



Amy Domini

# WHAT THE WORLD NEEDS NOW

**Four things President Obama could do to create a sense of social responsibility in the financial markets.**

**BARACK OBAMA HAS TAKEN OFFICE AT A CRITICAL TIME IN U.S. HISTORY. WE'RE** fighting two wars and facing what the new U.S. President and others have called the biggest financial crisis since the Great Depression. Stock markets have collapsed more than 50 percent from peak to trough in most parts of the world. But the meltdown began in the U.S., and at least part of the solution must come from here. Below are some of my ideas, drawn from years as a student of the financial markets and as a socially responsible investor, about how to return some sanity to financial markets.

## 1 Re-regulate

There's a difference between making money and stealing it. Recent events, like the uncovering of what I view as criminally sloppy ratings of credit default swaps (financial mechanisms designed to transfer the risk of default on certain types of securities), have underlined that difference. The tide of financial deregulation that began 30 years ago must be reversed. More open and transparent reporting by companies and more aggressive enforcement of existing regulations are step one.

## 2 Rein in private equity and hedge funds

Hedge funds and private equity funds are largely unregulated and their managers can do a variety of things that ordinary investors can't—like borrow 20 times as much capital as they raise. Though they maneuver in ways that are frequently risky and lacking in transparency, fund managers have been allowed free rein because they cater to supposedly sophisticated investors with high net worth. But "sophisticated" investors don't always exercise good judgment.

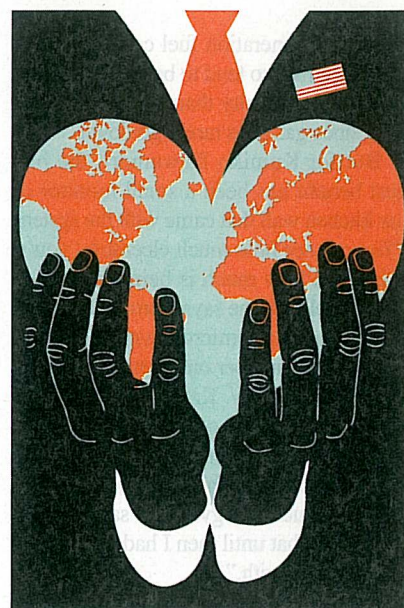
The U.S. Securities and Exchange Commission (SEC) has a mandate to protect investors, but in this case it has walked away from any responsibility toward the ultimate investors, who include pension fund beneficiaries and other members of the general public. The SEC also has a mandate to

protect the general public from market abuses. It isn't particularly relevant to those who were harmed by the actions of hedge funds and private equity funds that these funds' investors were sophisticated. Those of us who were innocent bystanders need greater protection from such "sophistication." The SEC must develop reporting mandates, capital requirements and strict governance standards, including independent directorships, for hedge funds and private equity funds.

## 3 Deter speculators

Only when speculators are driven from the market will real investors dare enter: investors interested in the earnings and long-term prospects of companies, not in what their stocks will do in the next few days or weeks.

To help deter speculation, one easy first step would be to reinstate the uptick rule, which allows an investor to sell a stock short only when its price is rising. (Short selling is a practice through which an investor makes money if the price of a stock goes down.) The rule was in force for decades and prevented short-sellers from pushing stock prices down for profit. The uptick rule was reversed in July 2007, leading to a huge jump in this form of speculation. The President could also tax gains made from short-term stock trading at an extremely high rate, eliminating this damaging way of



operating by making it unprofitable, or he could end the practice of announcing each quarter's expected earnings. The earnings guidance game reinforces the emphasis on short-term profit that has done so much to unbalance the markets and the economy.

## 4 Emphasize the beneficiary

"Fiduciary responsibility" has been a familiar excuse for money managers and speculators who seek the greatest profits for their clients without considering that those clients need a clean planet and a just society if they're to enjoy those profits.

President Obama should start in two ways. First, he should direct the Financial Accounting Standards Board, which regulates accountants in the U.S., to review its standards for what information is "material." The current system allows most environmental and social risks to go unreported, enabling fiduciaries to ignore them. Second, Obama should revisit the Employee Retirement Income Security Act (ERISA), which governs a wide range of employee benefit plans. He should ensure that the standards guiding ERISA fiduciaries take into account the overall well-being of the beneficiary.

**AMY DOMINI** is the founder and CEO of Domini Social Investments, and author of several books on ethical investing.

PHOTOGRAPH: PAK FUNG WONG