THE IFA's Wealth Gram

LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
wealthgram@gscgi.ch • www.gscgi.ch
Vol. I - N° 6 - Juillet 2012

LES SPONSORS DE JUILLET 2012

"CIFA - Convention of Independent Financial Advisors" & "CRT - Caux Round Table"

Jean-Pierre DISERENS

Co-Founder - Secretary General

CIFA

www.cifango.org

Stephen B. YOUNG

Member of CIFA's Executive Committee

Global Executive Director

CRT

www.cauxroundtable.org

High Level Thematic Debate at the United Nations on the State of the World Economy

On May 17th and 18th, 2012, the President of the United Nation's (UN) General Assembly and Secretary General jointly convened a High Level Thematic Dialogue on the State of the World Economy. High level thematic dialogues are used by the UN to address important challenges that are not being thoroughly addressed conceptually by standing departments and committees of the UN.

In his remarks, Secretary General Ban Ki-moon called for a "conceptual revolution" in addressing what was wrong with the world economy. Other speakers insisted it was time to "think outside the box" or that "business as usual" will not trigger enhanced, economic growth. The old model is believed broken: it is four years from the 2008 collapse of credit markets and no real reforms have been put in place.

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

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

These countries voiced three main concerns: 1) growth to create jobs; 2) moderation in the prices of energy and food; and 3) investment in their economies.

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

Qatari Ambassador, Nassir Abdulaziz Al-Nasser, President of the General Assembly, stated that the pressing issue was global recovery – escalating inclusive development to reduce poverty, while sustaining the environment and its future fecundity. The role of the UN, as compared to the G8 and G20, was to be the only inclusive, multi-lateral forum, where a common vocabulary and agenda for real action could emerge. A system is needed which can provide sufficient jobs under conditions of climate change and growing resource scarcity.

LES SPONSORS DE JUILLET 2012

"CIFA - Convention of Independent Financial Advisors" & "CRT - Caux Round Table"

On May 19th, G8 leaders met at Camp David with President Barack Obama and declared that "Our imperative is to promote growth and jobs." But, how is this going to be accomplished? Therein, lies the rub.

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

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

The financial system must be placed in service of the real global economy

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

In the subsequent dialogue sessions, I was made aware of how ahead of the curve the 2008 recommendations of the CRT's Global Governing Board had been. The CRT's understanding of the ethical responsibilities on the respective parts of business and government is still cutting edge, with 4 years of hindsight now available – a most credible record of intellectual leadership, but a poor reflection on the actual leadership which has been confronting our global economic shortfalls.

The CRT's ideas, along with the insights provided by our colleagues from CIFA, were very welcome. Jean-Pierre Diserens, Secretary General of CIFA, expressed his belief that private investors now have little to no trust in great financial houses, regulators or in sovereign responsibility. Without trust, markets stagnate and investment-driven growth is fitful. Professor William Black of the University of Missouri-Kansas City reminded participants that criminality is a constant in private affairs; no system of private ordering is entirely free from predators. In financial intermediation and corporate profit-seeking, it is often "control fraud" – providing misleading information that permits executives to "loot" companies of current income, as was the case with Enron. Under these procedures, current income is privatized and long-term losses are socialized to owners or the public.

LES SPONSORS DE JUILLET 2012

"CIFA - Convention of Independent Financial Advisors" & "CRT - Caux Round Table"

Revitalizing the World Economy: An Action Agenda

The state of the world economy is disappointing and a cause for global concern. Without economic growth what real hope do we have for social justice And what real hope do we have for combating unemployment, creating jobs and addressing poverty when the gap between the haves and have-nots continues to grow?

Who has disappointed us? In three words: Wall Street and governments. And in this fourth year since the great self-destruction of financial markets, financial leaders and governments have yet to find a way back from that debacle of hubris and greed, on the one side, and failure of prudential regulation on the other. This is no time for finance as usual; this is no time for governing as usual.

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

First, two parties - governments and owners of private capital - must be mobilized to work together enthusiastically in charting, and then following, a new path to sustainable growth and the advancement of prosperity and social justice for all.

No one shall be arbitrarily deprived of his property

Owners of private capital must be at the table because it is the private sector that creates sustainable wealth, not governments. Wealth arises from our labor, our imagination and aspirations for the future, our desires for self-improvement, our willingness to collaborate, our savings, our skills in organization, our dedication. Governments may attempt to command these attributes into being, but they will fail. If we need wealth, we must therefore motivate and support those who create wealth.

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

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

> *Article 17.*
>
> *(1) Everyone has the right to own property alone as well as in association with others.*
>
> *(2) No one shall be arbitrarily deprived of his property.*

But to affirm that wealth creation is fundamentally a process for the private sector enhancing the value of private goods is not to say that private property is immune from responsibility. No, wealth is a social product and must respond to the social requirements that permit it to exist and to grow. It is not removed from the ethical demands of human intercourse just because it may be at the disposition and under the dominion of a single individual at any given time. Wealth has its own special office, a set of peculiar duties, to perform that society may benefit.

Wealth is our best tool for building a better future.

The Caux Round Table, an international NGO, has advocated a moral capitalism for 25 years. The Caux Round Table ethical principles for business provide a road map for the responsible creation of private wealth. Recently our distinguished membership was consulted via a survey as to what steps are needed now to improve the state of the world economy.

Integrity in governance was recommended as having highest priority in the effort to rejuvenate global capitalism. The four priorities most advised for immediate attention were: addressing inequality, more discipline in public finances, separating banking from proprietary firm trading, and improvement in corporate governance.

In short, the considered judgment of these professionals in business and corporate social responsibility looked to the fundamental quality of stewardship responsibility for the common good as the foundation for enhanced world economic outcomes. They placed that responsibility primarily with public officials to provide for responsibility in public spending, in management of credit markets, in redressing unbalanced wealth accumulation in the hands of a few, and in private sector leadership of wealth creating institutions.

Wealth flows from people when they are rightly inspired

This is a powerful insight that strategic values matter in the long run and a telling reminder that unrelenting and unconstrained self-interest is not seen as being in the best interest of the community at large.

It is not therefore an argument between austerity or deficit spending on entitlements that should be paramount, but rather selection of leaders – both public and private - committed to a stewardship ethic that will make for changes.

Additional steps recommended by survey responses for high priority attention turned more to incentives in the private sector that can be skewed towards mis-management of wealth creation. These secondary recommendations are predicting systemic risk in financial intermediation, setting compensation incentives to favor long-term growth, and reducing outflows of illicit capital from poor and developing countries. It is the private sector that creates systemic risk in financial markets; it is the private sector that puts a bias for short-term results in compensation packages; and it is private individuals in poor and developing countries who abuse their status and illicitly divert financial resources out of their country, denying it capital for investment.

In the next rank of recommendations came more technical concerns: liquidity provision by central banks, predicting systemic risks in financial intermediation, improving valuation formulas and more reliable pricing by markets, adoption of CSR standards by firms.

On the third level of recommended action items was a hefty preference for increasing competition among rating agencies, again echoing a theme of responsibility to serve a common good by providing information that influences investment decisions. Efficient financial markets require quality information as a public good. The quality of market information confers reliability on prices set by free competition. Providing this public good on a global basis is an immediate need.

On this third tier of recommended actions, survey respondents also focused on decision-making conditions within private firms: increasing capital requirements for all financial institutions, adoption of CSR standards by firms, compensation incentives for long term growth and improved valuation formulas and more reliable pricing by markets.

The financial system, all CRT survey respondents agreed, must be reformed so as to restore its integrity, strength and resilience.

Wealth flows from people when they are rightly inspired. Because wealth is an economic and social outcome as well as an input into economic growth and social well-being, it cannot thrive all on its own. It is not autonomous but dependent on prior conditions. Securing that necessary inspiration is the task and duty of government. Establishing correct conditions for sustainable financial intermediation is a sovereign responsibility that may not be delegated to private firms.

Today, to renew global economic growth, the first action step must be taken by governments. The foundation of economic growth in today's global economy is financial intermediation. The access to spendable liquidity either in the form of equity investment or repayable debt permits the commencement of business ventures and sustains operating businesses of all sizes and varieties. Where access to such liquidity is limited, economic growth stagnates; where excessive liquidity is made available, asset prices become distorted, unsustainable price bubbles emerge, and financial collapse occur, damaging to economic activity and lowering living standards.

The duties of Governments are to provide protection for Private Property

Thus, the sovereign responsibility to promote economic growth calls forth a subordinate responsibility to provide optimum conditions for private sector financial intermediation. Institutions of financial intermediation consist of banks, securities underwriters, insurance and reinsurance companies, broker/dealers, financial advisers, investment banks, accountants, legal counsel.

Governments and private property must be put in a collaborative balance if wealth is to flow forth from the people and fuel global economic growth. Today the state of the world economy needs a partnership between governments and private capital. It needs interdependence, a duality of function, an interaction of public and private with each respecting the respective contributions of the other.

Should government fail to meet its responsibilities in this collaboration, the private sector cannot and will not make up its shortcomings.

On the other side of the partnership, the duties of the private sector are, roughly, to conduct business as an office subject to the standards of corporate social responsibility with respect for stakeholder interests. Private profit is the reward for private services well done.

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

The Preamble to the Charter of the United Nations recognizes that nations should "promote social progress and better standards of life in larger freedom" and "employ international machinery for the promotion of the economic and social advancement of all peoples".

Article 55 of the UN Charter imposes on sovereign authorities responsibility for the promotion of economic growth:

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

THE IFA's Wealth Gram
LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
wealthgram@gscgi.ch • www.gscgi.ch
Vol. I - N° 6 - Juillet 2012

LES SPONSORS DE JUILLET 2012

"CIFA - Convention of Independent Financial Advisors" & "CRT - Caux Round Table"

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

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

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

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

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

A crucial task is to enhance the efficacy, coherence and consistency of macroeconomic policies

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

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

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

When the governments signatory to the Monterrey Consensus agreed that mobilization of domestic resources under conditions of good governance, they accepted the duty to properly encourage financial intermediation. The first requirement of sovereign management of financial intermediation is to keep asset values – both public and private - within a range of prudent expectations. This will stimulate and reward private economic activity.

The Financial Stability Board has issued standards which provide for transparency of the monetary and financial policies of sovereign states. These standards are supplemented by the Caux Round Table's recommended ethical principles for government.

THE IFA's Wealth Gram

LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
wealthgram@gscgi.ch • www.gscgi.ch
Vol. I - N° 6 - Juillet 2012

LES SPONSORS DE JUILLET 2012

"CIFA - Convention of Independent Financial Advisors" & "CRT - Caux Round Table"

The Financial Stability Board's standards permit assessment of the responsibility exercised by sovereign authorities in their management of key components of private sector financial intermediation. These standards are:

FINANCIAL REGULATION AND SUPERVISION

Banking Supervision: *Core Principles for Effective Banking Supervision*

Securities Regulation: *Objectives and Principles of Securities Regulation*

Insurance Supervision: *Insurance Core Principles*

INSTITUTIONAL AND MARKET INFRASTRUCTURE

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

Insolvency: *Insolvency and Creditor Rights*

Corporate Governance: *Principles of Corporate Governance*

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

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

Recommendation:

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

In the fall of 2008 it became an unavoidable truth that global capitalism's so called immune system of laissez-faire market discipline failed the test of practical success and the underlying causes of this systemic failure - greed and narrow self interest - must be addressed by the global community.

Failures to properly assess risk and a dysfunctional and shortsighted system of incentives and remuneration have been at the heart of the problem and have subjected the global economy to too little growth in assets and incomes.

Greed and narrow self interest must be addressed by the global community

Also at the core of the problem has been a failure of governance. Boards of directors were not sufficiently encased in an environment of sound risk management, responsibility, transparency and ultimate accountability. And financial regulation failed to offset the inherent dysfunctionality of the markets. Despite the need for urgent action to address the underlying causes, there are inadequate reforms on the table.

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

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

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

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

LES SPONSORS DE JUILLET 2012

"CIFA - Convention of Independent Financial Advisors" & "CRT - Caux Round Table"

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

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

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

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

Stephen B. YOUNG
Member of CIFA's Executive Committee
www.cifango.org
Global Executive Director at Caux Round Table
www.cauxroundtable.org

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

CAUX ROUND TABLE
Moral Capitalism *at Work*

Convention of Independent Financial Advisors (CIFA)

At the initiative of a group of Independent Financial Advisors and under the auspices of the Swiss Group of Independent Financial Advisors (GSCGI) it has been agreed to create a high level international centre in the form of a Swiss Foundation in the field of finance, asset management and global financial counseling.

The objectives of the CIFA are as follows:

- *To protect and defend the interests of Independent Financial Advisors at national and international level by creating a unique network of resources both in Switzerland and internationally.*
- *To propose and present projects to national and international authorities for the harmonisation of the differing operating rules and regulations within the member states represented by CIFA.*
- *To facilitate the implementation of new rules and procedures imposed by national and supra national authorities.*
- *To establish a code of conduct to deal with unethical practices and money laundering.*

Caux Round Table (CRT)

The Caux Round Table (CRT) is an international network of principled business leaders working to promote a moral capitalism. The CRT advocates implementation of the CRT Principles for Business through which principled capitalism can flourish and sustainable and socially responsible prosperity can become the foundation for a fair, free and transparent global society.

Vision, Mission, Purpose and Pirnciples of CRT:

- *Our VISION is for a free, fair and prosperous global society built on the twin pillars of moral capitalism and responsible government.*
- *Our MISSION is to put moral capitalism to work by ensuring business contributes to greater prosperity, sustainability and fairness.*
- *Our unifying PURPOSE is Moral Capitalism for a Better World.*
- *CRT's PRINCIPLES support our vision, mission and purpose: a) Principles for Responsible Business; b) Principles for Governments; c) Principles for NGOs; and d) Principles for Ownership of Wealth.*