

Comment by the EFFAS President, Fritz H Rau, on Current Developments in the Capital Market

◆ EFFAS – umbrella association of the European Societies of investment analysts – for a binding Code of Ethics in the European financial market

Frankfurt, April 11, 2001. The EFFAS Commission “Code of Professional Conduct and Ethics” is actively following accelerated financial market legislation agreed by the EU in Stockholm at the end of March 2001. The well-established professional associations from 18 nations, comprising more than 10,000 capital market experts, belong to the European Federation of Financial Analysts Societies (EFFAS). Poland, Russia and Ukraine are associate members of EFFAS.

The new EFFAS President, Fritz H. Rau, Chairman of the Board of DVFA, announced at today’s press conference that a common European standard of professional conduct for capital market experts will soon be created in close cooperation with the relevant EU committees. The European Code of Ethics is based on the global principles of the “International Code of Ethics and Standards of Professional Conduct” of the ICIA. The ICIA is composed of Asian and European as well as U.S., Latin American and South African umbrella associations.

EFFAS welcomes harmonization of the legal framework and especially the supervisory bodies that are helping the European capital market rapidly assume the lead in global competition, a role it already fulfills thanks to its substance and its enormous growth potential. The Euro as common currency enables the creation of the world’s largest financial market.

According to Rau, the work of EFFAS will play a large role in helping to remove the erroneous assumption that regulations in the U.S., the hitherto sole continental single market, are fully developed and could serve as a blueprint for the rest of the world. This misconception – also widespread in Germany – is based on hearsay and does not correspond to a careful analysis of the American experience, e.g. in the field of supervisory bodies.

For example, by introducing Regulation FD in October 2000, the SEC reacted for the first time to the decades-old situation that U.S.-listed companies routinely pass insider information to selected journalists and analysts with impunity. The selective transmission of insider information prevailed in the U.S. due to the absence of precise insider regulations and was considered common practice.

In Europe, laws against insider information forbid such practices. Europe's capital market law justifiably belongs to the world's most advanced international legal systems. In February 2001, during his introductory visit, the new EFFAS President guaranteed on behalf of the 18 member nations the President of FESCO and the President of the German Federal Securities Office, Georg W. Wittich, the unrestricted cooperation and support of the European umbrella organization, including the creation of a global regulatory system for investment analysts.

The Board of Directors of EFFAS met last week in Frankfurt, the new headquarters of the EFFAS office. Measures were adopted to ensure the sustained stability of the European financial market. Among these was the cooperation with EFRAG (European Financial Reporting Advisory Group), which is currently being established, and the foundation of the EFFAS Committee for European Asset Management Standards, in cooperation with the leaders of the EU funds industry. In December 2000, the EFFAS member association DVFA published a relevant preliminary study (see www.dvfa.de).

Work on a common EFFAS platform is proceeding rapidly, in the course of which representatives of 18 countries have emphasized their understanding that the effort is one of cooperation among equal partners. The European subsidiarity principle is experienced at all levels of EFFAS, according to Fritz H. Rau. Its decentralized structure respects the autonomy of the renowned member associations. Equally ranked committees provide quality assurance and prevent the imposition of individual interests of certain member associations on other EFFAS members.

The epic undertaking of European integration will only be successful, in the estimation of EFFAS, when the various national values, cultures and languages are respected and recognized. With this approach, well anchored in the history and legal view of continental Europe, EFFAS has clearly rejected U.S. associations and organizations that unilaterally impose their own national regulations worldwide.

At the present time, securities and investment research – including research on German listed companies – is being performed virtually everywhere in the world. Fritz H. Rau therefore warned against national over-regulation that will lead to an overly rapid deployment of Germany-based investment analysts to competing financial centers, such as London and New York, where they will not be subject to such regulations.

Moreover, the first signs of harmonization in the European framework should not hide the fact that the European legal system is not compatible with U.S. case law. According to the relevant statutes of the U.S. analyst association AIMR and its German affiliate GAIP, German private investors may have legal recourse regarding the professional misconduct of a member of these associations only to the U.S. organization. This is clearly an untenable option for the average European small investor given the associated costs and language barriers.

The EFFAS members' committees, on the other hand, are unified in upholding the interests of European constitutionality. They are available to serve the interests of securities supervision, the courts, enforcement authorities, and private investors. For example, the DVFA's extensive list of regulatory and sanctions measures comprises a disciplinary and arbitral jurisdiction.

The Disciplinary Tribunal is chaired by the presiding judge of a large district criminal court, while the Arbitral Tribunal is chaired by a long-standing presiding judge of the federal court of justice. Not only is their reputation and personal integrity beyond reproach but they, as German judges, also speak and understand the language of investors as well as members of the profession.

In its statement to the German Federal Economics Ministry on March 1, 2001 DVFA committed itself to expanding its 1995 Standards of Professional Conduct, including facilitated access for investors to the DVFA Disciplinary Tribunal (see excerpt from the DVFA statement in German at www.dvfa.de).

Presentation of New DVFA Projects

1) CIIA[®] - Certified International Investment Analyst, the professional diploma with the true global reach!

New companies located in Germany and creating new jobs on site in innovative sectors such as biotechnology need local investment analysts. The goal of growth-oriented stock exchanges is to facilitate entry into the capital market at an early stage of these companies' corporate cycle. The revolutionary modernization of enterprise financing in the Euro Zone has been launched with the assistance of the market segment "Neuer Markt". The occasional consolidation phase thus will not prove a lasting drag on the economy if current losses in the securities markets do not prompt over-reaction by the government. Small and medium-sized enterprises as engines of German industrial growth, in particular, need much more liberalization and much less state regulation.

The need for modern forms of capital formation demand a medium and long-term perspective. Publicly listed middle-sized enterprises are globally competitive on the financial market only when they have access to competent financial professionals who possess market knowledge and proximity to customers.

For this reason, the primary goal of a European umbrella organization is to strengthen and build the professional qualifications and high standards of investment analysts in the European financial market. So far, over 6,000 capital market experts have earned the professionally recognized CEFA Diploma (Certified EFFAS Financial Analyst). Graduates thereby can demonstrate that they have a globally accepted competency as well as in-depth knowledge of the local legal, tax, social, and cultural factors of their clients, the market and the professional environment. They also must have at least two years experience in the investment field.

This basic requirement is also fulfilled by the global qualification program CIIA (Certified International Investment Analyst), which will be first offered by the DVFA in July 2001. The CIIA is conferred by the European, Asian and Latin American umbrella associations of the established professional associations, including those from France, Germany, Italy, Spain, Switzerland, Japan and Brazil. They in turn have formed the ACIIA (Association of Certified International Investment Analysts) and represent worldwide over 20,000 investment professionals.

A prerequisite is the European CEFA Diploma or an equivalent certificate acknowledged by the ACIIA, such as the U.S. CFA[®]. Based on global case studies, the following fields are covered: corporate finance, economics, financial accounting and statement analysis, fixed income valuation and analysis, equity valuation and analysis, derivative valuation and analysis, as well as portfolio management (see www.dvfa.de).

ACIIA members have recognized that no single globally-uniform exam can adequately cover the variety and complexity of clients and markets. The requirements of globalization are much more demanding!

The ACIIA thus works with equal partners who emphasize global expertise alongside local factors and market demands. Only this basic principle of mutual acknowledgment of available strengths and standards can offer a stable base for global cooperation. More fundamentally, it is the basic principle that shapes our era. Global acceptance of the CIIA Diploma is assured by the participation of professional associations worldwide. At the conclusion of the first CIIA exam in March 2001, 1,700 participants successfully passed the exam. Approximately 3,000-5,000 graduates are expected annually. This number comes close to the order of magnitude of CFA[®] graduates worldwide (1999: 5,015; 1998: 3,895 and 1997: 3,119).

The curriculum and exam contents of the CIIA are determined by the International Examination Committee (IEC), which also manages and oversees the national exam process. Members of the IEC are academics with practical experience or experienced professionals with academic activities, currently representing three continents and seven countries. They bring with them expertise gained from many years of successfully administering professional qualification programs in member countries. A worldwide unique quality of professional career development based on a combination

of global and local knowledge thus is assured. The long-standing academic director of DVFA's Training and Continuing Education, Prof. Dr. Otto Loistl, Vienna University of Economics, is a member of the IEC.

National professional associations such as DVFA serve an important function in the global professional training and continuing education program and exams for the CIIA since they provide an important local contact point for participants and lecturers.

CIIA participants possess the necessary know-how and understand the language of their clients and their markets – globally and locally!

2) EFFAS/DVFA Conference: “Europe: Corporate Governance in Practice”, September 5 - 6, 2001, Berlin

In cooperation with DVFA, EFFAS is giving top priority to the capital market-relevant theme of corporate governance on September 5-6, 2001 in Berlin. At this conference STOXX companies and international investment experts will focus on the significance of corporate governance (CG) in investment decisions. The EFFAS/DVFA conference is supported by STOXX Ltd.

Based on current studies, such as McKinsey & Company's “Investor Opinion Survey on Corporate Governance“, 2000, institutional investors are prepared to pay a 20 % premium on average for companies managed in accordance with CG principles. The main focus of the conference therefore is the presentation and explanation of the concrete application of rigorous CG principles in corporate management. As recently as June 2000, DVFA published a Scorecard for German CG as a tool for a practical standard evaluation method for CG (see www.dvfa.de).

EFFAS is fortunate to have had Dr. Rolf-E. Breuer, Chairman of the Board of Deutsche Bank AG and one of the most important proponents of CG in the international capital market, to launch the conference.

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