



Faith Based Investors Welcome Vatican Statement on Financial Reform

The document, “Towards Reforming the International Financial and Monetary Systems in the Context of Global Public Authority”, released by the Pontifical Council for Justice and Peace, offers a very helpful analysis of the ongoing global financial crisis and makes some sound proposals and recommendations to reduce the probability of meltdowns of such magnitude in the future.

As institutional faith based investors and members of the Interfaith Center on Corporate Responsibility who have been actively engaging financial institutions including large banks, credit rating agencies, investment advisors, and regulatory agencies for over forty years, we welcome the document. We believe the principles and the framework that are presented in the document make a very positive contribution towards the development of a more stable financial system that will serve the real economy and promote the common good. The document identifies the existence “of a free, stable world economic and financial system at the service of the real economy” as an essential element of the ongoing globalizing phenomenon and the numerous individual economic transactions that millions rely on every day.

Our Experience

Our shareholder advocacy with the financial sector began with questioning bank loans to South Africa and Chile and the need for lending criteria to include such concerns as human rights, just labor practices and environmental impact. Over the years our work with these institutions has been guided by our vision of a financial system that provides access to credit across large segments of the population, particularly to underserved communities, and does so within a framework that is fair, just and sustainable. In recent years we have focused on off balance sheet liabilities, excessive leverage, systemic risk and the management of operational risk in a business model that includes derivatives, credit default swaps and collateral debt obligations.

Many of our letters, dialogues and stockholder resolutions deal with policies and practices for the extension of credit where it is needed and the transparency, stability, safety and accountability that the financial system, serving as the circulatory system for the global economy, requires. The absence of laws, regulations and standards that operated across different jurisdictions was one of the important missing ingredients that we identified in our engagements. This lack of coordination and harmonization often gave these multinational institutions a distinct advantage. The call for greater cooperation and coordination between jurisdictions at all levels, that the document calls for, cannot be postponed.

Gaps in the Regulatory System

Historically many of these banks have also been able to take advantage of the many loopholes that, through lax regulation, have been allowed to persist in the financial system. This has led to the facilitation of capital flight, hidden offshore accounts and the marketing of products and services that rely on tax havens and secret accounts. The damaging impact of such practices as regulatory arbitrage or "the flight to the bottom" phenomenon has also been successfully used by corporations to their advantage in lobbying politicians and policy makers. As a minimum requirement, the document calls for a "shared body of rules to manage the global financial market which has grown much more rapidly than the real economy."

We believe that the document sets the right tone and proposes the right benchmarks when delineating the responsibility of governments and international bodies to establish the framework and rules for transactions and activities that take place in a globally integrated financial system. These benchmarks are particularly important as corporate footprints expand and companies become more difficult to regulate within their legally domiciled jurisdiction. The benchmarks are also consistent with the long tradition of Catholic Social Teaching on the role of government and with the reasonable delineation of authority that is enshrined in most constitutional documents of nation states.

The document's call for a global financial authority is consistent with the vision of those who established the Bretton Woods Institutions and recognizes that the challenges of the 21st Century call for a new iteration of the cooperation and coordination that the original designers first conceived. This vision is also consistent with the increased interdependence and connectivity that globalization and technology have facilitated and promoted. While the establishment of a global financial authority is not imminent, the Pontifical Council for Justice and Peace puts the world on notice that as we limp from financial crisis to financial crisis- whether they start in Mexico, Russia, Thailand, the U.S. or Europe - some strengthening of existing arrangements through treaties or other commitments is essential.

Issues in the financial system that still need to be addressed include, but are not limited to: the existence and purpose of tax havens; global clearinghouses for transparency in trades and transactions especially those that are highly leveraged; capital adequacy ratios and reserves for significantly important financial Institutions; transfer pricing loopholes and disclosure of beneficial ownership of secret accounts and correspondent banking relationships.

Ethical and Cultural Factors

"Towards Reforming the International Financial and Monetary Systems in the Context of Global Public Authority" calls for the examination of every facet of the problem including ethical and cultural factors. It highlights the need for a trustworthy political, legal and

regulatory framework that is ethically based, adequately resourced and above all not compromised by the "revolving door" phenomenon between the public and private sectors. This, in our estimation, places the integrity of regulators and corporate employees into numerous conflicts of interest. Responding to these challenges and rebuilding an ethical culture especially in the financial sector will require more than new legislation.

The inability of regional and global bodies to get beyond their own political responsibilities as they search for more transparent, accountable and ethical rules and regulations has been immediately on display in the current euro crisis discussion, but is also evident in the recent meetings of the G8, the G20 or 22. A re-awakening of the "forward-looking imagination" that Pope Paul VI wrote about is desperately needed, if the promotion of the "common good" and the vision of the "universal public good" is to be included and embraced by political and corporate leaders.

The financial system is like the vascular circulatory system in the human body that extends to all extremities and sectors and nurtures economic activities that can promote and preserve the common good. The document rightly reminds us all of how individual failings such as greed, selfishness and pride contribute to the corruption not only of individuals but to the corrosion of the public trust that is at the foundation of any financial system and required for all economic activity.

As faith based and socially responsible investors, we want companies that are principled and profitable. We want them to be focused on the long term viability of their products or services, engaged with stakeholders and committed to the fulfillment of their social purpose that includes the protection of the planet that sustains us. This should be true for all corporations but it is essential for those in the financial services sector that play such a vital role in communities across the world.