**Point of View**

## The Financial Crisis and the Role of Professional Organisations

*Fritz H. Rau, ACIIA Chairman*

Call for Qualification…

It began with the subprime crisis, which, starting in the second half of the year 2007, developed into a global crisis which spread into the securities markets and subsequently to the real economy. The ultimate cause of the capital markets crisis was and is the crisis of confidence as a result of lack of information and a poor understanding of the factual relationships. This situation is likely to persist for a long time.

Consequently it is not easy to effectively pursue your profession in the financial sector these days. The claims made in the designing, structuring, trading and selling of certain complex products have triggered a crisis which has led to serious accusations against and within the sector, which have had an impact on almost all other significant economic and industrial sectors.

As a result, we are experiencing the largest economic crisis for more than 50 years, and, furthermore, this is occurring globally. In the majority of the important economies, the state, as well as the entire community of citizens, must step in to save the banks and the financial system from collapsing. During this process, the principles of a free market economy are blurring, as is the common understanding of the state's function in a capitalist driven economy. To save jobs and preserve employment, the state is taking over an entrepreneurial function, not only in the finance industry but also in some key industries like e.g. the automobile sector. Often this support with tax-payers' money compensates for wrong management decisions in the past, as it is difficult to distinguish clearly between mismanagement and financial crisis as the reason for the default of a company. It is therefore highly important that the public authorities do not overdo their job-saving mission and pull out of their entrepreneurial role after completion of the emergency aid. The role of the state is mainly to regulate economic activities and to provide a level playing field. In the years before the crisis that was missing to a very considerable degree.

Nevertheless, we expect that the stabilisation measures will ultimately have a beneficial impact. The governments and the Central Banks are acting, by and large, in a concerted fashion and thus the mistakes of the 1930s are not being repeated. Attempts to foster protectionism on a larger scale in some of the more important economies could be limited as far. But protectionism is still a major risk for global wealth. Lessons have also been learnt from developments in Japan over the last twenty years. Certainly, allowing the sudden collapse of Lehman Brothers instead of a well regulated execution was the crucial mistake in the current crisis.

Yet it shouldn't be forgotten that it was the financial sector that triggered the crisis, deriving from lack of understanding and of deregulation, together with a policy of easy money. So first and foremost it is the financial sector itself that must rebuild the mutual trust between financial institutions, the trust of their clients, and above all, the trust of the community. What is quintessential here is to get yields and risks in a balanced perspective, not only for the clients, but also for the financial service providers themselves. Herein lies the focal point for methodological and ethical standards for professional activities in the sector.

The professional organisations, together with their members and their expert commissions, are ready to contribute as best they can. From our perspective, the debate about knowledge shortfalls, an integral grasp of the interactions and risks of the global markets, will have to play a prominent role in the future.

To that effect, many of our member organisations have worked in the area of rating-standards, standards for performance measurement, fairness opinions and of course the standards for accounting – which have been identified as one of the triggers of the crisis.

What is more, some of the associations have set up so-called Alumni Groupings, covering various topics such as “Credit Derivatives and the Present Crisis”, “Warrants/ Certificates” and the rationale of adapting the accounting rules in the current situation.

The debate about an integral comprehension of the relationships and risks of global markets will be decisive for the future developments.

Knowledge and experience in the financial markets will have to be based on a minimum qualification on the part of the decision-makers and, the supervisors' / regulators' knowledge base will have to be constantly broadened.

The financial crises and its implications call for investments in professional qualifications, as well as a conscious and sustainable implementation of ethical standards.

ACIIA, a democratic global organisation of 32 national and regional societies operating as independent partners, has the overall aim of setting the standards for investment professionals in the fields of qualifications and ethics, and recognising and respecting regional market characteristics and different cultures.

“Knowledge without integrity is dangerous and dreadful,” said Samuel Johnson, the 18th century English author and man of letters. ACIIA encourages its member societies to set globally-accepted benchmarks for professional behaviour in their codes of ethics. To quote Samuel Johnson again, “Integrity without knowledge is weak and useless,” therefore, we offer qualifications for investment professionals. The global Certified International Investment Analysts designation (CIIA), enables professionals to act competently and with integrity in all areas relevant to their activities.

## …accompanied by Ethical Behaviour

The CIIA-holders are asked to become members of their local society and thus follow the particular code of conduct, local legislation and regulations.

“Do unto others as you would have them do unto you”. This is the golden rule which we were originally taught in our childhood and which often figures in many ethical and philosophical tracts that fetter the destructive instinct and the boundless egotism of human beings. It is the basis of all civilisation. Humans realise that they are social animals and that the destruction of others eventually leads to self-destruction.

This concept is summed up in the words “trust” or “confidence”. The building of trust permeates governmental regulations and professional codes of ethics – and, to repeat it again, has to be based on a strong qualification.

Ethical behaviour ought to be based primarily not on the outside force of law and governmental sanctions, but rather on the analyst's own intellectual insight and personal wisdom, or on the common values developed by the professional community, as passed on in sound practice or set forth in professional codes of conduct. The public, the legislators and the regulators in financial centres world-wide, however, perceived the abuses by a minority of analysts in the past as a failure of self-discipline and self-regulation on the part of the professional community as a whole, requiring governmental action.

Ethical principles are the reasoning behind the statutory provisions. They are enacted to promote investor protection and to maintain trust and confidence in the system of capital markets. Legislation and regulation pre-empt to a certain extent professional codes of ethics or behaviour. In these cases, the code of conduct duplicates, albeit with less force, the same goals and efforts of governmental action. However, there are a number of issues and gaps not filled by legislation and regulation. Furthermore, laws and regulatory actions take a bottom-up approach, reacting to the immediate needs encountered, and very often do not incorporate new developments which are not yet clearly visible. Governmental legislation and regulation depend on the input of professional organisations before and after legislation. Legislation is also based on the professional understanding of business ethics as evidenced in the respective codes.

Whereas legislation and regulation concentrate mainly on the handling of conflicts of interest, the professional organisations cover a much wider field in their principles of business ethics. This understanding is reflected in their codes of ethics.

To sum up:

Financial markets have been subject to abusive practices ever since share trading began.

An industry which accepts responsibility for the ethics of its business practices will not be a mere object of governmental regulation.

Looking into the various codes of conduct and the governing principles, one may notice that there are hardly any significant differences. In my opinion nobody can pretend to have a superior ethical solution.

Conclusion

- Professional organisations are only a jigsaw piece in the picture of the financial markets...
- ..but their contribution to solving or overcoming the current crisis is nevertheless important and completes the whole picture.
- It is their ability to achieve a profound qualification for the different market-players, thus countering a lack of information, knowledge or understanding: the CIIA designation and its predecessors worldwide are based on a track record of over 37,000 successful designation holders.
- Our organisations can build a solid tradition of ethical behaviour by investment professionals for the benefit of the capital markets in general and investors in particular by respecting the golden rule:

  ***"Treat others as you yourself want to be treated"!***