

ÖVFA Publication Series

# The Crises and Economic Responsibility

(an update to Economic Responsibility 3.0)



**Every crisis - be it financial or economic, a crisis of confidence or the debt crisis - demands a comprehensive and responsible approach**

- We live in a global debt crisis
- Quantitative easing is not showing us a way out of the crisis
- Rating agencies - yes, but changes are necessary
- Japan and Germany: suddenly nuclear power is no longer indispensable
- The future must be founded on innovation and reduction
- The 50 specific approaches listed in "Economic Responsibility 3.0" (June 2011) are still valid

**Responsibility and the crises - further action and ideas for coping and avoiding**

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Since it was founded in 1972, the objective of the Austrian Association for Financial Analysis and Asset Management has been to promote the flow of information between listed companies and investors, to provide analysts, fund managers and other investors with a platform for sharing their experiences, to better acquaint domestic and foreign investors with Austria's role as a financial centre and to represent the interests of its members to the public at large and within the scope of economic policy initiatives aimed at fostering Austria's financial market. In the complex field of asset management, which presents great opportunities but at the same time numerous risks, it is essential that the decision-making process be made as efficient and transparent as possible.

#### Disclaimer

The purpose of this publication is to be thought-provoking and a contribution to the ongoing debate.

The German version shall be binding.

#### Editorial information

Published and edited by (Publisher):  
Austrian Association for Financial Analysis and  
Asset Management (ÖVFA)  
Esslinggasse 17/5, A-1010 Vienna

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## The Crises and Economic Responsibility

### The debt crisis cannot be reduced to just the eurozone

(an update to the EFFAS/OVFA Report on Economic Responsibility 3.0)

#### A. Introduction to a sustainable responsibility approach

The crisis that began with the US subprime sector in 2007 has not yet passed. On its heels came a financial crisis, a crisis of the worldwide real economy, and ultimately a deep-seated crisis of confidence that still haunts the financial markets. The effects of the preceding crises still linger in greatly increased levels of sovereign debt in most Western industrialized nations - the eurozone, US, UK, and especially Japan. Greece is a different case. Greece always had a high level of debt and had obviously been whitewashing its figures in the past. And for decades, countries like Japan knew how to deal with high sovereign debt, especially when most of it could be refinanced domestically. The crises were also followed by extraordinary events such as the nuclear disaster in Fukushima and the Arab Spring uprisings in 2011. In short: from the standpoint of ESG issues (ESG\* = environmental, social, governance), much in the world is going wrong.

Tighter comprehensive transparency standards will be increasingly important to capital market investors - who should judge both countries and companies based on their future capacity for financing. The public pressure to succeed (which creates pressure on share price performance) will leave investors with very little flexibility. In the networked world of finance, too much is at stake if more trust is lost. The "E" will place an ever greater emphasis on environmental impact, the "S" will have to take both social and societal components into account (human rights, etc.), and the "G" will focus on aspects of governance such as structured, transparent processes in the public and private sectors. The latter means not only avoiding corruption scandals in business but establishing structured codes of conduct in government. A spate of recent political resignations around the world is a powerful reminder that a renewal of trust is sorely needed in government as well. Why? Investors will increasingly reserve their capital for the bonds of governments whose political future they trust. Meanwhile, nations with out-of-control debt situations will also be careful to contain corruption in order to attract high-quality capital. Rankings in corruption indexes (such as that of Transparency International) publicize this and should play a larger role in the national credit rating issued by the rating agencies.

**One sees many missed opportunities for a responsibility approach when looking at any of the recent crises.** So at the heart of the current situation is the question of how future crises can be better managed or prevented altogether. What's clear is that a comprehensive solution must go beyond good intentions and embrace a will to change. A comprehensive ESG approach to solving crises includes the environmental disasters that follow earthquakes as witnessed recently in Japan and political crises as seen in the Arab world (social imbalance, corruption, etc.). Both the crises from 2011 can be addressed by the ESG approach.

**All crises can be attributed specifically to a lack of basic economic and (local) political responsibility.** This is the only explanation for the fatal flaws and their long-term negative consequences, which stem from a lack of transparency at the political and economic level. In the end, this misconduct led not only to massive write-downs by the businesses and institutions directly or indirectly affected by the financial crisis. Worse still, it destroyed all trust in financial institutions and the market economy in general. The negative effects of the 2007-2009 financial market crisis ultimately had substantially negative consequences (fortunately only temporary) for the real economy around the world. All of that eventually led to an explosion of sovereign debt from the massive government rescue packages that were needed in some areas - a reality that will very likely pose a challenge for some time to come (probably five years or more). Paying down the levels of accumulated sovereign debt (relative to gross domestic products and budget deficits) will be a slow and difficult process. Meanwhile, the overall economy is dampened by the austerity packages that countries have adopted in response, which trickle only slowly through the economic cycles. But economic growth will be necessary to pay down long-term debt. A vicious circle.

**In the end, partners whose actions are transparent and structured and whose conduct is proper engender trust and credibility - in business and on the financial markets alike.** It is precisely this trust that was destroyed during the crisis. When the crisis first unfolded (2007), it became obvious that lending practices in the US real estate market (the so-called "subprime" segment) had been too lax. It was equally obvious that the bundled financial products based on these loans were not adequately thought out - either that or so sophisticated that only few people understood them. These financial products were traded successfully for a long time and eventually exported around the world. Greed and high bonuses paid to traders fuelled the trend. It's probably no longer necessary to point out the unhappy role that rating agencies played in assessing these products. Ultimately - as we now know in hindsight - the collapse of real estate prices caused global financial markets to crash and led to massive losses in the real economy due to exorbitant write-downs by financial institutions and other companies. This kind of fallout (think: "too big to fail") finally ended up as sovereign debt, which unfortunately cannot so easily be written down.

**It's almost comical but also tragic how, in precisely such turbulent market slumps, other cases of fraud come to light and collapse like a house of cards.** Another reason high sovereign

debt is expanding so dramatically is that the downward spiral pro-cyclically reinforces this negative trend, helped along by behaviour by rating agencies that can be classified as not necessarily cautious or responsible and tactically rather unwise. A truly vicious circle, and one that brings down what we thought was the solid foundation of an economic structure built over decades. And that often completely destroys structures that up to the time were obviously well crafted, cleverly concealed, or ignored for their insignificance (think: Madoff). The result is a spiral of mistrust penetrating further into the open flanks of sovereign debt and financial markets.

**Both communism and unbridled, unrestrained neo-liberalism alike have failed.** It should be adequately understood and require no further discussion that the Communist principle of the planned economy has failed and does not offer an alternative for long-term economic progress (recent forced nationalizations notwithstanding). But the strictly short-term mind-set of shareholder value with a focus on quarter-to-quarter results and the free neo-liberal approach - the principle of leaving basically everything to the markets without any restraints or tethers - has also failed dismally in the wake of the recent crises of financial and economic markets, confidence, and debt. Shareholder value should actually represent a mere result or a sober figure and not stand in for a strategy or a comprehensive, transparent, long-term business model. The fact that the crisis has now landed with full force in our sovereign debt and is taking root there should be a powerful lesson.

**But this situation should lead to something positive.** The deeper a crisis hits, the more opportunities, possibilities, and ideas will spring up. Now more than ever, many people around the world are coming to understand that we cannot go on living and spending the way we have in the past decades. This fact is underscored by the sovereign debt accumulated over the decades. A debt crisis of this magnitude is a long-term problem; sovereign debt cannot be paid down in a couple of months or a few years. But a debt crisis can engender new crises or rebound with a negative impact on the real economy due to a lack of trust in the financial markets. It will be at least several years before the drastic action that must inevitably be taken gives us a clearer view. Many economic leaders, financial market operators, and politicians who bear a responsibility they must conscientiously fulfil will find themselves compelled - the longer the debt problem persists - to rediscover qualities that have become all too rare: humility and reason. A state of mind or insight that was completely lost in economic boom years.

**ESG and economic responsibility can be the answer.** Introducing pro-active, sustainably practiced responsibility under ESG (environmental, social, governance) aspects can successfully fight corruption, help prevent social conflicts, and minimize environmental emissions through evaluations on capital markets (stocks and bonds). Not only does this require political and economic will, however: this will must also be put into practice. All the recent crises - the financial crisis, the crisis of confidence, the economic and debt crises, plus the recent events in Japan (except for the earthquake itself, of course) and the crises in the Arab states - had to do first with ESG and second with capital markets.

**To regain confidence, you cannot "stick your head in the sand" and act as if nothing happened.** What's needed are new, progressive requirements for future financial market regulations. Laws and regulations alone will not yield a better financial system in the future. Overregulation should be vehemently opposed, since it typically leads to rigid inefficiency and high administrative costs. Strong regulatory measures will create new administrative jobs, of course, but that will not lead to better development. There's no reason to debate the obvious fact that, at the other end of the spectrum, the unfettered market is also not a silver bullet.

**What we need now in a functioning system around the world is: trust.** The comprehensive ESG approach is intended above all to restore lost trust, which can also bring about positive economic effects through capital markets. Booms are driven by greed, recessions by fear and panic. It is from precisely these exaggerated states that a comprehensive assumption of responsibility in every respect must yield greater transparency and restore a balance - a state of trust - between the two extremes. The media have a critical role to play here, because the subject and especially the tenor of media reports are often excessively negative, intensifying and actually inciting fears. A negative sensation simply sells better. What we need is utmost objectivity limited only to the facts. Producing nothing but negative headlines will not help us out of our current situation.

**Trust can only emerge if it is widely practiced.** Trust can only be restored if based on a "responsibility" approach widely practiced by all individuals and institutions through the employees and executive bodies of publicly traded and privately held companies, associations, governments, and NGOs. The stakeholder approach - essentially the critically important circle of shareholder, customer, employee, and supplier - is sound in principle and must be redefined more broadly. What's needed - as we now see - is solidarity with nations, governments, central banks, NGOs, and all other associations, corporations, and public and private persons who exercise responsibility in the economy. We must broaden our focus beyond merely the welfare of publicly traded and privately held companies themselves to embrace fair and responsible interaction with business partners and competitors of all types - though this should neither question nor endanger healthy competition in the interest of customers.

**That's why a "pro-active" response to the situation is the only option.** The signs for comprehensive change are good. The stronger and more deeply rooted the crisis, the more concentrated and focused the necessary actions and adjustments must be, including the unpleasant ones - a process that can certainly be called "cleansing" and that in all probability will also bring about surprisingly good results for future development. Only an objective analysis of fundamental data and facts - not superficial generalizations - can show the right way out of the crisis.

**The themes and responses discussed above are intended to help define an orientation and above all bring about a better-functioning financial system.** An orientation that will restore and secure the state of trust that was taken for granted - that

is now sorely needed but not so easily regained. Today's skyrocketing levels of debt and deficits cannot be combated solely with rigorous new tax programs and sharper spending cuts. Austerity is good in principle but can make the situation much worse. It would be a completely mistaken and fatal strategy that would strangle all economic growth. That's why we need an entirely new vision for the future. Rigorous implementation of a global ESG strategy could generate sustained growth over decades through alternative value drivers, create new jobs, and thus make a positive contribution to the welfare of the general public and the environment. At the same time, greater transparency would restore lost trust and credibility for companies and capital markets alike.

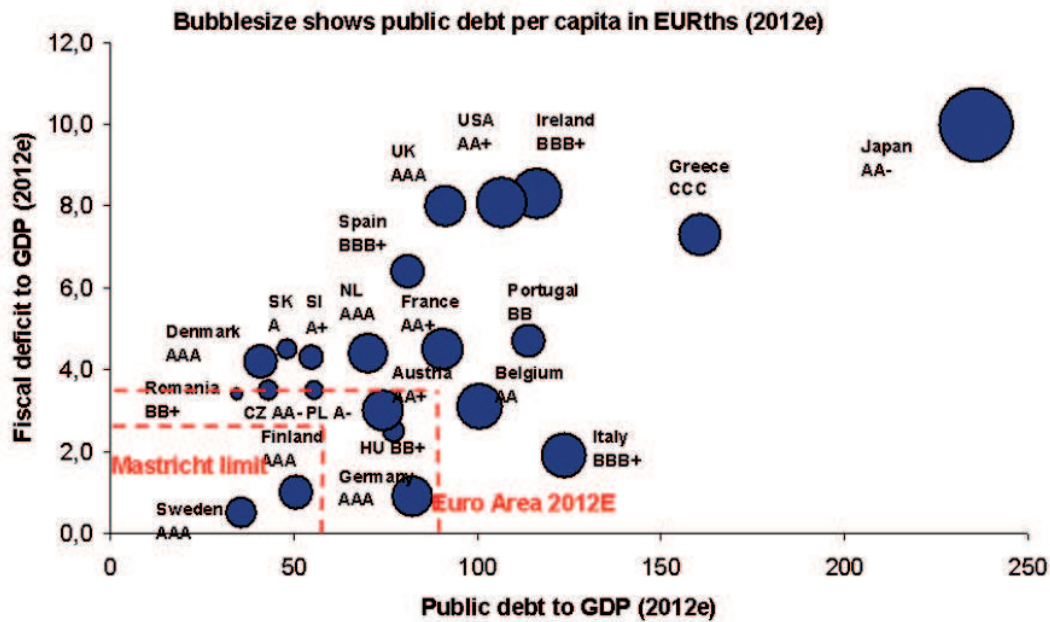
### **B. Remarks for a follow-up on the publication "Economic Responsibility 3.0" from June 2011**

#### **■ 1. We live in a global debt crisis**

**The debt crisis cannot simply be reduced to the eurozone.** The eurozone and above all the nations of the southern European periphery do have a debt problem, of course. The eurozone (like the US) has the advantage of a common currency, but each of the 17 states is financially sovereign and issues its own government bonds. That's why each of the 17 nations in the eurozone has its own bond market with 17 different levels and structures of return. It is not surprising that the eurozone is generally vulnerable in this respect - especially when it comes to smaller states such as Greece (which represents about 2% of the eurozone's economic output) that are still largely financed by foreign investors. When you focus on the facts of debt-to-GDP and deficit-to-GDP ratios, it becomes clear that the US and UK have entirely similar problems. And for decades, Japan has been accumulating a level of debt far higher than that of the aforementioned countries (but a debt that is largely refinanced domestically). In any event, the average eurozone economy has an expected debt-to-GDP ratio of about 92% (2012e). The level in the US is 107%, in the UK 91%, and in Japan some 240% (see graphic). This makes it clear that we are living in a global debt crisis. So far, investors have not differentiated significantly by country, which in turn has to do with the diversified financial structure in the eurozone.



The debt crisis is a global crisis  
(gross public debt and fiscal deficit)



Source: European Commission, IMF, Ratings by S&P

■ 2. Eurozone vs. US

Overall, the US - when you reduce it to the facts - is currently more indebted than the eurozone average (107% vs. 92% of GDP). Each currency zone has a single currency, but the eurozone lacks a common asset class in the form of government bonds. One often hears the argument that the eurozone of the major industrialized nations (Germany, France, Italy to some extent, and Spain) cannot form a single cohesive structure or industrial policy with predominantly southern European peripheral states such as Greece and Portugal. This argument is absolutely correct in principle. But the same applies to the US. Obviously, states such as Arkansas, Colorado, the Dakotas, Montana, Nevada, and Wisconsin cannot be compared economically to New York or California. Both here and there, the economic differences are stark.

■ 3. The strategy of quantitative easing is also no key to success

Relying on the central banks to print a more or less unlimited amount of money won't bring the success that is hoped for either. This has not yet revived the labour market in the US as anticipated, for example, nor has it produced anything close to the economic stimulus that was expected. Actual growth continues to fall short of potential growth. The most important component - a meaningful reduction of deficits and overall debt - has also failed to materialize. The only alternative, to someday erase debt through inflation, has so far also been consigned to the category of modest theoretical exercises. Given the tremendous cost of this expansionary monetary policy and the risks it entails, one should have seen much more pronounced relief, at least in recent years. By

and large, this is not the responsibility of President Obama, who for years has backed a more forward-thinking policy of promoting the general welfare through initiatives such as healthcare reform and energy policy changes. Essentially, it is once again the misguided view of unfettered neo-liberalism with the false assumption that "the market will correct everything," no matter what the cost.

#### ■ 4. The case of Greece is something else entirely

**As stated at the beginning, the debt crisis cannot simply be reduced to just the eurozone.** We live with the highest levels of debt in history with some of the highest debt-to-GDP ratios. The original crisis, which began in 2007 with the US subprime sector, was exported globally through trades of structured products from this subprime sector. Even many well-respected European investment banks were involved with these transactions. What followed was a financial crisis, a crisis of the real economy, and this deep crisis of confidence and debt in which we now find ourselves. But that doesn't actually have anything to do with Greece. Greek banks were almost totally uninvolved in trading products from the subprime sector. Greece always carried high levels of debt, and when it joined the currency union, it also clearly manipulated its figures. The second point has to do with (1.) corruption, and we have some idea where Greece ranks in corruption indexes (Transparency International). (2.) Greece lacks an effective tax system. As long as Greece is incapable of fully registering and assessing taxes on the income of its own citizens, it will remain unable to collect a vital share of its tax revenues and thus unable to pay down its debts. That is why the problems with Greece are of an entirely different nature. Aside from the obvious fact that structurally, you also cannot compare Greece to major competitively oriented Western European export-driven economies. Greece's problems are home-grown and stem overwhelmingly from (1.) a lack of tax revenues and (2.) corruption. As long as the country itself fails to come to grips with these serious problems - not even with the EU or eurozone - direct monetary support (EFSF, etc.) will have no impact whatsoever. Even the troika and its retinue, who fly in from time to time and simply monitor the austerity measures, fail to recognize the real problems and thus fail in their consolidation efforts. If a unified fiscal policy ever comes to the eurozone - as it sooner or later must - these two issues will have to be addressed for Greece as a precondition. Otherwise, eurozone citizens will always be on the hook for Greek sovereign debt.

#### ■ 5. Eurobonds

**As explained earlier, the eurozone has the same advantage as the US of a single currency, but it is vulnerable due to its 17 different bond markets and the varying rates of return on local government bonds in these countries.** If Europe wants to have a single currency area, sooner or later it will have to have a strong, appropriate, common financial instrument - eurobonds. But this will only be possible with a common fiscal policy within the eurozone, which will mean surrendering some national sovereign rights. If eurobonds were issued without a common fiscal policy in place, they could only serve as a rescue fund to bail out specific problem countries. With limited transparency, problems could

only be papered over, and fiscally, individual countries could continue to behave however they wanted. Assuming that it would be possible down the road to issue eurobonds under a common financial policy, this would also give rise to a large liquid asset class that would provide relatively attractive returns. As mentioned earlier, the average eurozone country has a lower debt-to-GDP ratio than the US (92% vs. 107%), but overall, eurobonds would yield a much higher average return. Globally, this could attract "safe haven" funds to a liquid asset class at attractive interest rates. The only catch is whether cautious, very conservative, primarily austerity-minded countries such as Germany are prepared to pay higher market interest rates. Ultimately, the other question is whether nations are only interested in deriving benefits from this common currency or whether at some point they are prepared to assume international financial responsibility and accept drawbacks as well. Countries of the latter type run the risk of being perceived by the markets as "holdbacks" that are no longer willing to play a pro-active role.

## ■ 6. Rating agencies

**We know the dubious and unhappy role that rating agencies assumed at the outset of the crisis in 2007 (US subprime sector and the rating of the structured products based on it).** Rating agencies have probably faced particular scrutiny since that time, given the aggravating effect their behaviour had as the crisis unfolded. During the economic upswings and financial market booms, the actions of rating agencies were largely unheeded ("business as usual"), since nearly everything that was "mainstream" was headed up, both in real economic terms and in share prices on the financial markets. That changed during the downturn, however. A more critical eye was cast on the actions of rating agencies, since they had either gone along with the crisis earlier or now, in the downturn, were helping to accelerate it pro-cyclically. It should probably be noted that to some extent, rating agencies were aware of their unhappy role before and at the beginning of the crisis and were now trying to play it safe by being extra-critical. This is understandable, but - from a standpoint of overreaction and cyclicity - does not make things better.

The following points seem worth mentioning:

### (a.) The "credit watch" phenomenon

**A credit watch is the precautionary measure of keeping one or more countries or other asset classes under observation before a detailed analysis is available.** In the European crisis, for example, several countries were simultaneously put under observation - irrespective of their relative rating to one another. What this means is that the watched country may (or may not) lose its current rating. Concrete details emerge only when the actual ratings are redone with more specific descriptions days or weeks later. Just one problem: the point of ratings is to provide investors, market participants, and ultimately the customers of rating agencies with guidance in every phase of the market. But what exactly is one to think if this very guidance in confirming a rating (or not) is uncertain and will remain so for an undetermined time? This does not provide any orientation; in a difficult and uncertain phase of

the market, it only adds to the confusion and probably exacerbates the downward trend. This is as if a market researcher that provides buy/hold/sell recommendations for stock analyses were to publish market communications notifying or warning companies that a current "buy" rating might (or might not) be withdrawn in the near future. This would be extremely dubious behaviour from the standpoint of both compliance and best practice.

### **(b.) Highly differentiated rating scales**

**Rating scales vary widely and typically have 22 or more rating categories (AAA to D for default, for example).** Here, too, the lingering question is whether anyone really understands a system with so many fine distinctions. It's only logical that so many different ratings make it possible to act with greater flexibility. Whether this can add value is questionable.

### **(c.) Lack of uniform rating standards**

**Balance sheets offer basic transparency for the ratings assigned to companies.** With countries, the task is increasingly difficult. Evaluations can be based on hard facts, of course (economic indicators, debt, etc.), but other factors and soft facts also come into play (politics, competitiveness, age structure, etc.). This makes analyses more and more difficult, especially when rating countries relative to one another. But one thing is clear: there is no uniform rating standards. Rating systems are more or less internal, a "black box" inaccessible to the public. Consider that safety concerns have given us good standards for many things in our day-to-day lives (automotive industry: seatbelts, airbags, etc.). Why does this not apply to rating agencies? It can't very well be to protect competition, since outsiders have no way of knowing which rating agency is supposedly better.

### **(d.) Do ratings still need to be binding in classifying asset classes?**

**Pension funds, investment companies, and others often have more or less binding investment guidelines stipulating certain rating classes (quality attributes).** No one would have thought before the 2007 crisis that the global market for government bonds, for example - believed to be so safe - would be so shaken up. Nevertheless, or for this very reason, the question must be asked whether it still makes any sense to require that investment guidelines specify certain rating categories. Rating agencies have a great deal of power over the market, especially since their classifications are still often regarded as "sacrosanct." The often questionable and dubious conduct during the crisis that has dragged on for years now has definitively taught us otherwise.

### **(e.) One more rating agency does not help the situation**

**The question is often posed whether a large (European) rating agency would improve the current situation.** There are a few smaller rating agencies outside the US that are not so insignificant (Dagong in China or DBRS in Canada, for example), but

their market share is still too small. So if the goal is simply to establish a fourth major rating agency alongside the current big three, that won't have any noticeable improvement. The end effect would be to increase the number of players in the oligopoly - the small number of providers who dominate the market - from 3 to 4. This would not constitute true competition with a real abundance of differing opinions. For that, we'd probably need to see about 20 to 25 rating agencies in serious competition with one another.

- **7. Japan and Germany: suddenly, nuclear power is not so indispensable**

**Unfortunately, it takes a true disaster to change how people think.** The devastating earthquake in Japan and the nuclear disaster that followed made one thing possible that would have been completely unthinkable before: a partial phase-out of nuclear power in Japan and a gradual phase-out in Germany. One thing has become clear: not only did the events change how people think, but they showed that it is actually feasible to do without nuclear power - an inconceivable proposition beforehand, especially in export-oriented industrialized nations that rely so heavily on energy. It also shows courage when the management of a major global enterprise such as Siemens decides to exit the nuclear power business. This is where the new energy policy really begins. Now we need shift to effective alternative energy options over the long term. The feasibility of this endeavour has been put to the test with impressive results. This train has already left the station.

## C. Summary

When the global economy and ecology are in such a difficult situation, with various crises persisting to this day and beyond, all future decisions should essentially be as forward-thinking as possible and based on two factors:

1. innovation and
2. reduction.

Reduction is necessary because we obviously lived for decades beyond our means - both financially and in our consumption. Reduction is called for not only to address the exorbitant increase in sovereign debt; reduction also encompasses a general mandate to decrease diverse and often quite wasteful costs and to reduce the emissions that harm our environment (see EFFAS/OVFA Report on Economic Responsibility 3.0 - for example, the sections on heat insulation). Reduction in this sense is directly related to innovation.

On the other hand - and this is dramatically evident in the example of Greece - reduction cannot be the only means for coping with the crisis and is not a suitable approach to generate or preserve future prosperity. The troika commission made up of the EU, ECB, and IMF is fine for what it is, but it is following a one-dimensional and not very forward-looking concept. Innovation is the only element for generating additional qualitative (not quantitative) economic growth. Only an extreme turnaround to qualitatively innovative actions can generate new growth, and it will also be needed economically to reduce sovereign debt and protect peace and prosperity around the world. Transparency and reduced corruption are critical elements in the effort to implement innovation effectively and keep it alive for decades.

The last version of the "Economic Responsibility 3.0," which was published in June 2011, includes 50 specific approaches, all of which are still valid. They are based on 1. innovation (I) and/or 2. reduction (R):

## A. General measures that can help overcome a crisis

- |  |   |
|--|---|
| 1. Global integration comes with advantages but also with disadvantages  | I |
| 2. Higher capital requirements for banks   | I |
| 3. Separation of investment banking from commercial and retail banking   | I |
| 4. Stepped-up taxes for banks  | I |
| 5. Taxation of financial trading transactions only as last resort;<br>tenths of a per cent on financial instruments traded           | I |
| 6. Supervision   | I |
| 7. Supervision and bonus/malus systems   | I |
| 8. Rating agencies   | I |
| 9. Ratings - in contrast to the status quo - to be awarded on an integrated<br>basis in accordance with comprehensive ESG parameters | I |
| 10. ESG criteria gaining in importance for the future assessment of<br>government bonds  | I |
| 11. Financial products   | I |
| 12. Transparent allocation of fees beneficial to efficient capital markets   | I |
| 13. Financial Reporting  | I |
| 14. Integrated reporting   | I |
| 15. Due lending process as necessary engine of the financial system  | I |
| 16. The government and the financial institutions and listed companies<br>have to remain separate                                    | I |
| 17. Clearing of mutual long-term government debt   | I |

## B. Environmental Issues (E)

- |  |     |
|--|-----|
| 18. Nuclear power production cannot be an adequate sustainable,<br>global energy concept given its potential risk  | R   |
| 19. Transparent communication in nuclear power production and its<br>downstream industries necessary - the long-term goal being an exit<br>from the nuclear industry | R   |
| 20. The stock exchanges will increasingly differentiate with regard<br>to nuclear power plant groups - this effect can be used to trigger<br>a re-assessment.        | R   |
| 21. Basic strategy for the future: Conventional forms of energy<br>production be gone!   | I/R |
| 22. Automotive industry  | I/R |
| 23. Aviation industry  | I/R |

### Energy efficiency has enormous potential (under points 24-29)

- |  |   |
|--|---|
| 24. Stand-by regulation for household appliances and office machinery  | R |
| 25. Regulation of public and corporate lighting and heating  | R |
| 26. Taking into account energy efficiency when accepting tenders in<br>the public or private construction sector                                 | R |
| 27. Excursus: A real example of energy efficiency that works   | R |
| 28. Insulation and energy efficiency has enormous global potential   | R |
| 29. The height of buildings and architectural masterpieces are a beauty to<br>behold, but not sustainably relevant in terms of energy efficiency | R |
| 30. Reforestation and expansion of adequate cultivation of land as<br>intelligent counter-strategy   | R |
| 31. Selective consumer demand is fuelled and will reduce global exports  | R |
| 32. Introduction of so-called eco-taxes  | R |
| 33. Correction of the consumer culture we have been following in the past  | R |

## C. Social/ Ethical Issues (S)

- |  |     |
|--|-----|
| 34. Integrated, expanded investment assessment on the basis of ESG criteria also for other asset classes such as government and corporate bonds and others | I   |
| 35. Re-assessing or suspending ratings in extraordinary situations   | I   |
| 36. Microfinance   | I   |
| 37. Paid out bonuses vs. distributed dividend  | I/R |
| 38. Remuneration CEO and management board vs. average wage per employee  | I/R |
| 39. Full internal and external transparency of trading transactions in all financial products  | I   |
| 40. Comprehensive compliance   | I   |
| 41. Corruption and bribery have to be eliminated   | R   |
| 42. Reduction (or taxation) of naked short-selling   | R   |
| 43. OTC (over-the-counter) in the future on the stock exchange   | I   |
| 44. No bonus payments in periods of short-time work, massive job cuts, and partial nationalisation ("too big to fail" approach)                            | R   |

## D. Governance issues (G)

- |   |   |
|---|---|
| 45. Over-the-top management remuneration packages should be ruled out                       | R |
| 46. Caps on remunerations in state-held companies (direct holding in the company's capital) | R |
| 47. Corporate governance - far more than this   | I |
| 48. Upgrading of the role of non-executive or supervisory board members                     | I |
| 49. Risk management   | I |
| 50. Hedge funds   |   |



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**Fritz Mostböck, CEFA**

Fritz Mostböck holds a master's degree in Business Administration from the Vienna University of Economics and Business Administration and has successfully completed the ÖVFA/EFFAS course of financial analysis and portfolio management, which earned him the degree of CEFA, i.e. Certified European Financial Analyst. Since 1996 Mr. Mostböck has been Head of Group Research of Erste Group Bank AG. Here he is in charge of macro-economic, fixed income and equity research in Poland, the Czech Republic, Slovakia, Hungary, Croatia, Serbia, Romania, Turkey, Ukraine, and Austria. In addition, his division is responsible for the definition of the overall investment strategy, which basically provides the input for the asset allocation of Erste Group in the three large currency blocks (US dollar, euro, yen). Mr. Mostböck has years of experience in interacting with global institutional investors, especially those with a focus on Central and Eastern Europe. In his previous position as local Head of Research within the Bayerische Vereinsbank group he was in charge of the Austrian research team (macro/ fixed income and equities), which covered both Austria and parts of Central and Eastern Europe.

He has been a member of the ÖVFA board (Austrian Association for Financial Analysis and Asset Management, [www.oevfa.at](http://www.oevfa.at)), since June 2012 he is elected as the president of ÖVFA for the second time. Since 2006 Mr. Mostböck has been a member of the board of EFFAS (The European Federation of Financial Analysts Societies, [www.effas.com](http://www.effas.com)), the umbrella organisation of all European analyst associations with a total of more than 17,000 members in 27 European member countries. He is also the chairman of the EFFAS Commission in the area of ESG (environmental, social, and governance issues) and is member of the Austrian Working Committee for Corporate Governance and of the Austrian Financial Reporting and Auditing Committee. He is the author of numerous books and publishes articles in financial publications and trade journals on a continuous basis. He focuses on articles on the capital markets in Central and Eastern Europe and on the topics of corporate governance and corporate responsibility.

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