



EUROSHAREHOLDERS CALLS FOR FURTHER REFORMS OF THE CAPITAL MARKETS

Euroshareholders strongly supports the most recent activities of the EU with respect to the current financial crisis, they were long overdue. But these measures alone are not sufficient. Euroshareholders is of the opinion that there are even more measures which need to be put forward as an answer to the current financial crisis:

1. Need for A Strong European Supervisory Authority for the Capital Markets in Europe

The global financial markets need a higher degree of **International Supervision**. So far we have 27 differing national supervision systems with their own differing rules. The lack of efficiency of the current supervisory system shows the need to establish a European Authority. The principle of local control by local authorities obviously failed in this crisis. Therefore a strong European Supervisory Authority has to take its place. Euroshareholders fully agrees with the recent proposal of the EU commission indicated in the Larosiere report to establish **EU- supervisory agencies** out of the existing committees CEBS for banks, CEIOPS for insurance companies and pension funds and CESR for the trade of securities. But this can only be step no.1 on the way to a strong international supervision. So far these committees just had an advisory voice, but from 2010 on this will change. In the view of Euroshareholders this authority can only work efficiently, if it is vested with all necessary **supranational competencies**. This step would also help avoiding the inefficiency of 27 differing national supervision systems and rules.

2. Regulation and Supervision of Hedge Funds, OTC products and Short Sales

- **Hedge Funds and other alternative investments** need a higher degree of **supervision as well as higher standards of transparency**. Euroshareholders therefore strongly supports the registration of funds which is being proposed in the draft of a new directive of the EU-Commission/EU-Parliament (on Alternative Investment Fund Managers) as a first step in the direction of a higher degree of supervision.
- Besides there is a strong **need to set up rules with regard to the short selling** of shares. An increase in transparency of the short sales alone is not sufficient. Euroshareholders therefore proposes to take concrete measures in order to establish rules for short selling. Euroshareholders advocates therefore the most recent proposal of CESR to introduce a disclosure rule on short positions once they reach certain thresholds (0,1 to 0.5 % of the company's share capital) as a step in the right direction.
- The financial crisis has shown that **derivatives traded over the counter** and products such as **mortgage backed securities** need **stricter rules** and a higher



degree of supervision. In view of the different national rules there is a strong need for harmonised rules in the EU.

3. Need for a Reform of the International Accounting Standards (IFRS)

As we take a closer look at the reasons for the current financial crisis we identified the U.S. subprime crisis as a key issue. The very creative sale of bundled subprime papers via Special Purpose Vehicles (SPVs) seemed like a good business since those vehicles did not have to be consolidated by the banks. This lack of consolidation led to huge problems in the balance sheets of the banks. Therefore there is need for action: IFRS rules have to be reformed and should include the consolidation of SPVs in order to create full transparency.

4. Rating Agencies should be liable and transparent

Euroshareholders supports the envisaged **registration of rating agencies in the EU**. Thereby the rating agencies will have to **disclose their rating principles** and **avoid any conflict of interest** such as the consulting and the rating of the same company. Nevertheless in the view of Euroshareholders there are further steps to be taken: the **internal structure and procedure of the Rating Agencies should be disclosed** and they should **be made liable for their ratings**. Also the EU-Commission should make clear that the rating agencies will be supervised by the new European Supervising Authority. Finally the further objective should be that European Ratings will be based on European Rating standards for European Companies in order to avoid the application of U.S. ratings.

5. Need for binding rules on the pay of directors and NED (Non-Executive Directors) including a Shareholder Vote

The EU-Commission needs to introduce a **directive on directors' pay**. The past has shown that an *EU recommendation on directors' pay was not very effective*, since it was only applied by a few Member States. Therefore the EU should establish an EU wide binding standard to **introduce the shareholder vote** ('say on pay') on the remuneration for directors and NED all over Europe.

Besides such a directive should also give a **clear definition of adequate pay** to avoid any reward for failure of the management including the following important aspects:

- **rules on the prohibition of high risk short term incentives for directors and NEDs**
- **the establishment of a yearly examination on the adequacy of the pay for directors and NED with regard to a peer group and the remuneration structure inside of the company (vertical and horizontal elements)**
- **a maximum cap on the variable part of directors' pay in relation to the fixed part of the remuneration and**



- **a maximum cap on any payments based on change of control clauses**
- **rules on the avoidance of ‘golden parachutes’ limiting any compensation in case of an early termination of the directors’ contract to a 1 year salary (fixed part)**
- **clear rules on the qualification (experience, knowledge etc.) and independence of NEDs**
- **binding rules on the independence of external remuneration experts in order to avoid any conflicts of interest.**

6. Introduction of a joint compensation claim for investors

The portfolio of international investors nowadays includes international shares more than national shares. But if an investment abroad becomes worthless, investors’ rights to ask for cross border redress are very weak. With possibly 27 different collective redress mechanisms, possibly high litigation fees it seems almost impossible for an investor to ask for compensation cross border. In order to improve the rights of shareholders e.g. in the case of misleading information by the management, Euroshareholders favors the establishment of a joint legal compensation claim by investors. Therefore Euroshareholders strongly supports the introduction of one **collective redress mechanism** with the same rules in all EU-Member States, as mentioned in the Green Paper of the EU-Commission on Consumer Collective Redress.

7. The Investors’ License as an important requirement

All EU- Member States, the EU-Commission and the EU-Parliament should support the introduction of an ‘Investors’ License’. Such a license should be strongly supported by the national stock exchanges, the supervisory authorities together with the national shareholder associations and all financial institutions such as insurance companies and banks. **Investment education** needs to be part of school education and furthermore should also be a formal requirement for investors who wish to invest in certain risk classes.

8. Higher standards for the Financial Intermediaries Business

Euroshareholders also supports the idea of higher standards for the financial intermediaries business. The current financial crisis has made clear that the sales personnel should not sell any financial product to their clients which are not (easily) understandable. This also means that the **training** of the financial intermediaries should be **intensified**.

Euroshareholders

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