

# Advocacy

## Financial Market Integrity (FMI) Index – General Information

What's behind?

Measures the **level of integrity** that investment practitioners experience **in six major financial services markets**—Canada, Germany Hong Kong, Japan, UK, and US—and the practitioners' **beliefs in the effectiveness of regulation** and investor protections **to promote such integrity**

How is it measured?

Overall rating created by taking the average score from **two sets of questions**:

- **10** questions on the level of **integrity of** different **professionals**
- **5 + 2<sup>1</sup>** questions on the **effectiveness of** capital **market systems** in ensuring market integrity

Who participates and when?

- **2,700 professionals** in 80 countries with CFA, FSIP, or ASIP designation
- Annually, latest between 1 February and 9 March **2010<sup>2</sup>**

What is the aim?

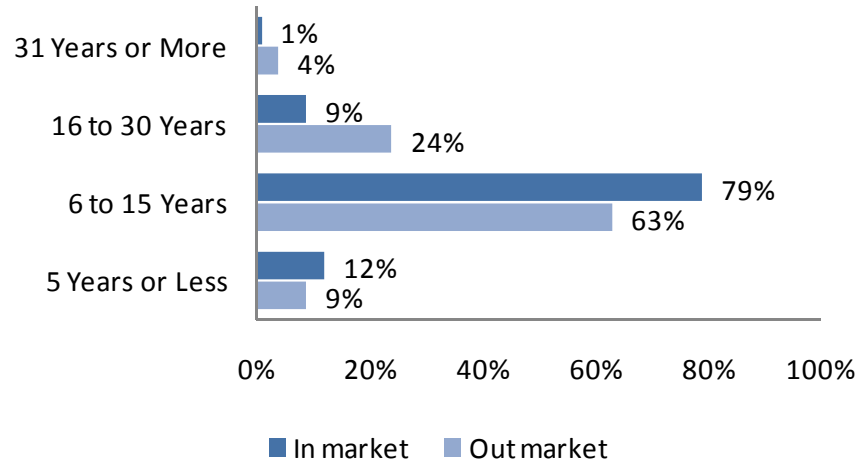
- Focus discussions in these markets on financial market integrity
- Draw attention to aspects of ethics & integrity that may need improving

*1) Two sub questions not included in overall index calculation 2) First questionnaire in 2008*

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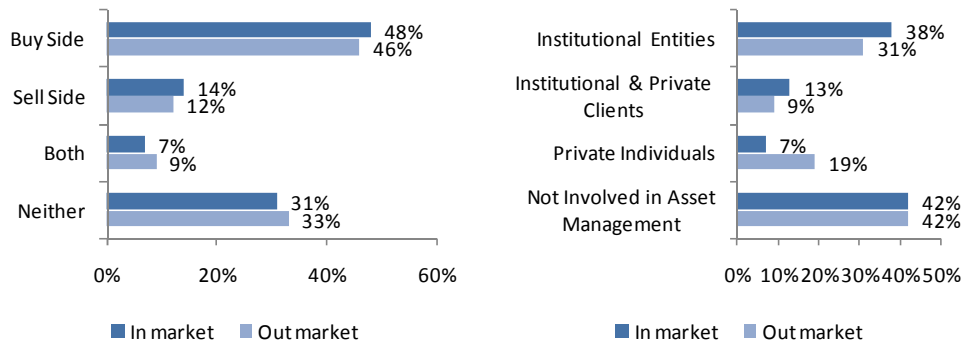
## FMI Index Germany – high standard of rigor and reliability

### Years in industry



- 287 respondents from inside Germany (in-market ratings)
- 304 respondents outside Germany (out-of-market ratings)
- High level of expertise I

### Respondent Profiles

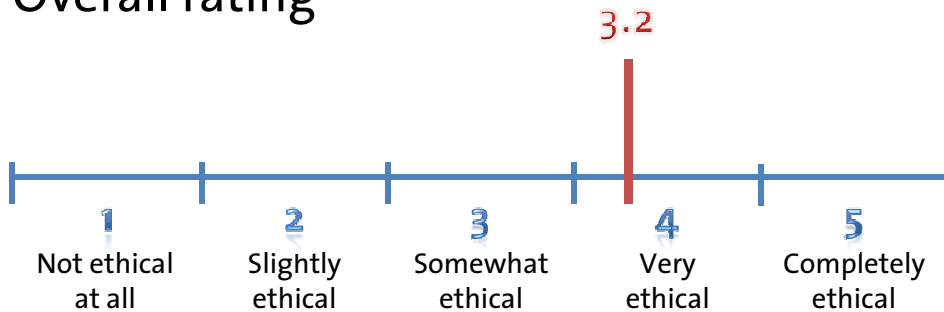


- From different side of investment analysis
- Wide client Base
- Highly representative

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## FMI Index Germany – General findings

### Overall rating



- 3.2 overall rating on a scale of 1 to 5, slightly above “average”
- No overall difference between in- and out-market respondents

### Ethical behavior of individuals

Professional Occupation	Rating
Pension Fund Managers	3.8
Mutual Fund Managers	3.7
Buy-Side Analysts	3.6
All Financial Professionals	3.4
Corporate Boards of Public Companies	3.3
Executive Management of Public	3.3
Sell-Side Analysts	3.0
Private Equity Managers	2.8
Financial Advisers to Private Individuals	2.7
Hedge Fund Managers	2.5

Annotations: A bracket groups Pension Fund Managers (3.8), Mutual Fund Managers (3.7), and Buy-Side Analysts (3.6) with the text >3.5. Another bracket groups Private Equity Managers (2.8), Financial Advisers to Private Individuals (2.7), and Hedge Fund Managers (2.5) with the text <3.0.

- Most confidence in the ethical behavior of pension fund managers, mutual fund managers, and buy-side analysts
- Ethical behavior of financial advisers, hedge fund-, and PE managers elicit the most cause for concern
- Behavior of supervisory boards most cited as concern

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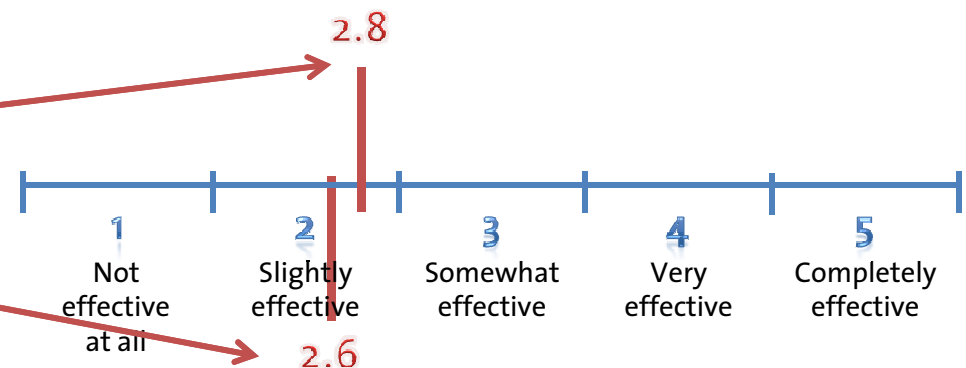
## FMI Index Germany – General findings (II)

### Effectiveness of market systems

Market System	2010
All Capital Market Systems	3.2
Accounting Standards	3.2
Legal Protections for Investors	3.2
Shareholder Rights Standards	3.1
Corporate Governance Standards	3.0
Financial Transparency Standards	3.0
Regulatory Systems	3.0

- Most confidence in the legal protections as well as accounting standards
- Most concern with the German regulatory system, corporate governance and transparency
- Lack of transparency most cited concern

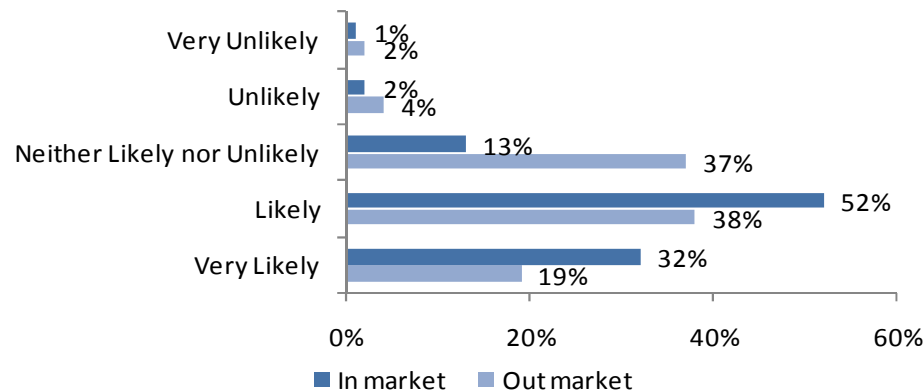
- Effectiveness of available regulation and investor protection to offer a solid framework for investor rights
- Effectiveness of regulatory-policy enforcement doubted



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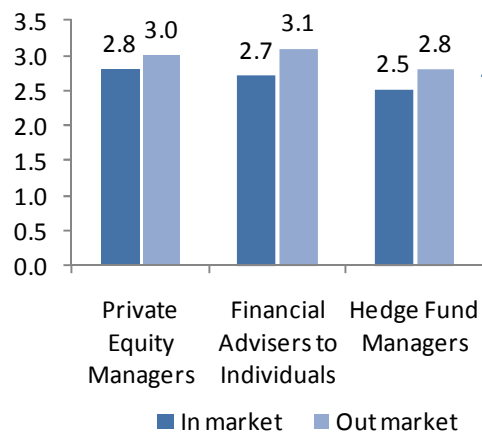
## FMI Index Germany – Market-in vs. market-out perception

### Recommend to invest based on integrity



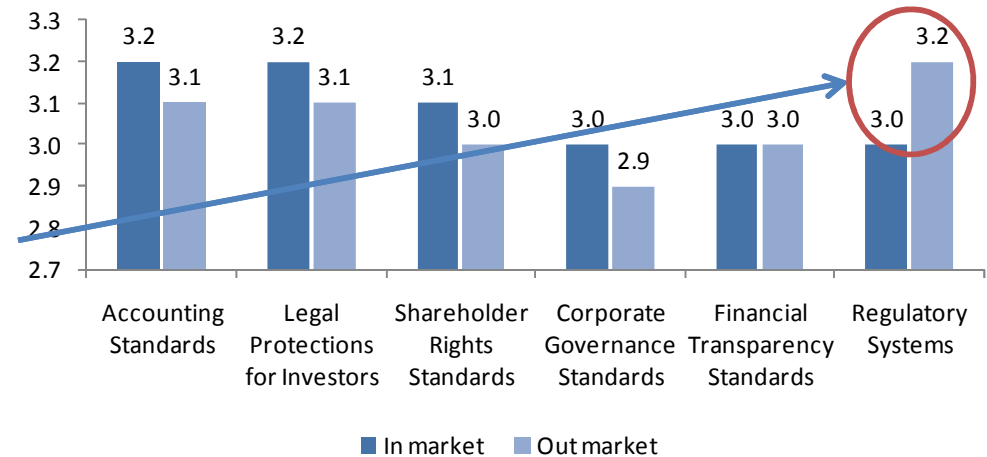
- 84% of those in Germany are likely or very likely to recommend investing in the German market
- Only about 57% of those outside the German market are likely or very likely to recommend investing in Germany

### Ethical behavior of individuals and effectiveness of regulatory & investment protection



↙ Outside perception of problem groups significantly better

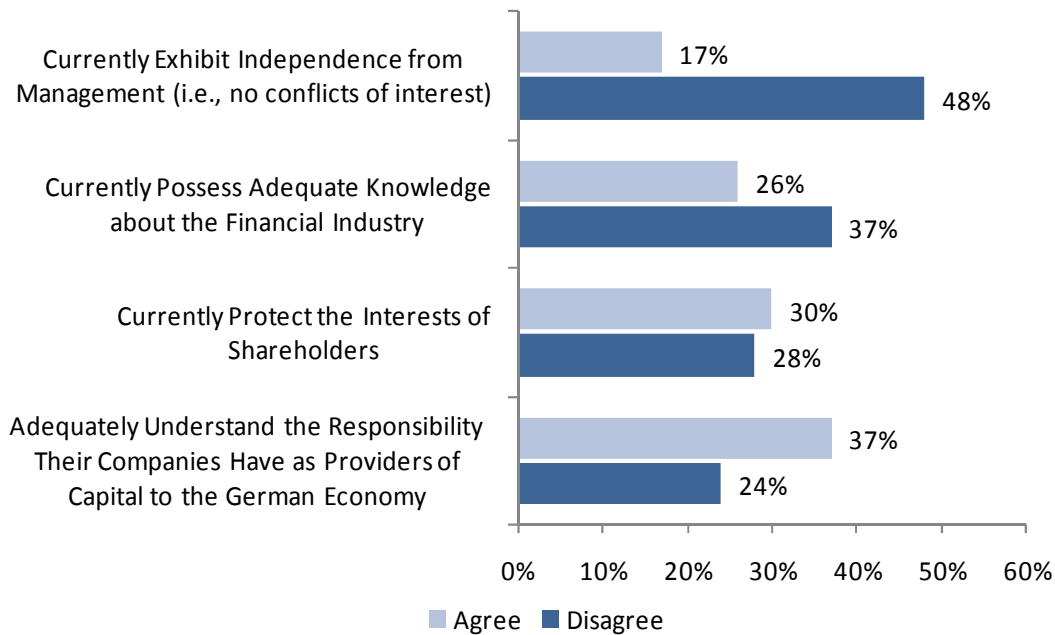
- Effectiveness of regulatory systems perceived much better outside Germany



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## FMI Index Germany- Key Concerns

Independence of and competence of supervisory boards caused the most concerns



- Independence of supervisory boards:  
17% agree that these are independent from management  
48% disagree with the same statement
- Competence of supervisory boards:  
25% agree that these possess adequate knowledge  
37% disagree with the same statement
- Nearly 25% think that supervisory boards do not even understand the importance of their companies for the German economy

44 open end comments on supervisory boards:

*There is still a network of top executives in supervisory boards who have connections with each other, which may create conflicts of interest.*

*—Head of Investor Relations, inside Germany*

*Boards need to have more capital market know-how. Even the top 30 DAX names have boards that lack a fundamental understanding about how capital markets work.*

*—Vice President, outside Germany*

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## FMI Index Germany- Action Required

Improve

- Overall average rating of the German market with strong concerns on ethical behavior of supervisory board members, financial advisors, hedge fund- and private equity fund managers

Promote

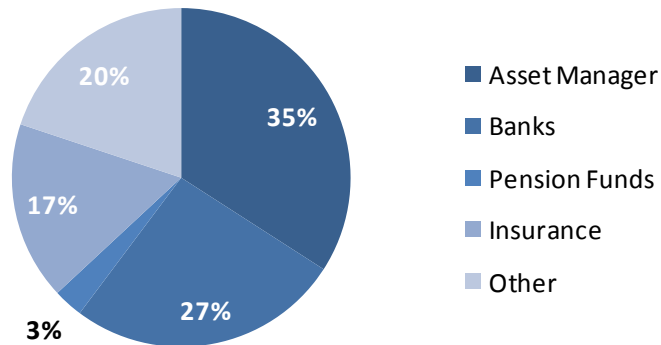
- Only 57% of the respondents outside Germany would recommend investing in the German market based solely on the integrity and effectiveness of the market and its participants

Educate

- Market participants needs to understand their role and responsibilities towards others, investors, the German financial market, and the German economy

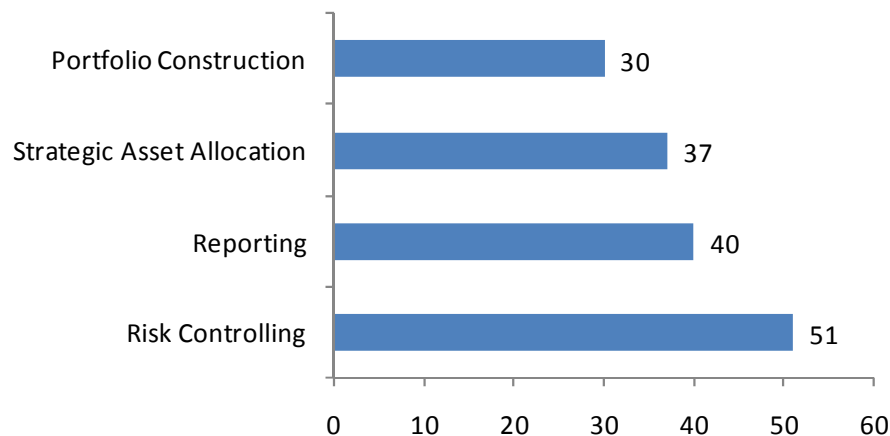
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## Risk Management in Asset Management – Results Preview



N = 69

*“In which steps of your investment process do you use a risk model?”*



- Conducted June, 2010 online via GCFAS webpage
- 69 qualified respondents, thereof 50% risk managers

- Models to control and manage risk are used at different stages of the investment and controlling process
- VAR is most common measure of risk, used by more than 30% of the participants