



Press Release: **Embargoed until Monday
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Is there an alternative to “Business as Usual” in financial markets?

Major new global institutional investor survey finds that when asked anonymously, investors point to a need for a major sustainability overhaul of financial markets. Could the ‘wisdom of crowds’ offer a solution to the systemic folly of boom and bust?

Increased Moral Hazard

More than 90% of institutional investors questioned in a unique survey of market participants believe financial markets are now threatened by increased ‘moral hazard’ – the belief that banks and other investors will take excessive risks based on implicit government guarantees - following the credit crisis bailouts than they did before it, and that fixing this must be a priority to ensure the sustainable functioning of markets. However, just under a third of these same investors (28%) are pessimistic that the right lessons from the crisis have been learnt to avoid future market blowouts.

The survey is one of the first times that institutional investors, who some critics - including Lord Myners, UK Financial Services Secretary - believe contributed to the market crisis as absentee owners of banks and corporations, have had their say on the economic crisis and the current major political/regulatory debate topics.

The survey was answered **under guarantee of anonymity** by **208 investment professionals**, the majority of whom work for asset managers or asset owners (pension funds)

Just under half (49.4%) responded from mainstream asset management firms, while 32.6% responded from sustainable investment specialists (n.b. we examined the results to see if there were any notable differences between mainstream and sustainability-driven managers responded and could not find any)

The results suggest that while everyone assumes investors are herd-like and prone to group folly, if investment professionals are asked to answer answer as individuals and in a confidential way, you can tap into the 'wisdom of the crowd' effect.

Institutional investors partly to blame

Asked whether Myners was right and that institutional investors should share some blame for the financial crisis, institutional investors were surprisingly self-critical: **86.1% said they should**. Of these, 68.2% said they had thought this since the beginning of the crisis, while 17.9% said they had disagreed, but changed their minds as the crisis unfolded. 10.3% said they disagreed.

Banking bonuses?

*Also surprisingly, a third of the responding investors (33.3%) believe financial services remuneration should be subject to a *total salary and bonus cap*. 66.7% disagreed.

* Proposals for *post remuneration 'clawbacks'* in the event of firm/bank losses enjoy much greater support with **75.3% in favour and 24.7%** against.

* *Bonuses* paid over multi-year/ - timeframes/deferral were also supported by **90.8%**, **with just 9.2%** against

*Significantly, 73.4% of respondents said *guaranteed bonuses* – a subject of intense debate at last month's G20 Summit in Pittsburgh – should be banned (26.6% disagreed)

* More than three quarters (76.4%) said *golden parachutes* should also be banned (23.6% disagreed)

* 75.9% agreed with recent proposals by the Walker Draft Report on corporate and investor

governance that the remuneration details of top earners within banks and financial services companies should be published (24.1% disagreed)

* 89.7% said there should be clear regulation/independence of compensation committees (10.3% against)

* **78.6% said** CEO pay should be reported versus the next level of executive pay and/or company median pay (21.4% against)

Regulatory response?

* 80.5% said the response of regulators has so far fallen short of what is needed to fix the system (9.2% said regulators had taken adequate measure)

Favourable treatment for institutional investors?

* **41.3% disagreed with Paul Myners, UK Financial Services Secretary's proposal that long-term, institutional investors should be given preferential market treatment.**

21.9% said they agreed and supported enhanced voting rights

21.4% said they agreed and supported greater tax breaks on investment

11.7% said they agreed and supported enhanced share dividends

Tobin tax?

Opinions were split on the idea recently rehashed by Lord Turner of introducing a global Tobin tax on financial transactions as a potential umbrella curb on excess banking/financial market risk. Of the respondents, 44.3% said they thought it was a reasonable idea, but imperfect, although they thought similar top-down, global taxes should be explored.

Just under a third of investors (32.8%) said Tobin was “a terrible idea” and that top-down, global, Tobin-type taxes never work. 23% said Tobin was an excellent idea, which could dampen speculation and fund the move to environmental sustainability.

Jack Welch and shareholder value

Respondents were asked their views on the statement earlier this year by CEO of General Electric Jack Welch that: "On the face of it, shareholder value is the dumbest idea in the world... Shareholder value is a result, not a strategy... your main constituencies are your employees, your customers and your products."

***75.0% agreed that** other stakeholders beyond shareholders are more important than was previously realised and that investors should adapt how they take this into account (10.9% disagreed and 14.1% were unsure)

* **69.5% disagreed** that investors should purely focus on finding companies that deliver reliable shareholder returns (19.5% agreed, 11.1% were unsure).

* **89.7% said they believed** short-term management thinking had been encouraged by short term investment assessments by shareholders (6.2% disagreed and 4.1% were unsure)

Crisis good for increasing sustainability factors in investment?

40.3% thought the crisis had been **good for sustainable investment** (**8%** thought it had been **very good**, 27.9% thought it had been neutral, 6% bad, 2% very bad and 15.9% said they couldn't tell yet.

Could the predicted environmental crisis be the next credit crunch?

* 29.0% said Yes and that investors would again fail to do what's really needed.

* **47.2%** said they **agreed with the sentiment but were hopeful investors would learn and respond**

* 11.9% said the prospect of an environmental crisis was 'overstated' and that there was a good chance institutional investors would learn

* 11.9% disagreed that there would be any environmental crisis

Information for Editors:

**The full survey results can be downloaded at:
LINK (survey housed on NSFM, we can house
on RI also)**

The survey was carried out during September/
October 2009.

Response breakdown was fund managers (34%)
asset owners (pension funds) (14%), specialist
environmental, social, governance providers
(consultants/research agencies) (15%)

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About the survey organisers

The Network for Sustainable Financial Markets (NSFM) is an international on-line network of senior financial market professionals and academics who study the financial markets.

www.sustainablefinancialmarkets.net

AQ Research specialises in promoting good investment research through conferences and data products. www.aqresearch.com

Responsible-investor.com is a specialist on-line magazine that looks at sustainability issues in financial markets and investment:

www.responsible-investor.com.