

## Statement

### Demands of UNI-Europa Finance on regulation of financial markets

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Final

National and international markets play a key role in how the economy and society operate. Any dysfunction in these markets has immediate effects on other areas of national economies, and can even cause economic crises or the collapse of national economies.

In the 1990s financial markets throughout the world were deregulated, which gave rise to global financial markets. Deregulation has brought greater instability to financial markets. Examples of this are the Asian crisis of 1997, the bankruptcy of the LTCM hedge fund in 1998, the Argentinean crisis of 2001 and the stock market crisis of 2001.

The current global crisis in financial markets makes it very clear that they are out of control. Just a few years ago it would have been unimaginable that a crisis in a sector of one country's economy, like the sub-prime crisis in the USA, would quickly harm the global economy.

The globalisation of a financial system based on the short-term interests of investors jeopardizes even hitherto stable and efficient financial markets. The increasing concentration in corporate policy on share price and profits, to the exclusion of all else, has had a marked and adverse effect on employees, clients and society at large.

Besides deregulation, new remuneration systems were introduced in the finance sector. This did not only result in partly inconceivable increases in pay for managers. Based on the fact that these systems were substantially orientated towards short-term success, they contributed likewise to wrong entrepreneurial decisions.

We must reverse the direction taken by the industry to avoid damaging the well-being and the future of people in many sectors of society so that national economies can continue to flourish.

This requires new regulations at national and international level to make sure that problems in single sectors are spotted in good time and their adverse consequences kept under control.

UNI-Europa Finance Union therefore calls for the following steps to be taken for more effective regulation of financial markets:

1. Increase transparency

The balance sheet must show all the risks taken by a financial services company. This includes contingent liabilities. Moreover it should no longer be possible to do business via other businesses, for example via conduits, if they do not appear on the balance sheet.

It is important that all players on the financial market are subject to the same duties and controls. Hedge funds, sovereign wealth funds and private equity companies must be subject to the same rules on transparency as banks and insurance companies.

2. The financial sector must be subject to statutory regulation

Whilst every small regional bank or insurance company in Europe is subject to strict supervision, it does not apply, for example, to hedge funds, sovereign wealth funds or pension funds. This must change. A single regulatory system is needed for all players in the financial markets.

Financial transactions between European companies and companies with off-shore financial centres that are not subject to controls comparable to those in Europe must be made illegal.

3. Supervision of the financial sector

The supervisory authorities in different countries must enhance their international cooperation. At the same time they must not neglect their national responsibilities, as in the case of Société Générale. Within the European Union we must ensure that all companies are supervised according to the same criteria, wherever they are based. International supervision standards must be regularly updated to keep up with new requirements and with the innovativeness of the industry.

4. Rules on capital adequacy

All loans and credit liabilities must be backed by corresponding equity. The basis for this is the Solvency 2 and Basel 2 rules. These rules must be reviewed. High risks must be supported by higher capital adequacy ratios.

5. Pension funds and life assurance

Pension funds and life assurance companies have become a major part of people's pension provision. The acts of regulation on financial investment for these companies must prohibit high risk investments, for example in hedge funds or private equity funds.

6. Tax breaks for private equity

The tax concessions given to the private equity and hedge funds industry in many countries must stop. For example, in Germany private equity managers have a partial exemption on their income tax. This tax promotion of private equity, justified by alleged shortage of capital, is counter-productive. Private equity should be subject to the same tax regulation as other players in the financial industry.

7. Pay systems for executives

Incentive programs and remuneration policies for executives and investment bankers must be revised. Remuneration must be kept at reasonable levels, and must be properly linked to the revenues and results of the companies. Today consumers and ordinary workers suffer the consequences of bad management and excessive wages for high paid staff. Risk must never be disregarded just because remuneration levels remain the same regardless if you succeed or not.

8. Leveraged buyouts

Loans made to companies that are to be taken over for the purpose of funding the purchase price must be prohibited. Using this method, some hedge funds have in recent years driven flourishing companies to ruin and in so doing earned high profits for themselves.

## 9. Rating agencies

There must be an end to the current world oligopoly of rating agencies. Rating agencies should not work on the development of financial products and subsequently issue a creditworthiness rating for the same products. Such conflict of interest is damaging.

We need independent rating agencies that do not (cannot) carry out rating on the basis of economic interest. Within Europe at least one public rating agency should be established.

## 10. Tax havens

Tax havens must be put out of business. This requires international agreement and national tax laws that ensure that business done with tax havens is taxed according to national regulations if a certain minimum level of tax is not paid abroad.

## 11. Company takeovers - outsourcing - offshoring

Before companies or important divisions of companies can be bought or sold, the employees affected or their representatives must be informed and the consequences of the planned decisions discussed with the employees' representatives. If consultations do not take place, then it must be stated in law, for example via an EU-Directive, that the company takeover cannot go ahead.

## 12. Consumer protection

Financial services are an indispensable intermediary for the functioning of society. The essential basis for this is a fundamental trust of customers in financial institutions. Therefore, a high level of consumer protection at national and international level is necessary. Statutory regulation must guarantee that any financial institution provides its customers with qualified and proper advice based on their interests.

## 13. Employees at the core

Finance sector employees are those that make the industry function. Regulators and companies must ensure that working conditions and pay incentives promote rather than hinder regulatory objectives and excellent customer service. Essential elements are training and lifelong learning schemes that provide employees with the necessary skills.