

How to break the chain of financial scandals

An ingenious proposal made by the Convention of Independent Financial Advisors, the organization which defends the interests of independent financial advisors internationally. Interview of Pierre Christodoulidis, CEO of ICSOS Group, Geneva, and Executive President of CIFA (www.cifango.org).

SDR: *The Convention of Independent Financial Advisors, not content with its envied status of sole financial NGO in consultative status with the ECOSOC, is working on the creation of an International Chamber of Financial Services. Why is that?*

Pierre Christodoulidis: The founders of the CIFA have noticed that a number of repeating patterns are harming the economy as a whole and seriously threatening the social peace and stability, not to mention the democratic system. The last 50 years have seen a very regular pattern of financial crises which are based on a number of simple and similar mechanisms: it always starts with the launching of a new financial instrument which encompasses all the attractive ingredients of high protection of the principal, coupled with very attractive returns. This instrument is easy to market and bears the illusion that all the parties are making big money.

SDR: *Are you saying that the speculative enrolment is the secret of this infernal spiral?*

Pierre Christodoulidis: Exactly. Once the formula is launched with success, salesmen of all horizons, less and less qualified but more and more numerous, are involved. Mimeticism and greed prevail in all the circuit and "toxins" start multiplying at a speed which is self-feeding and less and less controllable. An ever larger number of buyers rush to enter the spiral to profit from the occasion. The mechanism is overheating, euphoria is at its peak, all psychological barriers are neutralized ...

SDR: *What can one do at this stage?*

Pierre Christodoulidis: Nothing, it is too late. One can only wait for the fatal issue, always the same ineluctable blood bath that follows the blow of the bubble. The scenario which

follows the explosion is also rather classic: revision of risk scales in a total disarray, drying of liquidity in the instruments due to over-exposure, contagion to the rest of the system, distrust and 'blocking' of the inter-banking relations, forced intervention of the central banks in view of saving the patient ...

SDR: *So what is your remedy?*

Pierre Christodoulidis: The founders of CIFA believe that this infernal spiral can be avoided. To attain this objective they are trying to promote the following initiatives:

- The creation of an International Chamber of Financial Services (ICFS) which would encompass the actors of all the financial professions (bankers, insurers, brokers, financial advisors, fund managers, financial products salespeople)

- The harmonization of certain practices and norms as well as prudential guidelines to be issued by the ICFS

- The creation of a number of specialized commissions whose main task would be to write minimal common rules, and to issue guidelines as well as procedures that all the financial sectors will pledge to apply

- The promotion of a close cooperation between the ICFS and the supervisory and/or regulatory authorities of the various countries

- The creation of an "observatory body" composed by professionals of the financial services profession and representatives of the international organizations in charge of monitoring the international economy and the financial markets: IMF, World Bank, ECB, IBRD, Bankers' Associations, Financial Intermediaries Associations, Insurance Associations, Mutual Fund Associations, Stock Markets Authorities, Regulatory Bodies.

SDR: *So detection is a key word?*

Pierre Christodoulidis: It goes without saying that the observatory body will elect a committee which will be responsible of the delicate task of gathering all pertinent information allowing to detect and monitor closely at an early stage potential dangerous speculative practices and to locate the instruments at the source of potential bubbles.

SDR: *Do you think all this is feasible?*

Pierre Christodoulidis: Yes. After all, the equivalent body for the world's commercial and trade activity has existed for almost 100 years: the International Chamber of Commerce, which has helped stabilize, promote, expand and facilitate trade on an international basis. At a later phase the ICFS may be in a position to create more sophisticated tasks which will consist in resolving problems amongst the various players in the financial markets.



The driving force of CIFA in the park of the United Nations in Geneva: from left to right, Richard Smouha (Past President), Pierre Christodoulidis (Executive President) and Jean-Pierre Diserens (Executive Vice-President).

SDR: *What are the advantages of such a solution?*

Pierre Christodoulidis: It offers the following major advantages:

- The profession is itself actively involved in its supervision and control and is liable to detect excesses and misbehaviour within its ranks.

- The evident conflicts of interests resulting in today's unsatisfactory control system have amply proved its inefficiency and absurdity. The role of the large auditing firms and rating agencies has to be reassessed and radically revised. It is obvious that in their role the auditing firms intervene too late, and that the rating agencies by their complacency or occasional incompetence have led to an unprecedented economic disaster. Thus the role of a body constituted by all the actors of the financial sector (operators), as well as the active involvement of the supervisory bodies (regulators), will reduce the subcontracting of the risk assessment to third parties paid by the same players. Is it not they precisely who are supposed to supervise?

- The national regulatory bodies will have a much lighter load of supervisory obligations as they will participate in the ICFS common regulatory commissions, and a large part of the supervision will be borne by the professional bodies.

- The efficiency of the prudential supervision of ill-fated intended practices will allow a soft and far more reactive attitude, preventing crises which tend to be more and more violent and global.

- Such an organization will have all the advantages of a neutral international body, yet without the disadvantage of superseding the national instances, for it will submit its conclusions based on its observations of the financial field to all concerned countries for their intervention.

SDR: *Much of this is prevention ...*

Pierre Christodoulidis: You are absolutely right. The role of economists and financial specialists is to anticipate the economic catastrophes in order to prevent them and at least to reduce as much as possible the systemic risk resulting from such crises. Meteorologists have also the same role: even if they may not be able to stop physical catastrophies, they allow at least to take preventive measures which in turn help protect and save peoples' lives and reduce greatly material damage.

The advantages of such an organization are numerous but above all the voluntary participation of all the actors of the financial sector will help define "ethical standards" and their supervision by the professional representative bodies themselves, allowing a reduction of state intervention and a reduction of adverse and painful events for the public and state institutions. This organization will also help the new economies develop in a more stable environment, and adopt procedures

The Convention of Independent Financial Advisors (CIFA)

was created on 14 December 2001 in Geneva at the initiative of a group of financial entrepreneurs, all members of the Swiss Association of Independent Financial Advisors (SAIFA/GSCGI/SVUF). The non-profit Swiss foundation aims to strengthen the role of independent financial advisors at the international level in order to better defend the interests of investors.

The success of CIFA can be measured in three ways: First, it has created a highly successful annual congress – the International CIFA Forum – which attracts delegates from CIFA's partner federations and associations, individual IFAs, bankers, regulators and journalists, establishing the event as one of the major international forums for the financial intermediation community. After five editions in Geneva (2003–2007) and one in Prague (2008), CIFA will hold its VIth International Forum on 27–29 April 2009 in Paris. Its theme, which was aptly chosen several months before last year's financial scandals broke out, will be "*Recurring financial jolts and crises – Advance warning signs of a new economic world order.*"

Second measure of CIFA's success: the number of its partner associations has more than trebled since its first Forum in 2003. Today, nearly 40 national associations – mostly professional IFA bodies whose combined membership is estimated to top 500,000 individual IFAs – but also some associations active in closely related fields such as fund management, financial analysis and financial training certification. The European base of this partnership is being gradually extended to various overseas markets such as the United States, Canada, Singapore, Brazil and South Africa.

Last but possibly most important achievement: CIFA has become the first – and still only – financial NGO in consultative status with the Economic and Social Council of the United Nations. Since 2007, it is thus in a position to make recommendations in legislative projects being taken by the ECOSOC and various specialized agencies of the UN.

In a fourth step, CIFA has started working on the creation of an International Chamber of Financial Services which would encompass the actors of all the financial profession (bankers, insurance companies, brokers, financial advisors, sales networks, fund organisations).

and standards widely accepted and defined by the sector. In a nutshell, the authorities have to render the professionals "responsible of their acts".

SDR: *And how will CIFA achieve this ambitious project?*

Pierre Christodoulidis: We are currently approaching several major economic organizations and large financial groups. We believe that their response can only be positive.

SDR: *Thank you, and good luck for CIFA's project!*