



EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

Einsteinstrasse 5
DE - 63303 Dreieich

Contact: Claudia Stinnes
Direct number: +49 6103 5833-48
Fax number: +49 6103 / 5833-35
e-Mail: claudia.stinnes@effas.com
Internet: www.effas.com

9 October 2008

EFFAS - Statement on the Current Financial Crisis

The current financial crisis, with its origins in the US sub prime market and its potential solutions via extensive regulation and state control, raises significant questions regarding the current financial system. The current problems derive from a number of features of the system and we believe that the following issues need very careful consideration in the development of a future financial system which is both viable and robust.

Therefore, we would like to address the following topics:

- **Supervision**

Banks have been operating on a global basis for some time now, while the regulatory bodies are organized on a mainly national basis. Such an organisational structure has obvious limitations. Therefore, either a supra-national body should be established or, alternatively, a better coordinated international supervisory structure should be established in order to control global players more effectively.

- **Remuneration systems**

Remuneration systems should be based on the sustainable, longer term development of a company. Extremely high remuneration packages (including base salary, bonus, stock options) should not occur since they will not be based upon any realistic underlying business trend. If this is not the case, management assumes neither responsibility nor risk. People who are excessively highly remunerated will not necessarily be interested in the lasting success of their company.

- **Governance structure**

Most European countries have very efficient stock corporation laws that clearly define many procedures (management vs. supervisory boards, etc). Therefore, we believe that the existence of a corporate governance code is to be welcomed as an additional tool, but that the entire responsibility cannot be based upon a governance code alone.

- **Paid out dividends vs. paid out bonuses**

This is a further crucial and short-term orientated issue. Investment banks, or universal banks in which investment banking is a very significant component, have been paying out overall bonus amounts that are of a similar size to the overall annual dividend. This practice should be ceased, because shareholders have the right to receive an appropriate dividend payout that is directly related to the overall net profit of a company.

- **Products**

Banking products should be created and traded in a highly transparent fashion. When highly sophisticated products are created by financial institutions (or former investment banks), the products should be of sufficient transparency to ensure that responsible traders and risk managers are able to satisfactorily understand the features and properties of the products. This has obviously not been the case in recent times.

- **Financial reporting**

Reporting at quarterly intervals is a welcome practice, but, in particular the strong focus on a quarterly EPS (earnings per share) guidance only, does not provide the only solution to monitoring the development of a listed company. Quarterly EPS figures do not support the efficient and sustainable further development of a company, but rather, reflect a short-term driven approach to which company management must react. Therefore, the actions and decisions of managers are often guided by very short-term goals in the same way as reflected in their remuneration systems.

- **Granting of loans**

It is obvious that any scenario in which loans are issued on the anticipation of permanently rising real estate prices will eventually turn into a "one-way street" over the long run. Such a development cannot provide the basis for overall economic growth. Therefore, we believe that a more restrictive and realistic stance to granting loans is necessary to keep both the banking industry and markets stable.

- **State must be separate from financial institutions and listed companies**

We, in EFFAS, strongly support a capital market orientation with an emphasis upon efficiency. Thus, we believe that it is absolutely vital for the state to refrain from influencing economies, private industries and sectors. Recent examples indicate, on the other hand, that it is not always the best option to completely privatize (for 100%) a stock listed company. It would make sense with a view to achieving stable and sustainable development that, in addition to any shareholders, the state, a foundation or a strategic shareholder with a long term orientation should hold a minority stake to ensure a better structural balance.

Conclusion

We believe that the issues that we have addressed, above, are crucial for the construction of a better-functioning financial system in the future.

We remain available to provide further detail on the above issues and we would be pleased to offer our experience and competencies to the relevant decision-making bodies.

Giampaolo Trasi
Chairman of EFFAS

Friedrich Mostboeck, CEFA
Member EFFAS Executive Management
Committee

About EFFAS

"The European Federation of Financial Analysts Societies", EFFAS (www.effas.com), is the European umbrella organisation of national analysts' societies. EFFAS is a non-profit-organisation which is focussed on providing top class educational programs together with ACIIA (www.aciia.org) on a worldwide basis. It comprises 25 local country members representing more than 14,000 investment professionals in the areas of equity and bond research, asset management as well as investment advice.

About EFFAS Commission on ESG

The objective of the EFFAS Commission on ESG (Environmental, Social and Governance Issues) is the integration of non-traditional aspects of corporate performance in the area of ESG into traditional company valuation and investment processes. Therefore, a commission was founded in October 2007 at a European level with the support of local analyst societies.