizing developments that have failed. Looking at the system of helping others over the last 100 years, it has always been the idea that the north was paying for the south. Now, we find ourselves in a completely different situation since 2005. That was the turning point when technological transfer from the south to the north began. The actual situation is that the north is highly indebted; the south has participated significantly in financing development in the north. The situation has now become explosive as significant tensions emerge between north and south. Let's hope it does not expand further.

Thirdly, governments must respect the sanctity of personal dignity and refrain from intruding into the private sphere and wellbeing. Information and the personal right of ownership must be protected in order to prevent the rising imbalance between government regulation and the people's liberty. Furthermore, we have to counterbalance the government excessive creation of liquidity through fiat currencies; this has either to be brought under some sort of control, or forbidden entirely. USD200 billion is being injected by central banks into the financial system each month, whether by the ECB, the Swiss national Bank or the Bank of Japan. This has to come to an end, otherwise the economy will never be able to heal from excesses that plunged it into the current crisis.

Finally, we need to create the conditions able to balance between the economy's ability to create wealth and the government's needs to fund public goods. How viable is an economy where the mere cost of government is as high as 55% of GDP? The need to reduce the cost of government is vital, so that economies can grow again as the funds generated by the economic activity are put to work to further stimulate wealth creation instead of being used for other unproductive purposes.

To conclude this Forum, we raise your attention on CIFA's TRUSTING magazine which has been re-launched with the January-June 2014 N°5 issue. TRUSTING will be published biannually and CIFA wants the magazine to be truly international. We encourage you and all associations to send articles to Cosima F. Barone. All articles will be published in the original language that they are provided; if not in English, a brief outline of the topic discussed must be provided in English as well. All national associations are welcome to use the TRUSTING trademark, which is exclusively owned by CIFA. We also encourage all of you to define in a few words what is the meaning of the word "trusting" in your own language and what it does represent in the financial industry. Prof. Bill Black accepted to write the introductory article to all these comments that will be published in the following issue of TRUSTING, due for publication in summer 2014.

CONVENTION OF INDEPENDENT FINANCIAL ADVISORS
A Non-Profit Foundation

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

Acting for ethical, sustainable, and efficient finance

"Ethics and the governance of financial markets and services est d'une is of crucial importance for promoting healthy and balanced development on a global scale. It is in this spirit that interests of CIFA and the United Nations intersect."
CARLOS LOPES,
Assistant Secretary General of the United Nations,
Former Executive Director of UNITAR

How to limit the risks of toxic and opaque financial products? How to combat – in an ethical and effective way – stock market bubbles, systemic crises, and economic crime? How to reconstruct the markets based on the responsibility and competence of the financial actors? How to involve professionals in the development of regulations and governance principles that they will need to apply?

To protect the fundamental rights of the citizen on the markets and to put finance back at the service of investors, CIFA – a recognized non-profit organization acting in the public's interest – has provided a forum, in association with more than 750,000 people across the world, for considerations regarding the questions facing financiers. This has been made possible thanks to numerous professional federations and associations. The author and custodian of the Charter of the Rights of the Investor, submitted to the UN in 2008, CIFA obtained its special consultancy status with the United Nations within the framework of the Economic and Social Council (ECOSOC); it is accredited by the Conference of the United Nations for Commerce and Development (CNUCED) and is a partner of the United Nations Institute for Training and Research (UNITAR) for the establishment of innovative training regarding the them "Ethics and finance."

For eleven years, CIFA has organized an international forum that draws practitioners and regulators to hear the best international specialists. This forum constitutes one of the most important global events for the financial world.

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Partner Federations and Associations

fecif

EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

European Federation of Financial Professionals EFFP

EFPA European Financial Planning Association

efama European Fund and Asset Management Association

Advocis® The Financial Advisors Association of Canada

AfW Bundesverband Finanzdienstleistung

AIF Asociación de Profesionales Asesores Independientes Financieros

Association of AIFA Independent Financial Advisers

afg association française de la gestion financière

AFIZ

Association Luxembourgeoise des Professionnels du Patrimoine asbl

ANACOFI

ANAF Asociación Nacional de Asesores Financieros

ANASF Associazione Nazionale Promotori Finanziari

ANCDGP

APCIMS EASD Working for the Investment Community

APFIPP Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios

BVI Bundesverband Investment und Asset Management e.V.

bzb Beroepsvereniging Zelfstandige Bank- en Verzekeringsbemiddelaars

CAPS Planificación Patrimonial Sucesoria y Financiera

CIF Compagnie des Conseillers en Investissements Financiers

CGPC membre de FPSB

CNCEF

Cyprus International cifsa Financial Services Association

CISI Chartered Institute for Securities & Investment

Cyprus Financial Services Firms Association

DFP

fedafin

fpai Financial Planner Association Indonesia

e.V. FiFa

Society of FSP Financial Service Professionals

GSCGI Premium Initiae Fidelitate — CIFA Initial Contributor

Institute of Financial Planning IFP

IFPs Building a strong profession today, for tomorrow — The Canadian Institute of Financial Planners

Minősített Pénzügyi Tervezők Szövetsége

ONIP

PMAC Portfolio Management Association of Canada — Advancing Standards™

SFAA Swiss Financial Analysts Association

Swiss Futures and Options Association

USF

VGF Verband Geschlossene Fonds e.V.

VOTUM Verband Unabhängiger Finanzdienstleistungs-Unternehmen in Europa e. V.

VV&C

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Contributing partners:

Groupement Suisse des Conseils en Gestion Indépendants (GSCGI), Genève

Association nationale des conseillers financiers, Paris

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