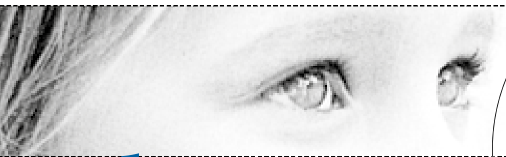

finance & bien commun common good

N° 40 & 41

ETHICS IN FINANCE : WHAT CAN WE DO?
THE VIEWS OF THE UPCOMING GENERATION

ETHIQUE EN FINANCE: QUE POUVONS-NOUS FAIRE?
LES AVIS DE LA GENERATION MONTANTE

NOMINATED ESSAYS
THE ROBIN COSGROVE PRIZE 2012 / 2013

- *Prabhay Joshi, England*
- *Rafael ARP Gomes, Portugal*
- *Ewa Kruchowska, Poland*
- *Beatriz Cuevas, Spain*
- *Guadalupe Briano, Mexico*
- *Ángel López Ortega, Spain*
- *Fabien Hassan, France*
- *Krzystof Osesik, Poland*
- *Joanna Givens, England*
- *Elia Breijo Pena, Spain*
- *Germán Scalzo, Argentina*

ethics in finance robin cosgrove prize

MAPFRE

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EDITORIAL POLICY

The Editors welcome contributions concerning the above mentioned topics provided they are coherent with the mission of ***Finance & the Common Good / Bien Commmun***.

All texts (3'000 words - 18'000 characters including blank spaces) will be carefully reviewed.

You are welcome to include illustrations, tables, or graphs and to indicate two or three interesting and recent publications regarding the issue in question. Please avoid footnotes.

For suggestions of Book Reviews and News Monitor please contact:

office@obsfin.ch

Finance & the Common Good/Bien Commun

Ethics in Finance
Robin Cosgrove Prize 2012-2013

Editorial

Nominated Essays

Les défis de l'éthique en finance

Bien que l'idée du Prix Éthique en Finance, Robin Cosgrove remonte à 2005, la première cérémonie de remise du Prix (automne 2007) a coïncidé avec le début de la crise financière. Six ans plus tard, en novembre 2013, culmine la quatrième édition du Prix Global - troisième de l'édition régionale Iberoaméricaine- avec une nouvelle palette de lauréats.

Au bout de quatre éditions, la question de l'impact du Prix peut être posée.

Le sceptique aura ainsi beau jeu de démontrer que le Prix n'a servi à rien, parce qu'il n'a ni empêché, ni atténué l'intensité de la crise pour le secteur de la finance. L'enthousiaste – peut-être un peu naïf – va rétorquer, quant à lui, qu'en suscitant plus de 250 travaux écrits sur la question, le Prix a porté la discussion et le débat au-delà des cercles de spécialistes. Il a contribué à ce que le thème « éthique en finance » soit plus présent, aussi bien dans les discussions internes au sein des institutions et des professions de la finance, que dans les lieux de formation. En tous cas, dans la pratique, grâce à la reconnaissance donnée par le Prix, les lauréats ont connu des promotions – dans le secteur académique comme dans le privé – ce qui augmente l'impact de leurs propos. Certes, ce sont des gouttes, mais les gouttes

The challenge of Ethics in Finance

The Ethics in Finance Robin Cosgrove Prize was conceived in 2005, with the first competition launched in 2006. The first ceremony awarding the Prize was in 2007 just as the global financial crisis was beginning. Six years later, in November 2013, the fourth edition of the global Prize and the third edition of the regional Ibero-American Prize culminated with a new range of laureates. The papers judged the best by the distinguished Jury that have been nominated for the 2013 Prizes are published in this edition.

Following four editions of the Prizes, the question of the impact of the competitions may be posed. Sceptics may say that the Prize has achieved little since it has neither stopped nor attenuated the intensity of the crisis in the financial sector. More positively – even if a little naively- advocates of the Prize may point to the more than 250 serious papers written on the question of Ethics in Finance and the more than 1000 young finance professionals from more than 80 countries who, over the various editions, have reflected sufficiently on this topic to complete and submit Expressions of Interest. The Prize has contributed to the discussion and the global debate among specialists. It has contributed to the fact that the theme "ethics in finance" is routinely present in the internal discussions of enterprises, institutions and human resource development organizations concerned with the training of Finance professionals. In practical terms, due largely to the recognition they have won with the Prize, the laufinissent par donner naissance à des courants qui, eux, font bouger les océans.

Souhaitant dépasser le constat d'impuissance, les promoteurs du Prix se sont mobilisés pour remettre l'ouvrage sur le métier – édition après édition – et cela dans un esprit de curiosité, de service et du souci de bien commun. Le livre Trust & Ethics in Finance, publié en 2012, réunit tous les textes finalistes des éditions antérieures, alors que ce numéro spécial de « Finance &Common Good/Bien Commun » donne à connaître les meilleurs textes de cette édition 2012-2013. Quant aux participants, ils ont pris au sérieux l'opportunité offerte et ont investi leur temps et leurs énergies à pousser leur réflexion sur un thème, nouveau pour certains. Ils ont pris le risque de lancer leur bouteille à la mer.

C'est à ce stade qu'il nous faut remercier tous ceux qui permettent au Prix d'exister. Les éminents experts, membres du Jury, aux agendas surchargés qui ont pris le temps et la peine de lire, de commenter, de classer et de discuter la centaine de textes reçus, qui -comme dans tout concours ouvert- étaient, cela va de soit, de valeur inégale. Les partenaires financiers, ceux dont les contributions permettent de financer les chèques des lauréats, la cérémonie de remise de prix et la maigre infrastructure du prix. Et enfin les collaborateurs directs et indirects qui n'épargnent ni leur temps, ni leur inventivité et énergie. Ainsi, en dépit de moyens très limités, des prix d'un montant total de 35'000 dollars sont distribués à chaque édition du Prix.

Le Prix a contribué à ce que le thème de l'éthique en finance soit bien plus présent aussi bien dans les discussions internes que dans les lieux de formation.

Au fil des éditions, les thèmes et la manière de les aborder a évolué. Ainsi, lors des premières éditions dominaient les thèmes de la micro-finance, de l'investissement éthique ou de la responsabilité sociale des entreprises au sens large. Ces textes qui ont été produits en partie avant la crise, exploraient des alternatives à la finance dominante sans véritablement aborder les enjeux éthiques au sein de cette dernière. Lors des deux dernières éditions, les choses ont changé. On y sent le poids des questions ouvertes par la crise, par les scandales, par les échecs à répétition - à la fois du marché et des régulateurs. Ceci conduit certains auteurs à pousser très loin l'analyse, alors que d'autres envisagent résolument des solutions et des remèdes. La conjonction de l'analyse et des propositions d'action est sans doute l'une des forces et l'une des caractéristiques du Prix Éthique en Finance, Robin Cosgrove.

Quel est le dénominateur commun de l'immense majorité des textes ? Quatre éléments de réponse méritent d'être soulignés:

• La connaissance – parfois très poussée - des rouages de la finance moderne ;

• La conviction que la réponse éthique doit être cherchée au-delà de la simple technique ;

reates have gained higher status – both in the finance sector and in the academic world – which has increased the impact of their insights and proposals. These may seem like small drops, but drops gradually coalesce and come together to form currents, and they, in turn, cause oceans to move.

The organizers and promoters of the Prize, despite very limited resources, have successfully sought to exert influence above their weight and have been motivated to print the results of the "Ethics in Finance" competitions, edition after edition, in a spirit of commitment, service and concern for the common good. The book, Trust & Ethics in Finance, which we edited in 2012, brought together the nominated papers from the previous competitions, (published by Globethics.net, Geneva). The nominated papers published in this 2013 volume of Finance & the Common Good/ Bien Commun, represent the best papers from the 2012-2013 editions of the global and regional Prizes. The authors made the effort and took the risk to reflect publicly and to launch their ideas – for many of them for the first time. The eminent experts, our distinguished members of the Global and Regional Juries, gave the time and took the trouble to read, evaluate and debate among themselves in an open manner around a hundred papers which inevitably varied in quality. We are very grateful for their commitment

The Prize has contributed to the recognition of Ethics in Finance in internal management debates as well as in training courses.

We would also like to recognize with gratitude our financial partners whose contributions have made the Prizes possible, especially the cheques for the Prize winners, the Award Ceremony, and the miniscule administration of the Ethics in Finance Robin Cosgrove Prize. There are also partners who have not stinted their contributions, both direct and indirect, of energy, enthusiasm and inventiveness to promote the Prize. With very limited means, prizes amounting to $35,000 are distributed at each edition of the Prize.

In the course of the editions, the themes and the manner in which the subjects are expressed have evolved. In the first edition, compliance, micro-credit, ethical investment and corporate social responsibility were the predominant themes. Many of the texts that were written mainly before the financial crisis explored what may be termed "alternative finance" before ethical issues came to prominence in the calamities that engulfed the mainstream financial sector. During the last two editions, things changed. The themes placed more weight on issues that arose during the financial crisis- by the scandals and the failures of markets, financial management and regulators. Some authors pushed their analysis far beyond finance, whilst others focused on specific possible remedies. The mix of analysis and proposals for action is, without doubt, one of the welcome characteristics of the Ethics in Finance Robin Cosgrove Prize.

• La conviction que la finance est vitale pour la vie économique mais qu'elle peut devenir dangereuse dès qu'elle perd sa propre boussole éthique ;

• La conviction présente chez la grande majorité des auteurs que les comportements responsables des protagonistes de la finance est le meilleur garant de leur liberté, indispensable à leur d'action.

L'édition 2012/2013 du Prix « Ethique en Finance » a battu tous les records d'affluence. Deux facteurs permettent d'expliquer cette situation. Le premier est propre au Prix : il s'agit de sa notoriété grandissante et de sa visibilité accrue grâce aux efforts de communication. Le second tient au contexte d'une crise qui dure depuis six ans et dont la nature éthique est de plus en plus souvent reconnue aussi bien par les acteurs que par les institutions financières elles-mêmes. C'est ainsi que le Jury a dû travailler sur un volume de textes sans précédent : plus de 100 papiers. Le pensum de chaque membre du Jury s'est alourdi en conséquence : environ 25 textes à lire et à commenter. Considérant l'importance des respectives situations professionnelles de chaque membre du jury aux agendas déjà surchargés, nous tenons à exprimer ici notre gratitude pour l'effort et l'engagement dont ils ont fait preuve, une fois de plus.

Les expressions d'intérêts venues de plus de 80 pays nous indiquent l'étendue de la prise de conscience de l'importance de l'éthique en finance.

Les expressions d'intérêts venues de plus de 80 pays nous indiquent l'étendue de la prise de conscience de l'importance de l'éthique en finance. Les auteurs des essais soumis viennent de 30 pays, avec une dominante européenne, puis sudaméricaine et asiatique. La parité est assurée, puisque le groupe se compose quasiment de 50% de femmes. 55% sont des jeunes profesionnels de la finance, consulting, etc.; le reste provient du secteur accadémique.

Les textes nominés – parmi eux les lauréats – s'organisent en trois volets. Mis bout-à-bout, ces trois volets offrent une double grille de lecture : la crise et le rôle joué par l'éthique en finance. Le premier volet est celui de l'enveloppe systémique : y sont abordées les leçons éthiques à tirer du scandale du LIBOR, le rôle critique des principes (meta-rules) et le fait que les protagonistes se doivent de prendre soin du marché si ce dernier doit continuer à bien fonctionner. Les textes du deuxième volet s'intéressent aux enjeux éthiques (niveau méso) des institutions et des produits. Ils abordent deux thèmes : l'aspect financier de la responsabilité sociale des entreprises, et les produits et mécanismes qui pourraient être construits autour de préoccupations éthiques. Finalement, le troisième volet regroupe les textes focalisés sur la dimension personnelle de l'éthique : y sont traités les risques de certaines interactions au sein de l'entreprise qui mettent en danger les valeurs éthiques des collaborateurs, l'importance du légendaire « bon sens » comme boussole en situations de dilemmes, éthiques, la manière dont la déontologie médicale pourrait inspirer la mise en place de codes professionnels de la finance.

What is the common denominator of the vast majority of the texts? Four distinct elements should be underlined:

• The familiarity – sometimes very deep – with the internal structures of modern finance;

• The conviction that an ethical response should be sought to the failures of finance instead of simple technicalities;

• The belief that finance plays a vital role in economic life but that it may become dangerous if it loses its proper ethical compass;

• The commitment of the great majority of authors to the conviction that the responsible behaviour of the major financial players is the best guarantee of their liberty, and is indispensable.

The 2012-2013 editions of the Ethics in Finance Robin Cosgrove Prize broke all records. This may be explained by two main factors. First, due to the Prize itself, much greater awareness and significantly more visibility came from increased efforts in communications, especially with assistance from partners. Second, due to the context of the enduring financial crisis over the last six years, the relevance of the nature of ethics and ethical behaviour has been more and more recognized throughout the financial sector and in the financial institutions themselves. This led to the Jury having to work on an unprecedented number of texts and each Jury member's load increased as a consequence, requiring them to read and comment on many more papers than previously. Considering that they are all highly-placed, distinguished persons who already carry a heavy workload, we would like to record our sincere appreciation of their commitment and sterling efforts.

Young people from more than 80 countries submitted formal Expressions of Interest in the Prize, indicating a widespread awareness of the relevance of ethics in finance.

Young people from more than 80 countries submitted formal Expressions of Interest in the Prize, indicating a widespread awareness of the relevance of ethics in finance. The final submissions of papers on the subject came from more than 30 countries, predominantly from Europe but also from Latin America and from Asia. Gender parity featured well, as almost 50 per cent of papers came from females, and there was also a good balance between authors coming from the finance industry, consulting, and the academic sector.

The texts nominated for the final evaluation, which are published in this review, fall into three main sections. Placed end-to-end, these three together offer a framework for the crisis and the role played in it by ethics in finance - or the lack of it.

The first section is the systemic context – here are explained the ethics-related lessons to take from the scandal of fixing LIBOR, the critical role of principles, maybe meta-rules, and the fact that the protagonists should have taken better care of the market if this was to continue to function properly. The second section focuses more on

Ce triptique se termine par une analyse anthropologique du rapport entre finance et éthique.

Ces textes parlent d'eux-mêmes, ils sont porteurs d'espoir parce qu'ils montrent que de nouveaux responsables financiers, sensibles aux aspects éthiques de leurs métiers, se lèvent. Ils sont à la fois critiques et respectueux de l'héritage qu'ils devront assumer.

Ces textes sont porteurs d'espoir: ils montrent que de nouveaux responsables financiers, sensibles aux aspects éthiques de leurs métiers, se lèvent. Ils sont à la fois critiques et respectueux de l'héritage qu'ils devront assumer.

Le lecteur n'aurait pas pu découvrir ces textes sans le concours des membre du Jury, sans les soutiens financiers notamment de MAPFRE dont la contribution a rendu possible pour la 3ème fois consécutive la conduite de l'édition ibéro-américaine, l'Association Polonaise des Banques qui a pris sur elle d'organiser la première édition polonaise du Prix, et Mme Nati Garcia, qui en collaboration avec Mme Sibilla La Spina, a assuré la bonne marche de l'opération au travers de toutes les étapes. Que tous les protagonistes de cet effort commun soient ici remerciés.

Dr Carol Cosgrove-Sacks

Dr Paul H. Dembinski

the ethical stakes at the meso level of institutions and their products. Two main themes are covered: the financial aspects of corporate social responsibility and the products and mechanisms that could be constructed around ethical considerations. Finally, the third section groups together papers focusing on the personal dimension of ethics and behaviour, including the risks involved in certain interactions on the part of enterprises that could endanger the ethical values of their personnel, the overwhelming importance of "common sense" as a compass in situations where ethical dilemmas occur, such as the relevance of medical codes that could inspire financial professionals. The triptych ends with an anthropological analysis of the relationship between finance and ethics.

The papers speak for themselves. They are engines of hope which show that young financial professionals are conscious of the ethical dimensions of their metiers. They are critical and also respectful of the heritage that they will inhabit.

The papers are engines of hope which show that young financial professionals are conscious of the ethical dimensions of their metiers. They are critical and also respectful of the heritage that they will inhabit.

The readers would not have been able to discover these texts without the remarkable work of the Jury and the financial support of partners, especially MAPFRE, whose contribution has made possible for the third consecutive time the Ibero-American edition of the Prize, and the Association of Polish Banks who organized the first edition of the Polish Prize. We would also like to express our thanks to Ms Nati Garcia who, in collaboration with Ms Sibilla La Spina, assured the good administration of the Prize throughout all the stages of the competitions. Finally, we would like to thank all those who aided this remarkable effort.

Dr Carol Cosgrove-Sacks
Dr Paul H. Dembinski

The Global Prize Jury

Dr **Carol Cosgrove-Sacks**, Robin's mother, lives and works in Geneva. She was formerly Director of Trade in the United Nations in Geneva (1994-2005); since 2006 she is a Professor at the College of Europe, Bruges; a Professor at the Europa Institute, University of Basel; and the Senior Advisor on International Standards Policy to OASIS, the global eBusiness standards organisation. She also maintains interest in some British academic centres, including the Institute of Development Studies (IDS), University of Sussex, and the Centre for Euro-Asian Studies (CEAS),University of Reading.

Prof. **Paul H. Dembinski** is the initiator and Director of the Foundation of the Observatoire de la Finance. The mission of the Observatoire de la Finance is to promote awareness of ethical concerns in financial activities and the financial sector. Paul H. Dembinski is the founder and editor of the quarterly bilingual journal entitled Finance & the Common Good/Bien Commun. In parallel, he is partner and co-founder (with Alain Schoenenberger) of Eco'Diagnostic, an independent economic research institute working for both government and private clients in Switzerland and elsewhere. Paul H. Dembinski is also Professor at University of Fribourg where he teaches "International Competition and Strategy".

Mrs **Marie Casimiro-Crepin** is Compliance Officer Professional Ethics and Privacy BGL BNP Paribas (Luxembourg). She is a former winner of the Robin Cosgrove, 2008-2009 edition, and the Robin Cosgrove Prize has allowed him to grow professionally to the field that interested him. Lawyer by training (Master II at the Assas-Paris II University), Marie Casimiro-Crepin focused her final thesis on Law History, particularly of the Right of Public Finances at the time of the "Ancien Régime". This subject, which directly implied the notion of the common good through the new born notion of taxation, helped her to reflect on the direct application of this theme on contemporary societies. In 2007 she started to work for Ethiea Gestion, a portfolio management enterprise which centers its work on an ethical and behavioural analysis of different companies.

Prof. **Marc Chesney** is Professor of Finance at the University of Zurich. Previously in Paris, he was Professor and Associate Dean at HEC, President of the CEBC (Centre d'Etudes sur le Blanchiment et la Corruption) and an external expert with the World Bank. He has published articles and books in the areas of quantitative Finance and also of financial crime mechanisms. In addition, he focuses on the subject of Ethics and Finance. At the University of Zurich, he is member of the Board of the Graduate Programme for interdisciplinary Research in Ethics and co-organizer of the Ethical Finance Research Series. He is also member of the advisory Board of Finance & Common Good/Bien Commun. Marc Chesney holds a Ph.D. in Finance from the University of Geneva and obtained his Habilitation from the Sorbonne University.

Prof. **Henri-Claude de Bettignies,** the Aviva Chair Emeritus Professor of Leadership and Responsibility and Emeritus Professor of Asian Business and Comparative Management at INSEAD is also the Distinguished Emeritus Professor of Globally Responsible Leadership at the China Europe International Business School (CEIBS) and former Director of the Euro-China Centre for Leadership and Responsibility (ECCLAR) that he created in Shanghai, at CEIBS, in 2006. Between 1988 and 2005, with a joint appointment at Stanford University (Graduate School of Business), he shared his time equally between Europe, California and the Asia Pacific region (particularly with the INSEAD campus in Asia). He was educated at the Sorbonne (Licence ès Lettres), at the Catholic University of Paris (EPP), then at the Harvard Business School (ITP). He worked in Africa (MIFERMA, Mauritania), at the University of California (IIR, Berkeley), in New York (for IBM), and then in Tokyo for 5 years.

After graduating from the HEC, Mr **François Debiesse** joined the Bank of Paris and the Netherlands in 1971, holding succesively various management positions. In 1999 he became Director of the Private Bank BNP Paribas, and in 2008 he was appointed Director of BNP Paribas Wealth Management. From 1995 to 2008 he also serves as Chairman of BNP Paribas. François Debiesse is now President of the Fondation de l'Orangerie for individual philanthropy since 2009 and Advisor for Philanthropy and Microfinance for BNP Paribas Wealth Management since 2011.

Dr **Eduard Dommen** is a specialist in economic ethics. He is past President of the Scientific Committee of the Swiss Network of International Studies (www.ruig-gian.org) and is currently a member of the Scientific Committee of the Swiss Network of International Studies. He is a member of the Actares association Shareholders for a sustainable economy and member of the editorial board of the review Finance and the Common Good/Bien Commun. He was a founder member of the Ethics Committee of the Swiss Alternative Bank and a member of the Council of the Caisse Publique des Prêts Contre Garantie as well as a member of the Council of the RAFAD Foundation, an institution that guarantees micro-credit. Eduard Dommen has been a university lecturer, but has spent most of his career before he retired as UNCTAD investigator. He has written and compiled several books on the subject of economic ethics.

Mr **Christopher de Mattos** is a director of London-based investment manager RAB Capital Ltd. and sits on the boards of a number of regulated investment funds. He has spent over 25 years in the financial services industry, working as a financial analyst and investment banker in Europe and Latin America. Christopher joined the founding team at RAB in 1999 and, as Finance Director, was instrumental in taking the company to flotation on London's AIM market in 2004. He holds a degree in Mechanical Engineering from Imperial College, London and gained SERC and Kitchener scholarships to study for his MBA at INSEAD. Having reduced his involvement in the day-to-day management of RAB, he has taken a particular interest in the role of the board and promoting corporate governance in financial services businesses.

Dr **Robert Alan Feldman** is the Chief Economist and Co-Director of Japan Research at Morgan Stanley Japan Securities Co., Ltd. As part of Morgan Stanley's global economics team, he is responsible for forecasting the Japanese economy and interest rates. He is a regular commentator on World Business Satellite, the nightly business program of TV Tokyo. Prior to joining Morgan Stanley in 1998, Robert was the chief economist for Japan for Salomon Brothers from 1990-97. He worked for the International Monetary Fund from 1983-89, in the Asian, European, and Research Departments. Robert has a Ph.D. in Economics from the Massachusetts Institute of Technology, where he concentrated on international finance and development. He did his undergraduate work at Yale University, where he took BAs in both Economics and in Japanese Studies, graduating phi beta kappa, summa cum laude. Before he entered graduate school, he worked at both the Federal Reserve Bank of New York and at the Chase Manhattan Bank.

Dr **Philippa Foster Back** has over 25 years of business experience. She began her career at Citibank NA before joining Bowater in their Corporate Treasury Department in 1979, leaving in 1988 as Group Treasurer. She was Group Finance Director at DG Gardner Group, a training organisation, prior to joining Thorn EMI in 1993 as Group Treasurer. She was appointed Institute of Business Ethics' Director in August 2001. Philippa Foster Back has a number of external appointments, including at the Ministry of Defence, The Institute of Directors and the Association of Corporate Treasurers, where she was President from 1999 to 2000. In 2006 she was appointed Chairman of the UK Antarctic Heritage Trust.

Dr **Andrew Hilton** is Director of the Centre for the Study of Financial Innovation, a London-based non-profit think-tank, supported by 70 City institutions, that looks at threats to and opportunities in the global financial system. The CSFI was set up 20 years ago, and has since published several books and around 100 reports. More significantly, it has organized well over 1,300 round-tables on issues of pressing interest in the financial services sector - including EMU, the single European market, the Internet, small business finance, high-tech start-ups, microfinance and regulation. Dr. Hilton also runs a small economic and financial consultancy. He has worked for the World Bank in Washington and has run a financial advisory service for the *Financial Times* in New York. He is a board member of the Observatoire de la finance in Geneva. He has a PhD from the University of Pennsylvania, an MBA from Wharton and an MA from New College, Oxford. He was appointed OBE in 2006.

Mr **Peter Gakunu** was an Alternate Executive Director at the International Monetary Fund in charge of Africa Group One constituency. Before joining the Fund, he served as Special Advisor to the Kenya Cabinet in charge of economic reforms from February 2003 to October 2004. In September 2000, he joined the "Dream Team", a team of high level personalities put together by the World Bank and UNDP to advise the Kenya Government on reforms. He worked as Economic Secretary and Director of Planning in the Ministry of Finance and Planning until December 2002. He coordinated the first Poverty Reduction Strategy Paper for Kenya. In 2003 he was appointed Permanent Secretary in the Ministry of Environment. Prior to returning to Kenya, he worked with the African Carribean and Pacific Group in Brussels from 1986 to 2000 as Director of Trade, and from 1977 to 1986 as Trade Expert in the ACP Secretariat.

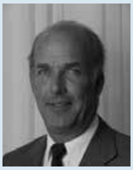
Prof. **Dominique Jacquet** is Visiting Scholar at Insead Social Innovation Center and Professor of Corporate Finance at Cedep, University of Paris Ouest and Ecole des Ponts ParisTech. He is a civil engineer (Ecole des Ponts), holds an MBA from Insead and a PhD from the University of Bordeaux. Before starting an academic career, he has been a finance executive in American and French corporations, holding controller, treasurer and CFO positions. His main areas of interests are the relationship with business and finance, the role of incentives in sustainable value creation and the link between uncertainty and financial strategy.

Prof. **Robin Jarvis** is Special Adviser to the Association of Chartered Certified Accountants (ACCA) and Professor of Accounting at Brunel University. He chairs the Advisory Panel of the Chartered Banker's Professional Banking Standards Board and the European Banking Authorities (EBA) Consumer Protection Group. For the last ten years he has been a member of European Commission's Expert Group the Financial Services User Group. Robin has researched and published on SMEs, accounting and banking for a number of years resulting in numerous publications and 10 books. His interest in SMEs and accounting has been recognised through his membership of the International Accounting Standards Board (IASB) SME specialists groups and his membership of the European Financial Reporting Advisory Group (EFRAG).

Dr hab. **Róża Milic-Czerniak** is a Fellow of the Banking Commission of Ethics by Polish Banking Association and holds a post of the associate professor at the private economic university in Katowice. Previously, she has held a number of the managing positions in one of the biggest banks in Poland, where she was responsible for developing capital management , methodology of product and client profitability concerning costs of risk, capital and costs allocation. She participated also in several projects, as project of ICAAP introducing, etc. Prior to joining bank, she worked at the Institute of Philosophy and Sociology of the Polish Academy of Science in Warsaw, where she researched on economic behavior of households, also in transformation periods (participating in international surveys and projects). She is author of several books and research papers and spent 1,5 year in Germany (at the Hohenheim University in Stuttgart and University in Kiel) during the fellowship of Alexander von Humboldt-Stiftung.

Mr **Peter O'Connor** is an experienced global and regional asset allocation and manager selection adviser for financial institutions, family offices and charities. He is Chairman/Lead Director of a number of publicly quoted investment/production companies with particular personal experience in Asia for the past 30 years. After boarding school in Ireland, Peter O'Connor read Economics and Law at Trinity College Dublin and King's Inns Dublin respectively. He has lived and worked in London and Hong Kong, and he travelled frequently to most Asian countries, Canada and emerging economies in Europe.

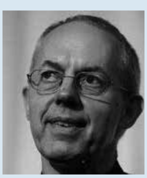
Mr **Jean-Christophe Pernollet** is Chief Financial Officer of the Edmond de Rothschild Group. Earlier in his career he was the partner in charge of the Geneva office of PricewaterhouseCoopers. He is a graduate from IEP and EDHEC and has completed the Columbia Business School Senior Executive Program. As a former Lead bank auditor recognized by the Swiss Regulator FINMA, he is a financial services industry specialist and benefits from more than twenty years of working experience, of which three in Paris and two in New York. He was Chief Financial Officer of EFG International between 2010 and 2012.



Mr **Charles Pictet**, a Swiss citizen, acted as a financial regulator in Switzerland from 2005 until 2012 in his capacity as a member of the board of FINMA. Prior to this, he worked at Pictet & Cie, a Geneva-based Swiss private bank, where he spent 25 years as a partner and senior partner. He was President of the Geneva Private Bankers Association, Vice President of the Swiss Private Bankers Association, and a member of the Board of the Swiss Bankers Association. He also served as Vice President of Economie Suisse. He is currently Vice President of the International Red Cross and Red Crescent Museum in Geneva (Conseil de Fondation), and a member of the Board of Europa Nostra. He holds an MBA from the University of St Gallen.

After taking his degree at Oxford University, Mr **John Plender** joined Deloitte, Plender, Griffiths & Co in the City of London in 1967, qualifying as a chartered accountant in 1970. He then moved into journalism and became financial editor of *The Economist* in 1974, where he remained until joining the UK Foreign Office policy planning staff in 1980. On leaving the Foreign Office, he became a senior editorial writer and columnist at the *Financial Times*, an assignment he combined until recently with current affairs broadcasting for the BBC and Channel 4. A past chairman of Pensions and Investment Research Consultants (PIRC), John Plender has served on the London Stock Exchange's quality of markets advisory committee and the UK government's Company Law Review steering group. He is a non-executive director of Quintain PLC, a FTSE 250 company. His book, *All You Need To Know About Ethics And Finance*, is published by Longtail Publishing.

Mr **Domingo Sugranyes** graduated from the University of Fribourg, Switzerland, in 1969. He was General Secretary of the International Christian Union of Business Executives (UNIAPAC), between 1973 and 1981. He joined MAPFRE, Spain's leading insurance group in 1981. He was active in the international development of the group in Latin America and in Reinsurance worldwide. From 1989 to 2007 he was in charge of the group's listed holding company and member of the group's executive. After retiring from executive positions he remains on the Board of the MAPFRE Foundation and of several group companies. As complementary activities, Domingo Sugranyes was President of UNIAPAC from 1997/2000 and is currently chairman of the Board of Centesimus Annus Pro Pontifice Foundation, a Vatican Center for Christian Social Teaching.



The Most Reverend **Justin Welby** is Archbishop of Canterbury and a member of the House of Lords. He was previously a senior executive in a UK oil company, before ordination in the Church of England. For many years, he was responsible for the reconciliation work of Coventry Cathedral, travelling widely in Africa and the Middle East. Justin Welby has written extensively on ethics and finance. In July 2012 he was appointed to the Parliamentary Commission on Banking Standards. Jury Member from 2006-2013, now Honorary Member.

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Lessons from LIBOR: moving beyond compliance to explore the dynamics of ethics in banks

Ethics in Finance, Robin Cosgrove Prize
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First Prize *ex-aequo*

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* The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated to.

Once more the subject of ethics in finance has been swept into the limelight. The culprit on this occasion is the LIBOR rate-rigging scandal – an episode of fraud and manipulation of the benchmark interbank lending rate, LIBOR, which is controlled by the British Bankers' Association (BBA). In the aftermath of the scandal and the resulting penalties, this paper aims to examine why cultural practices came to prevail over ethical decision-making, resulting in one of the biggest financial scandals in recent times. My analysis suggests that structural regulatory reforms are only part of the remedy in such cases. In exploring the dynamics of how firm, team, and individual ethical values are developed in major banks, I propose that the main focus in future should be to instil ethical standards at all levels of financial institutions by encouraging individuals to develop their own personal vision of ethical integrity.

Many will see ethics as synonymous with a sense of morality, or 'right' and 'wrong'. Others would strongly divorce it from this notion and claim that it is actually an intention to strive for order, and so add value (Casimiro & Pellerin, 2009). A third school of thought may define it in more practical terms as a degree of concern for society as a whole. For the purposes of this paper, I would like readers to accept that ethics is a subjective notion with a different meaning for each individual. There is therefore a danger that, if we define the concept too narrowly, individuals will be encouraged to apply set rules or parameters when evaluating their actions in terms of ethics. The arguments that I present will move away from rule-based ethics to focus on the benefits of virtue ethics in business. My aim throughout the paper is to bridge the gap between

Le cas étudié ici est celui du LIBOR, soit l'épisode de fraude et de manipulation du taux de référence interbancaire de prêt, pour lequel les pratiques culturelles l'ont emporté sur la prise de décision éthique. Je pense qu'à l'avenir il faudrait encourager les collaborateurs des institutions financières à développer leur propre vision de l'intégrité éthique.

Il existe plusieurs interprétations du terme éthique. Dans le cadre de cette etude, je considère qu'il s'agit d'une notion subjective qui varie d'un individus à l'autre. Je vais me concentrer sur les avantages des vertus de l'éthique.

Dans le cas du LIBOR la question centrale est de savoir quels facteurs culturels ont créé un environnement où la prise de bénéfices prime sur la valeur de soutien propre à une transaction financière essentielle. Le LIBOR concerne des transactions qui représentent 350 trillions de dollars, soit près de cinq fois le PIB mondial.

organizational traits in banks and the resulting ethical practices and outcomes. Central to the arguments presented here is the assumption that ethical values underpin people's actions (Locke, 1991). The unethical outcome – the attempt to manipulate LIBOR – thus allows me to derive broader ethical lessons for banks.

The entire LIBOR episode is a highly relevant analytical tool for the subject of ethics in finance. The question that must be asked is this: what cultural factors created an environment in which traders concluded that the financial profits gained from manipulating the system outweighed the broader value of sustaining one of the most integral components of financial transacting? Of course, after a scandal such as this, the immediate question is how such a crime was possible in the first place – i.e. how regulators could actually fail to detect it. This valid question has already been put to the UK's Financial Services Authority (FSA)[1] and the BBA. This paper, however, will focus on the first question, which I believe is more significant if we are to avert future financial scandals.

The significance of LIBOR

LIBOR, which stands for the London Interbank Offered Rate, is a percentage that indicates the rate at which banks can borrow from other banks. Its significance is clear from the volume of transactions that depend on it; according to some sources, more than $350 trillion[2] worth of worldwide contracts, from student loans to derivatives, are linked to LIBOR. To put this in some kind of perspective, that figure is nearly five times global GDP. The mechanics behind setting the rate are simple, but crucial to understanding how it could be manipulated. Every day at 11 a.m. a group of leading banks submit their rates for ten currencies and fifteen lengths of loan, ranging from overnight to twelve months. The key rate among these is the three-month dollar LIBOR, which is a rate that banks pay other banks to borrow US dollars for three months. After the top and bottom quartiles of the estimates are discarded, an average of the remaining rates is calculated, and this becomes the official LIBOR.[3] Therefore, LIBOR manipulation could feasibly be attempted by any of the 'panel banks' that submit estimates.

One of the interesting aspects of the LIBOR scandal is that manipulation occurred for two distinct reasons. On the one hand, traders from the key institutions colluded in submitting false estimates that were higher or lower than their actual estimate. This enabled them to skew the final figure in their favour – thus benefiting

[1] As of 1 April 2013, the FSA (the regulatory authority for financial services in the UK) has been split into two separate authorities: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

[2] *Financial Times* (2013), 'LIBOR heads for history in bank rate hunt', http://www.ft.com/cms/s/0/d2a008ce-abfd-11e2-9e7f-00144feabdc0.html#axzz2UnHOINNc

[3] BBA (British Bankers' Association) LIBOR factsheet, http://www.bba.org.uk/media/article/understanding-bba-LIBOR

La mécanique derrière la fixation du taux est cruciale. La manipulation du taux dépend directement des banques du panel qui soumettent leur estimation du taux auquel les banques peuvent emprunter à d'autres banques.

any financial transactions on their books that were determined in some part by LIBOR (for example, a trader would want LIBOR to be lower for a forward interest-rate swap, gambling that LIBOR would fall against the set fixed rate). LIBOR manipulation thus allowed them to increase their banks' profits and their own consequent rewards. The other kind of manipulation was done for reputational reasons. Barclays began to submit much lower rates than their actual rates, in an effort to maintain confidence about the state of the bank and its access to credit. This paper will focus on the first type of transgression.

La difficulté repose sur la quête de preuves qui indiquent qu'il y a eu intention de manipuler le taux. Les extraits de conversations entre les acteurs impliqués sont très révélateurs.

It should also be noted that various empirical studies have found evidence both for[4] and against[5] widespread LIBOR manipulation. It has not been conclusively proved whether attempts to manipulate LIBOR actually affected the published rates. This is an empirical debate that is distinct from ethical issues. Suffice it to say that, from an ethical point of view, intent to manipulate is as pertinent an issue as manipulation itself. In Barclays' case, the FSA has already published a report that lays out all the evidence of this intent to manipulate the rate.[6]

[4] See, for example, Connan Snider & Thomas Youle, 'Does the LIBOR reflect banks' borrowing costs?', *mimeo*, April 2010.

[5] See, for example, Jacob Gyntelberg & Philip Wooldridge, 'Interbank fixings during the recent turmoil', *BIS Quarterly Review*, March 2008, pp. 59-72.

[6] FSA Final Notice to Barclays Bank PLC, http://www.fsa.gov.uk/static/pubs/final/barclays-jun12.pdf

A culture of reciprocity

Much has been made of excerpts of conversations between traders, external traders, brokers and rate submitters that have been released to the public. These exchanges go to the heart of the day-to-day dynamics between traders and offer the best glimpse of the competing forces whenever employees have to make difficult choices with ethical implications. There are some key conclusions to be drawn from these (see appendix). The first impression is that collusion was extremely casual in nature. Rate submitters or internal traders would acquiesce to external traders' or brokers' demands without any serious reactions of surprise or calls for discretion.[7] It is this lack of a reaction that best illustrates how attempted LIBOR manipulation had become a cultural norm at some banks. The second is a more interesting concept that can be referred to as 'reciprocity', and is particularly apparent from the excerpts in appendix A. Traders and brokers often promised to repay the submitters' favours in some way. This was a two-way relationship that submitters knew would benefit them in the future, or had already produced dividends in the past. Robert Axelrod points to the potential cultural power of reci-

[7] Note that collusion took place among all of these groups: (1) between traders and submitters at the same bank, (2) between traders at one bank and traders at another bank and (3) between traders and external brokers. My arguments about reciprocity apply to all these groups. For examples, see appendix A.

L'analyse de la culture de la réciprocité est très importante pour comprendre la manipulation du LIBOR. Devenue une norme dans certaines banques, la pratique pourrait provenir d'un accord tacite entre les traders et les courtiers pour satisfaire les déposants et vice-versa. Le principe de réciprocité peut parfois s'appliquer même entre partis très opposés, comme des banques concurrentes.

Le principe de réciprocité, prospère dans le monde financier, est à double tranchant car il implique que l'un des acteurs impliqués aura une dette envers l'autre et ainsi de suite. Les négociations se sont toujours effectuées sur la base de performances passées utilisées comme indicateur d'éventuel rendement futur.

procity in his book *The Evolution of Cooperation*, and stresses that cooperation based on reciprocity can even develop between the most extreme of antagonists: military personnel on opposite sides (Axelrod, 1984). In the case of LIBOR, there is evidence that such collusion based on reciprocity was prevalent not just between individuals at one bank, but also among different banks that would normally be competing.

Reciprocity can thrive at firm level as well as individual level. This type of reciprocity is worth briefly discussing in the broader context of the entire finance industry. The industry as a whole is heavily dependent on strong principles of relationship management. Financial institutions often only deal with other institutions with which they have sound relationship histories. In principle, this approach is easily justified. Firms in any industry want to deal with companies they have done business with before. In doing so, they are using past performance as an indicator of future performance. However, a problem arises when firms begin to use relationship histories as the sole criteria for doing business with another institution – i.e. when they begin to operate solely on the principle of reciprocity. Financial institutions may offer their business to competing firms not on the basis of service quality or pricing advantage, but on past dealings with a particular firm. These are often called 'relationship deals', and the economic loss of efficiency is evident. A firm pitching for business will fail to win the contract even though its product or pricing is superior. A firm putting out a tender for business will often accept sub-optimal service – in terms of either product quality or pricing – for the sake of maintaining or strengthening a strategic relationship. Central to this theme of reciprocity is the notion that one of the parties will always be implicitly owed something in return.

Excessive reciprocity as a cultural habit is not necessarily an ethical problem – until it starts to prevail over ethical decision-making. The LIBOR scandal can be seen as a practical example of this culture of reciprocity between individuals, who allowed it to trump all ethical concerns. Whenever a choice had to be made between acquiescing to the request and rejecting it, rate submitters or internal traders did not display the slightest sign of reflection or conflict. Quite simply, they were willing to compromise their ethical considerations regarding the integrity of LIBOR, as well as run the individual risk that they would lose their jobs if they were caught out. We will now look at the reasons why these two factors, which should theoretically have dissuaded them from manipulating the rate, were not sufficient to counteract such cultural factors as reciprocity.

The role of community

One of the reasons why traders let the culture of reciprocity override their ethical values was that it was

La réciprocité excessive n'est pas forcément un problème éthique tant qu'elle n'éclipse pas les decisions éthiques. Le rôle de la communauté est important pour expliquer la relégation de l'éthique au second plan. La transgression, pour le LIBOR, était devenue une pratique habituelle historique, acceptée et perçue comme naturelle par l'ensemble des collaborateurs, quelle que soit la hiérarchie.

Le sentiment de protection des traders, au sein des grandes institutions financières, est un autre fait très important à considérer. Agissant en toute impunité, ils pensent être à l'abri de toute sanction. Le sens individuel de la responsabilité éthique est souvent biaisé dans le cas d'invidus croyant faire bien pour leur entreprise, qui est leur famille à laquelle ils sont plus que fidèles. La prise de risques est alors effectuée par procuration.

acceptable within their team's culture. Virtue ethics theory, which dates back to Aristotle, highlights this 'role of community' by asserting that ethical virtues can only flourish in a 'conducive infrastructure' (Dobson, 1997). The reverse is also true; in a community where ethical principles have been pushed into the background, individuals will attach less importance to these values. There is also a utilitarian aspect to this: over time, transgressions will encounter less peer opprobrium, and hence will become less 'costly'. As fresh evidence emerges that LIBOR rate rigging had been going on to some extent since the 1980s, it is reasonable to assume that the transgression gradually became more acceptable to traders who saw their peers – and possibly superiors – behaving in a similar way. The perception that this sort of behaviour was acceptable at firm level blossomed naturally in some institutions. Of particular note in the LIBOR scandal is the fact that ethical values were undermined not just within individual banks, but across a whole range of banks. As already mentioned, there is evidence that certain banks tried to persuade others to join in with the collusion.

Yet this cultural assimilation is only part of the puzzle. There is an additional, but fundamentally different, effect that is linked to it – namely, the sense of protection that traders feel their firms give them. Broadly speaking, employees of major financial institutions feel they deserve a measure of protection from their banks for the decisions and actions that they take. In many cases this is a reasonable assumption. For example, traders who have been given a mandate by their firm to build exposure to a particular currency would justifiably feel that they are shielded from penalties if any problems arise as a result. This is much the same as claiming they are simply doing what their boss has told them to do.

A distorted view of ethical accountability

Danger looms when the line separating firm- or industry-level transgressions (for which individuals are not held accountable) from individual transgressions becomes blurred. In such cases, individuals have a distorted sense of their individual level of ethical accountability. Evidence of this mentality can be found in another financial scandal: the story of the UBS rogue trader, Kweku Adoboli. He defended his $2.3 billion unauthorized trading losses by claiming that UBS was his 'family' and that 'every single bit of effort [put into that organization] was for the benefit of the bank'.[8] Banks such as UBS have obvious motives for inspiring such loyalty in their employees, but by doing so may encourage individuals to transpose their own ethical responsibilities to those of the institution. There

[8] Adoboli, Kweku, Southwark crown court (London). Quote at http://www.guardian.co.uk/business/2012/oct/26/trader-kweku-adoboli-trial-ubs

are clear parallels between the two situations: both the UBS trader and the LIBOR manipulators were trying to increase profits for their banks. As a result, they may have felt that they were taking risks vicariously, through the institutions they were working for. This belief is not as surprising as it may sound. Only two individuals at UBS have so far been formally charged in connection with the LIBOR scandal, although at least 45 are implicated.

Les collaborateurs ont tendance à repousser les limites de ce qui est éthiquement acceptable au niveau de l'entreprise, en raison de la protection institutionnelle à laquelle ils pensent avoir droit.

Adoboli certainly felt that his superiors at UBS at least implicitly sanctioned his actions. Exactly how much senior management at the banks involved in the LIBOR scandal knew about what was going on remains a matter of conjecture. At Barclays, it led to the departure of the chairman and the CEO, both of whom, it must be assumed, accept some measure of responsibility (direct or otherwise). But the issue of institutional protection remains important, for it hints at a relationship of reciprocity that is similar to the notion discussed earlier in this paper. Employees expect the loyalty they show to the firm to be repaid through some measure of protection; and in some cases they may simply feel that working for the firm shields them from external penalties against their actions. In either case the result is the same: they may tend to push the boundaries of what is ethically acceptable at industry level, because of the institutional protection they feel they are entitled to.

Il faudrait pouvoir imposer les mêmes normes de l'intégrité éthique à l'ensemble des employés, afin qu'ils puissent prendre les bonnes décisions de manière indépendante vis-à-vis de leur institution. Il s'agirait d'un modèle de reference à partir duquel chaque employé développe sa vision personnelle de l'intégrité éthique.

The paradox of imposing firm-wide ethical standards

I have reasoned that individuals working for a bank may be so culturally intertwined with the values of the institution and those around them that they do not make independent ethical decisions for themselves. They may also feel they receive some measure of protection from the institution. As these two effects are enhanced, it is increasingly likely that cultural factors will begin to prevail over independent ethical decision-making. Any institution that demands extreme loyalty from its employees theoretically runs this risk. The only way to avert this danger is to somehow inspire the same 'gold standard' of ethical values in every single employee in the firm. If this could be achieved, any employee taking his or her lead from another would meet the same standard of ethical integrity.

There is thus a paradox: how do you create a firm where ethical values are so strong that they inspire every single employee to adhere to such a 'gold standard', while at the same time everyone is looking to the team around them to substantiate their own ethical beliefs? The answer is that this would be impossible to achieve unless, of course, the firm had already reached this level, in which case it would be self-sustaining. This teaches us an important lesson. Firms should attempt to set a 'gold standard' of ethical integrity for their employees, but at the same time assume that it will never be achieved. Ultimately, each employee must be encouraged to set about developing his or her personal vision of ethical integrity.

Il faut parvenir à créér un processus indépendant de jugement, qui doit poursuivre une forme d'excellence impliquant courage, sagesse, intégrité, équité et cohérence. L'éthique doit être partie intégrante des prises de décisions au sein des banques.

How do we create virtuous agents?

In the case of LIBOR, individuals subject to this process of independent ethical evaluation would never permit themselves to manipulate the rate – regardless of which particular definition of ethics they subscribe to (since manipulating LIBOR is morally wrong, economically inefficient and a threat to the broader banking infrastructure). Virtue ethics theory goes one step further in highlighting this independent process of judgement, stating that an agent should 'not apply any specific rules in making decisions' but instead follow a path 'consistent with the pursuit of a particular kind of excellence that, in turn, entails exercising sound moral judgement guided by virtues such as courage, wisdom, temperance, fairness, integrity and consistency' (Dobson, 1997). Our lessons from LIBOR, as well as recent analysis (Crossan *et al.*, 2013), offer a compelling argument for encouraging the virtue ethics approach to decision-making within banks.

Le sens de l'intégrité éthique propre à chaque individus peut évoluer en fonction de ce qu'il observe autour de lui. L'éthique doit donc toujours être considérée sous deux angles : la culture d'équipe et les valeurs individuelles.
Le lien entre le collaborateur et son entreprise étant très fort, ceux qui arrivent à initier le débat éthique avec eux-mêmes ont franchi la première étape en vue de devenir des agents vertueux.

Some would argue that organizational context is a crucial part of ethical decision-making (Dean *et al.*, 2010). But we should not forget that, in order to have a complete picture of ethical decision-making within organizations, we must consider firms' cultural traits along with individual ethical values. Not every individual at Barclays, for example, would be willing to manipulate LIBOR. This inclination would vary depending on a range of factors including individual ethical integrity, team culture and firm culture. Furthermore, different pockets of culture may co-exist within one institution. As already mentioned, all these factors are interlinked. Individuals' personal sense of ethical integrity may be pushed and pulled according to what they observe around them. The model proposed by Trevino suggests that ethical decision-making behaviour can be better explained by the interaction of personal and situational variables (Trevino, 1986). I would go further and assert that, in any large institution, ethics must always be considered from both angles (team culture and individual values).

As the connection between the employee and the firm grows stronger (as in the example of the UBS rogue trader), the more people within the firm can influence the individual's sense of what is 'right', or in this case merely 'acceptable'. Again, this supports my assertion that every individual in a large firm should be encouraged to develop a personal sense of ethical integrity, rather than automatically subscribe to the firm's 'gold standard' of values (which should nevertheless be established). This is certainly a difficult and sometimes paradoxical ethical analysis for an individual to undertake (given my arguments in the previous section that personal ethics can be influenced by external situations), but it is a thought process that individuals should be compelled to go through. It could even be argued that individuals who initiate this internal ethical debate with themselves have taken the first step towards becoming virtuous agents. Aristotle noted that the process of contemplation is the key to ultimately fulfilling human activity (Aristotle, 1984). At the very least, agents who put themselves through this process show that they are trying to become virtuous agents – which is a virtuous act in itself.

Suite au scandale du LIBOR, de nombreuses mesures sévères ont été prises avec comme objectif un fort effet dissuasif. Mais les sanctions financières ont un impact moins important que l'atteinte à la réputation des institutions impliquées.

Why we need to look beyond regulation

In the aftermath of the scandal, regulators have come down heavily on the institutions guilty of misconduct. Barclays, UBS and RBS have been fined a total of $2.6 billion. The UK's Serious Fraud Office (SFO) has even launched a criminal inquiry into LIBOR manipulation, and prime minister David Cameron has ordered a parliamentary review of the banking sector, with the avowed aim of ensuring the UK has 'the toughest and most transparent rules of any major financial sector'. The British Bankers' Association will no longer oversee the LIBOR process and will be replaced by a data provider or a regulated exchange.

These stringent measures will undoubtedly have a deterrent effect. It is worth pointing out that the threat of financial penalty will only be part of the impact on institutions of this size. The other is the effect that fines of such magnitude have on the reputation of these institutions' franchises across the globe. This reputational factor is probably the most important, as shown when Bob Diamond resigned from Barclays on 3 July 2012, stating that external pressure on the bank risked damaging the franchise as a whole.

It seems very likely that, in the short term, regulators will be able to correct most of the structural flaws in the LIBOR rate-setting process. Scrutiny of the process is now so rigorous that one can no longer envisage submitters being able to escape penalties if they were to give false estimates. The bulk of this can be achieved by establishing a new oversight committee and a strict auditing process. If we accept this, then we begin to see why ethical considerations are of such paramount importance in the scandal. Today's financial system is so complex that we will never reach a point where all the structural vulnerabilities in the system are resolved at the same time. It is always likely that an opportunistic, skilled banking professional will succeed in manipulating the system for the purpose of profit. Hence the focus must be on reforming the individuals themselves, through their banks. Creating 'virtuous agents' must be the priority.

L'examen du processus relatif au LIBOR est désormais si rigoureux qu'il est devenu impossible d'échapper à des sanctions en cas de fausses estimations. Comme il y aura toujours des opportunistes pour tenter de nouvelles manipulations à des fins économiques, il est nécessaire de réformer les individus eux-mêmes à travers leurs banques.

Why banks should be driving the change

This paper has already highlighted the fact that the team culture among traders and submit-

Les institutions bancaires doivent devenir le moteur du changement en se concentrant sur le fonctionnement précis de leurs équipes. La réforme sera plus efficace si elle est conduite par les cadres dirigeants, avec un système de cascade.

Les directeurs des banques devant inculquer ces valeurs éthiques à l'ensemble de leurs équipes, ils deviennent alors partiellement responsables des éventuels scandales à venir. Le rôle de l'entreprise dans l'acceptation des nouveaux codes de conduite défini est grand car les valeurs clés doivent être assimilées et mises en pratique.

ters (reciprocity) was conducive to such wrongdoing as LIBOR manipulation. The difficulty for outside parties is that they have little insight into the dynamics of individual teams. In some cases, even the chairman does not have a clear view of the prevailing culture within a particular team (consider Barclays chairman Marcus Agius's statement that he was 'sickened'[9] after reading the trader conversations). Yet institutions have a duty to understand exactly how their various teams operate. Thus, although attempts to instil reflective ethical decision-making values are ultimately aimed at individuals, senior management in large institutions should be required to drive this reform. Efforts to change corporate culture should be aimed at the entire institution, for it would be impossible to identify specific teams of individuals with a high risk of compromising ethical integrity for the sake of greater profit. Logically, once we begin this process, cultural and ethical values should cascade down from top to bottom. As a final barrier, individuals should develop their own sense of ethical integrity as a countervailing force against the legacy of negative ethical values within their own teams.

Senior management at these key institutions should be held accountable in order to ensure this happens. The overriding force here is the banks' transparency to the public and the press. In most countries we are seeing this process beginning to work well. If we subscribe to the view that a firm's culture is the chief executive's primary legacy, it follows that cultural changes will eventually cascade down to the point where senior management are satisfied that they have an organization made up of teams reflecting core standards of ethical integrity. Chief executives that have been given enough time to instil these values must therefore be held at least partially responsible for any future scandals.

Putting this plan into practice is easier said than done. Institutional cultures are built up over long periods of time, and it will be a while before we see the impact of any measures to change things. Barclays boss Antony Jenkins has taken a positive step in this regard by telling his staff to sign the bank's new code of conduct or else leave the firm. The code of conduct encompasses five key values – respect, integrity, service, excellence and stewardship. The previous point must again be stressed here: such codes of conduct are worth little unless employees interpret and adopt them alongside their personal vision of ethical integrity. Failing this, there is a danger that they will assume their colleagues are abiding by the code and simply borrow their values from those around them. From an ethical point of view, it is just as important that the firm should influence the individual as vice versa.

[9] Smith, Guy (producer & director) (2013), *Bankers: Fixing the System*, BBC (British Broadcasting Corporation).

L'une des priorités est de pouvoir déjà évaluer l'éthique lors du recrutement des collaborateurs. Il faut pour cela procéder à de véritables mises en situations réelles pour définir et apprécier les priorités du candidat et donc son niveau d'action éthique. Il faut avant tout embaucher des individus capables de juger ce qui est éthiquement acceptable.

How to assess ethics in the recruitment process

In principle, when given the choice that Antony Jenkins has offered, most individuals will happily sign up to it. Very few people, especially those who have gone through a demanding recruitment process, will announce from the outset that they refuse to act with respect and integrity. The actual difficulty for the firm, and the individuals concerned, is putting such a code of conduct into practice when a difficult choice has to be made. And here the firm's priorities have to be crystal-clear.

The bank's duty is to select only those people whose ethical integrity will prevail at such junctures. The first step is to clean up things at the point of entry: recruitment procedures for graduates, associates and executives should all include a way of assessing candidates' ethical values, and their commitment to them. But these values should not just be examined in a simple competency-based interview with generic questions such as 'Can you give me an example of a time where you showed integrity?' Instead, real under-pressure situations should be presented to candidates in order to discover how they set priorities between ethical considerations and individual, team and firm goals – in other words, what process they use in deciding how to act ethically. Firms should not expect every individual to be a perfectly 'virtuous agent'. Indeed, in a practical sense, there is little consensus on what this 'gold standard' really means. But firms should ensure that the individuals they hire are exactly that: individuals, who have their own process for judging what is ethically acceptable.

Au-delà de la prescription de codes, les entreprises doivent mettre en œuvre diverses actions pour maintenir l'esprit éthique dans la durée. Des journées de l'éthique avec des exercices et échanges pourraient être un exemple de complément efficace.

How to keep the flame of ethical reflection burning

I would therefore caution against investing too heavily in traditional methods of corporate ethics training, for these tend to be too prescriptive and rule-based. Instead, anything banks can do to keep the flame of ethical deliberation burning in individuals' minds would be a step in the right direction. For example, banks could hold an annual 'ethics day' on which employees are encouraged to form groups and discuss the ethical issues arising from the decisions they have to make day by day. Robert Solomon, an advocate of virtue ethics, argues that excellence in business comes from understanding what role one plays in the wider company (Solomon, 1992). One simple exercise could be for each person to draw up an 'impact chart', listing every person indirectly or directly affected by decisions they make on behalf of the firm – a complicated task that would force them to think about their specific role in the context of their firm and the broader banking system. This could become a key constant in the equation of individuals' ethical decision-making.

Finally, banks themselves must be made to understand that it is not enough to put a basic code of con-

Le devoir des banques est de veiller à ce que leurs employés comprennent que leur protection est limitée lors de décisions pouvant être préjudiciable et que chaque action prise doit toujours favoriser le code de conduite défini, en lien avec sa propre vision ce qui est éthiquement correct.

La promotion des valeurs éthiques doit être effectuée à tous les niveaux des organisations bancaires, notamment afin d'éviter leurs aspirations à couvrir les scandales potentiels.

L'affaire du LIBOR a occasionné une révision éthique de l'ensemble du secteur financier, qui est entré dans une phase positive de réflexion et d'analyse. Une démarche qui pourrait être couronnée de succès.

duct in place. Their responsibility is to ensure that their employees understand the following:

1. There is a limit to the protection that they are afforded by their banks. When making a difficult business decision that may have negative externalities, employees must assume that they will be largely accountable for the consequences.

2. In ethical terms, every decision they make on behalf of their banks should be judged against two criteria:

- The firm's code of conduct;
- The individual's personal vision of what is ethically correct.

The future of ethics in the banking industry

At industry level, fortunately, most of what can be done is now being done. This is largely due to the public outcry over the numerous financial scandals that have occurred in recent times. As already mentioned, few factors are a bigger force for change than the accountability of large institutions to a disapproving public. However, this increased accountability could cut both ways. On the one hand, banks may clean up their act (which is what the evidence suggests is happening); on the other hand, they could become even more determined in their efforts to cover up potential scandals. This danger can be averted by promoting ethical values at all levels of the organization, in line with the recommendations in this paper.

LIBOR was an example of a scandal that had been smouldering away for a very long time, before exploding into the public eye in a matter of weeks. It will be instructive to discover just how widespread manipulation was among the other panel banks. In any case, the evidence regarding the three banks directly implicated is reason enough to justify an ethical overhaul of the entire industry. We have entered a positive phase in which the banking community is actively discussing these issues more than ever before. This process of reflection and contemplation – for banking institutions, teams and especially individuals – is the main indicator that the overhaul may be successful. •

Appendix: excerpts from trader conversations

The following excerpts are taken from the Financial Services Authority's Final Notices to Barclays and UBS in the matter of the LIBOR scandal.

(1) 26 October 2006

External trader: *If it* [LIBOR] *comes in unchanged I'm a dead man*.

After the Barclays trader responded that he would 'have a chat':

External Trader: *Dude, I owe you big time! Come over one day after work and I'm opening a bottle of Bollinger*

Source: FSA (Financial Services Authority), *Final Notice to Barclays Bank* PLC, www.fsa.gov.uk/static/pubs/final/barclays-jun12.pdf

(2) 18 July 2007

Broker B contacted a submitter at panel bank 1 asking about Japanese yen LIBOR submissions that the bank was going to contribute. The submitter was extremely off-hand about his bank's submission (saying *it makes no difference to me*) and agreed to make the submission requested by broker B. Broker B confirmed that the request came from trader A at UBS. The conversation went as follows:

Panel bank 1 submitter: *Alright, well make sure he* [the UBS Trader] *knows*.

Broker B: *Yeah, he will know mate. Definitely, definitely, definitely*.

Panel bank 1 submitter: *You know, scratch my back yeah an' all*.

Broker B: *Yeah oh definitely, yeah, play the rules*.

Source: FSA (Financial Services Authority) *Final Notice to UBS*, http://www.fsa.gov.uk/static/pubs/final/ubs.pdf

(3) 18 September 2008

Broker requests and external requests were coordinated with internal requests. In the course of one manipulation campaign, a UBS trader agreed with his counterpart that he would attempt to manipulate UBS's submission in 'small drops' in order to avoid arousing suspicion. The trader made it clear he hoped to profit from the manipulation and referred explicitly to his UBS trading positions and the impact of the Japanese yen LIBOR on those positions. He offered to 'return the favour' and enter into facilitation trades and other illicit transactions in order to incentivize and reward his counterparts:

(a) Trader A sought to secure the cooperation of traders at other panel banks by entering into trades that aligned their respective commercial interests so that both sides would benefit from the intended Japanese yen LIBOR manipulation.

(b) Trader A and another trader entered into 'wash trades' (risk-free trades that cancelled each other out and had no legitimate commercial rationale) in order to facilitate corrupt brokerage payments to at least three brokers at two broker firms as a reward for their efforts in manipulating the submissions of panel banks. For example, in a telephone conversation on 18 September 2008, trader A said to broker A at broker firm A:

If you keep 6s [the six-month Japanese yen LIBOR] *unchanged today … I will … do one humongous deal with you … like a 50,000-buck deal, whatever. I need you to keep it as low as possible … if you do that … I'll pay you, you know, 50,000 dollars, 100,000 dollars ... whatever you want … I'm a man of my word.*

Source: FSA (Financial Services Authority) *Final Notice to UBS*, http://www.fsa.gov.uk/static/pubs/final/ubs.pdf

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Corporate market responsibility: ethical regulation for orderly financial markets

Ethics in Finance, Robin Cosgrove Prize
Global edition 2012-2013

First Prize *ex-aequo*

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* The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated to.

'What I'm saying to you is, yes, I've found a flaw. I don't know how significant or permanent it is. But I've been very distressed by that fact'

Alan Greenspan, Chairman of the US Federal Reserve, 2008

Discovering Corporate Market Responsibility

Since the 1980s, we have frequently heard the message 'greed is good', with the rationale that greed drives efficient markets, which in turn drive economic growth.[1] This particular message has in recent years lost its ironic charm. Since the onset of the financial crisis in 2007-2008, it has become more common to hear that greed is 'irresponsible'. The British prime minister told the United Nations in September 2008 that the world had lived through an 'age of irresponsibility' in financial markets (Brown, 2008), and five months later, the American president heralded a 'new era of responsibility', writing:

'This crisis is neither the result of a normal turn of the business cycle nor an accident of history. We arrived at this point as a result of an era of profound irresponsibility that engulfed both private and public institutions from some of our largest companies' executive suites to the seats of power in Washington, D.C. For decades, too many on Wall Street threw caution to the wind, chased profits with blind optimism

[1] A celebrated quote by the character Gordon Gekko in the film Wall Street (1987), see http://www.youtube.com/watch?v=ONXpaBQnBvE

Appréciée auparavant, la cupidité est depuis la crise financière de 2007 considérée comme un comportement «irresponsable».

En 2009, Barack Obama a déclaré qu'il était temps d'entrer dans une nouvelle ère de responsabilités, source de nouvelles bases de croissance. Le texte qui suit présente une théorie sur les responsabilités des organismes financiers en matière de stabilité économique et financière.

and little regard for serious risks—and with even less regard for the public good ...

The time has come to usher in a new era — a new era of responsibility in which we act not only to save and create new jobs, but also to lay a new foundation of growth upon which we can renew the promise of America' (Obama, 2009, p. 1).

These messages represent a departure from conventional thinking about the economy and the virtues of self-interest, and this paper engages with them.[2] It outlines a theory about companies' responsibilities for financial and economic stability. Three recent controversies suggest that operating efficiently and within the letter of the law does not suffice to ensure economic progress, or satisfy market actors and regulators. These episodes are focus of this paper: Citigroup's infamous Dr Evil trade, the rise to prominence of sovereign wealth funds, and the post-credit-crunch regulatory debate. In each case, corporate responsibilities towards the wider financial system were invoked.

More corporate responsibilities?

How are companies responsible for orderly financial markets? In economic theory the question is redundant, since markets are self-correcting. Stability is an outcome of normal business activity, with support from regulators. Thus, in Milton Friedman's famous words (1970), 'the social responsibility of business is to maximize profits'. Friedman's statement was a response to the concept of corporate social responsibility (CSR), which holds that firms should ensure they have a positive impact on society. But CSR theorists agree with economists regarding the market. The CSR literature distinguishes between a firm's *social* responsibilities (towards the non-market domain) and their *economic* responsibilities. In CSR theory, 'economic responsibility' is to produce goods efficiently and legally, as economists would put it (Carroll, 1979, 1991; Mitchell, 1998; Schwartz & Carroll, 2003; Wartich & Cochran, 1985; Wood, 1991). If our episodes suggest that financial firms are expected to go beyond legal, competitive profit maximization in conducting their business, this represents a departure from conventional thinking.

As a contribution to the post-credit-crunch rethink, this paper analyses these controversies and proposes the concept of corporate market responsibility (CMR) to explain them. Let us begin with Citigroup.

The 'Dr Evil' trade

At 10.28 a.m. on Monday 2 August 2004, four traders at Citigroup's European government bond trading desk activated a proprietary software

[2] I would like to thank Dr Wendy Chapple and Professor Jeremy Moon of the International Centre for Corporate Social Responsibility at the University of Nottingham Business School for their guidance and support during this research.

Outre leur responsabilité sociale, les entreprises financières doivent s'assurer qu'elles ont une responsabilité économique, qui consiste non seulement à produire des biens de manière efficace et en toute légalité, mais aussi à contribuer au maintien de la stabilité financière.

Il faut analyser les nombreuses controverses, qui concernent la responsabilité sociale des entreprises financières et leurs responsabilités économiques, pour mieux les comprendre. Nous commençons par Citigroup.

program they called 'Dr Evil' to sell a large number of bonds very quickly. Twenty seconds later, unsure whether the trades had succeeded, they submitted another sell order. By 10.29 a.m. Citigroup had sold €13 billion worth of 119 different European government bonds across 11 platforms of the Rome-based *Mercato dei Titoli di Stato* (MTS) bond exchange. This was roughly the same amount of bonds as the entire market would typically trade over one day, and it happened in one minute. After reconfiguring their program, the traders bought back €4 billion in bonds, realizing a profit of €15 million by 11.25 a.m.

Although Citigroup was not charged with market abuse, which is illegal, the operation was highly controversial. At the time, it provoked 'bankers' wrath' (*The Daily Telegraph*, 2004a) and 'launched a wave of ill will in the bond markets' (*The Daily Telegraph*, 2004b). The MTS exchange imposed emergency trading limits on the entire market (*Financial Times*, 2004b). Citigroup's rivals, primarily investment banks, 'panicked' during the trade, overwhelmed by its size and speed, and some withdrew from the market for three days. The financial press reported a near-consensus that Citigroup had broken a 'gentlemen's agreement'. Yet no one clearly stated what that agreement had been or what it was for.

When the UK's Financial Services Authority (FSA) ruled on the transaction in June 2005, it levied a fine of £14 million, its biggest to date. The bank had not contravened any laws, but the FSA held that it had 'executed a trading strategy without due regard to the risks and likely consequences of its action for the efficient and orderly operation of the MTS platform' (Financial Services Authority, 2005b). Was Citigroup responsible for the orderliness of its market?

Gentlemen and the market

The notion of a broken gentlemen's agreement emerged two days after the trade, with the *Financial Times*'s Lex column asking 'Has Citigroup, with its audacious selling of €11bn [sic] of Eurozone government bonds within two minutes, been very clever or has it overstepped the boundaries of fair trading?' (*Financial Times*, 2004a). The column sided with Citigroup, saying that 'gentlemen's agreements are not a sensible way to manage risks' (*ibid.*), but failed to explain what a 'gentlemen's agreement' or the 'boundaries of fair trading' are. *The Wall Street Journal* cited traders calling the operation 'savvy, if not slightly untoward', and referred to MTS having introduced measures to stop 'this kind of behaviour' (*The Wall Street Journal*, 2004b), again without explaining the 'kind' of behaviour or why it was 'untoward'. Rival traders had 'felt themselves protected by a "gentlemen's agreement"', but did not elaborate what it was (*The Daily Telegraph*, 2004c). *The Guardian*'s Notebook column said 'Of course, Le 2 août 2004, quatre opérateurs de Citigroup ont activé un logiciel afin de vendre très rapidement un très grand nombre d'obligations: plus de 13 milliards de dollars en quelques minutes. L'opération fut très controversée et a provoqué la colère des banquiers qui ont accuse Citigroup d'avoir brisé un "gentlemen agreement".

La Financial Services Authority britannique a estimé que Citigroup avait exécuté une stratégie de négociation sans tenir compte des risques et des conséquences pour l'ensemble du système financier.

Les différents journaux économiques ont eu beaucoup de mal à statuer sur le dépassement ou pas des limites de la légalité des transactions commerciales effectuées.

Citigroup did nothing illegal here. It legitimately filled orders that had been placed by willing counterparties, all of whom were grown-up financial institutions used to dealing in large numbers' (*The Guardian*, 2004a). None of the US or UK newspapers that referred to 'untoward' conduct specified what standard had supposedly been infringed.

One banker's reaction illustrates the problem: 'Really what they did was smart. They didn't do anything wrong, they just cornered the market. I'll tell you this though, $25m doesn't seem like a lot of profit to make when you've got the whole world lining up against you' (*The Daily Telegraph*, 2004c). If Citigroup had been smart and done nothing wrong, then what justified the world lining up against them?

Markets' best interests

Roughly five weeks after the operation, after the MTS lifted the temporary curbs on trading, newspapers picked up a leaked Citigroup memo from Tom Maheras, head of global capital markets, stating that:

Citigroup is committed to holding itself to the highest standards in its business practices. We did not meet our standards in this instance and, as a result, we regret having executed this transaction. ***Unfortunately, we failed to fully consider its impact on our clients, other market participants, and our regulators.***

We need to be sure that in whatever we do, we fully consider the impact of our actions on our clients and the markets. ***We must exercise sound judgement, know our markets and our clients well and act in their best interests*** (compiled from *Financial Times*, 2004d and 2004e, *The Times*, 2004b and 2004c, *The Daily Telegraph*, 2004d, *The New York Times*, 2004; underlining added).

This memo – particularly the reference to acting in markets' best interests – was interpreted as an attempt to placate regulators and clients. Media reports described the memo, which was sent to all of Citigroup's 40,000 banking employees, but not its clients, as 'astonishing' (*Financial Times*, 2004d), 'humiliating' (*The Daily Telegraph*, 2004d) and an 'unprecedented apology' (*The Times*, 2004b). *The New York Times* called it 'an indication that the bank is taking the investigation and the complaints seriously', and drew a parallel between Maheras's language and that used by the FSA: 'When the inquiry was announced, the regulator said that market participants should have "regard to the likely consequences of their trading strategies in the market concerned"' (*The New York Times*, 2004).

A second memo, leaked in late January 2005, revealed that the bank had originally set out to destabilize markets. This significantly damaged Citigroup's standing. The trade's objectives had included imposing costs on competitors, decreasing the attractiveness of German bond futures, spurring 'copycat trades', 'killing off smaller dealers', and 'turning the Eu-

Pour certains, Citigroup a joué finement sans commettre le moindre délit. Quelques semaines plus tard, une note de Citigroup stipulait que la banque devait désormais considérer pleinement l'impact de ses actions sur ses clients et les marchés, en faisant preuve de jugement.

Cette note a été globalement interprétée comme étant une tentative d'apaiser les régulateurs et les clients impliqués. Une seconde note de la banque, divulguée en janvier 2004, a révélé que la banque s'était, dès le départ, fixé comme objectif de déstabiliser les marchés. Il s'agissait de nuire délibérément aux concurrents européens en diminuant leur attractivité.

La FSA a présenté toute une série de mesures visant à garantir le soin, la compétence et la diligence, que Citigroup aurait dû adopter. La FSA a estimé que l'impact sur le marché au sens large était l'un des principaux problèmes réglementaires.

ropean government bond market into one that more closely resembles the US government bond market' (memo reproduced in *Financial Times*, 2005a). Described as 'hideously embarrassing' by the *Financial Times*'s Lex column (*Financial Times*, 2005b), which had originally supported Citigroup, the memo undid Maheras's earlier PR effort. Various European investigations, led by the FSA (Gans, 2006), culminated in fines from the UK and Portugal. Portugal's regulator used an interesting linguistic flourish to describe Citigroup's operation: 'Repeated violations of the duty to defend the market' (Comissão do Mercado de Valores Mobiliários, 2006). Their inference was clear: markets do not defend themselves.

In detailed analyses of the Dr Evil trade and its aftermath, the FSA outlined a range of measures – related to the exercise of due care, skill and diligence – that Citigroup should have adopted in order 'to consider the impact the trade would be likely to have' (Financial Services Authority, 2005a). The FSA concluded that this wider market impact had been 'the main issue of regulatory concern'. This is an unusual argument: banks were implicitly expected to regulate their own conduct, in pursuit of not only self-interest and transparency, but also market confidence and stability.[3]

I will return to these corporate responsibilities later on, after outlining a broader episode.

[3] See also Beunza *et al*. (2006) on the sociology of bond markets

Codes of conduct for capitalism

Variously labelled 'new global power brokers' (McKinsey, 2007), 'giant locusts' (*The Daily Telegraph*, 2008), and 'a force for stability' (*Financial Times*, 2008), sovereign wealth funds (SWFs) were held up to greater scrutiny in the years before the credit crunch than almost any other kind of financial-market actor. These government-funded investors, primarily from Asia and the Middle East, have existed since the 1950s, but for decades kept a low profile. According to data in the Google News Archive in June 2008, sovereign funds were mentioned in only two news articles in the nine years between 1998 and 2006 – once in 2004 and once in 2006. Then, in 2007 alone, they received over 1,400 mentions, and even more the following year. This was a rapid, though controversial, rise to public prominence, as funds diversified away from low-yield bond markets in the early 2000s and began to invest in high-profile companies and real estate in the West.

The controversy surrounding SWFs is an interesting issue because at first glance there was no clear reason for it – no misconduct by SWFs, or evidence that misconduct was imminent. Some politicians were concerned on protectionist grounds about powerful foreign investors en-

Les fonds souverains, financés par les gouvernements essentiellement situés en Asie et au Moyen-orient, existent depuis les années 50. Ils ont toujours adopté un profil bas, jusqu'à 2007, où ils furent cités des milliers de fois, leur montée en puissance devenant publique. Alors que rien ne laissait supposer que la faute était imminente, ils avaient pourtant ce pouvoir de déstabilisation des marchés financiers de par leur grande taille et leur gouvernance opaque.

Dès 2007, les responsables gouvernementaux ont revisé leur politique vis-à-vis des investisseurs étrangers, à l'image d'Angela Merkel et de Nicolas Sarkozy. La position américaine sur les fonds souverains a aussi été précisée.

Mais les fonds souverains pouvaient compter sur de nombreux défenseurs, comme Alastair Darling en Angleterre ou Emma Bonino en Italie. Il y avait un risque d'hostilité politique

tering their economies.[4] Yet the overriding concern was that SWFs might destabilize financial markets due to their large size and opaque corporate governance – even though SWFs, on all the evidence, were profit-maximizing and entirely law-abiding companies. Governments' ultimate response to the funds was to compel them to adopt voluntary codes of conduct which, as I would argue, laid down an ethic for being responsible market actors.

The first signs of controversy emerged when politicians reviewed their policies towards foreign investors. In July 2007 German chancellor Angela Merkel called SWFs 'a completely new conflict situation that one must respond to adequately' (Bloomberg, 2007), and Germany set up a new agency mirroring the US's Committee on Foreign Investment in the United States (CFIUS) to vet foreign investment. France's President Sarkozy stated 'We've decided not to let ourselves be sold down the river by speculative funds, by unscrupulous attitudes which do not meet the transparency criteria one is entitled to expect in a civilized world' (*The Guardian*, 2007a). 'And this,' wrote a Bloomberg columnist in July 2007, 'is happening without anyone [any SWFs] having made any offers [noteworthy investments] recently'.

In turn, the 'US position on sovereign funds was clarified ... in a largely unnoticed speech [by a Treasury official],' in June 2007:

'Identifying the potential "impact on financial market stability", [the official] said that because so little was known about the funds' investment policies, minor comments or rumours could spark volatility. "It is hard to dismiss entirely the possibility of unseen, imprudent risk management with broader consequences," he said...' (*The Times*, 2007).

Controversy begets compromise

SWFs also had their advocates, however. American banks and a range of economists (*The Wall Street Journal*, 2007) pressed the government 'to keep their [policy] reviews narrow enough to encourage foreign investment' (*The Wall Street Journal*, 2008). In Europe, the British chancellor of the exchequer, Alastair Darling, argued that 'calls for the EU to adopt a common approach to vetting corporate acquisitions by foreign state investors' should be resisted (*Financial Times*, 2007). Italy's international trade minister, Emma Bonino, took a similar position, saying in respect of the country's national airline, Alitalia, 'I don't care who buys it, it can be the Chinese, or the Eskimos, so long as they turn it around' (*ibid.*).

Throughout 2007-2008, both sides of the debate recognised there was a risk of political backlash against SWFs, and the debate shifted towards SWFs' discretionary con-

[4] However, there were not many reasons to 'protect' domestic industries from SWFs during the credit crunch. On the contrary, SWF capital helped to save many credit-starved companies, such as investment banks.

contre ces fonds, en particulier contre leur comportement discrétionnaire.

Les premiers contours de compromis sont apparus en 2008 avec l'élaboration de codes de conduite pour les fonds souverains, à défaut d'accords juridiquement contraignants. Il leur a fallu adopter une éthique de transparence et de prudence.

Un consensus mondial impliquant les USA, l'Union Européenne et le FMI a pu être trouvé. Ces accords ont abouti en 2008 aux principes de Santiago.

duct. EU monetary affairs commissioner Joaquín Almunia described SWFs as offering 'useful investment', adding that they 'must acknowledge that their growing weight in global financial markets brings responsibilities' (British Broadcasting Corporation, 2008).

Contours of compromise emerged in 2008. One might have expected governments to work on reciprocal official policies – for example, establishing quotas on how much money foreign investors could invest in particular industries, or how much influence they could exert over the companies they invested in. Instead, they focused on developing codes of conduct for SWFs. It was in their view more important – perhaps cheaper or more effective – to ensure that sovereign funds learned good market conduct than to achieve binding legal agreements. Thus SWFs were asked to adopt an ethic of openness and prudence as a way to maintain market stability.

From spring 2008, one year after the controversy erupted, the US, the EU and the IMF acted more or less in concert. The US Treasury agreed the first, trilateral code of conduct for SWFs with the governments of Singapore and Abu Dhabi (US Treasury, 2008). This was framed as an input to the multilateral initiatives under way at the IMF. The EU Council of Ministers, which represents national governments at EU level, agreed on a Europe-wide stance toward SWFs and to channel their input to the IMF (European Commission 2008a and 2008b). These efforts culminated in a private-public initiative hosted by the IMF, establishing the Santiago Principles:

'Participants agreed that SWFs invest on the basis of economic and financial risk and return related considerations … [and established] a common set of **voluntary principles for SWFs**, drawing on the existing body of principles and practices, **to help maintain the free flow of cross-border investment and open and stable financial systems**' (IMF, 2008a; emphasis added).

An editorial in *The Guardian* referred to the codes as 'users' manuals' (*The Guardian*, 2007b) to help SWFs participate constructively in markets. Sceptics such as the Kuwait Investment Authority (initially) and US Senator Evan Bayh derisively referred to them as 'best practice' (*The Guardian*, 2008, *The Wall Street Journal*, 2008a). The adoption of these codes signalled a step change. As SWFs 'learned' good market conduct, adopting responsible management protocols, so public perception matured.

Resolution through responsibility

By November 2009 the IMF, a driver of global liberalization for 50 years, was encouraging the Angolan government to establish its own fund in order to manage its foreign reserves (IMF, 2009). Today, the idea that SWFs pose a threat to the global economy is so outdated as to seem almost quaint.

Les fonds souverains doivent investir en considérant les risques économiques et financiers, avec une participation devant être constructive. L'adoption de ces codes a marqué un changement d'étape, caractérisé par un comportement plus responsable. Aujourd'hui, l'idée que les fonds souverains puissent être une menace pour l'économie mondiale est dépassée. Ils doivent toutefois adopter d'autres comportements éthiques de bonne gouvernance, de gestion des risques et de probité commerciale.

Selon une anecdote qui fait référence à une conversation entre le président de JP Morgan Jamie Dimon et sa fille, les crises financières ayant lieu tous les 5 à 7 ans, il n'y avait finalement aucune raison d'être surpris.

A key feature of the Santiago Principles is the notion that SWFs have to do more than pursue commercial objectives and comply with regulations. If an effective financial system is to be preserved, SWFs must adopt other ethics of sound governance, risk management and commercial propriety. Before elaborating on this, I will discuss the regulatory rethink that has followed the credit crunch.

'Daddy, what's a financial crisis?'

In testimony to the US Financial Crisis Inquiry Commission (FCIC) on 13 January 2010, Jamie Dimon, chairman of JP Morgan, told two anecdotes that offer a curious juxtaposition.[5] The first was this:

'My daughter called me up from school and said "Daddy, what's a financial crisis?" And without trying to be funny, I said, "It's something that happens every five to seven years". And she says "So why is everyone so surprised...?" So we weren't – we shouldn't be surprised.'

Here is the other, an hour earlier:

'The biggest mistake we made [at JP Morgan], somehow, in mortgage underwriting, we just missed that home prices don't go up forever.'

Brian Moynihan, head of Bank of America, told the FCIC that his bank had made the same mistake, and Lloyd Blankfein agreed that stress-testing had been highly deficient at Goldman Sachs (FCIC, 2010, video minute 01:56:00). These banks had ostensibly missed the scenario of falling house prices, even though the Bank for International Settlements (BIS), which oversees international banking policy coordination, warned in its 2003, 2004, 2005, 2006 and 2007 Annual Reports that a downturn in housing prices was a significant risk (see Chapter VII of each report). Yet, according to Dimon, JP Morgan had prepared for 'almost everything else' (FCIC, 2010, video minute 01:53:00).

If a bank's chairman can amiably quip that crises happen every five to seven years, then how does his bank 'just miss that home prices don't go up forever'? The answer is that it may fail to exercise due skill, care and diligence in risk analysis (in contravention of the FSA's Principles of Market Conduct). It may also perceive an implicit guarantee that the state will fund it in case of crisis, to prevent a system-wide meltdown. This is known in economics as moral hazard – over-willingness to take on risk when the consequences will be largely borne by others.[6]

Whether lacking in due care, or influenced by moral hazard, banks engaged in a wide range of legal, yet controversial, activities. Their corporate governance failed to include critical voices on company boards (see UK Treasury, 2009, pp. 91-92) and relied unduly on misunderstood

[5] FCIC, 2010, video minutes 02:34:00 and 01:53:00.

[6] Curiously, moral hazard is rarely discussed as a moral issue; see, for example, Pauly (1968, p. 531), cf. Dembe & Boden (2000).

Comment une telle banque peut-elle négliger la compétence, le soin et la diligence dans l'analyse des risques ? Probablement parce qu'elle sait que l'Etat va intervenir et financer en cas de crise. Ce comportement se nomme le «risque moral». La gouvernance interne des banques est remise en cause tout comme les pratiques comptables qui contournent les exigences réglementaires à défaut d'y répondre.

mathematical models that failed to diversify risk (Financial Services Authority, 2009d). Innovative accounting practices were often predicated on circumventing rather than meeting regulatory requirements (Securities and Exchange Commission, 2009b, 2009c and 2009e). Poorly structured remuneration encouraged excessive risk-taking (Turner & Financial Services Authority, 2009). In capital markets, the practice of short selling (betting that the value of a financial product will fall) created severe instability, leading to temporary bans in Europe (see International Organization of Securities Commissions, 2008, Securities and Exchange Commission, 2009e, UK Treasury, 2009a). In retail banking, so-called 'exploding mortgages' were sold to over-ambitious house buyers, often aggressively or under false pretences (UK Treasury, 2009a). [7]

Responsible compliance

Les entreprises financières sont dorénavant confrontées à une refonte réglementaire durable. Cette réglementation bancaire ainsi que la supervision doivent être enracinées dans une approche systémique, selon la FSA.

Financial companies are now facing a lasting regulatory rethink. Before the crisis, regulators assumed that regulating individual institutions would mitigate generalized risks. Interdependency did not figure highly on their agendas. In the FSA's view, this is the main reason why regulators did not suitably address the issues that led to the crisis: 'The reality of excessive risk can sometimes only be spotted at systemic level' (Financial Services Authority, 2009d, p. 80).[8] Now, wrote the British regulator, 'the future of banking regulation and supervision needs to be rooted' in a systemic approach (Financial Services Authority, 2009d, p. 52). One dimension of this new approach concerns how companies can protect financial markets.

I would highlight two prominent corporate responsibilities in the post-credit-crunch debate: responsible compliance and ethical competence. However specific or prescriptive it may be, all regulation requires discretionary, and responsible, interpretation.[9]

The UK authorities, which favour principles-based regulation, have emphasized this point: 'The Prudential Regulation Authority will expect firms not merely to meet the letter of these requirements, but also to consider the overriding principle of safety and soundness', the Bank of England wrote about the FSA's successor in 2012. Perhaps surprisingly, the Securities and Exchange Commission, a rules-based regulator, also concluded one of its testimonies on 'Securities Law Enforcement' in the following words:

[7] This account is not intended to put the whole blame for the crisis on banks. I am, however, interested in the idea that banks are expected to control certain legal activities when these threaten market stability. I outline these as illustrations (N.B. an 'exploding mortgage' is one with very low but mandatory interest rate repayments that subsequently increase disproportionately).

[8] A systemic risk is one that threatens the entire financial system, or a core part of it (Financial Services Authority, 2009d), for example when one institution's failure leads to large losses for others (International Monetary Fund, 2010).

[9] In some cases, the more specific a regulation, the more interpretation it requires for idiosyncratic applications.

Dans le débat post-crise, il faut mettre en avant deux responsabilités essentielles: le respect de la réglementation, qui est la base de départ et la compétence éthique. Les directions des banques doivent encourager le personnel à développer des techniques innovantes de surveillance et de contrôle.

'...we need to encourage a tone and culture … that mere compliance with the law, narrowly viewed, is not the highest goal to which we aspire, but the base from which we start. The securities industry as whole needs to embrace this compliance culture, and [become] responsible stewards of the assets entrusted to them' (Securities and Exchange Commission, 2009d, pp. 14-15).

Complying responsibly with regulation will entail pursuing some shared objectives with regulators. This should not mean complying uncritically; on the contrary, its focus is the spirit, not the letter, of the law. Under the European principle of 'comply or explain' (UK Treasury, 2009, p. 38, European Commission, 2006), banks may identify innovative ways to implement controls, and these may indeed improve – and cost less than – the official guidelines. Ultimately, senior management must encourage staff to develop innovative supervisory techniques and, often, share them with the industry.

La compétence éthique des individus est bien sûr primordiale: le jugement humain et responsable doit prévaloir. C'est souvent un impératif éthique que de reconnaître que l'on est capable ou pas d'effectuer une mission. L'honnêteté et la compétence sont donc étroitement liées.

Ethical competence

Individuals' ethical competence is of course paramount. The regulatory debate has frequently mentioned what the FSA termed a 'misplaced reliance on sophisticated maths' (Financial Services Authority, 2009d, 16), where the issue is not only technical content (such as the relative merit of value-at-risk modelling versus stress-testing) but also human judgement. Senior executives have been criticized for failing to understand their risk models, and less senior managers for 'confusing the model with the world' (*The New York Times*, 2008b). As MIT's Andrew Lo put it, 'technology got ahead of our ability to use it responsibly' (*ibid.*).

It stands to reason that the 'job market' does not always replace those who fail to do their jobs effectively with more competent individuals. It is often an individual's ethical prerogative to acknowledge his or her own incompetence for a role. Honesty and competence are closely related. They comprise the twin categories for the UK's 'Fit and Proper Test for Approved Persons', which individuals must pass in order to obtain certain jobs in the financial industry or to purchase major companies. The test's categories are 'Honesty, integrity and reputation' and 'Competence and capability'. Explaining one decision to fail an individual on this test, the FSA cited indications of a banker's incompetence, which as a result 'prejudiced the interest of consumers' (Financial Services Authority, 2009e, p. 2).

Roszaini Haniffa calls for 'training in how to apply codes of conduct in everyday [accounting] situations' (*Financial Times*, 2009). 'Students must be exposed to alternative business models and thinking,' she continues, 'not just trained to resolve complicated financial problems through mathematical modelling. These tend to be detached from the real world and consideration of human elements' (*ibid.*). Ethical competence introduces human, qualitative dimensions to formalist risk mana-

Roszana Haniffa plaide en faveur d'une formation sur la façon d'appliquer des codes de conduite dans la vie financière quotidienne. La compétence éthique introduit des dimensions humaines et qualitatives visant à optimiser la gestion des risques et la conformité réglementaire.

Une démarche non proactive peut mettre en danger l'ensemble du système.

Les établissements bancaires doivent contribuer à assurer un système financier stable et équitable incluant l'adoption d'une nouvelle éthique pour la conduite des affaires.
Parmi les comportements attendus chez les financiers figurent l'adoption de pratiques de gestion des risques pour anticiper les impacts. Repérer les limites des modèles de risques est tout aussi crucial, tout comme la préparation aux scénarios de crise prévisibles.

gement and compliance; it looks for weaknesses in the models, and in individuals (see also *The New York Times*, 2008a, and *The Wall Street Journal*, 2009).

Economic theory holds that those who do not demonstrate the necessary skill will succumb to competitors. But it has become clear that those who do not better their ways proactively may put not only themselves at risk, but the entire system. More is at stake than just the firm's and the individual's freedom to compete legally. The market commons relies on responsible compliance and ethical competence.

Corporate Market Responsibility

The controversies involving Citigroup, sovereign funds and many banks during the credit crunch suggest that financial firms must help to ensure a fair and stable financial system, adopting new ethics for business conduct, above and beyond legal regulation and profit maximization.[10] In the course of researching these episodes, I have analysed a data sample of over 540 documents, comprising regulatory papers (as indicators of regulatory risk) and media articles (as indicators of reputational risk). The data point to three central types of ethic expected of financial companies.

The first of these *is adopting risk management practices that anticipate the firm's impact on its market environment*. Incentives for bank personnel should encourage ethical competence at all levels, and accountability at senior level, for the bank's key risk models. Day-to-day management controls, such as risk-taking limits, should be aligned with the company's overall risk appetite, set at board level and informed by broader market conditions. Pinpointing the limitations of risk models and the role of subjective judgement is also crucial. Appropriate risk foresight was important for Citigroup (which failed to consider its trade's impact on the MTS market), for SWFs (to reassure host countries that they would not destabilize their economies) and for the many banks that failed to prepare adequately for foreseeable crisis scenarios.

The second is *implementing a transparent investment policy with parameters for acceptable financial transactions*. This may take various forms. Investment products should be aligned with customers' risk profiles; for example, complex derivatives are generally not appropriate products for pensioners. Financial strategies such as short selling should be suspended when they threaten market liquidity, lest they become self-

[10] In this paper I have used the Oxford Dictionary definition of ethic ('a set of moral principles, especially ones relating to or affirming a specified group, field, or form of conduct') and moral ('concerned with the principles of right and wrong behaviour'). See oxforddictionaries.com.

Il faut aussi mettre en place une politique d'investissement transparente avec des paramètres fixant les transactions financières acceptables, afin de renforcer la confiance dans les marchés et éviter toute controverse.
La troisième mesure éthique attendue concerne le respect de l'esprit des lois et la proactivité nécessaire pour en corriger les lacunes. Il faut coopérer avec les organismes de réglementation dans la compréhension et codification des responsabilités, et dans l'élaboration de techniques de pointe pour surveiller les transactions et détecter celles suspectes.

Le respect de l'éthique est devenu indispensable, son absence générant des risques réglementaires et une atteinte à la réputation. Le modèle d'éthique CMR (*Corporate Market Responsibility*) est la meilleure incarnation de la méta-régulation.
Le CMR a également une qualité normative: il s'agit de l'intérêt public et l'interdépendance économique.

fulfilling or abusive.[11] Investments should be driven by financial returns on invested assets, and should not aim for unfair advantages in particular markets. In general, parameters that define acceptable financial transactions help to build confidence in markets. In each of the aforementioned episodes, the lack of such parameters (e.g. for the Dr Evil strategy, SWF investments, or 'exploding mortgages') fuelled the controversy.

The third type of ethic is *responsible compliance: abiding by the spirit of the law and correcting shortcomings proactively, even when regulations are not actually breached.* There are many grey areas when implementing both the spirit and the letter of regulations. This type of ethic promotes cooperation with regulators in understanding and codifying responsibilities; developing and adopting leading industry practices; emphasizing the organization's values and reflecting them in procedures; and strengthening compliance departments (for example, improving communication between compliance and client-facing business units). This general expectation was evident in each of our episodes. Citigroup's fine was decreased in response to improvements it made during the FSA investigation (Financial Services Authority, 2005a). SWFs avoided restrictions on foreign investment by helping to design reflexive codes of conduct. Following regulatory calls for proactive improvement, major investment banks have been investing heavily in trade surveillance technology to enable them to detect suspicious activities and report them to regulators.

Enforcing ethics

Together, these ethics represent a new corporate market responsibility (CMR). Our episodes suggest that the absence of these types of ethic increases regulatory and reputational risk, while their adoption decreases those risks. Thus CMR ethics are voluntary, but nevertheless enforced. I would argue the concept of CMR is part of a model known as meta-regulation, also referred to as 'the regulation of self-regulation' (Black, 2006; Braithwaite, 2003; Gray & Hamilton, 2006; Grabosky, 1995; Parker, 2007). In meta-regulation, 'the quality of firms' internal controls is the paramount focus of attention', writes Black (2006), usually with the aim of managing 'the extent to which, and ways in which, those firms will comply with regulatory requirements' (p. 3).

However, CMR also has a normative quality (it is content, not just method): it concerns the public interest and economic interdependency. In this sense, CMR is similar to 'ethical self-regulation'.[12] Chiu (2009) summarizes it thus: 'In a narrow sense ethics may relate to the

[11] Short selling becomes self-fulfilling when the target company finds it increasingly difficult to raise funds, and ultimately becomes insolvent, as more and more traders become involved in the bet. Shorting can constitute market abuse (which is illegal) if traders conspire to create a self-fulfilling bet.

[12] See also 'enforced self-regulation': Ayres & Braithwaite (1992).

En considérant que les crises financières se reproduisent tout les cinq à sept ans, c'est peut-être le bon moment pour se pencher sur la responsabilité du marché des entreprises.

prevention of … detrimental behaviour that may inflict organizational and social costs. Seen in that light, ethical self-regulation would include risk management, social responsibility in the sense of prevention or mitigation of externalities, and corporate governance. Ethics may also relate to "proactively" adding to social good ... ' (p. 32).

Illustrating some of the parallels between these various models, Parker (2007) writes of 'legally accountable corporate social responsibility', and Shamir (2008) of 'responsibilization' for moral conduct. CMR is an invitation to implement and develop better market conduct.

Conclusion

It has often been taken as given that, if an economic incentive exists, morality will be subsumed in it; but this way of thinking is rapidly losing credibility. In 2008 one of its most renowned proponents, Alan Greenspan, told the US Congress 'Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself especially, are in a state of shock and disbelief ... I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms ...' (pp. 35-37).

The old economic morality is being challenged by the emerging ethics of corporate market responsibility. Western financial markets appear to be recovering from the credit crunch. Several investment banks have recovered to pre-crisis levels of profitability. If JP Morgan's Jamie Dimon was right when he said that financial crises occur every five to seven years, now may be a propitious time to attend to corporate market responsibility. •

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Suppose we change the (meta)rules of the game?

Ethics in Finance, Robin Cosgrove Prize
Global edition 2012-2013

Finalist

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When faced with serious difficulties, or a full-blown crisis, we tend to assume that the solution should be commensurate with the problems. The more difficult the situation, the more radical – even revolutionary – the solutions we look for. We prefer general, abstract approaches to concrete, down-to-earth ones. I would like to propose a different approach, and seek reasons for the erosion of public trust in financial institutions, as well as ways to rebuild it, by making some specific observations. In this paper I will make use of 'hot' knowledge (Kozielecki, 2000), i.e. knowledge based on my own experience. This will not be an abstract or cold analysis. There will be no graphs or rows of figures. No well-known businesspeople or young, promising financial experts will be quoted. In a sense this paper is a manifesto – an attempt to speak on behalf of the nameless, faceless, voiceless many. What I have to say may sink without trace in the waters of silence; and yet I hope it will be heard in broader circles. As I write these words I cannot know if it will – but I very much hope so, and it is this hope that encourages me to write.

Whose voice are you reading? Whose voices are you not hearing?

I do not work in a financial institution. My right to take part in the debate and present my views comes from my professional and private contacts with people employed in such institutions. I am a psychologist, and I have observed a dramatic

Cet essai n'est pas celui d'un professionnel de la finance. L'auteur est une psychologue qui opte pour une analyse de l'éthique en finance depuis la perspective du thérapeute, en analysant le cas d'employés, victimes de la « guerre sous couvert » qui sévit dans le milieu bancaire.

L'activité professionnelle va au-delà d'une simple source de revenus. Parfois, elle nous aide à définir notre personnalité et nous fait sentir que nous pouvons influencer le monde qui nous entoure.

Les cas de deux patients nous aideront à développer nos propos.

increase in the number of bank staff among my patients. Regardless of which institution employs them, or which position they hold within it, the symptoms that have made them seek help turn out to be very similar, ranging in severity from minor (discouragement, loss of motivation) to moderate (constant stress, psychosomatic symptoms, burn-out) and major (suicidal tendencies, symptoms of personality disintegration or behaviour similar to the post-traumatic stress disorder (PTSD) first diagnosed in Vietnam war veterans). Although the patients I am writing about are not involved in an armed conflict, they feel as if they have lost a war – the war for themselves, their dignity and their professional self-respect. They are the victims of a silent war being waged within financial institutions, a war without bloodshed, a war fought with white gloves, often within the limits of the law – but not the law that determines people's rights to respect and dignity, a law so vague and hard to define that it is all too easy to overlook it, and abuse it.

Work that shapes personality

What is work? It is more than just a source of income. Sometimes it is a fundamental element of our personality that helps us determine who we are, or who we are not – perhaps that we are nobody. Work takes up most of our daytime hours, creating a vital structure that satisfies our need for order and security. It gives our lives a rhythm without which we would find it very hard to function. Work makes us feel we can influence the world around us, and our own lives. In many ways it fulfils our fundamental needs and give us a sense of purpose – not always the final and only purpose, sometimes just one of several alternatives, but always an important one (Palusiński, 2002).

Until some years ago I had no professional background. I had a university degree, but I was uncomfortable with the role it conferred on me. That changed with time, and with newly acquired skills and experience. Now I can call myself a psychologist. Yet I do not feel that my current profession is my final one. I am also a trainer and a lecturer, and one day I may become someone else. I am open to change. Probably this is a question of age, in two senses – postmodernist multi-personality, typical of the age of fluid modernity and early adulthood (Bauman, 2007). But what about people who have grown up in different times, their consciousness and personalities determined by the work ethic, for a longer period, and on a larger scale – people who, having worked for the same institution for twenty or thirty years, discover (often in an inhuman manner) that they are no longer needed? This generation is gradually leaving the workforce, and perhaps there is no point in paying attention to them – perhaps we should simply wait for the problem to fade away of its own accord. Maybe this is what will happen. Purely in terms of pro-

Le premier cas est celui de P.L., une employée de banque de 51 ans licenciée sans indemnités, alors qu'elle avait été élue par le journal de sa communauté comme la « meilleure employée de banque » et qu'elle était dans la moyenne des objectifs à atteindre de sa succursale. Son renvoi et celui de toute son équipe a provoqué chez P.L. une crise nerveuse et elle a dû suivre un traitement depuis lors. La justice a par la suite conclu que le licenciement était abusif et qu'il était la conséquence de son refus d'appliquer une politique bancaire peu éthique.

Le cas de T.U., un jeune conseiller financier enthousiaste à ses débuts, nous permettra de comprendre en quoi les attentes employé/employeur divergent. Après quelques mois de travail T.U. était profondément démotivé et souffrait de burn-out. L'origine du problème était éthique : Il se sentait comme le héros d'une tragédie grecque dans laquelle quoiqu'il fasse, certains gagneraient et d'autres perdraient.

fit and loss, it may also make sense to lay off employees aged over fifty. Perhaps this is a logical strategy. Yet, even if ethics makes use of logic, is it nothing more than that? I may be wrong, and banking ethics may be something essentially different, consisting only of rows of figures that do or do not add up to expected sales targets. But what makes me persist is my belief that this is not so, or at least not entirely so – and that it should not be so.

Too old to count

I would like to present an example that illustrates the above phenomenon (with all identifying details omitted) – a case study rather than a statistical sample that can be generalized and applied to the whole population. Just for a moment, let us think in quantitative rather than qualitative terms.

A 51-year-old woman, P. L., was employed as an individual client advisor for 21 years. She was dismissed from her job for 'insufficient business activity to warrant a personal bonus'. It should be mentioned here that she was voted the 'best bank worker' in a survey among bank clients held by a local newspaper, was highly trained and met her sales targets at the average level for her branch. P. L. received no severance pay or outplacement offers. The shock of her unexpected dismissal, and the way in which it took place, caused her to suffer a nervous breakdown and become reliant on medicines. Worse still, her dismissal was the culmination of a prolonged harassment campaign whose victims were not only P. L. but the whole team: two sought psychiatric treatment, one resigned and one spent some time in a mental hospital. The 'ethos' prevailing at P. L.'s bank is well illustrated by an excerpt from one of the e-mails the branch manager sent employees on a daily basis: 'Just remember, it's all or nothing. I don't want to have to go to the regional office and try to explain why our branch generates no sales and others do. So no excuses – the weather, holidays, or whatever…'. Of course, face-to-face communication with staff was no different – if anything, since the spoken word is so fleeting, it was even harsher.

The trial court deemed P. L.'s dismissal unlawful, stating that she was fired because she refused to carry out the bank's unethical policies. The judge said he had not appreciated how badly bank employees were treated in terms of working conditions, atmosphere, mental pressure and disrespect.

Too young to matter

On the right-hand side of the employment bell curve, people over 50 are being lopped off as if they were extreme cases. On the left-hand side of the curve a similar fate awaits younger staff, employed on never-ending temporary contracts that are nevertheless eventually terminated, and treated like so much cannon fodder, to be replaced whenever Poland's calamitous labour market demands it. Of course, some may say

Devenu vendeur plus que conseiller, il ne croyait pas que les produits financiers qu'on l'obligeait à vendre afin d'atteindre les objectifs étaient bons pour ses clients. Le fait de vivre dans une petite communauté aggravait son dilemme, car il connaissait personnellement chacun de ses clients.

Pour remplir ses obligations professionnelles, il opta pour la stratégie de « l'amputation » et agissait sans sentiments, de manière mécanique, sans penser aux conséquences éthiques. Une sorte d'aliénation marxiste. Mais finalement, le code d'éthique personnel de T.U. l'empêcha de manipuler ses clients pour atteindre les objectifs de la banque et se manifesta d'abord par un maque d'engagement professionnel puis par un état de détresse émotionnelle, y compris dans sa vie personnelle.

a bank is not a charity but a business whose staff must generate profits in order to justify their employment. In that case, let us consider why they do not generate profits, or why the level of profits they generate does not satisfy their employers.

Take the case of a young VIP advisor, T. U., who came to me for coaching. He sought help because, after just a few months in his new post, his initially very high motivation had evaporated and he had all the symptoms of burn-out. He was torn between his clients' and his bank's conflicting interests. He felt he was in a 'win-lose' situation, and saw himself as a tragic hero in an ancient drama: damned if he did, damned if he didn't. Aside from purely pragmatic issues, the problem was mainly an ethical one. T. U. did not believe the products he was compelled to offer his clients (in order to meet sales targets) were really useful or valuable to them. Nor was he alone in this. Here is a statement by a bank employee published in the newspaper Gazeta Prawna: 'It's quite simple – you have to meet your quotas. You have to sell a certain number of products: mortgages, life insurance policies, credit cards, loans, investments ... Perhaps this month you were lucky in, say, mortgages, but that's not enough. If you haven't sold enough cards or policies,[1] the manager will be on your tail. Good salespeople have to be goal-oriented, but they mustn't think too much or feel any empathy' (Suchodolska, 2012).

Perhaps if T. U. had been working in a large city, his wish to be fair to his customers would not have been so acute. In cities, clients are just an anonymous mass of faces, and, as we know, depersonalization encourages dehumanization of relationships. But T. U. was meeting his clients in private life, and wanted to be able to look them in the eye without feeling ashamed. His dilemma may be summed up as follows: was he a client advisor or a bank salesman – and, if he was both, how was he to reconcile the two? One of the faulty strategies he adopted was 'amputation': at work he tried to forget that he was a human being and become a mechanical, unthinking 'robot', doing his managers' bidding without any thought for its ethical or practical consequences. In 1844 Marx described a similar phenomenon, which he termed 'alienation': the factory worker's inability to identify with all or part of the product he was making.

In this case alienation was due to the work itself, which the worker was unable to understand – and above all accept on ethical grounds. The effects soon became visible: loss of commitment, and growing emotional distress, even in private life.

T. U. felt increasingly reluctant to carry out his professional duties. If people do not understand or accept what they are doing but are forced to keep on doing it, their work becomes

[1] It is worth stressing that these words, in their rhetorical dimension, are a clear reflection what the bank manager quoted above was saying to his staff.

Face aux dilemmes éthique rencontrés par T.U. et P.L., on pourrait penser qu'une démission mettrait fin au problème. Toutefois, plutôt que mettre fin au problème, nous souhaiterions le résoudre.

Le personnel bancaire affronte un triple conflit d'intérêts (1) concilier les intérêts de la banque et de ses clients (2) être conseiller et à la fois vendeur (3) rester soi-même dans sa vie professionnelle.

Les employés souhaiteraient pouvoir appliquer le même code éthique dans leur vie professionnelle que dans leur vie personnelle. Ils souhaitent être justes avec leur clients et les respecter. L'attitude des employés est très importante quant à l'image que la banque projette auprès des clients. S'ils sont abattus, en conflit interne, ils transmettront une image défavorable, celle d'une institution peu fiable.

more mechanical and uncommitted. As a result, they accept it even less and feel even more alienated – until something finally snaps.

Another way to cope with the situation was the 'ruthless bastard' strategy. The idea was to achieve sales targets by any means, using manipulative psychological tricks (a. k. a. 'sales techniques') to talk clients into purchasing products that had top priority for the bank but were not really appropriate to the clients' needs. T. U. rejected this strategy out of hand, for it was incompatible with his personal code of ethics. From a pragmatic point of view, we can compare this strategy to sprinting during a marathon: profits are swift but short-lived, and the runner[2] 'blows up' at the first bend.

Of course, there is always a radical solution to this dilemma – quitting your job. Let us assume, however, that we want to solve problems rather than just erase them. The dilemmas facing bank staff can be summed up as follows: (1) how to reconcile the bank's and the client's interests, (2) how to be an advisor and a salesperson at the same time, and (3) how to remain oneself in professional life. Hence we have a conflict of interests on three levels: a conflict of institutional interests (between the client and the bank), a conflict of professional interests (between the perfect advisor and the perfect salesperson) and a conflict of personality interests (between the bank employee and the human being). Looking at these three dilemmas, we can see that in fact they involve very similar issues, are interlocking and have a hierarchical structure – from abstract and complex to more personal and concrete.

How to remain oneself while working at a bank

Let us start – perhaps illogically – with the third and final dilemma. Staff want to remain themselves when they are at work; specifically, they want to be able to apply the same code of ethics as in their private lives. They want to treat clients fairly, respect them and offer them the most appropriate solutions based on the best available professional knowledge. Clients expect the same, for they are talking to advisors, not salespeople. In practice, however, things are quite different: clients do not receive the products most suited to them, but the ones that are high on the bank's sales agenda in the current quarter. More and more clients are aware of this, and it influences their trust in the counselling they receive from banks' client advisors. The internal conflicts advisors find themselves facing changes the way they serve clients. Here even the best sales training will not help much, for what matters is not know-how but internal conviction (ethos, attitude), culminating in the question: am I really offering my clients what is best for them? Let us note here that not only because of spectacular financial scandals (such as the collapse

[2] The runner in this analogy may be either the advisor or the bank itself.

L'homme éprouve un besoin d'influencer son entourage et de maintenir un comportement cohérent. Mais si pour conserver son emploi, il doit perdre cette cohérence interne, le jeu en vaut-il la chandelle ?

Remplacer un employé parti pour cause de conflit d'intérêts par un employé plus jeune, inexpérimenté et inconscient des conflits auxquels il sera bientôt confronté, n'offre pas une image positive (sécurité et confiance) de la banque.

Les deux cas étudiés ci-dessus ont en commun un licenciement dû au refus d'appliquer la politique de la banque que les protagonistes considéraient peu éthique.

of the Polish company Amber Gold in 2012) but also because of numerous more minor instances of unfair practice, banks are no longer trusted by the general public (Pieńkosz, 2012). We should bear in mind here that a 'bank' is too general and elusive a concept for clients; instead, they identify the institution with the employees they talk to. If employees are troubled by internal conflicts and feel discouraged and burned-out, the institution they work for will be seen as untrustworthy.

Needs and dilemmas

Research by psychologists has shown that we all need to influence the world around us and be internally consistent in our behaviour and attitudes (Frankl, 2009; Obuchowski, 2002). These needs are inherent and general, and do not go away once we are at work – unless, of course, our professional survival seems to depend on it. Yet eventually we must ask ourselves the following question: if I am losing myself in order to gain something, what is the point of gaining it in the first place?

Moral dilemmas and awareness of conflicts of interest are not confined to specific employees or the more informed and observant clients. A wider circle of friends, relatives and colleagues share the same feelings – which become a matter of public record as they are mentioned more and more frequently in legal proceedings instituted by dismissed bank employees. The circle of potential and existing clients that are aware of the true facts is growing. Is it really in banks' interests to allow such negative views about financial institutions to become more widespread? Is it wise to create situations in which employees do not perform their duties properly because of internal conflicts, or else do perform them but end up despising themselves and the banks they work for, culminating in burnout and despair? They are then replaced by inexperienced newcomers who are unaware of the conflicts they will soon be trapped in – and will end up functioning, and suffering, just like their predecessors. The huge turnover in front-office staff, including the VIP section, is not conducive to building up long-term relationships with clients. All these factors point to short-term thinking, and do not create in clients' minds a sense of security and trust towards the institutions they have entrusted their money to.

Ethics in banking: myth or reality?

The common factor in the aforementioned cases of both young and more experienced employees is their concern for client relationships. P. L. received awards for high-quality service, and T. U. received thanks from satisfied clients. Both of them adhered to the principle that the client is the most important person in the bank, and that good relationships are more important than short-term sales targets. Both were dismissed for 'failure to implement bank poli-

Employés et clients ont de plus en plus l'impression de n'être que des moyens pour atteindre des objectifs, plutôt qu'une fin en soi. L'idée que tout le monde y gagne semble avoir disparu or, finalement, l'objectif (les bénéfices) est bel et bien le même pour tout le monde. Le succès individuel n'est assuré que si tous les sujets jouent selon les mêmes règles (dilemme du prisonnier).

Il est de plus en plus nécessaire d'instaurer un système de confiance tridimensionnel où (1)la banque part du principe que le client veut rembourser son prêt et que son personnel veut être aussi efficace que possible. (2) Le client assume que les offres faites par la banque correspondent à ses besoins. (3) L'employé sait qu'il couvre les besoins de sa clientèle et que ses conditions de travail se basent sur le respect mutuel. Toute hypothèse de départ contraire créerait une situation paranoïaque menant fatalement à une «prophétie auto-réalisatrice».

cy'. The question we must then ask ourselves is this: what is 'bank policy'? Is it just about short-term profits, with no thought for long-term benefits or client relationships? Or has it been distorted at some level of management?[3] Whether we are dealing with the first option (the disappearance of the 'good work' ethos at banks – see Kotarbiński, 1982) or the second one (distortion of initially correct assumptions), the chances of remedying the situation are slim if only lip service is paid to the relevant principles. The use of such camouflage techniques as campaigns designed to increase consumer confidence (e.g. advertisements creating an illusion of trust) comes closer to 'corpse painting' than revival of the basic idea. If the bank has adopted a 'win-lose' rather than 'win-win' approach to its relationships with clients and staff, any improvement will require a radical change in its basic assumptions.

A self-fulfilling (meta) assumption

Both bank employees and more observant clients feel that they only matter to financial institutions if they generate profits. They are only a means to an end, rather than the end itself (contrary to Kantian principles). Of course, financial institutions cannot suddenly start pursuing their employees' and clients' goals rather than their own; but they should respect the various parties' needs by creating win-win situations. To achieve this, a relationship of cooperation and co-dependence must be created, based on a sense of 'playing on the same side'. It should be noted here that the client's, the employee's and the bank's goals do not conflict: both the client and the employee want to make a profit, and so does the bank. Furthermore, strange though this may sound, the bank needs respect and security (in the sense of its clients' and employees' loyalty and the stability of the franchise) quite as much as the client or employee does. So, if everyone's goals are the same, why all the problems? The answer to this question may lie in Dresher and Flood's famous 'prisoner's dilemma'. Individual success can only be achieved if the relationships between all the subjects are well understood and everyone abides by the rules of fair play. Clearly, if one party breaks the rules in order to make a short-term profit, everyone else will suffer.

What would a system of three-way trust look like in practice? The institutions affiliated to the European Federation of Ethical and Alternative Banks (FEBEA) are good examples. According to a report by Poland's Credit Information Bureau (BIK), '87% of [FEBEA] companies

[3] The Good Principles of Banking Practice quoted here seem to point to the second option: 'Chapter II: Principles of banking activities in relations with customers: 1. In relations with their customers, banks should act with the special trust conferred on them by customers and high standards of dependability, thus treating all their clients with due diligence; 2. A bank must not use its professionalism in a way that damages clients' interests.'

C'est aux institutions bancaires, en tant que maîtres du jeu, de changer le climat dominant. Si elles mettaient en œuvre un changement réel et visible, la confiance auprès de la clientèle et des employés serait restaurée au fil du temps.

Un état de confiance mutuelle repose sur la foi en la nature humaine.

repay their loans on time, or with only a slight delay. Only 5% of companies are seriously (more than a year) in arrears. Moreover, these data concern only part of the corporate loans market. Of the companies affiliated to Poland's Society for Socio-Economic Investments (TISE), none is in arrears' (Zachariasz, 2011). The rules of fair play are quite simple. Banks assume that clients intend to repay their loans and that staff want to be as efficient as possible; clients assume that offers made by banks are well suited to their needs, even if they are temporarily not in line with the banks' sales policies; and staff act ethically and honestly. Staff in turn assume that banks offer clients the best possible solutions, that their employment contracts will be permanent and that their working conditions will be based on mutual respect. The opposite assumption – that customers will not repay loans, that staff will make as little effort as possible and that banks will exploit both clients and staff and then get rid of them – creates a paranoid, self-fulfilling situation in which no-one trusts anyone else, thereby confirming the initial assumptions about complete lack of trust. The self-fulfilling prophecy principle reveals, through numerous experiments, the mechanism that turns our assumptions into reality. The same principle is the basis for the whole mechanism of cognitive-behavioural therapy, which can be summed up as follows: 'Watch your thoughts; they become words. Watch your words; they become actions. Watch your actions, they become habits. Watch your habits, they become character. Watch your character; it becomes your destiny' (Frank Outlaw).

This is not to say that in reality we will not encounter situations in which the mutual trust 'pact' is broken. Some customers, employees and banks will always break the rules of fair play; but the point is that we should not assume this in advance, and that toxic situations – considered as the exception rather than the rule – should be recognised and corrected in good time.

Suppose we change the rules of the game?

The bank, as the institution that basically dictates the rules of the game, can and must change the prevailing climate (from 'win-lose' to 'win-win') and the basic principles (from 'unfair' to 'fair' play). If this is reflected in actions and attitudes, it can – with time – change the behaviour of both staff and clients. This will entail believing in human nature (harmony and confidence), the universality of human needs (respect, security, trust), psychological discoveries (self-fulfilling prophecies, the prisoner's dilemma), practical examples (FEBEA) and the need to make innovative proposals – for is there anything more radically innovative than proposing to implement the principle of mutual trust in times of crisis?

Parmi les mesures susceptibles de favoriser un climat de confiance, cet article propose de se focaliser sur des actions permettant l'échange d'opinions et d'idées entre employés et supérieurs.

Une attention particulière doit être prêtée aux employés qui sont en contact direct avec la clientèle pour les aider à trouver des solutions éthiques à d'éventuels conflits d'intérêts.

Par ailleurs, le fait de traiter les employés de manière individuelle favorise le développement d'un sentiment de satisfaction personnelle tout en augmentant leurs compétences.

L'implantation d'un système de motivation qui permette à l'employé de se sentir plus qu'un simple maillon, comme s'il était part intégrante d'une équipe, est plus que nécessaire.

'I'm OK, you're OK'

The root of the changes I propose here lies in altering the basic working principles of financial institutions – from a policy of mutual distrust towards the 'I'm OK, you're OK' principle.[4] Only then can the mutual trust necessary for further action be created. Failing this, any changes will be temporary and unrealistic, and hence will simply make things worse. The types of action I am proposing here are not new – most of them are well known and widely used in practice. What matters is that they should become firmly established and deeply rooted, in a Kierkegaardian 'leap of faith' based on good intentions and willingness by all those involved in the 'financial game' to play by the rules. Is it logical to make this assumption – especially in times of crisis that encourage mutual distrust and a wish to remain afloat at any cost? I will answer this question in a perverse manner: probably not. The proposed solution does not refer to logic but to ethics, and the two are not always compatible (though sometimes ethics makes use of what is known as 'existential logic'). Yet are we now not in need of ethics more than anything else?

From words to reality

The action that can be taken to implement the 'I'm OK, you're OK' principle is in keeping with the initial premise of this paper. It means improving the quality of employees' relationships with their superiors and clients. The proposed changes are as follows:

1. Creating conditions that allow a safe and honest exchange of ideas and comments between employees and their superiors. For example, one could consider asking employees for their opinions, rather than – as is currently the case – instantly firing whistleblowers, who often identify problems sooner than the rest and/or have the courage to draw attention to them. This would enable the institutions concerned to respond swiftly and make any necessary changes that would help them function better at both staff and product level.

2. Listening to all employees, especially those in direct contact with clients. These front-line troops can inform us about key aspects or effects of assumptions made higher up in the hierarchy. They can show us how abstract ideas are converted into facts, and how our institutions operate and are manifested at the point 'where the rubber meets the road'. To help employees understand the need to raise thorny issues and make sure they are not afraid to do so, the 'I'm OK, you're OK' principle must be widely adopted. Employees will only be willing to raise such issues if the bank they work for is interested in finding ethical solutions (the need for coherence), their voices are heard and have some influence on reality (the need for agency), they need not fear repercussions (the

[4] The term comes from the title of Dr Thomas Harris's book I'm OK, you're OK, but is not based on his assumptions.

Finalement, ajoutons le besoin de réajuster le profil des cadres, en confiant la responsabilité du management à des personnes plus orientées sur les relations positives et de longue durée que sur le résultat immédiat.

Cet essai prétend aider à rompre le cercle vicieux de manque de confiance mutuelle qui semble régner actuellement au sein des institutions bancaires. Peu importe si l'origine des changements se situe au niveau de la clientèle, des employés, du modèle de direction ou de la communication au sein de l'équipe.

need for security) and they matter to the bank (the need for respect).

3. An individualized approach to employees. When sales targets are not met, the reason is not necessarily inadequate sales ability. Could it be an ethical dilemma, or incompetence, or something else again? Discovering the real reason for an employee's failure to meet targets requires trust and mutual openness, individualized ways of overcoming obstacles and guidance in helping employees perform their duties diligently (the need for competence), rather than ruthless exploitation of employees simply to meet sales targets at any cost. Employees who are convinced that their institution seriously cares about realizing their personal potential will not feel they are simply a means to an end. On the contrary, this makes it easier for them to develop a joint sense of personal satisfaction and accomplishment as their competence increases.

4. Adjustment of management profiles to comply with the bank's ethical policies. What matters here is to choose people oriented towards positive, long-term relationships with both customers and employees, rather than short-term sales targets and managerial objectives. This will help ensure that the new banking ethos is not distorted on subsequent steps of the management ladder.

5. Changing the staff motivation system, above all by creating a work model that makes employees feel they are important, structural parts of a team rather than anonymous, dispensable cogs in a machine. It turns out that motivation based on a sense of meaning and agency is equal to – and sometimes greater than – purely pecuniary motivation.

These are just a few examples of how the general 'I'm OK, you're OK' idea can be turned into specific action, and some potential benefits of such a strategy. They do not rely on financial knowledge, but on familiarity with universal principles of human functioning and deliberations based on analysis of my patients' professional situation. As a trainer who coordinates creative sessions I am well aware that my position is that of an amateur whose thoughts and proposals are still rather rough-and-ready, like those of a think tank that require subsequent analysis by experts. My purpose is not to propose a full set of solutions, but to launch the process and trigger the necessary changes. The main thing is to focus on something we have tended to forget in these turbulent times – the idea that people matter more than numbers.

The vicious circle versus the wheel of fortune

The original question was this: what mechanisms lie behind the erosion of ethical attitudes in financial institutions, and what can we do to stop it and restore consumer confidence?

I believe we are now confronted with a vicious circle of growing distrust, whose increasing costs are borne by financial institutions, their employees and their clients. This paper has adopted the viewpoint of bank staff to present some of the more pernicious phenomena in financial institutions. However, I do not believe it matters where we start out from, for the conclusions would be no different: the need for a radical change in the meta-principles of the 'financial game'. The same applies to the proposed remedies: it does not matter where we start to make changes, whether it be with clients, employees, managerial models or inter-team communication, as long as the basic premise is altered, for the result will be the same: the vicious circle of mutual distrust will be broken.

To repeat the key message of this paper, the solution does not depend on specific actions, but on attitudes at both the starting point (the 'I'm OK, you're OK' principle) and the end point (an ethos of mutual trust created by changing the underlying assumptions). Another self-fulfilling prophecy – or, if you prefer, another vicious circle, only this time in a very different direction… •

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Banking, ethics and sustainability: the need for a self-critical look at corporate social responsibility strategies

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Second Prize

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* The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated to.

Can we still speak of ethics and finance?

It all started in August 2007 – to be precise, on 9 August 2007, when one of Spain's leading newspapers published the news of the subprime meltdown. From this point on, a series of events was unleashed that would culminate in the greatest financial and economic crisis to hit Spain, and the rest of the world, since the Second World War. And at first the source seemed quite unexpected: the banking and mortgage sector.

The Spanish newspaper *El Mundo* was to state that, between 9 and 11 August 2007, the European Central Bank alone put 155,000 million euros into circulation after the famous crises in such financial institutions as BNP Paribas and the German bank Sachsen LB. In September *El Mundo* wrote that the crisis had bottomed out with the failure of the British bank Northern Rock. This was followed by shocking results for banks in general, and Citigroup and Morgan Stanley (complete with resignations) in particular. And while the general public in Spain – and many other countries – were struggling to grasp what a 'subprime' mortgage was, and what the fall-out might be, what is now known as the 'subprime crisis' was starting to trigger a major worldwide downturn in a jittery credit sector, the pillar of the market economy. In December of the same year, US President George W. Bush attempted to tackle the problem by reaching agreement with the banks on a five-year moratorium on changes to interest rates for high-risk mortgages – a solution which already seemed likely to prove inadequate.

The collapse of Lehman Brothers on 15 September 2008 not only brought the 158-year history of one of Wall Street's flagship companies

Tout a commencé en août 2007, soit le début de la fameuse crise des subprimes. Comme les autres pays, l'Espagne a été durement frappée par la crise.
Le grand public espagnol découvrait pour la première fois ce qu'étaient les prêts hypothécaires à risques, sans réellement comprendre de quoi il s'agissait.

La faillite de Lehman Brothers le 15 septembre 2008 a été le point d'orgue et le point de départ d'une crise qui a touché l'ensemble de l'économie mondiale.
L'Espagne a progressivement été contrainte d'effectuer de nombreuses réductions budgétaires. L'année 2011 fut dominée par le fort taux de chômage, conséquence directe de la crise mondiale pour l'Espagne.

to an end, but made clear that the financial heart of the United States was in stormy waters. Within days, other institutions on both sides of the Atlantic admitted that they were in serious trouble, causing a precipitate stock-market crash. The collapse of the high-risk mortgage market in 2007 was now having an impact well beyond the institutions originally concerned. Fearful of losing their money, banks stopped lending, and the crisis started to threaten consumption and spread to the rest of the economy.

In 2010 came the Greek bailout, followed by the Irish one. And in this global economic context Spain found itself having to make more and more cutbacks – with the constant suspicion that these would not be enough to satisfy the market's appetite. The global economy appeared to be recovering; some countries began to show positive growth rates and, although they were still unable to create employment, could state that they had bottomed out. But in others, such as Spain, it was a very different story. In 2011 unemployment was the dominant factor and emerged as the most damaging consequence of the crisis, while news about the economy, the problems facing banking institutions or possible bailouts for countries such as Portugal and Spain continued to pour in. This led to the movement known as *los indignados* ('the outraged'), whose slogans against politicians and bankers struck home in a country that was in turn seized by a thirst for change. To this day the movement is actively fighting what it calls the prevailing status quo.

A case in point: Spain

In this increasingly turbulent and uncertain context, Spain's financial sector entered 2012 with such news as the first complaints from victims of the preference shares fraud, a partial government takeover of the Bankia concern, constant rumours of a bailout for Spanish banks and much else besides, and ended the year with the first news of suicides following eviction orders issued by the country's banking institutions.

In 2013 the prospects for Spain's financial sector – and specifically for banks – seem hardly more encouraging. If we look up the term 'bank' on Google (currently the most widely used search engine in Spain), we find that the main information circulated or produced by the media is just as critical and pessimistic as in recent years; to some extent this merely confirms the picture that the general public already has of such institutions and their role in the crisis.

Among the hits are things such as 'Spanish premier Rajoy does not rule out the possibility that the banks will need more money, but it won't come from the bailout', 'the Fitch rating agency calculates that the banks will have to stump up more than 10,000 million because of refinancing', 'parliamentary debate on housing associations' debts to banks', 'public prosecutor in the province of Galicia hopes that, in the trial on the mass sale of preference shares, the banks'

L'année 2012 a vu s'établir un contexte général de plus en plus incertain, avec les multiples plans de sauvetage des banques espgnols, à l'image de la situation de Bankia. En 2013, les perspectives pour le secteur financier espagnol, en particulier pour les banques, ne semblent guère plus encourageantes si l'on se réfère aux résultats de recherches relatives au terme « banques » dans le Google espagnol.

Une récente enquête de l'institut espagnol de recherches sociologiques montre que le concept de "banques" est désormais cité comme étant l'un des trois plus sérieux problèmes du pays. Le terme d'expulsions est lui aussi entré dans le trio de tête.

Dans cette situation très difficile, pouvons nous encore espérer que les institutions bancaires vont agir de façon éthique ? Il est probable que les besoins de la société et les intérêts des banques aillent dans des directions très différentes.

directors will be required to explain why such "toxic products" were sold in the first place', 'private prosecutor in the Blesa case (the Clean Hands trade union) calls for prison sentence without bail for the former president of the Caja Madrid bank', 'director of the Banco Pastor released on bail following arrest for fraud'... If we add the term 'corruption' to our search, we find such things as 'Société Générale dismisses the head of its subsidiary Rosbank, accused of corruption', 'Banking, short selling and corruption: Spain falls in rankings', 'Blesa, first banker to be jailed', 'Oxfam alleges that 9.5 trillion euros are in tax havens linked to EU'.

All this information appears to confirm the now widespread picture in Spanish society (which can be extrapolated to most developed countries) regarding the crisis, the country's problems and above all who is to blame, including banking institutions. Whether in the media, institutions or NGOs, or even civil society, the general opinion is the same.

Indeed, if we look at the latest (January 2013) Barometer survey by the Centre for Sociological Research in Spain (CIS), some respondents – 5.8% of the sample – have for the first time named 'banks' as one of the country's three most serious problems. This is significant, for in the January 2012 Barometer, just a year earlier, the equivalent figure was 0.0%. 'Evictions' have also appeared for the first time in the same survey as one of Spain's worst problems, with 3.5% of respondents putting it in the top three. In 2012, 'evictions' was not even one of the available options.

Another CIS survey, the February 2011 Barometer designed to measure the concept of 'justice', also yielded interesting information as to what the general public thought about banking institutions. For instance, when asked how much protection they felt they could expect from the law in a dispute with a major concern or a bank, 50.2% of the sample answered 'Not much'. Of the remainder, 22.1% answered 'None at all'.

Two realities?

Given the playing field – or perhaps we should say 'minefield' – that the financial sector and the sectors and authorities linked to Spanish banking are currently operating in, can we still fairly speak of ethics? Is it still possible to assume that banking institutions will act ethically and sustainably while responding to society's real demands? Or, and this is more important, should we not be asking ourselves whether, as seems most likely, society – or what in the business context could be termed 'stakeholders' – and its needs may be going in one direction, and banks and their interests in a very different one?

Under the circumstances, the demonization of Spain's finance and banking system (and hence the country's main banks) would seem unfair, given the efforts the various banking institutions are trying to make in terms of Corporate Social Responsibility (CSR). At first glance these efforts have not made any im-

Dans ce contexte, le secteur bancaire a besoin d'un regard autocritique quant à son rôle. Ses actions doivent s'inscrire dans une démarche de développement durable. Il est donc important de se pencher sur la responsabilité sociale des enterprises (RSE) dans le secteur financier.

L'approche sociale stipule que ces denières sont responsables pour l'ensemble de la société, bien au-delà des actionnaires et des clients. Une autre approche concerne les quatre dimensions du rôle des entreprises financières : économique, juridique, éthique et philanthropique.

pression, or else the public sees them merely as an attempt to disguise what (in contrast to the information on their websites or in their sustainability) is revealed by reality. And yet the leading commercial banks continue to occupy the top places on the most prestigious national and international sustainability and corporate reputation indexes (Merco, the Dow Jones Sustainability Index or the FTSE4 Good index) and are the organizations most actively involved in CSR.

In this context – which could be described as somewhat confused – the banking sector needs to take a self-critical look at its true role with regard to fundamental issues of sustainable development, and pursue actions that promote sustainability and make it second nature to the sector. Using such tools as sustainability reporting to encourage integration of the concept of sustainable development into the functioning and goals of such institutions, rather than as a reputation-enhancing or PR tool, could be a first step towards bringing about change in this area.

Corporate social responsibility: some key ideas

However, in order to start thinking in this direction, we need to understand and assess what CSR is, and should be, and how the main companies in the sector approach this concept and the way it is applied.

In recent decades we have seen a significant development in CSR and sustainability. Although the 'classic' view of businesses is that their social responsibility is to increase their profits (Friedman, 1970), other authors have focused on other approaches that allow a different view of businesses and their responsibility for the potential impact of their activities. Among these are the 'social approach', which states that businesses are responsible to society in general (Waddock, 2004), the 'stakeholder approach', which states that businesses are accountable not only to their owners but also to all the interest groups that influence or are influenced by their activities (Freeman, 1984; Gray, 1995), and the 'triple approach', which states that the role played by businesses has four dimensions: economic, legal, ethical and philanthropic (Carroll, 1991).

This marked development in CSR and the concept of sustainable development has resulted in numerous definitions. However, considering the literature, the most common definition of sustainable development is the one in the Brundtland Report (1987): 'the kind of development that meets the needs of the present without compromising the ability of future generations to meet their own neds' (UNWCED, 1987: 43). The report already took account of socioeconomic development and respect for environmental issues, as stated at the 1992 Rio Summit. One of the most commonly used definitions in Spain was provided by the Spanish Accounting and Business Management Association (AECA), which

L’évolution de la RSE et le concept de développement durable ont donné lieu à de nombreuses définitions, mais la plus courante reste “le développement qui répond aux besoins du présent sans compromettre la capacité des générations futures à satisfaire les leurs”. Les définitions du terme durabilitlé sont elles aussi nombreuses et il est primordial de distinguer la durabilité “faible” de celle “forte”. Tel est le point de départ de cette étude.

describes CSR as ‘a voluntary commitment by businesses to the development of society and protection of the environment, based on its social make-up and responsible behaviour towards the individuals and groups they interact with.’

Despite this consensus on their definition, the various definitions of such terms as CSR or sustainable development have given rise to an extensive and controversial literature on the subject. Thus, although the term has become commonplace in most corporate discourse, its interpretation clearly continues to vary.

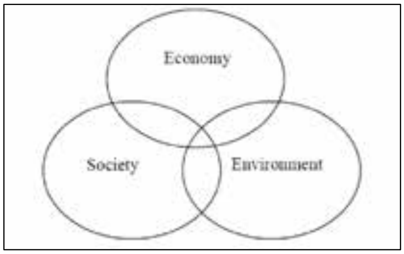
CSR in the business sector: weak sustainability versus strong sustainability?

Just as numerous definitions of the term ‘sustainable development’ have emerged since it was first coined, we can also find an interesting variety of definitions of ‘sustainability’ in the academic literature. The distinction between ‘weak’ and ‘strong’ sustainability, on which many authors have based their work, is in my view an important one. This distinction can also be seen as the starting point for this paper, and hence for the proposed reflection on the use of CSR by businesses in general, and companies in the banking sector in particular.

As I mentioned earlier, the popularization and widespread use of such terms as CSR has set off a similar debate on the various kinds of sustainability. In the literature we can find distinctions ranging from Dobson (1996), who distinguishes between three conceptions of sustainability (critical natural capital, irreversibility and natural value) to Van Marrewijk (2003), who develops a model of corporate sustainability with five different levels of ambition (the levels, which are presented as a continuum, are ‘compliance-driven’, ‘profit-driven’, ‘caring’, ‘synergistic’ and ‘holistic’), and Ayuso *et al*. (2002), who distinguish between three dimensions in sustainable development (environmental, social and economic sustainability). We can thus see that there are very different conceptualizations of the term ‘sustainability’, depending on whether the emphasis is on environmental, social or economic values. However, there is a dominant current of thought which, rather than focusing on ways of ‘looking at’ sustainability, considers the distinction between ‘weak’ and ‘strong’ sustainable development. Especially in the light of such studies as those by Tregidga *et al*. (2011) or Azcárate *et al*. (2011), we can distinguish between weak sustainability, in which the three dimensions of sustainable development are seen as related but largely separate (figure 1), and strong sustainability, in which the economy is perceived as part of, rather than separate from, society and the environment, while recognising that the economy depends on these dimensions not only for its success but for its very existence (figure 2).

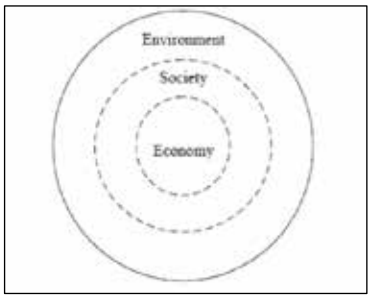
S'il existe différentes conceptualisations du terme durabilité, selon que l'accent est mis sur les valeurs environnementales, sociales ou économiques, il y a un courant de pensée dominant qui considère la distinction entre faible et forte. La durabilité dite faible lie les trois dimensions du développement durable que sont l'économie, la société et l'environnement. Mais le point commun qui les unit est de faible ampleur et non majoritaire. A l'inverse, la durabilité forte présente l'économie comme un élément central intimement lié à la société et à l'environnement, avec une interdépendance totale des trois dimensions.

Figure 1: Weak sustainability



Source: Tregidga, Milne & Kearins (2011)

Figure 2: Strong sustainability



Source: Tregidga, Milne & Kearins (2011)

Using this classification of the concept of sustainability, most recent studies conclude that, although businesses' conceptions of sustainability vary, most of them come closer to weak sustainability. For example, Springett (2003) argues that, although company managers may feel confused about sustainable development, they generally subscribe to a weak, eco-modernist version of it. Some authors even go further and, in different words but in the same direction, have coined the term 'managerial capture' to refer to the process whereby businesses select the meaning and implications of sustainable development (Azcárate *et al.*, 2011; for more detailed studies of this, see also Adams, 2004 or Larrinaga and Bebbington, 2001). In this way, businesses commit themselves to activities designed to reduce current levels of unsustainability, but mainly focus on eco-efficient activities that they can more easily control, involve technological solutions and do not require them to change their current business practices. This is the situation known in the literature as weak sustainability, and it is due to the ambiguous definition of sustainable development.

At the opposite extreme is strong sustainability, which challenges the status quo with a commitment to preserve all living beings, which means reassessing or even abandoning the current model of economic growth as the dominant goal and accepting, as suggested by such authors as Azcárate *et al.* 2011 (see also Gray and Bebbington 2007), that we are a long way from sustainability.

The reality of current practice seems to show that most businesses and organizations adopt a minimalist view of CSR, which could also be labelled 'weak sustainability'. Indeed, sustainability statements or reporting, which are among the fundamental tools in CSR strategies and their application, have been accused from the outset of being a typical instance of management capture, especially in sectors that have come into disrepute, including some areas of industry or finance, and the banking sector in particular.

Les récentes études montrent que la plupart des structures financières analysées pratiquent le modèle de la durabilité faible.

Les enterprises s'engagent alors dans des activités éco-efficaces, mais qui restent axées sur des solutions technologiques facilement contrôlables. De ce fait, les pratiques commerciales demeurent elles inchangées.
La réalité de la pratique actuelle montre que la plupart des entreprises et organisations se contentent d'une vision minimaliste de la RSE, assimilable au modèle de la durablité faible.

Le Global Reporting Initiative (GRI), mis en place depuis l'année 2000, est une étape importante dans le registre du reporting durable. Il est désormais adopté de manière généralisée avec 80% des grandes compagnies qui l'appliquent.

Sustainability reporting, a key, strategic CSR concept: what can lead to change?

Ever since the beginnings of sustainability reporting there has been a succession of proposals or frameworks for reporting by institutions of various kinds. However, this development appeared to have reached its peak with the birth of a new global framework, the Global Reporting Initiative (GRI).[1] Indeed, current reporting models are inextricably linked to the GRI, a pioneering initiative in the development of a framework for sustainability reporting that is now used by businesses throughout the world. In 2000 the GRI drew up its first guidelines, based on the 'triple bottom line' concept coined by Elkington in 1997, which represents the three aspects of sustainable development: economic, social and environmental.

And, even though it has been the subject of a fierce and controversial debate on its implications for sustainability and business practice (Azcárate *et al*. 2011; Correa and Moneva, 2011), the international consultancy KPMG's International Corporate Responsibility Reporting Survey 2011 is quite clear as to the success of the initiative: 'When we last reported in 2008, the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines were already gaining widespread adoption as the de facto global standard for CR reporting. Today, the GRI has undeniably extended its hold on this position, with 80 percent of G250 and 69 percent of N100 companies now aligning to the GRI reporting standards.'[2]

Despite this data, and when it seemed that CSR reporting practice had reached its culmination with the GRI and its further development, the topic of sustainability has given a further boost to the debate about which reporting practices are most likely to encourage sustainable development. In August 2010, the Prince's Accounting for Sustainability Project[3] and the GRI jointly announced the establishment of an International Inte-

[1] The Global Reporting Initiative (GRI) is an organization whose purpose is to encourage all kinds of organizations to draw up sustainability statements. The GRI has produced a comprehensive framework for this, which is widely used around the world. The framework, which includes sustainability reporting guidelines, sets out principles and indicators that organizations can use to measure and draw attention to their economic, environmental and social performance. The GRI is a non-profit organization that includes numerous interest groups. It was set up in the United States by Ceres and the United Nations Environment Programme (UNEP) in 1997. In 2002 it moved its offices to Amsterdam, where its secretariat is currently located.

[2] Global Fortune 250 (G250): the 250 biggest companies in the world; N100: the 100 biggest companies in each country.

[3] The Prince's Accounting for Sustainability Project was launched by His Royal Highness the Prince of Wales in 2004. It works with businesses, investors, public-sector bodies, NGOs and academics to highlight the need to integrate the design and presentation of reports, and to develop practical guidelines and the necessary tools to integrate sustainability into decision-making and reporting processes in order to create a strong, sustainable economy. To date, over two hundred public- and private-sector organizations have been involved in the project.

Un nouvel élan fut donné en août 2010 avec l'arrivée d'un nouvel organisme, l'International Integrated Reporting Committee (IIRC), axé sur un examen radical de la présentation de l'information financière. Un cadre comptable mondialement reconnu pour sa durabilité, qui peut aider les enterprises dans leur démarche de transparence.
Pour les entreprises, c'est un outil permettant de montrer leur capacité de creation de valeur et de résultats en interaction avec la durabilité. Mais le regard autocritique reste nécessaire pour savoir si ce nouveau modèle stimule vraiment le développement durable.

grated Reporting Committee (IIRC). The purpose of the IIRC is to create a globally accepted accounting framework for sustainability – and one that can bring together financial, environmental, social and governance information in an 'integrated format' and that can become a more useful tool for helping businesses produce transparent, truthful information and so enhance their contribution to sustainable development (www.theiirc.org).

This proposal states that businesses need a framework that can bring together the various, currently disconnected, sources of information into a coherent, integrated whole and demonstrate an organization's ability to create value now and in the future. Business reporting must thus set a new course by bringing together information that can explain the creation of value and results, in interaction with sustainability, the environment and corporate governance. If this can be done, we may be on the verge of a new opportunity to improve sustainability in the business sector.

In the light of this new proposal, all those involved must now take a self-critical look at whether this new model really does help to boost sustainable development and allow real change and a step forward in favour of sustainability – or, as a first reading of the proposal might suggest, the key aspects of sustainability are pushed into the background in favour of such concepts as creation of value or results, under the motto 'business as usual'. In this connection we can learn a great deal from the banking sector, as one of the key sectors in the present context, an agent that is closely involved in the IIRC itself and one of the sectors that is most active in applying CSR strategies and reporting.

The banking sector and its contribution to sustainable development

One of the main currents of thought in the field of social and environmental sustainability is highly critical of the concept of CSR, maintaining that, although it has traditionally been linked to certain social and environmental concerns and commitments, it is tied to such aspects as corporate governance, innovation, image, reputation or competitive advantage. Although this applies to businesses in general, the financial sector would seem to deserve special attention in the present context, for several reasons:

1. As indicated earlier, it is a sector that was deeply involved in the financial crisis of 2007-2008, a crisis that many authors believe was due to a series of socially irresponsible behaviours, such as lack of humanity and values, a short-term economic approach, management capture, and misunderstanding and misuse of democracy (Correa and Moneva, 2011).

2. The financial sector plays a fundamental, and often underestimated, role in sustainable development. At first glance it might seem that the

Le concept de RSE est critiqué par certains car il reste étroitement lié à la gouvernance, l'innovation , la compétitivité et la réputation. La crise de 2007 découle en effet directement de comportements sociaux irresponsables.
La gestion des flux financiers, notamment en matière d'investissements, restent très secrète et les décisions prises, quant à l'utilisation de l'argent, ne sont pas toujours inscrites dans une démarche durable.

Outre la gestion des risques financiers, la RSE doit inclure la gestion des risques sociaux, éthiques et environnementaux.
Les informations relatives à la RSE sont de plus en plus transparentes, à l'instar des banques espagnols qui publient dorénavant leur déclaration de durabilité, soit la réponse à ce que la société attend d'elles en matière d'information.

financial industry is not exposed to major social or environment risks, since it consists of service companies, 'clean' businesses that simply distribute money (De la Cuesta, 2006). Yet if we consider, for example, financial agents' discretionary powers when managing money and selecting investments, we can see that financial institutions do not just distribute resources from one agent to another, but assume both financial and non-financial (ethical, social or environmental) risks when transferring funds, and make decisions as to the use of the money, which may be more or less sustainable according to circumstances. Thus businesses such as banks understand that CSR cannot be confined to intervening in financial flows by managing financial risks appropriately, but must go further, attempting to assess and manage other kinds of ethical, social and environmental risks and, in the same way, offer products and services that contribute to more human development of the planet.

3. Despite the chequered background, the high degree of censure and even demonization of the banking sector around the world, CSR information in banking institutions may actually be more transparent than in other sectors of the economy. Indeed, in Spain (more than in other European countries) there has in recent years been a boom in such information, and the percentage of banks that publish sustainability statements is significantly higher than in other areas of the economy.

It can thus be said that banking institutions are responding perfectly to what society expects of them as regards information. Indeed, thanks to their CSR practices and, above all, their reporting tools, the leading commercial banks continue to occupy the top places on the most prestigious national and international sustainability and corporate reputation indexes (Merco, the Dow Jones Sustainability Index and the FTSE4 Good index), which list businesses whose conduct stands out when it comes to corporate governance, ethical, social and environmental issues.

Even if we look at the aforementioned accounting models and guidelines (of which the GRI is the most prominent), there is even a sectoral adaptation for the financial sector in the GRI, which was established in 2000 in collaboration with a group of banks and insurance companies in order to create sustainability reporting guidelines, by providing both managerial indicators (policies and activities) and operational ones (the results of policies and activities) for this sector in particular.

However, as many authors have stated, this may not be enough; and, in response to demands from society, well-considered CSR must go beyond mere philanthropy and involve genuine, profound involvement. There must be an integrating concept of CSR, whose social dimension needs to include not only the business's philanthropic activities, but also working conditions and integration of social concerns and res-

La GRI a notamment permis la mise en place de rapports de durabilité en fournissant des indicateurs de gestion managériale mais aussi de fonctionnement opérationnel.
La RSE doit aller au delà de la démarche philanthropique et bénéficier d'une véritable intégration profonde.
Transparence et crédibilité sont devenues essentielles dans cette volonté d'amélioration qui a encore du chemin à parcourir.

Les banques doivent admettre qu'elles ne font pas les choses de la meilleure manière possible, car il y a la théorie et les soit disant engagements d'un côté, et la réalité d'un autre. Là réside le véritable paradoxe entre ce qu'est la RSE et ce qu'elle devrait être.

pect for human rights throughout the business's value chain and, of course, throughout its range of products and services. Transparency and credibility are thus the two essential values that are required in such practices and reports; but, in the present circumstances, we cannot ignore the fact that there is still much room for improvement.

Conclusions: what can be done?

Banks need to accept that they are not doing things the right way – or, at least, that is what the public now thinks. If we analyse in detail the sustainability sections on the websites of Spain's leading banks and, above all, if we read their CSR reports, we find no mention of the news that Spaniards have constantly been hearing in recent years. The banks' statements refer to their compliance with the Global Compact or the Ecuador Principles, their codes of conduct and their initiatives to combat corruption, their new Socially Responsible Investment products; and this is what is published in most sustainability reports. But, as we have seen, the purpose of all this may simply be to impress their boards of management or the investment community with their listing on the main corporate reputation indexes, or with their results. And this seems to have been the pattern in recent years: businesses on the one hand, and reality on the other. And here lies the true paradox between what CSR is and what it should be.

Yet recently, in a new step towards sustainability, the major financial businesses and corporations have been working on a new challenge in the field of sustainable development: Integrated Reporting, a framework presented as a substantial improvement in favour of sustainability.

In the light of this new proposal, the first thing we must do is appeal for foresight at a moment as important as the emergence of a new frame of reference that could steer business practices in various directions in the years to come.

Unfortunately, one of these directions could be to push sustainability even further into the background and so put an end to the battle that has been fought in various areas ever since sustainability reporting was first developed. Indeed, the first criticisms of this new proposal see Integrated Reporting simply as a new marketing strategy that leaves no room for sustainability.

However, and this may be the crux of the matter, another direction that business practice could take is to use this new Integrated Reporting framework as a way to finally make sustainability a real and logical part of the business and financial sector, and make it second nature to the world's leading businesses – and specifically the financial sector, one of the sectors with the greatest impact on, and implications for, society and its development – by enabling them to reassess the whole concept of CSR.

L'information intégrée est une véritable nouvelle étape vers le développement durable. Elle appelle à la clairvoyance car elle pourrait orienter les pratiques commerciales vers une autre direction à l'avenir.

The world's leading banks are now helping to draw up this new accounting framework; and this is where banking and financial institutions, as agents with a particular interest in understanding the concept of sustainability and CSR, and hence as experts on the subject, have an opportunity to provide a benchmark for other businesses and organizations.

Perhaps the time has come for banking institutions to see the crisis as an opportunity, force themselves to review their precepts in favour of sustainability – and so help bring about change.•

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The need to make ethics part of finance: a new dimension in corporate governance in Latin America

Ethics in Finance, Robin Cosgrove Prize
Iberoamerican edition 2012-2013

Finalist

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Today's world is governed by modern capitalism, which has led us to seek the innovation, ambition and stimuli that the system has generated. Technology and globalization have caused profound, dynamic changes, and the rules of morality have been pushed aside. Meeting financial targets has become the main concern of major businesses and financial institutions, at the expense of social conscience and market integrity. The financial scandals and levels of corruption seen in various parts of the world have revealed a crisis of ethics, which in turn has led to a loss of trust in capital markets. Capitalism has cannibalized countries' real economies, leading to a concentration of wealth among a global economic elite and exaggerated growth in speculation in securities on financial markets. Politics has become the financial markets' closest ally, for it has proved incapable of controlling such phenomena as tax evasion and economic crises. An ethical frame of reference that will encourage honest conduct towards society is therefore urgently needed.

Although ethical finance has a long history, it is only in the present circumstances that its potential as a strategy for change and transformation in the business world has started to be appreciated. The declared aim of ethical finance is to raise awareness not only of economic issues but also of social and environmental ones, and to consider the interests of shareholders and the other agents or interest groups associated with businesses. Hence the proliferation of voluntary codes of conduct and good governance designed to reinforce ethical and social principles. At the same time, international institutions such as the Organization for Economic Cooperation and Development (OECD) and the World Bank, as

* The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated to.

Atteindre les objectifs financiers est devenu la principale préoccupation des entreprises et institutions financières. Les scandales financiers et de corruption ont révélé une crise de l'éthique, ce qui a entraîné une perte de confiance dans les marchés financiers. Un cadre de référence éthique pour encourager un comportement honnête envers la société est donc urgent.

L'objectif de la finance éthique est de susciter l'intérêt aux questions économiques, sociales et environnementales. Malgré l'intervention d'institutions internationales comme l'OCDE et les gouvernements, avec l'élaboration de lois et codes de bonne gouvernance, l'éthique financière ne fait encore partie de la gouvernance d'entreprise.
Ce constat s'applique aussi à l'Amérique latine, où l'importance accordée à la finance éthique reste faible.

well as national governments, have been active in drawing up laws and codes of good governance. Yet financial ethics is still not clearly part of corporate governance.

Despite the progress and growing importance of corporate governance in Latin America, there is an awareness gap regarding the role and importance of ethical finance as part of good governance in business. In general, the major debates on corporate governance by international institutions such as the Latin American Institute of Corporate Governance or the Round Table on Corporate Governance have focused on such matters as the structure of ownership, the missions and responsibilities of boards of management, and market situations. Little attention has been paid to ethical finance.

This paper will discuss the importance of making ethics part of finance, as a strategic dimension of corporate governance in the emerging countries of Latin America. In this connection it will propose a set of good ethical practices in finance that can be applied to every sector of the economy, and will attempt to answer the following questions. How do we ensure ethical conduct in finance in the emerging countries of Latin America? And how is compliance with financial ethics to be measured in the Latin American region? The paper is also an appeal to the institutions responsible for drawing up regulations and codes of corporate governance, so that ethical finance will become a topic of debate at regional and local level.

Ethics in finance and corporate governance

When we hear the word 'ethics', we think of a set of moral principles and values designed to promote justice and respect among the members of society. We can also distinguish between acceptable conduct and unacceptable conduct which, in certain situations where ambition is involved, can lead us to make wrong decisions. Ethics is also centred on the old positivist argument about 'being' versus 'having to be'. Business ethics has a multidisciplinary focus, with roots in philosophy, law, economics, psychology and political science. The aim of ethical finance is to curb the unbridled pursuit of selfish interests, setting limits to the gains that businesses may seek to achieve or increase (Ghosh, Ghosh and Zaher, 2011). Even though business ethics has been extensively debated over the past 35 years, we are now facing a global crisis of ethical awareness. Priority must therefore be given to promoting an ethical economic environment based on healthy markets, a fair negotiating environment and efforts to increase trust and integrity.

Corporate governance has become a competitive tool in present-day organizations. Its purpose is to restore trust in markets, which has been undermined by financial agents' unethical conduct. Money laundering, manipulation of accounting data, the housing bubble, high salaries for senior executives and ex-

Ce texte se concentre sur l'importance d'intégrer l'éthique dans la finance, comme dimension stratégique de la gouvernance d'entreprise dans les pays émergents d'Amérique latine. C'est aussi un appel aux institutions en charge des règlements et codes pour que le sujet fasse partie du débat au niveau local et régional.

Le terme «éthique» implique un ensemble de principes et valeurs morales visant à promouvoir la justice et le respect entre les membres de la société. Au niveau des affaires, il s'agit d'une approche multidisciplinaire, avec des racines dans la philosophie, le droit, l'économie, la psychologie et les sciences politiques.
La gouvernance d'entreprise vise à restaurer la confiance sur les marchés, affectés par une conduite des financiers contraire à l'éthique.

ponential growth in the derivatives market have been contributing factors in the recent financial scandals that have damaged the reputations and integrity of such major banking institutions as HSBC, Barclays, JP-Morgan, Citigroup, Deutsche Bank and Bankia. At the same time, the current financial crisis in Europe has been largely attributed to the misbehaviour of the banking sector. That is why various international institutions have been actively involved in drawing up regulations and codes of good governance, in order to bring this critical situation, and what has been termed the 'casino economy', under control.

The proliferation of codes of good governance in the world

In recent years there has been a substantial increase in codes of good governance. By mid-2008, for example, 196 codes of better corporate practice had been drawn up in a total of 64 countries, including in the Latin American region (Aguilera and Cuervo-Cazurra, 2009). Codes of corporate governance are strategic guides to business management and an effective substitute for weak legal regimes, especially where there is inadequate protection for minority shareholders.

'Corporate governance' refers to the ways in which businesses are run and supervised. Its main goal is the voluntary adoption of better corporate practices that enhance the efficiency of the organizational structure and improve the decision-making process. It focuses on effective supervision, business efficiency and the responsibility of management towards interest groups. The most common aspects of corporate governance are (1) membership and performance of boards of management, (2) shareholders' rights, (3) conflicts of interest, (4) hostile takeovers and (5) transparency of information. Yet financial ethics is not yet a standard part of codes of corporate governance, but has been confined to the occasional, voluntary adoption of a code of ethics or conduct and the exercise of due diligence and loyalty by board members. Due diligence means acting in good faith and in the best interests of society, while loyalty concerns the confidentiality of corporate information.

Corporate governance is essentially based on three disciplines: law, administration and finance (Ryan, Buchholtz and Kolb, 2010). The legal aspect concerns the implementation of contracts between the shareholders in a business. The administrative aspect has recently focused on matters relating to directors' membership of different boards, management of institutional investors, the consultancy role of CEOs, remuneration of executives and its relationship to the business's environmental performance. Finally, the financial aspect has focused on empirical studies that have attempted to link up the dimensions of corporate governance on company results and topics related to ethics and trust

Les codes de gouvernance d'entreprise sont des guides stratégiques de la gestion de l'entreprise et un substitut efficace pour les régimes juridiques faibles.
Les aspects les plus courants de la gouvernance d'entreprise sont la performance du management, les droits des actionnaires, les conflits d'intérêts, les OPA hostiles et la transparence de l'information. L'éthique financière, elle, n'est pas encore un élément standard des codes de gouvernance d'entreprise.

Alors que la gouvernance d'entreprise repose essentiellement sur trois disciplines, le droit, l'administration et la finance, elle doit inclure un cadre financier éthique pouvant rendre les entreprises plus conscientes des enjeux sociaux.
Très peu de règles de gouvernance concernent la performance éthique des organisations en Amérique latine.

Pour promouvoir la finance éthique, il faudrait adopter un code qui lui serait intégralement dédié.

in markets, conflicts of interest and independence when making decisions. Today's corporate governance needs to include an ethical financial framework that can make businesses more aware of social issues.

The ethics of corporate governance

According to Rossouw (2009), ethics in corporate governance means the ethical values that shape and guide good governance in both legislation and business – in other words, it reflects the values that direct and guide the system of corporate governance. Although most codes of good governance emphasize the importance of supervisory mechanisms (boards of management and support committees, accounting practices, risk management and corporate transparency), very few include instruments that can measure and monitor the organizations' ethical performance. Although codes of corporate governance recommend that businesses adopt a code of business ethics, ethical finance is not yet part of corporate governance, at least in the Latin American region.

Ethics can be manifested at two levels. The first is the basic approach to ethics in the various corporate governance regimes. The other is the governance of corporate ethics, whereby businesses are required or advised to manage their own ethics. Ethics in finance could initially be boosted by make it an integral part of laws and codes of corporate governance, and it would be useful if businesses were to issue an annual report on their financial ethical performance towards society. Internally, businesses could focus on institutionalizing ethical values among their staff. This could be reflected in ethical management and programmes or strategies to promote ethical finance. One way to do this is to adopt a code of ethical finance.

The current state of ethics in finance and corporate governance in Latin America

Minority shareholders in Latin America are poorly protected, and squeeze-outs are a major problem (Chong and López-de-Silanes, 2007). Legal and good governance mechanisms are often inefficient or non-existent, and this has led these countries to strengthen their institutions and adopt voluntary codes of good governance. Despite the corporate governance mechanisms adopted in the region, we still find concentration of ownership and partial government ownership of businesses, powerful elites or influential families that have significant control over businesses' capital, and scant protection for minority shareholders. Over the past decade, corporate governance has become a much more prominent issue in emerging Latin American countries such as Argentina, Brazil, Chile and Mexico. It was after the OECD published its principles in 1999 that these countries drew up their own regulations and codes of good governance. The

Depuis 10 ans, la gouvernance d'entreprise est devenue un enjeu très important dans les pays émergents d'Amérique latine.
J'ai analysé les codes de bonne gouvernance des quatre pays émergents les plus importants d'Amérique latine, pour d'identifier leurs caractéristiques de l'éthique des affaires.

En Argentine, le code de bonnes pratiques de gouvernance prévoit notamment de nombreux points relatifs à l'éthique dans le chapitre consacré à la lutte contre la corruption.

Au Brésil, le même code concerne surtout une dimension de gouvernance d'entreprise portant sur la conduite des affaires et les conflits d'intérêt.

stated aim of these is to promote transparency and efficiency in markets, protect and facilitate the exercise of shareholders' rights, guarantee fair treatment of shareholders, acknowledge the rights of stakeholders, ensure the dissemination of corporate information and guarantee businesses' strategic orientation and effective supervision of management and shareholders by boards of management. Ethics in finance is not included in the principles published by the OECD as an essential part of good governance. I have therefore analysed the codes of good governance in Latin America's four most important emerging economies, identifying the following features of business ethics.

Argentina's Code of Best Governance Practices for Organizations prescribes that the supervisory committee, together with legal advisors, must assess the effectiveness of the company's programme for detecting and preventing infringements of the law and its own code of ethics. As regards social responsibility, it recommends the adoption of environment policies, protection of intellectual property, policies to combat bribery and social investment policies. The policies to combat bribery contain the most important ethical features, such as promoting ethical standards and declaring an unswerving determination to comply with them in the regular course of business, to train company staff in civic ethics and social responsibility, as part of a major educational effort at all levels of the community, and to set up ethics committees within the company, in order to identify and settle conflicts that arise between employees and officials. The document does not mention the adoption of a code of conduct.

Brazil's Code of Best Corporate Governance Practices includes a corporate governance dimension dealing with conduct and conflicts of interest. It refers to a series of topics related to ethics, with a recommendation to adopt a code of conduct applicable to directors and employees, suppliers, shareholders and interest groups. The code of conduct should also specify the company's environmental and social responsibilities. The ethical features of the code mainly concern compliance with laws and payment of taxes, transactions with related parties, appropriate use of company assets, conflicts of interest, use of insider information, policy on trade in company shares, legal and arbitration processes, prevention and handling of fraud, questionable payments made or received, receipt of gifts or favours, donations, political activities, right to privacy, nepotism, the environment, discrimination in the workplace, sexual or moral harassment, safety at work, exploitation of adults and child labour, relations with the community, and use of alcohol and drugs.

Chile does not have a code of good governance, but relies on stric-

Le Chili ne dispose pas d'un code de bonne gouvernance, mais s'appuie sur des lois plus strictes. Mai il n'y existe pas de dispositions claires concernant l'éthique des affaires.

Au Mexique, le code de pratiques exemplaire encourage les entreprise financières à élaborer leur propre code de déontologie et les principes de responsabilité sociale des entreprises.
Les codes et règlements actuels des quatre pays doivent donc être renforcés s'agissant de l'éthique des affaires et surtout de l'éthique de la finance.

L'objectif de ce texte est d'encourager l'intégration de la finance éthique dans le cadre de la gouvernance d'entreprise, via la législation et les codes de bonne gouvernance, et en même temps de proposer un indice de performance éthique relatif à l'engagement éthique et la prise de conscience du marché.

ter laws such as the New Corporate Governance Act (Act No. 20382) or the Share Acquisition (Public Offers) Act. The former act does not require businesses to adopt a code of ethics or conduct. Section 61 stipulates a major prison term for anyone spreading false or tendentious information in order to mislead the stock market, with an increased penalty for those whose function, position, activity or relationships may give them access to insider information. However, there are no clear provisions on business ethics.

Finally, Mexico's Code of Best Corporate Practices states that the duties of the board of management include encouraging the company to draw up its own code of ethics and principles of corporate social responsibility. For its part, the supervisory committee is responsible for verifying compliance with the code of ethics and the mechanisms for disclosing unlawful conduct and protecting whistleblowers. The code recommends that every business should have a document laying down rules of conduct for board members. However, it does not state general guidelines for such codes of conduct.

We may conclude that the present codes and regulations in all four countries need to be reinforced when it comes to business ethics, and especially ethical finance. Although the Brazilian code is the most detailed in this regard, Brazil has no mechanisms to ensure compliance.

Proposal for a new ethical finance dimension in Latin America's codes of corporate governance

The purpose of this paper is to encourage the inclusion of ethical finance as part of corporate governance in legislation and codes of good governance, and at the same time to propose a financial ethical performance index that displays businesses' ethical commitment and awareness to the market. The proposal is based on the work of Choi and Jung (2008), which identifies the following basic features of corporate ethical performance: (1) commitment by senior management to emphasize the importance of ethics in business, (2) ethical conduct based on a formal, normative philosophy within businesses, (3) a disciplinary system that severely penalizes unethical conduct; (4) a code of ethics, (5) allowing employees to report unethical conduct anonymously, (6) developing a programme of ethical education, training and workshops in the workplace to improve employees' ethical standards, (7) devoting a substantial proportion of the business's profits to philanthropic causes, (8) the existence of an independent, official department of ethics, (9) giving employees help on matters relating to business ethics via an open communication line or channel, (10) setting up an ethics committee, and (11) developing and implementing a system of ethical assessment by an

Je propose que la dimension de la finance éthique soit incluse dans les codes latino-américains de la bonne gouvernance et de la législation, avec un indice visant à améliorer et mesurer la performance des entreprises en matière de finance éthique.

Il est également essentiel que les entreprises et institutions bancaires établissent un rapport annuel sur la conformité.

Il est devenu nécessaire de promouvoir et mesurer le comportement éthique des décideurs financiers, et d'encourager les entreprises et institutions à s'engager pleinement dans un processus de finance éthique.

La transparence des entreprises est un outil stratégique pouvant encourager la pratique de la finance éthique, car une plus grande transparence contribue à lutter notamment contre la corruption. L'intégrité et la confiance sont des principes devant faire partie des mécanismes actuels de gouvernance d'entreprise.

independent body that is external to the business.

Rossouw (2009) acknowledges that social standards may informally influence corporate conduct. In particular, ethics in corporate governance is determined by the ethical values and practices adopted by the society in which the business is operating. The internal and external dimensions of corporate governance therefore need to be in line with prevailing social and cultural standards. Fernández (2004, p. 13) identifies the importance of and need for an ethical framework in financial activity and in businesses' corporate governance, and states that 'financial activity has an undeniable and irreplaceable ethical dimension' – failing which its very existence would be jeopardized.

In view of all this, and in the absence of ethical awareness in markets, this paper proposes that an ethical finance dimension be included in Latin American codes of good governance and legislation. The index comprises nineteen items designed to enhance and measure businesses' performance in matters of ethical finance. This is then divided into five sub-indexes: institutional commitment; establishment and operation of a financial ethics committee; transparency and measures to combat corruption; environmental issues; and a system for assessing financial ethics. The index is based on previous literature and the Argentinian, Brazilian, Chilean and Mexican codes of good governance. It is recommended that the index be applied to those responsible for financial management in both industrial and banking/financial businesses in Latin America. Besides making ethical finance an integral part of corporate governance, it is also vital that businesses and banking institutions quoted on the stock market report annually on compliance. Each item on the index is assigned a value of 1 if it is adopted and published by the business, and 0 if it is not. The index is based on the comply-or-explain principle, like the corporate governance practices set out in the codes. Details of this proposed ethical finance dimension in codes of good governance and codes of conduct for businesses are set out in Figure 1.

Conclusions

This paper has mentioned the absence of an ethical finance dimension in codes of corporate governance, as reflected in the increase in corruption indexes and financial scandals in major businesses. This has affected integrity and trust in markets around the world, triggering an ethical crisis in the financial sector. Hence the concern to promote and measure the ethical behaviour of financial decision-makers. The purpose of the proposal to include an ethical finance dimension in codes of good governance and legislation on Latin American stock markets is to encourage businesses and institutions to commit themselves to ethical finance.

Annual publication of the ethical

Les organismes et institutions doivent devenir plus conscients, socialement et éthiquement, afin d'atténuer la crise actuelle de l'éthique financière.

finance index on markets and among interest groups will also compel businesses to improve and increase their commitment to society. This paper has suggested a first step towards an ethical finance rating for the Latin American region, and it is hoped that this will be further developed and adapted in various contexts.

We may conclude that corporate transparency as a dimension of corporate governance is a strategic tool that could encourage the practice of ethical finance. Greater transparency helps to curb corruption, promote accountability by business managers and disclose the most tangible unethical activities to the outside world. The main contribution of the paper should not just be to propose an ethical finance index and its inclusion in codes of good governance and legislation, but that the index should become a frame of reference when making decisions on whether to invest in ethical or unethical businesses, assessing the social value of businesses and deciding what incentives business should receive from governments. In other words, it should become a valuable, informative element for owners and managers of businesses and institutions, giving all companies an incentive to improve their ratings. Corporate governance is a major defence against unethical conduct. Integrity and trust are principles that could become part of the current mechanisms of corporate governance. There is a need for businesses to become more ethically and socially aware, in order to alleviate today's crisis of financial ethics. •

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<table>
<tr><th colspan="4">Figure 1. Ethical finance index as a new dimension of corporate governance</th></tr>
<tr><th>A) Institutional commitment</th><th colspan="2">B) Ethics committee</th><th>C) Transparency and measures to combat corruption</th></tr>
<tr><td>1. Promoting ethical standards and compliance with them
2. A formal and normative philosophy based on financial ethics
3. The business's financial and fiscal responsibilities
4. A disciplinary system to deal with unethical conduct
5. A code of financial ethics/conduct</td><td colspan="2">6. Establishment of a financial ethics committee
7. Clear details of the committee's functions and role
8. Appointment of an external inspector or rating agency</td><td>9. An anonymous, open communication channel for reporting unethical financial conduct
10. A training programme on financial ethics and social responsibility
11. Policies to combat bribery
12. Policies on use of assets
13. Conflicts of interest
14. Legal and arbitration processes
15. Prevention and handling of fraud</td></tr>
<tr><th colspan="2">D) Environmental issues</th><th colspan="2">E) System for assessing financial ethics</th></tr>
<tr><td colspan="2">16. Environmental policies
17. Policies and procedures for protecting intellectual property
18. Social investment policies
19. Profits devoted to philanthropic causes</td><td colspan="2">20. Internal system for periodic review of the effectiveness of the programme
21. Development and implementation of a system of ethical assessment by independent third parties</td></tr>
</table>

Source: My own index, based on Choi and Jung (2008) and the four countries' codes of good governance

Online Interbank Funding Platform for social-impact projects

Ethics in Finance, Robin Cosgrove Prize
Iberoamerican edition 2012-2013

First Prize *ex-aequo*

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The idea of an online Interbank Funding Platform (IFP) has emerged from the recent growing interest in social and 'impact investment' businesses, which find it hard to obtain funding but are socially very attractive. This has led to the emergence of alternatives to traditional funding, mainly promoted on the Internet, which seek to support such projects through donations, cash rewards or interest rates that are generally lower than those available on the market. At the same time, traditional banking has reached a historic turning point: its behaviour is now increasingly challenged on ethical grounds, and it needs to innovate in response to this. This paper proposes a new Interbank Funding Platform that will put banks in closer touch with Socially Responsible Investment (SRI) and so have a greater social impact by funding a larger number of projects..

The rise and development of Socially Responsible Investment (SRI)

Socially Responsible Investment has gradually developed out of classic financial theory. The first changes were the result of demands by various religious groups which, starting in the United States in 1920s, called for more ethics in investment, with prior selection of assets based on a number of criteria. It was against this background that the Pioneer Fund – usually considered the first ethically inspired investment fund – was established in Boston in 1928.

This was the first attempt to take account of ethical motives, and eventually social and environmental ones, in investment by businesses and individuals. And during the 1960s, 1970s and 1980s, in response to the Vietnam War and South African apartheid, the idea arose on both sides

Depuis quelques années, les entreprises sociales et l'investissement d'impact suscitent de plus en plus d'intérêt.

Le comportement de la banque traditionnelle est de plus en plus remis en question en ce qui concerne l'éthique, c'est pourquoi dans le contexte actuel elle pourrait tirer avantage en favorisant l'innovation sociale.

Une Plateforme de Financement Interbancaire(PFI) permettrait d'encourager le financement de grand nombre de projets ayant un impact social.

Au cours de la dernière décennie, nous assistons à une augmentation de l'Investissement Socialement Responsable (ISR) ; de plus en plus de portefeuilles tiennent compte des questions environnementales, sociales et de gouvernance d'entreprise (ESG) .

of the Atlantic that investment was a good way to put pressure on businesses with regard to social issues (Eurosif, 2012).

The number of assets managed by SRI investment funds has been growing from year to year (Vigeo, 2012), rating agencies such as KLD and Eiris have proliferated, and SRI indexes have been created, including the Dow Jones DJSI World and DJSI STOXX indexes, and FTSE4Good. This has resulted in more and more investment portfolios being evaluated according to Environmental, Social and Governance (ESG) criteria, rewarding businesses that perform better.

According to data on the European market published by Eurosif (2012) this growth is essentially due to input from institutional investors, which account for 94% of such investment, whereas the other 6% comes from the retail market. One of Spainsif's challenges for the future (2012) is to attract more SRI investment from the retail market.

This growth has led to the market becoming diversified and the definition of SRI becoming more complex. Of the existing definitions,[1] we will keep to the one provided in the analysis by a Eurosif Committee of Experts, which in 2011 defined seven different strategies that would fit into a broader definition of this type of investment, in turn identifying those related to responsible investment, and specifying which ones would be considered true SRI strategies (Spainsif, 2012).

The most interesting strategy as regards the proposed IFP is 'impact

[1] See the United Nations Principles for Responsible Investment (PRI) at www.unpri.org/ or the European Fund and Asset Management Association (EFAMA) at www.efama.org

Table 1. Responsible Investment Strategies

1.	Investment in thematic funds
2.	Selection of 'best in class' investment strategies
3.	No investment in securities
4.	Filter based on international ESG standards
5.	Inclusion of ESG factors in financial analysis
6.	Active dialogue, shareholder activism and voting on sustainability issues
7.	Impact investment

Source: Spainsif Report, 2012. (Strategies considered as SRI are in blue)

L'ISR a évolué et est devenu plus complexe et diversifié, générant ainsi de nouvelles stratégies pour investir dans une entreprise socialement responsable.

Les investissements d'impact cherchent à générer un impact social et environnemental positif tout en assurant une rentabilité économique, avec un retour sur investissement.

investment'. Eurosif (2012) defines this as investment by businesses, organizations and funds with a view to generating a social and environmental impact as well as economic return, in both developing and developed countries. Such investment seeks a social or environmental impact that is accompanied by a financial return at least equal to the capital invested (Ruíz de Munain and Martín, 2012) or the savings generated.[2] Since the crisis erupted in 2007, Spain has seen a process of innovation among businesses and entrepreneurs, leading to greater awareness of social issues. One reason for this is that the traditional social economy has seen a fall in government contributions owing to budget cuts. According to the 2012 Spanish Social Economy Business Conference, this sector employs 2.4 million people in Spain.

This has coincided with a boom in such impact investment that seeks to fund bodies in the social sector, social businesses and entrepreneurs, and the social economy in general.

At the same time, the European Union is endeavouring to promote such activities. In 2011 the European Commission, through the Social Business Initiative,[3] proposed the creation of a 'European Social Entrepreneurship Fund' label to identify investment funds carrying out social investment in Europe (Ruíz de Munain and Martín, 2012).

The actors that fund such businesses and projects are summed up in the table 2.

Even though crowdfunding may not be considered impact investment in the true sense, it is included here. Some platforms and projects offer shares of the potential profits, or

[2] For example through social impact bonds: if a business achieves a given social impact that saves the government money, the latter will repay the capital plus an agreed rate of interest (Narrillos, 2012).

[3] ec.europa.eu/internal_market/social_business/index_en.htm

Table 2. Type of actors

TYPE OF ACTOR	*EXAMPLES IN SPAIN*
Microfinanciers	MicroBank, Microfides
Bodies and initiatives that support entrepreneurs / tenders	Moment Project
Public bodies	Fundación ICO, ENISA
Credit cooperatives	Coop57
Ethical banks	Fiare, Triodos Bank
SRI funds / social venture capital	Fundación Creas, ISIS capital
Banks' social projects / foundations	BBVA, Caixabank
crowdfunding	Goteo

Source: author's own list

Les projets en quête de financement qui ont recours au crowd-funding tireraient avantage de la PFI. En effet, généralement ce genre de projets est plus difficile à financer, leur rentabilité éco-nomique n'étant pas assurée.

Trois initiatives ont servi d'inspiration pour la PFI : la plate-forme en ligne de microcré-dits Kiva, la plate-forme de financement collectid Goteo et l'initiative *Tú éliges : tú decides* (Vous choisis-sez : vous décidez) de Banca Civica.

La diversité des communautés de *crowdfunding* permet à l'investisseur de mieux filtrer le type de projets susceptible de l'inté-resser. L'inconvénient réside dans le fait que beaucoup de ces plate-formes et communau-tés ne sont pas viables à long terme.

a rate of interest (X.net, 2013), but in most cases there are donations in return for recognition or products derived from the project. Nevertheless, this paper will not be confined to impact investment, for I believe that projects launched through crowdfunding may benefit the IFP and so reach projects which by their very nature require more complicated funding.

However, it is general practice to receive interest in return for investment. In its annual survey of philanthropic investment (2013), the European Venture Philanthropy Association found that in 2011 there was increased interest in investment that generated a social return as a priority while accepting a financial return, whereas in 2010 the emphasis had been on projects that generated a social return without a financial one.

Learning initiatives for the Interbank Funding Platform

This section identifies three initiatives that have inspired the proposed Interbank Funding Platform.

1. Kiva (www.kiva.org). Kiva is the first online microloan platform for lenders and microentrepreneurs.

What can we learn from Kiva?

Kiva is of interest to the IFP because of its philosophy. Kiva draws attention to entrepreneurs, explaining who they are, why they want money and how much they need. People read these stories, and if they are interested in making a loan they decide how much they want to contribute.

The money is channelled through local microfinancing bodies that have identified the people who need the loans. This means that the borrowers' use of the money is closely supervised. Throughout the duration of the loan, the lender can also be sent updates on the loan and how it is progressing. At the end of the agreed period the loan is repaid, and the lender can then decide whether to reinvest the money in another loan or else withdraw it. 90% of lenders decide to reinvest.

2. Goteo (www.goteo.org). Goteo is one of the leading crowdfunding platforms in Spain. It specializes in promoting investment in social, cultural, scientific, educational, technological or environmental projects that seek to generate new opportunities to improve society and enhance shared goods and resources.

What can we learn from Goteo and crowdfunding?

Goteo seeks funding and economic support for initiatives whose goals are valuable to society as a whole and are hard to fund through traditional channels.

The return to lenders may be symbolic, in the form of recognition, or else material rewards that increase in value in proportion to the amount lent.

Funding through a wide variety of crowdfunding communities is useful, for it helps to filter types of projects that may be of greater interest

L'initiative *Tú eliges: tú decides* (vous choisissez : vous décidez) permet de découvrir des projets d'impact social, sensibilisant ainsi les clients et la société en général à l' ISR. La revitalisation du marché de détail constitue le principal défi de l' ISR.

Alors que nous pouvons constater que le client est de plus en plus enclin à chercher d'autres alternatives pour gérer son argent (par le biais de la Banque Éthique), la banque espagnole traditionnelle n'encourage pas encore suffisamment le financement de projets ayant un impact social.

to particular people. The observed drawback is that many of these platforms and communities do not prove viable in the long term, for several reasons:

• A small number of projects. If a platform has only a few projects, it is harder to earn enough money to make the activity profitable. Also, the fewer the projects, the fewer the potential clients.

• A small niche of investors. The more varied the communities are, the fewer people will be aware of the various projects.

• Communities drying up. Those who fund projects in communities involved in specific themes are unlikely to have the capacity to fund all the projects concerned (X.net, 2012).

• Difficulty in attracting large amounts of money, especially if the expected impact of the projects is long-term (X.net, 2012).

3. Banca Cívica (Civic Bank): *you choose, you decide* (www.cajanavarra.com/tu-eliges/que-es). CaixaBank, acting through Banca Cívica (which has emerged from an association of several Spanish banks), has launched an initiative called *Tú eliges, tú decides* ('You choose, you decide'). For example, one of the banks, Caja Navarra, has decided that anyone over 18 in the northern province of Navarre can choose a social project to which the bank will contribute ten euros a head – a total of 5.14 million euros. The novel thing about this initiative is that anyone in Navarre – not just clients of the bank – can help decide where the money will go.

What can we learn from the 'You choose, you decide' initiative?

Caja Navarra brings projects with a high social impact to the attention of the people of Navarre, who usually know nothing about them. This makes the bank's clients, and the rest of society, more aware of SRI. As already mentioned, one of Spainsif's priority challenges (2012, p. 19) is to attract more SRI investment from the retail market, which has a more conservative profile and is unaware of SRI products. This also shows a commitment to projects that have a positive social and environmental (rather than just economic) impact, as well as the need for traditional banks to take greater account of social issues.

An Interbank Funding Platform for social-impact projects

In the wake of the financial crisis that erupted in 2007 and is still being felt in many countries – including Spain – in 2013, there has been a growing interest in the funding of social businesses and initiatives. As we have seen, the number of initiatives to promote SRI is increasing, and there are many different ways of funding projects.

Despite all this, and aside from isolated initiatives, Spain's traditional banks are not doing enough to encourage such funding. This is a matter of increasing concern to their clients, who are looking for alterna-

Les nouvelles technologies, en particulier internet et les réseaux sociaux , ont permis la diffusion d'un grand nombre de projets sociaux. Par ailleurs, ces mêmes technologies, permettent d'établir de plus en plus de filtres pour contrôler l'excès d'informations.

Nous pouvons observer une tendance à l'équilibre entre l'abondance d'informations -nécessaire pour fournir des contenus personnalisés à un public diversifié - et une réduction de l'information fournie à l'utilisateur, permettant ainsi un gain de temps et d'attention.

tive ways of managing their money.[4] What is more, 88% of people in Spain doubt the credibility of banking institutions (Random, 2012).

Added to this loss of clients and credibility are the bankruptcies of Spanish savings banks due what is widely perceived as mismanagement, mortgage foreclosures (and the resulting human tragedy of eviction), and the preference shares scandal.[5]All this has increased the pressure on traditional banks to evolve, innovate and adapt so that they can repair the damage to their public image.

Increase in alternative kinds of funding, and segmentation of the market

In his study of consumption and consumer choices (2004), the American psychologist Barry Schwartz drew an interesting conclusion: a large number of choices adversely affects consumers' ability to choose, for they need more time to gather information, which implies a cost that may not be outweighed by the resulting well-being.

This is a relevant factor, for the initiatives presented in this paper presuppose greater opportunities to invest in the social economy and social-impact projects – but they are just a small proportion of the large number of emerging initiatives. The new technologies, especially the Internet and social media, have drawn attention to a greater number of projects and facilitated the spread of information about them. It seems we humans tend to consume large amounts of information and spread whatever bits of it we like.

The drawback is that the Internet offers us so much information and so many services that we end up needing filters. Evidence of this can be found in the shift from thematic sites and blogs to personal and social bookmarks, news aggregators, social media, applications such as Flipboard and the revolution created by mobile phone interfaces (such as HTC's recent BlinkFeed) which filter information so we only get to see what we want to see. Ultimately, what people want is to be fully informed and yet not be overwhelmed with content, which has to be relevant and easily accessible.

What we are moving towards is a balance between an abundance of existing information (which is necessary in order to offer personalized content to a varied public) and a reduction in the information displayed to users (to reduce the amount of time and attention they have to devote to it). The same thing happens when we want to find out about social investment opportunities on the Internet. Platforms and options are increasing so fast that the market is becoming segmented.

[4] Evidence of this can be seen in the growing number of people moving over to the Banca Ética ('Ethical Bank') – in 2012, according to data supplied by Financiación Ética y Solidaria (FETS): www.fets.org/, the figure doubled to more than 100,000.

[5] Many Spanish financial institutions sold people *participaciones preferentes* ('preference shares') and informed them about the potential returns – but failed to mention the associated risks.

Grace à la PFI, les banques traditionnelles dont les clients ne sont pas aussi familiarisés avec la banque éthique pourraient offrir simplement de nouvelles options de placements en accord avec des critères environnementaux, sociaux et de gouvernance d'entreprise (ESG) ainsi que l'accès à des projets classés investissements d'impact ou sociaux, projets qui de par leurs caractéristiques implicites ont difficilement accès au financement.

This may be a good thing, as everyone can go to the platform most suited to what they would like to fund; but on the other hand it is becoming more difficult to spread information about what is available. Meanwhile, many businesses and projects continue to approach traditional banks, which treat them no differently from other applicants for loans – and so they do not get funded.

The reason for the IFP

The IFP can help social projects and businesses because of:

1. The growing interest in impact investment

2. The rapid expansion in social entrepreneurship and social businesses, their influence and their contribution to employment

3. The difficulty in funding many of these projects

4. The growth in alternative kinds of investment, leading to segmentation of the market

5. The failure of traditional banks to respond to all this, at a time when their public image is declining.

The IFP would enable traditional banks, whose clients are not so familiar with ethical banking, to offer clear and simple investment options based on ESG (Environmental, Social and Governance) criteria and access to projects listed as social and impact investment projects which, by their very nature, have little access to funding. This would allow people to invest some of their money or profits in such products.

Which activities?

The activities to be funded will depend on where they take place. The developed countries, and specifically Europe, are promoting social innovation initiatives. In 2013 the European Commission has defined social innovation as the development and implementation of new ideas to satisfy social needs and create new social relationships and partnerships. These are responses to the pressures of social demand, which affect the process of social interaction. Social innovation is designed to improve human well-being, and the innovations are social in both their ends and their means. Not only are they good for society, but they also increase people's ability to act. The priority goal is to promote social change and create shared economic and social value.

The European Commission's *Europe 2020* strategy defines the type of growth that it seeks for Europe over the coming decade, in order to achieve a smarter, more sustainable and more integrating economy. A number of key areas have been identified: employment; research, development and innovation; climate and energy; education; and poverty and social inclusion. The social innovation and shared value strategies have a great deal to do with these five priority areas.

In developing countries our reference is the Inter-American Development Bank, whose *Opportunities for*

Les évaluations de l'impact social permettent d'identifier et de rendre viables des projets sociaux dont le retour économique est plus difficile à monétiser puisque la valeur sociale génère des économies sur le long terme.

De par le grand nombre de clients dont les banques traditionnelles disposent, elles joueraient un rôle fondamental dans la plate-forme de financement de projets à impact social.

the majority[6] programme has identified five sectors for intervention to achieve growth. The focus is on inclusive businesses and latent development opportunities at the 'base of the pyramid'. The five sectors are finance, housing, education, nutrition and health.

The point here is that the proposed platform has a broad spectrum of fundable projects, in both developing and developed countries, but that the social-impact projects should have a clear purpose.

Types of projects

By the very nature of social projects, some will be easier to monetize than others, and this will affect their viability. The platform should therefore offer both economically viable projects and ones that have a major social impact, but whose economic return is uncertain in the absence of in-depth analysis. Social impact assessments should therefore be extended and the savings that will be generated by long-term projects made visible. Social impact bonds and social impact measurement techniques are in line with this.[7]

There are thus three kinds of projects:

• Those that have a social and an economic impact.

• Those that have a high social impact and generate economic savings. These can only yield economic benefits if one of the parties agrees to pay the interest on the profits generated by the savings. Examples include social impact bonds and the Peterborough prison project in the United Kingdom.[8]

• Welfare projects whose viability is more questionable in both the long and the short term, but that are necessary to ensure social stability.

The actors involved in the IFP are summed up in the table 3.

How the IFP works

The idea is to set up an online platform for identified actors to join. This will create a multidirectional link in support of projects that generate a social impact.

In accordance with the table, the projects to be funded can come through two channels:

• projects selected by banking institutions;

• projects selected by collaborating bodies.

The value of the IFP lies in its potential to give traditional banking institutions a leading role, since they have clients who may be interested in funding such projects. The platform can help people become aware of the projects and hence the possibility of investing in them without having to spend too much time gathering information.

6 www.iadb.org/en/topics/opportunities-for-the-majority

7 ROI (Social Return on Investment) is becoming one of the main techniques for measuring the social impact of projects, monetizing the social impact generated for each euro invested.

8 www.socialfinance.org.uk/sites/default/files/SF_Peterborough_SIB.pdf

La PFI contribuerait à faire connaître les projets d'impact social, et de par là même elle promouvrait l'investissement tout en générant un gain de temps en recherche d'information relativement important.

Les fonds éthiques d'investissement, les dépôts bancaires, le client direct, les PFI, les institutions associées et l'État constituent la palette de possibles acteurs pour la levée de fonds de projets sociaux.

The facilities that banking institutions can provide thus include informing clients on the various ways of investing in or donating to social-impact projects, letting them know the opportunities they have to participate directly in the projects that can be funded through the platform, and filtering the projects according to the types that are likely to be of interest to their clients, e.g. the type of sector or the type of compensation they wish to receive.

The IFP is the nucleus, but investors and bank clients do not have to be in direct contact with it, thus simplifying their investment decisions if the banks make a selection in accordance with their clients' interests.

Once the projects are selected, the selected amount of money is channelled to the various projects. These can get started as soon as the required amount is collected, as in crowdfunding.

In addition, the funded projects must show investors the social impact that is being generated with the invested resources through periodic updates and measurement of the results achieved.

How investment funds are gathered

There are various ways of gathering funds:

1. Ethical investment funds. This does not mean investment funds that use filters to manage an investment portfolio, but ones that invest in social-impact projects.

2. Bank deposits that are invested in such projects, with interest rates lower than market rates.

3. Helping clients invest a certain proportion of their money in projects that are more difficult to fund:

- by donating or investing some of the interest provided by the banking institution;
- by investing a small percentage of their earnings in such initiatives;
- by pursuing a bank policy of investing in such initiatives, for example by investing additionally in investments made by their clients.[9]

4. True IFP: offering people alternative forms of investment or donation and facilitating investment through banking institutions that are part of the platform.

5. Collaborating bodies: gathering funds through their networks and making people more aware of projects in other networks.

6. Government: supporting such initiatives by:

- paying interest on the savings generated for the government;
- granting tax breaks;
- spreading the risk by participating with a percentage of public funds.
- providing public guarantees for such projects.

[9] Examples include businesses that double the value of their employees' investments in projects, or the more recent instance from the Goteo crowdfunding platform, Capital Riesgo: goteo.org/service/resources

La PFI permettrait non seulement de partager le risque entre un grand nombre d'acteurs, mais également de regrouper l'information concernant les projets sociaux. Ceci permettrait d'améliorer la qualité de l'information tout en réduisant le facteur temps (pour le choix), considéré comme le principal obstacle lorsqu'il s'agit de capter des clients.

Conclusions

As argued above, the idea of the platform is to centralize efforts in support of projects that generate a greater social impact. Many such projects have a questionable economic return, and innovations are needed in funding so that they can get off the ground.

The platform's greatest potential lies in **spreading risk** over a wide range of actors and **concentrating information** about such projects in a global platform that can improve information and reduce the time people need in order to make choices (which is considered the main barrier in reaching clients).

Ultimately, the proposed platform is an innovative tool designed to involve the main actors and encourage change in traditional banking institutions, so that they will finance this type of project and at the same time make the general public aware of opportunities for such investment and how it can benefit economic development and society in general. •

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Table 3. Actors involved in the IFP

Actor	ACTIVITY	VALUE TO THE IFP
Independent body	• Managing the platform • Centralizing and drawing attention to the various projects to be funded, with support from banks and collaborating bodies • Pooling the interests of banks, investors and promoters • Providing information on the need to fund each project • Certifying the value of the projects • Providing information on the state of the various projects being funded	• Centralizing social investment options to increase the impact • Channelling money more directly towards the projects • Spreading awareness of SRI • Sharing risks between citizens, banks and the government
Banking institutions	• Offering clients investment and/or donation alternatives for the projects in the platform • Making its clients aware of SRI and promoting it among them • Including new projects in the platform	• Reducing the risks of projects by sharing them among various bodies and investors • Renewing perceived commitment to society at a time of tension • Banking innovation: new products and services in response to social change
Project promoters	• Demonstrating the social value that their projects create (as a condition for taking part in the platform) • Providing information on how their projects continue to develop when funding comes to an end	• Opportunities to generate positive social change • New opportunities to generate employment and work in sectors that would not normally be considered profitable
Government	• Using public funds to reduce the risk involved in certain projects, in an innovative form of public-private partnership • Guaranteeing the viability of projects through measures to encourage enterprise	• Saving costs on programmes through early intervention to avoid social problems that may arise • Increasing tax revenues through increased employment and reduction in social welfare benefits • Facilitating compliance with the goals of the Europe 2020 strategy for the EU and its member states
Collaborating bodies	• Bodies that spot projects to invest in. The range is very wide – for example, they may be established crowdfunding networks or non-profit bodies that carry out projects or work with microentrepreneurs • Networking by offering the platform additional services	• Promotion: making their own network/organization more visible • Possibility of obtaining more funds for projects that wish to develop
Investors/ donors	• Investing in projects offered by the platform •Types of investment: -Direct investment, with greater focus on more committed investors, who themselves select the projects of most interest to them -Indirect investment: using preselected parameters, the bank will allocate the money to similar projects and ones that it considers of value to the client or of greater social value	• Clients commit themselves to the development of initiatives that enhance social cohesion, improve opportunities and reduce inequality • They receive an economic as well as a social return, or other kinds of material reward or gratitude • Greater individual and social happiness through the act of giving

Pour un marché du crédit aux particuliers plus éthique : l'introduction d'une composante conjoncturelle anticyclique dans le coût du crédit

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Économie et cycles

La science économique n'atteint que rarement le stade de la certitude. Mais s'il est une chose certaine, c'est que l'économie connait des cycles. En 1926, dans *Les vagues longues de la conjoncture*, Nikolaï Kondratiev proposait l'une des premières analyses des cycles de long terme. Mais en plus de ces tendances de long terme, l'économie est sans cesse traversée par des perturbations. Selon un autre grand économiste des années 1920, Irving Fisher, « Il y a toujours d'innombrables cycles, longs et courts, grands et petits, conçus comme des tendances (de même que de nombreuses tendances non cycliques), chaque événement historique étant la résultante de toutes les tendances à l'œuvre ».[1] Ces fluctuations de l'économie peuvent être comprises comme des risques. Or le rôle de la finance est justement de gérer et de distribuer le risque. Le point de départ est donc le suivant : la distribution du risque représenté par les fluctuations de l'économie est-elle équitable ?

Dans le fonctionnement actuel du système financier, ce sont les personnes les plus vulnérables qui subissent le plus violemment les cycles, parce qu'elles n'ont pas le capital nécessaire pour se protéger en période de récession. Cet article propose une solution simple à ce problème : faire

[1] Fisher, I. (1933). La théorie des grandes dépressions par la dette et la déflation. *In: Revue française d'économie*, Volume 3 N°3, 1988.

Economics is always about cyclical movements. Periods of weak growth and recession are therefore to be expected.

peser sur le prêteur une plus grande partie des risques associés aux cycles économiques. En apparence, c'est un renversement total, qu'aucune banque ne serait prête à accepter. En réalité, grâce à l'ingénierie financière, il est tout à fait possible d'envisager un tel fonctionnement du marché du crédit, sans mettre en péril ni la rentabilité des prêteurs, ni la stabilité du système financier.

L'objet de cet article est donc de militer pour l'introduction d'une composante conjoncturelle anticyclique dans le coût du crédit. Autrement dit, il s'agit de faire varier la somme payée mensuellement par l'emprunteur en fonction de l'état de l'économie. Quand survient une récession, les emprunteurs, en particulier les plus vulnérables, disposent ainsi d'un temps supplémentaire pour reconstituer leur solvabilité, par exemple en retrouvant un emploi. En résumé, cet article a pour but :

• d'alerter sur le caractère inéquitable du crédit lorsqu'il fait porter à l'emprunteur le risque économique

• de proposer un mécanisme qui rendrait le crédit plus juste en déplaçant le risque sur la banque prêteuse

• de démontrer la faisabilité de ce mécanisme en expliquant comment une banque peut augmenter sa rentabilité tout en supportant un risque en apparence plus élevé.

Le fonctionnement actuel du crédit aux particuliers est éthiquement critiquable, comme le prouve l'étude des conséquences du retournement du marché immobilier aux Etats-Unis depuis 2006. La solution proposée est l'introduction d'une composante anticyclique dans le coût du crédit immobilier, de façon rentable pour les banques. Il est ensuite possible d'imaginer comment adapter ce type d'outils dans différentes situations de crédit.

Les limites éthiques du fonctionnement actuel du marché du crédit aux particuliers

Si vous devez 100 livres sterling à une banque, vous avez un problème ; mais si vous lui devez un million de livres, c'est la banque qui a un problème (John Maynard Keynes)[2]

Le crédit aux particuliers a fait l'objet d'une attention croissante au cours des dernières années. Les prêts immobiliers ont joué un rôle fondamental dans la constitution de la bulle dont l'éclatement a provoqué la crise financière de 2008 ; et les prêts à la consommation sont accusés de contribuer au développement du surendettement chez les particuliers. Ce phénomène de surendettement prend une telle ampleur qu'il existe à l'Assemblée Nationale française un groupe d'études parlementaire dédié uniquement à ce sujet. Ainsi, l'encadrement du *credit-revolving* en France vise à protéger les personnes considérées comme incapables de gérer ce type de mécanisme financier. Cette régulation par la prévention est utile, mais nous nous concentrerons ici sur les prêts effectivement accordés.

[2] Il s'agit en réalité d'un vieux proverbe que Keynes a cité à plusieurs reprises, et qui lui a été attribué par la suite.

The role of finance is to manage and share risk, so recession tends to hit the poor hardest. In view of this inequality, we propose an anti-cyclical component in credit instruments - short term loans to individuals could be repaid over a longer period. This would enable lenders to maintain profitability whilst pursuing more ethical actions, assuming a commitment to equity and strong risk management.

Dans un prêt, il y a deux risques :

• Le risque interne ou risque de contrepartie, lié à l'emprunteur lui-même : est-il solvable, est-il honnête…

• Le risque externe ou risque économique : en cas de retournement de la conjoncture, un emprunteur *a priori* solvable peut devenir insolvable. Pour la banque, ce risque se traduit à l'actif par une dépréciation des prêts. Au passif, le risque externe peut provoquer une hausse de son coût de financement.

Actuellement, comment fonctionnent les prêts immobiliers ? Certains pays européens pratiquent essentiellement les prêts à taux fixe. Dans d'autres pays, les taux sont le plus souvent variables. Dans ce cas, ils sont le plus souvent indexés sur des indices qui ne font aucun sens pour les emprunteurs. Pour ne donner qu'un exemple, les taux de nombreux prêts immobiliers sont calculés à partir du LIBOR (voir par exemple sur ce lien[3] une offre de crédit sur le site de FreddieMac, un organisme public de crédit immobilier américain, qui a connu une quasi-faillite en 2008). Faisons abstraction des révélations récentes sur la manipulation de ce taux. L'élément important est que le LIBOR est un taux interbancaire : il exprime le coût de l'argent pour la banque qui, avec de tels prêts est ainsi assurée contre l'évolution du prix de sa «matière première». Cela implique qu'un prêt indexé sur le LIBOR fait porter la totalité du risque économique à l'emprunteur. D'autant que si le LIBOR n'avait pas été manipulé à la baisse en 2008, il aurait probablement augmenté, entrainant une hausse du coût des prêts de millions de foyer dans le monde, au beau milieu d'une récession économique. Certes, les taux d'intérêt sont en principe liés à la situation macroéconomique, mais :

• la variation des taux d'intérêt comme le LIBOR obéit aussi à d'autres facteurs, et l'ampleur des variations ne correspond pas toujours à celle qui serait nécessaire pour exercer une influence significative sur les coûts d'emprunt ;

• surtout, le taux LIBOR, qui bénéficie de la plus grande liquidité, a été utilisé pour indexer des prêts dans différentes régions du monde. Dans le choix d'un taux variable, la banque accorde plus de poids aux contraintes des marchés financiers qu'au sens économique du taux retenu.

Le rapport inégal entre prêteur et emprunteur

Avec ce type de prêt, la banque, qui est l'acteur le plus puissant, ne porte que le risque interne. La totalité du risque externe est transmise au client, alors même que l'absorption et la dispersion du risque constituent le cœur du métier du banquier. Cette inégalité est permise uniquement par la puissance de négociation de la banque face aux particuliers. Il est vrai que lorsqu'une entreprise fait face à des difficultés économiques, les créanciers bénéficient en général de «*covenants*»,

[3] Consultable sur : www.freddiemac.com/sell/factsheets/liborarms.htm

Lenders have great power over individual borrowers. Financial innovation has greatly improved risk management for market finance, but small borrowers hardly benefit from that innovation.

des clauses particulières dans les contrats, qui leur permettent de déclarer la déchéance du prêt pour tenter de récupérer une partie ou la totalité de leur argent. Mais en pratique, le plus souvent, les banques négocient avec les entreprises des délais, des remises, qui permettent de ne pas accroître leurs difficultés et réduire leurs capacités de remboursement. Les clauses dites de «retour à meilleure fortune» visent ainsi à suspendre le remboursement d'un prêt jusqu'à l'amélioration de la situation d'une entreprise. Les particuliers ne bénéficient pas de cette clémence, parce que, comme Keynes l'a parfaitement exprimé, les gros clients bénéficient structurellement d'un traitement préférentiel.

Une autre composante du marché du crédit aux particuliers peut s'avérer inéquitable. Il s'agit du calcul de scores, comme le FICO, le plus répandu aux Etats-Unis. Pour décider si vous pouvez bénéficier d'un crédit, la banque vous demande votre situation et, à partir des informations recueillies, calcule ce score de crédit. Pour le FICO, 50% du résultat dépend de votre historique de paiement.[4] En théorie, c'est parfaitement normal, il faut bien que la banque détecte les mauvais payeurs, pour réduire l'aléa moral. Mais si une fois dans sa vie, une personne fait défaut car elle a souffert de la conjoncture économique, cette personne mettra des années avant de pouvoir obtenir un nouveau crédit, et elle n'aura peut-être jamais accès à la propriété immobilière. Macroéconomiquement, il est inefficace d'exclure ce type de personnes du crédit, car cela réduit la consommation, alors même qu'il peut s'agir de «bons payeurs» qui auraient remboursé. Une étude de 2010[5] montre qu'entre 1997 et 2006, la titrisation des prêts immobiliers a renforcé le rôle joué par le score FICO dans la décision d'octroyer un prêt.[6] Au lieu de prendre en compte la situation individuelle des emprunteurs, les banques se sont de plus en plus contentées de calculer mécaniquement des scores FICO. C'est le paradoxe de l'innovation financière actuelle : elle se concentre en aval, rendant le fonctionnement des marchés de plus en plus complexe, mais elle aboutit en amont, au stade de la relation client, à des décisions de plus en plus élémentaires.

La crise du marché immobilier américain depuis 2006 fournit une excellente illustration du caractère potentiellement inéquitable du marché du crédit.

[4] www.myfico.com/crediteducation/whatsinyourscore.aspx

[5] Rajan, U., Serut, A. & Vig, V. (2010). *The Failure of Models that Predict Failure: Distance, Incentives and Defaults*. Consultable sur : ssrn.com/abstract=1296982

[6] La titrisation des prêts est une technique qui consiste à regrouper différents prêts dans un package unique, et à revendre ce produit sous la forme de titres qui en représentent une certaine quotité. La principale conséquence est que l'organisme prêteur ne conserve pas les prêts accordés. Selon Rajan *et al*. (2010), cela incite les prêteurs à octroyer les prêts uniquement en fonction de critères standardisés, comme le score FICO, pour faciliter la revente, au lieu de prendre en compte l'intégralité de l'information disponible sur l'emprunteur.

The property finance crisis in the USA in recent years placed millions of individual borrowers in extreme difficulty. It was inequitable that the impact of the risk fell mainly on the most vulnerable section of the population.

Two solutions are given to reduce the risk to the poor: first, to impose limits to over-indebtedness, but that tends to reduce further the access of the poor to finance; the second traditional solution consists of a direct intervention for debt relief. But this is morally ambivalent as all debt should, in principle, be regarded as repayable.

Conséquences du retournement du marché immobilier américain:

La finance, c'est la dette : sa création, sa gestion, sa circulation. Or si la finance prétend atteindre l'éthique, elle ne doit pas oublier que la dette est un mécanisme extrêmement violent. Pour illustrer cette violence de la dette, prenons l'exemple d'une personne ayant acheté une maison en 2006, pour 100 000 euros, dont 70 000 euros de dette. Cette personne détient au départ 30 000 euros dans la valeur de sa maison. Supposons, comme cela a été le cas aux Etats-Unis pendant la crise, que les prix chutent de 30%. Cette personne perd toute sa richesse. Et sa situation est pire encore si son apport initial est moindre. C'est toute la puissance de l'effet de levier qui se retourne contre l'acheteur de la maison. La banque qui a octroyé le prêt possède toute la richesse restante et les pertes sont portées par l'emprunteur. Si cette personne ne paye pas son crédit, la banque peut saisir la maison.

Entre 2007 et fin 2011, la crise a provoqué la saisie d'environ quatre millions de logements aux Etats-Unis.[7] Pour les personnes expulsées, les difficultés s'enchaînent alors : il faut retrouver un logement, la stabilité de la famille est mise à l'épreuve, les frais s'additionnent.

L'ampleur des saisies immobilières implique, comme le montre une étude[8] de Mian, Rao et Sufi (2013), que notre système financier fait porter les risques sur les plus vulnérables. Au lieu de participer à une distribution plus efficace du risque, la finance le déplace des personnes les plus riches vers les personnes les plus pauvres. En effet, à l'échelle de la société, ce sont les plus riches qui épargnent, et les plus pauvres qui empruntent. Si l'on fait abstraction de la banque, qui n'est qu'un intermédiaire financier, ce sont donc les personnes les plus riches qui saisissent les biens immobiliers afin de préserver la valeur de leurs actifs. Par ailleurs, Mian *et al.* (2013) démontrent que les victimes de la crise immobilière sont aussi ceux qui consomment le plus en proportion de leur revenu : c'est cette caractéristique qui expliquerait la baisse de la consommation et l'ampleur de la crise économique à laquelle nous sommes confrontés depuis 2008.

Mais même en faisant abstration de cet argument macroéconmique, il faut insister sur l'injustice que représente la saisie d'une maison, la fragilisation d'une famille, en raison d'une baisse temporaire des prix de l'immobilier. En partant de ce constat, il faut s'interroger sur les moyens de rendre plus éthique l'octroi de crédit aux personnes les plus vulnérables.

[7] Forbes www.forbes.com/sites/morganbrennan/2012/12/01/the-foreclosure-crisis-isnt-over-just-yet/

[8] Mian, A., Rao, K. & Sufi, A. (2013). Household Balance Sheets, Consumption, and the Economic Slump. Disponible sur : papers.ssrn.com/sol3/papers.cfm?abstract_id=1961211.

This paper suggests a different approach where banks modify their lending policies to avoid concentrating the impact of recession on those most vulnerable.

Les deux solutions traditionnelles et leurs limites

Avant de présenter une solution, des mécanismes alternatifs doivent être présentés. Le premier mécanisme est la prévention du surendettement, par exemple en mettant en place des mesures interdisant aux banques de prêter à des ménages déjà fortement endettés, ou d'utiliser des taux variables ou évolutifs qui masquent le coût réel du prêt vis-à-vis de particuliers qui ne maîtrisent pas le langage financier. Sans remettre en question ces mesures, il faut insister sur un défaut majeur : elles reviennent à interdire ou à limiter l'accès au crédit pour les plus pauvres. Faire de l'adage « on ne prête qu'aux riches » un programme de finance éthique est tout de même discutable.

Le second mécanisme est l'aide aux personnes surendettées, par des mécanismes de faillite personnelle, ou la renégociation forcée des prêts immobiliers. En 1933, dans le cadre du *New Deal*, l'Amérique de Roosevelt avait ainsi mis en place la *Home Owners' Loan Corporation* (HOLC), pour refinancer les ménages et éviter la saisie de leurs maisons. Si la volonté de venir en aide aux personnes en difficulté financière semble louable, ce type de mesures soulève un problème d'aléa moral : les ménages sont alors incités à s'endetter déraisonnablement, puisque l'Etat, et donc le contribuable volera à leur secours en tout état de cause. Et les ménages raisonnables sont donc indirectement sanctionnés pour leur prudence. Ethiquement, cela pose un problème évident. En 1936, alors que la France du Front Populaire mettait en place les premières mesures d'aide aux débiteurs en difficulté, le très réactionnaire juriste Georges Ripert écrivait une chronique célèbre intitulée ironiquement « *Du droit de ne pas payer ses dettes* ». L'objection morale à l'aide aux personnes surendettées ne date pas d'hier… Elle repose toujours sur le même argument : une personne s'engage lorsqu'elle signe un contrat, il lui appartient d'en comprendre l'intégralité, et de faire face à ses responsabilités. Que l'on soit convaincu ou non par cet argument, il faut admettre qu'il constitue un obstacle politique majeur, et qu'il est très difficile de former un consensus sur des programmes d'effacement de dettes. Aux Etats-Unis depuis 2008, le parti républicain a pu consentir à des réductions de taux d'intérêt, mais il s'est opposé à toute mesure qui aurait pour effet de réduire le montant du principal de la dette des particuliers.

L'approche suivie dans cet article est différente. Imaginons une banque qui souhaiterait adopter une démarche éthique et éviter d'entrainer une partie de ses clients dans l'enfer de la dette et des saisies immobilières à chaque fois que l'économie connait des difficultés. Comment une telle banque peut-elle modifier son approche du crédit aux particuliers, pour éviter de concentrer les effets des récessions sur les personnes les plus vulnérables, tout en préservant sa rentabilité ?

Thus the terms of credit should include clauses that automatically vary or adjust the amount of repayment in a given period in the light of the current economic situation.

In order to be effective and have the required psychological impact, the variable amount should be at least 10 per cent of the rate of the loan. The remainder of the paper explains the feasibility of implementing this proposal.

La solution proposée: l'introduction d'une composante conjoncturelle dans le crédit aux particuliers

Pour aller vers l'avant, et éviter que de profondes récessions économiques ne résultent de l'endettement excessif des ménages, nous devons mettre en place des mécanismes qui réduisent automatiquement la valeur de la dette restant à payer, lorsque l'environnement économique global est suffisamment négatif. Il reste encore beaucoup de points à éclaircir avant de mettre en œuvre une politique spécifique. Mais en pratique, il est tout à fait faisable de repenser les clauses des contrats de dette en introduisant des paramètres pour les récessions économiques. (Atif Mian, Université de Princeton, devant le Sénat américain).[9]

Une banque qui souhaite développer une approche éthique du crédit doit veiller à ne pas faire peser un poids déraisonnable sur ses clients lorsque la croissance ralentit. Bien sûr, cela ne suffira pas à «sauver» les ménages durablement insolvables. Mais cela permettra d'éviter un effet de cliquet qui condamne au surendettement ceux qui auraient pu redresser leur situation à moyen terme. Comme pour les Etats, il faut distinguer les déficits structurels et les déficits conjoncturels.

La proposition avancée par Mian est donc simple : le coût du crédit doit varier inversement par rapport à la conjoncture économique. Quand l'économie va mal, la charge de la dette des ménages est automatiquement diminuée, ce qui leur permet de faire face aux difficultés. De plus, ce mécanisme permet d'éviter une chute de la consommation, qui aurait pour effet d'aggraver la situation économique. La suite de cet article vise à élaborer et à démontrer la faisabilité de cette idée ; tandis que l'encadré 1 (en fin de texte) démontre les différents avantages que présente cette idée sur le plan éthique, en faisant référence à différentes théories de l'éthique économique.

Tout d'abord, il ne suffit pas d'une correction marginale de la charge de la dette en phase difficile, il faut que la réduction soit significative dans le budget d'un ménage moyen. En 2010, selon les chiffres de l'INSEE, les ménages français propriétaires dépensent en moyenne 8100 euros par an pour leur logement, hors charges et hors énergie, soit 675 euros par mois. Considérons, de façon un peu arbitraire, que la variation du prix du crédit doit être d'au moins 10% pour être perçue comme substantielle. En effet, la composante psychologique joue aussi, il faut que les ménages ressentent l'allégement du poids de leur dette et adaptent leur comportement. Ce seuil de 10% implique qu'en phase économique

[9] Mian, A. (2011). *Testimony On 'Consumer Protection and Middle Class Wealth Building in an Age of Growing Household Debt', Before The Financial Institutions and Consumer Protection Subcommittee,* United States Senate. Disponible sur : www.gpo.gov/fdsys/pkg/CHRG-112shrg74143/pdf/CHRG-112shrg74143.pdf

Finance enterprises have at least two ways to cover external economic risk. The first is to invest in counter-cyclical actions, such as gold, which tends to augment in value in periods of economic crisis. The second consists of diversification. Banks can spread their exposure both in time and space and hedge their risks, preserving their revenue. These techniques enable banks to maintain their returns on investments even in poor economic times.

When a finance enterprise re-possesses property, this has an extremely negative effect not only on individuals concerned but also on the external economy and on property prices in the region. Introducing a counter-cyclical component would have the effect of contributing to the prevention of such negative consequences and ameliorating the general economic situation in a period of crisis.

difficile, un ménage qui payerait 675 euros par mois pour son emprunt ne payerait plus que 607 euros, soit un gain significatif mais raisonnable de pouvoir d'achat.

Exemple

Techniquement, il existe différentes façons de mettre cela en place. La plus simple repose sur le mécanisme du crédit à taux variable, dont le taux serait indexé sur la croissance.

Tableau 1 : Exemple pour une maison à 100 000 euros

Croissance	*Coût total du crédit*	*Mensualité*
-2%	21 494 €	1 012 €
+3%	52 011 €	1 267 €

Exemple pour une maison à 100 000 euros, payée sur 10 ans, avec un taux i = g + 6%, où g représente la croissance, supposée constante sur toute la période.

L'exemple ci-dessus est sommaire, mais il est possible d'affiner considérablement. Le capital remboursable, la maturité du crédit, le taux d'intérêt sont autant de variables sur lesquelles jouer. Il est aussi envisageable de faire varier ces paramètres à l'intérieur d'une fourchette, par exemple en posant que le taux d'intérêt ne peut pas descendre en-dessous d'un seuil donné. Une fois acquis ce principe, les modalités du calcul pourraient être aisément affinées.

Dans l'exemple présenté dans le tableau ci-contre, les mensualités d'un emprunt immobilier varient selon le taux de croissance de l'économie (voir encadré, en fin de texte).

L'introduction d'une composante anticylique est donc techniquement faisable, et éthiquement souhaitable. Mais pour que cette proposition soit réaliste et acceptable, encore faut-il qu'elle soit financièrement supportable par les banques et organismes de crédit.

Un modèle économique rentable

Contrairement à un particulier ou à une petite entreprise, une institution financière dispose de moyens pour se couvrir contre le risque économique, ou risque externe. Là encore, la présentation est simplifiée car le but n'est pas d'entrer dans les détails techniques.

Quand une banque vend un produit financier A sur les marchés, elle prend un risque. Pour se couvrir contre ce risque et conserver une certaine neutralité, elle achète en principe un produit B dont la valeur varie exactement comme celle du produit vendu. On dit que le produit B acheté réplique le produit A vendu. C'est ce que désigne le mot anglais de «*hedging*». L'idée est simplement d'appliquer ce mécanisme au crédit au particulier.

Dans leur portefeuille, les banques détiennent toute une gamme d'actifs contra-cycliques, comme l'or. En effet, la valeur de l'or augmente quand le cours des actions baisse, donc quand l'économie va mal. Il existe donc différents moyens

It is not possible in such a short paper to go into all the details of such a counter-cyclical mechanism. Each party is free to determine the degree of risk against which it may seek to protect itself, so flexibility is important.

For example, in the property market, it is possible to index the costs of credit to the prevailing property prices. Another example in more rural areas would be to compose a more local model to counteract the more immediate shocks such as the closure of a factory and resultant unemployment hike.

An almost indefinite variety of schemes are imaginable, assuming that these would not permit borrowers themselves deliberately to provoke conditions in which their borrowing costs would be reduced.

de gagner de l'argent en phase difficile, ce qui permet d'ailleurs aux spéculateurs dits *bear* de parier sur les récessions et autres mauvaises nouvelles économiques.

En plus de ces techniques de marché, l'autre moyen de couvrir le risque contracyclique est la diversification interne à la banque. Il est possible d'ajuster symétriquement le coût du crédit à la hausse en période de croissance, comme dans l'exemple du tableau 1. Ce «surplus» peut ensuite aider à passer les périodes difficiles. A cette diversification temporelle peut s'ajouter une protection géographique : si la banque prête à des emprunteurs situés dans différents pays dont les situations économiques ne sont pas corrélées, elle réduit son risque.

Un effet positif sur l'économie dans son ensemble

Jusque-là, il s'agit essentiellement d'un jeu à somme nulle. En période de récession, les emprunteurs payent moins, mais la banque se couvre sur les marchés, et grâce à sa stratégie de gestion des risques. En réalité, l'effet économique global est positif si l'on prend en compte les externalités associées au défaut d'un emprunteur. Quand une banque saisit un bien immobilier, elle ne récupère en général que 50% de la valeur de ce bien, car le futur expulsé n'entretient plus son bien et sous-investit, et parce que la vente se fait dans des conditions spécifiques, la banque devant payer des frais de garde et d'assurance… De plus, toutes les études[10] montrent que les saisies ont tendance à amplifier les chocs immobiliers en faisant baisser le prix des maisons proches des maisons saisies. Finalement, les phénomènes de crise immobilière sont amplifiés par les comportements des prêteurs. Chacun essaye de récupérer son argent en saisissant les maisons, ce qui provoque une nouvelle chute des prix et de la solvabilité des ménages, et entraîne de nouvelles saisies… Ce sont les externalités négatives associées aux faillites et aux saisies.

Introduire une composante anticyclique limiterait les effets de ces cercles vicieux auto-entretenus, et améliorerait donc globalement la situation économique.

Généralisation à d'autres types de crédits

Tout au long de cet article, la composante anticyclique n'a pas été précisément définie. Cette omission est volontaire : libre à chacun de déterminer le risque contre lequel il souhaite se protéger ou offrir une protection. Voici toutefois quelques propositions.

Sur le marché de l'immobilier déjà évoqué, une possibilité consiste à indexer le coût du crédit sur les indices de prix tels que les *Dow Jones Real Estate Indices*. Quand le prix des maisons diminue, les emprunteurs ne perdraient plus leur

[10] Par ex. : Campbell, J., Giglio, S. & Pathak, P. (2011). Forced sales and house prices. American Economic Review 101(5): 2108–2131

Anti-cyclical credit instruments constitute a limited innovation, which couple an assurance mechanism with a loan or credit.

They would permit a more fair economy which would lessen the impact of risks from economic recessions on those with the least negotiating power. In order for finance to fulfil its social function and share risk equitably, financial engineering should be placed at the disposal of those most vulnerable.

The main point is that the length of loans should be variable in times of recession. This permits a more ethical approach than is offered by simple egalitarianism, the libertarianism of Nozick, the liberal egalitarianism of Rawls, or the welfare model of Sen.

There are many diverse ideas about economic ethics. This paper is based on the idea that the inclusion of an anti-cyclical component in credit agreements would constitute a contribution to ethics in finance.

richesse aussi violemment, malgré l'effet de levier qui fait porter toute la réduction de la valeur de leur bien sur leur capacité à récupérer les sommes qu'ils ont apportées ou déjà remboursées. Mian lui-même propose d'utiliser des indices de prix locaux, par exemple à l'échelle du *county* pour les Etats-Unis.

En zone rurale, l'économie d'un village et de ses alentours dépend bien souvent d'un gros employeur, l'usine locale. Il est alors possible de prendre en compte une composante « économie locale ». Par exemple, si une usine ferme dans un rayon de 30km, le coût de mon emprunt diminue pendant 3 ans, durée qui permet la reconversion de l'usine et la reprise de l'économie locale. Cela permettrait d'éviter le schéma bien connu du déclin local et de la désertification en zone rurale : une usine ferme, le repreneur met du temps à créer de nouveaux emplois ; entre temps la meilleure partie de la main d'œuvre retrouve un emploi et déménage, les services publics se dégradent, et finalement le site industriel n'est plus viable.

Il existe tout de même une limite majeure à l'inventivité que l'on pourrait déployer pour créer ce type de crédit : pour lutter contre l'aléa moral, il faut éviter que les emprunteurs aient un moyen de provoquer eux-mêmes la baisse du coût de l'emprunt. Ainsi, une mise au chômage ne doit pas déclencher cette baisse, car le risque est trop fort de créer des incitations à quitter son emploi et à rester au chômage.

Conclusion

La philosophie antique, Aristote en particulier, définissait une société juste comme une société dans laquelle chacun remplit sa fonction. La fonction de la finance n'est-elle pas de répartir le risque de façon optimale ?

En un sens, le crédit anticyclique est une innovation limitée, qui consiste uniquement à coupler un produit assurantiel à un crédit. Mais ce couplage devrait être offert systématiquement, car l'immense majorité des particuliers ne dispose ni du capital, ni de la compétence financière nécessaire, pour mettre en place ce montage soi-même.

L'économie serait alors plus solide, et surtout plus juste, car elle ferait peser le risque sur ceux qui l'ont volontairement souscrit, au lieu de le déplacer vers les personnes les plus vulnérables.

Le système financier doit cesser de concentrer les risques liés aux cycles économiques, que personne ne semble pouvoir parfaitement prédire, et encore moins prévenir, sur ceux dont le pouvoir de négociation est le plus faible. Il est temps d'utiliser le degré de sophistication qu'a atteint la finance grâce aux mathématiques, et de mettre ces innovations aux services des populations les plus vulnérables. Un mot d'ordre s'impose : inventons le *hedging* du pauvre ! •

Encadré : En quoi l'introduction d'une composante conjoncturelle dans le crédit au particulier est-elle plus éthique ? La réponse selon quatre théories[11] de l'éthique économique

L'égalitarisme absolu

Dans cette vision, parfois inspirée d'un marxisme simplifié, est juste tout ce qui tend à réduire les inégalités. Le crédit anticyclique est alors éthique car il permet d'améliorer la situation financière de ceux qui sont appauvris par un choc économique.

Le libertarisme de Robert Nozick

Pour Nozick (1974)[12], l'intervention étatique est injuste, car elle tend à réduire la liberté individuelle. Si le crédit anticyclique est éthique, c'est parce qu'il permet au marché d'ajuster au mieux les chocs économiques, ce qui rend superflue l'intervention de l'Etat sur le marché du crédit, par exemple pour forcer les prêteurs à renégocier les crédits immobiliers. De surcroit, les particuliers restent libres de choisir d'autres modèles de crédit.

L'égalitarisme libéral de John Rawls

J. Rawls (1971) pose deux principes éthiques[13]. Premièrement, le principe de liberté impose le respect des droits fondamentaux. Là encore, le crédit anticyclique ne porte pas atteinte aux libertés. Deuxièmement, selon le principe de différence, les inégalités ne se justifient que si elles permettent d'augmenter le bien-être des plus défavorisés. Le crédit anticyclique met l'innovation financière au service de la réduction de la pauvreté. Rawls insiste aussi sur la nécessité que chacun bénéficie de chances égales. En évitant que la prévention du surendettement ne passe par le refus de l'accès au crédit, le crédit anticyclique favorise l'égalité des chances.

L'économie du bien-être d'Amartya Sen

Pour Amartya Sen[14], l'économie ne doit pas seulement se focaliser sur une utilité abstraitement définie, mais sur le bien-être et les conditions d'existence des individus. C'est exactement le but du crédit anticyclique : fournir une assurance qui évite l'effondrement du niveau de vie en phase difficile, par exemple en permettant à certains ménages de conserver leur logement, ou de maintenir leur consommation.

[11] Ces catégories sont inspirées de : Arnsperger, C. & Van Parijs, P. (2003). *Éthique économique et sociale*, Paris : Collection Repères (La Découverte)

[12] Nozick, R. (1974). *Anarchy, State, and Utopia*. Basic Books.

[13] Rawls, J. (1971). *A Theory of Justice*. Harvard : HUP.

[14] Sen A. (1987). *On ethics and economics*. Blackwell Publishers.

Why even good people are likely to do bad things in finance – it's not the people that are flawed, it's the culture

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* The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated to.

This paper analyses the current state of ethics in finance, and especially banking institutions. The focus will be on identifying the factors that are conducive to unethical practices. I will argue that, although financial scandals are ultimately triggered by individuals, these should not bear the entire blame – for the prevailing work culture at many financial institutions is flawed, and directly encourages and rewards unethical behaviour and practices. This means that the system will face even more turmoil before long.

The paper begins by discussing the definition and importance of ethics in business relations. It then explains why ethical behaviour cannot be ensured by more financial regulation, and how too many rules can actually undermine ethical standards. The third part analyses the ethical shortcomings of the financial corporate culture, and the paper concludes with some final remarks.

What is ethics and why is it important?

Ethics is basically the science of what is right and wrong. However, there is no generally accepted definition of the term. When asked, people tend to confuse ethics with their own feelings, religions, legal principles or social norms (Andre & Velasquez, 2013). For the purpose of this analysis, I will define ethical behaviour in finance as 'acting in a way that promotes and strengthens trust and confidence in mutual relations'. Ethical behaviour is all about honesty and integrity. Its main objective is

Le texte se concentre sur les institutions bancaires et en particulier sur l'identification des facteurs propices aux pratiques non éthiques. Il s'agit d'expliquer pourquoi le comportement éthique ne peut pas être garanti par plus de règlementation financière et comment plus de procedures et règles nuisent aux normes d'éthique.

Dans le cadre de cette analyse, le terme de comportement éthique, dans un contexte financier, peut être défini comme une action qui encourage et renforce la confiance dans les relations mutuelles. Tout repose sur l'intégrité et l'honnêteté, l'objectif étant le bien commun au sein de la société, soit une situation *win-win* en affaires.

to promote the common good within society. In business, it means striving for 'win-win situations'. Ethical standards do not allow abuse of personal privilege through such things as asymmetrical information, strong bargaining power or legal loopholes.

Ethical principles are of fundamental importance in finance. This is because the financial sector is untypical. First, unlike many other industries, it offers intangible, highly complex products whose quality cannot be immediately verified by customers. Second, many financial services are by their very nature provided over a long period of time. Some government bonds or mortgage loans have maturities of 20 years or more. Both factors mean greater uncertainty for the parties involved. The most efficient risk-mitigating factor is thus mutual trust, which in turn must be rooted in high ethical standards. As the next section will show, in the absence of compliance with ethical principles, more regulation can do little to boost confidence in financial markets.

A jigsaw puzzle of ethics and legal compliance

Today's financial regulators seem to believe that systemic stability can only be achieved by more regulation. The fact that market confidence can also be boosted by promoting ethical values appears to have been overlooked. The prevailing ideology is more – and ever more detailed – regulation. Yet this may actually make things worse. Kaptein (2012) has argued that there is an optimum amount of regulation for every organization. Beyond that point, extra regulation will only be damaging, as more effort is put into abiding by the rules at the expense of operational effectiveness and ethical behaviour.

In a recent paper written for central bankers, Bank of England executive director Andrew Haldane said 'Modern finance is complex, perhaps too complex. Regulation of modern finance is complex, almost certainly too complex ... As you do not fight fire with fire, you do not fight complexity with complexity ... [C]omplexity ... requires a regulatory response grounded in simplicity' (Haldane & Madouros, 2012). He proved his point by comparing the size of various pieces of legislation designed to overhaul the system. The 1933 Glass-Steagall Act, adopted in response to the Great Depression, ran to a mere 37 pages, but secured overall financial stability for seventy years. In contrast, the 2010 Dodd-Frank Act, intended as a legislative countermeasure to the current crisis, occupies no fewer than 850 pages, with some 400 more to come in the form of implementing guidelines. The Basel I agreement, signed in 1988, was only 30 pages long. By the time Basel II was signed in 2004 the volume had increased tenfold, to more than 300 pages. The most recent agreement, Basel III, signed in 2010, runs to over 600 pages, almost twice the size of its predecessor. It is not just the length of these documents that is cumbersome, but also

Les principes éthiques sont fondamentaux dans la finance. La qualité des produits, souvent très complexes, ne peut pas être immédiatement vérifiée par les clients, tout comme les services fournis pendant de une longue période de temps. Il en résulte une grande incertitude, la confiance mutuelle devenant le facteur de diminution des risques le plus éfficace.

Le fait que la confiance du marché puisse être stimulée par la promotion de valeurs éthiques a été négligée. Dans tout sytème, trop de regulation, au delà de la quantité optimale, devient préjuduciable. Il ne faut pas combattre la complexité avec de la complexité. Une réponse réglementaire fondée sur la simplicité est nécessaire.

Les principes éthiques ne peuvent pas être imposés par la legislation. Les standards éthiques proviennent des valeurs et incitations encouragés sur le lieu du travail. De nombreuses enterprises confondent action

their detail. As Haldane says, 'this degree of complexity also raises serious questions about the robustness of the regulatory framework, given its degree of over-parameterization' (Haldane & Madouros, 2012).

Preliminary remarks on ethics in finance

In this connection it is also important to realize that ethical principles cannot be enforced by legislation. 'Fencing organizations in with procedures, systems and structures provides no guarantee that people will do the right thing' (Kaptein, 2012). Ethical standards stem from values and incentives that are fostered at the workplace. Many companies confuse acting ethically with legal compliance – which are not the same thing. To understand this, take the simple question of whether slavery or racial segregation were ethical even when they were legal.

Today, because of the bloated regulatory framework, companies pay far more attention to being legal than they do to being ethical. Banks' compliance departments employ hundreds of lawyers, but hardly any banks have hired ethical advisors. And extra regulation is counterproductive for two other reasons. First, it can never be complete, for there will always be gaps, grey areas and loopholes that can be exploited by those who are aware of them. Second, as numerous research results have shown, more regulation actually reduces people's ability to think critically about their own actions. They simply accept the measures and procedures imposed on them (Katz-Navon, T. *et al.*, 2005). Too many rules will undermine ethical standards, as people consult legislation rather than their own consciences when judging what is right and wrong.

On the other hand, the solution is not to get rid of the entire regulatory framework. Lack of regulations and supervisory mechanisms can indeed have destabilizing effects, as the sudden rise and fall of the derivatives market has made clear. Instead, it is a matter of striking the right balance between too little and too much. Regulation is an important stabilizing factor, but should be kept to the necessary minimum. Regulation can hardly promote ethical standards; but too much regulation will certainly undermine them.

The following part of the paper discusses whether people are inherently good or bad. This is a crucial issue, as different measures will be needed to ensure compliance with ethical standards depending on whether people are naturally good or bad. The paper will then examine whether only 'bad people' in the finance industry were responsible for the recent wave of scandal and fraud.

Are people inherently good or bad?

According to classic economic theory and its *homo oeconomicus* model, individuals derive their utility from consumption of material goods. They are driven by rational expecéthique et conformité légale. Une réglementation complémentaire est contre-productive car elle n'est jamais complète et réduit le regard critique sur ses propres actions.

Il ne faut pas pour autant réduire la réglementation et les mécanismes de supervision, qui pourrait créer des effets déstabilisateurs. Il s'agit de trouver le juste milieu entre pas assez et trop.
La partie suivante se concentre sur le caractère intrinsèquement bon ou mauvais des gens.

L'utilité des individus, guidés par des attentes rationnelles et leur intérêt personnel, dépend de la consommation de biens matériels. Depuis que les émotions ne sont pas jugées comme pertinentes ni source de bonheur, il n'y pas de place pour la charité et le bénévolat. Les individus ne seraient donc pas dignes de confiance, mais très egoïstes et centrés sur eux-même.

tations and self-interest. The happiness of a nation can then simply be measured by adding up people's individual utilities. This theory ignores the possibility of synergies between individuals, and assumes that people can only increase their utility at other people's expense. Since emotions are irrelevant and cannot be a source of happiness, there is no room for charity or voluntary work. People can be just as happy on a desert island as they can among their families and friends. If this theory is correct, it follows that people should be inherently bad and untrustworthy. With limited, scarce resources, the easiest way for them to increase their utility is to take away what already belongs to others. Nor do they have any interest in contributing to the common good or well-being. This approach is consistent with the views of the English philosopher Thomas Hobbes, who believed that people were extremely egoistic and self-interested, and that in the absence of external authority there would be permanent conflict and war.

A completely different view was advanced by Aristotle and the French philosopher Jean-Jacques Rousseau. According to Aristotle, achieving *eudaimonia* – happiness or self-fulfillment – required people not just to display and practice virtue and excellence; external factors such as health, beauty and social ties were also important. People living on their own, in isolation from others, could never achieve *eudaimonia*. As for Rousseau, he believed that people were naturally good; unlike Hobbes, he blamed violence and conflicts on the corrupting influence of the external environment, rather than people's egoism and self-interest. He also argued that people could, and should, increase their happiness by cooperating with others.

The question of whether people are naturally good or bad has exercised philosophers' minds for centuries. However, the results of recent research on young children suggest it is more likely that people are naturally good rather than bad. Hamlin, Wynn and Bloom (2007) had shown that children as young as six months old are able to unconsciously judge people on the basis of their behaviour, distinguish right from wrong and, faced with a choice, have a preference for what is right. Other research, by Felix Warneken and Michael Tomasello, has shown that children aged 18 months display a tendency towards altruistic behaviour. Even where the people in need were strangers and there was nothing to be gained by helping them, the children chose to help them in the vast majority of cases (Warneken & Tomasello, 2006).

Good or bad? In finance it doesn't matter

However, if we accept that people are basically good, i.e. are not purely self-interested and can cooperate with others in accordance with social norms, where have all these financial scandals come from? Could it be that the financial industry

Selon une autre vision, l'épanouissement personnel repose sur la vertue et l'excellence, mais aussi sur des facteurs externes comme la beauté, la santé et les liens sociaux. Le bonheur serait donc inaccessible à ceux qui sont renfermés sur eux même. Les individus seraient donc bons et leur bonheur reposerait sur la cooperation avec les autres.

Les récentes études sur de jeunes enfants font état de prédispositions naturelles plutôt bonnes que mauvaises. L'entraide se fait de manière spontanée
Le milieu financier attirerait les exceptions, ceux qui se comportment de manière non éthique.

Il est nécessaire de se pencher sur la vie de plusieurs personnalités impliquées dans les récents scandals éthiques au sein d'institutions financières, à commencer par Kenneth Lay, dernier CEO d'Enron. Un homme très apprécié, mais à la double personnalité.

specifically attracts those few 'bad people', or those with a tendency to behave unethically?

To analyse this, we need to look at the biographies of several people who were behind some of the biggest recent ethical meltdowns in the financial sector. Enron's last CEO, Kenneth Lay, was raised in a rural family and his father was a Baptist preacher. Before joining Enron he was a navy officer and, during his time as CEO, he made contributions to charities and cancer treatment centres. He was a sociable and likable person. 'The employees loved him', said one senior executive. There was nothing to suggest he would become responsible for one of the largest corporate scandals in America. It is almost as if Lay had two quite different personas. 'Many … are struggling to reconcile the two images of Ken Lay. The first was a personable, civic-minded multimillionaire who took the lead in ... charity after charity ... The latter reigned over a company ... that spawned an atmosphere of arrogance and greed ...' (Goldberg & Flood, 2002).

A similar story can be told about Lloyd Blankfein – a Harvard Law School graduate, and CEO of Goldman Sachs since 2006. Yet during his tenure Blankfein has done little or nothing to alter the company's infamous culture (Smith G., 2012). His former boss said 'Blankfein was endowed with an unusual combination of humility and self-awareness, two traits not normally associated with hugely successful Wall Street executives' (Cohan, 2011). Other accounts describe him as 'very personable and witty', as well as 'funny and entertaining'. Blankfein appears to be much-loved at the company – 'he is just terrific (…) you will love him', said one of the executives (Pressler, 2011). It is remarkable how someone with such personality traits can run a company whose culture is described as ruthless and nasty.

A much more suitable person would surely be someone like Lehman Brothers' last CEO, Richard Fuld – nicknamed 'the gorilla' because of his confrontational style of management. In a public speech about traders who were short-selling Lehman Brothers stock, he said 'what I really want to do is reach in, rip out their heart and eat it before they die.'[1] He inspired great loyalty, but mostly through fear. 'Those closest to him slaved like courtiers to a medieval monarch, second-guessing his moods' (Oliver & Goodwin, 2010).

Another example is Kweku Adoboli – a UBS rogue trader whose excessive risk-taking lost the Swiss bank $2.3 billion. Given his background, he was rather an unlikely person to behave in this way. He came from an affluent family; his father was a senior UN diplomat. At his prestigious secondary school Adoboli was one of the brightest students – with a particular aptitude for mathematics and logic. In his final year he became 'head boy' of the school. Later on, he graduated with

[1] www.youtube.com/watch?v=GZCmWkQuyPc

L'histoire de Lloyd Blankfein, CEO de Goldman Sachs depuis 2006, est similaire. Un homm très apprécié au sein d'une enterprise dont la culture est décrite comme impitoyable et rude.

Richard Fuld, CEO de Lehman Brothers et Kweku Adoboli, tous deux au parcours pourtant remarquable, sont d'autres exemples très pertinents. Il en va de même pour Nick Leeson, dont les agissements ont conduit à l'éffondrement de la Barings Bank.

La culture d'entreprise, qui prévaut au sein des institutions financiers, serait en partie responsable des pratiques financières déloyales. L'un des facteurs générant ces méfaits est l'objectif unique de rendement propre au secteur.

Les pratiques visant à privilégier ses intérêts au depend des clients sont très répandues au sein de ces institutions. En terme scientifique, un tel dévouement dans un seul but se

honours from the University of Nottingham in computer science and management (Russell, 2012). At his trial, people who had met him described him as an intelligent, honest, generous and dependable person (Croft, 2012).

Yet his actions were not very different from those of another rogue trader, Nick Leeson, whose reckless trading lost Barings Bank $1.4 billion and led to its collapse. Unlike Adoboli, Leeson grew up in a working-class family, never graduated from a university, and finished his education at secondary-school level, with only limited qualifications. His teachers considered him a poor student and a poor mathematician (AETN UK, 2013). As for his personality, he is said to have been manipulative and deceitful to those around him. Leeson described himself as cynical and inconsiderate.[2]

Why is it so difficult to act ethically in finance?

The previous section has shown that apparently good people, as well as bad people, engage in unethical financial practices, regardless of their background, education or personality. I would argue that this can largely be blamed on the corporate culture that prevails at financial institutions. Below I identify and discuss the most pronounced aspects of this culture that lead to unethical behaviour in finance.

[2] www.youtube.com/watch?v=xfdtK-B_c7c

Focus on a single goal

One important factor that triggers many unethical practices in finance is the sector's extreme focus on a single goal – this year's returns. Virtually the whole organization is centred around generating higher turnover. Banks are said to have been 'focused on revenues and not on other aspects of performance' (The Economist, 2013). Pressure to achieve budgeted plans made some banks intentionally mislead their clients and jeopardize long-term relationships. For example, Barclays was found to be 'focused on revenue at the expense of its clients' (Mustoe, 2013). Goldman Sachs admitted it had misled its investors in failing to disclose relevant information. On the plus side, however, the bank made billions out of these unethical transactions with its own clients (Nasiripour, 2011).

Such practices are widespread across the industry. One former banker writes that a common expression now is '"IBG, YBG" – "I'll be gone, you'll be gone" (…) long-term consequences don't matter; all that counts is this year's kill.' The three most infamous rogue traders – Leeson, Kerviel and Adoboli – all defended themselves by saying that the banks encouraged them to take on more risk in order to boost potential profits, and that this was standard practice at their banks.

In the scientific world, such utter devotion to a single purpose is known as 'tunnel vision'. It has been experimentally shown that too much emphasis on a sin-

nomme "tunnel vision". La concentration sur un unique objectif nuit à la capacité de jugement critique.
Le système actuel de valeur bancaire n'a aucun avenir s'il reste en l'état.

Le problème ne vient pas des banques dirigées par l'argent mais des efforts que les institutions financières concentrent sur cet unique objectif qu'il faut atteindre: la maximisation des prévisions de revenus.
Il s'agit d'une tentative, vaine peut-être, de réconciliation entre le capitalisme et l'éthique, alors que l'environnement actuel des affaires tend à ignorer les standards éthiques.

Les métiers du secteur financier et bancaires figurent parmi les mieux payés au monde. La célèbre tendance psychologique "effect d'éviction" est ici très présente, les motivations intraseques étant progressivement dominées par celles extrinsèques.
Le sens de la moralité, l'égalité et la contribution à la société ont été remplacées par les hauts salaires et autres primes.

gle goal impairs people's ability to judge situations critically and draw the right conclusions. 'The focus on a goal then becomes a fixation, and other important things fall by the wayside. Just as with tunnel vision the rest is dark, does not count and is not seen' (Kaptein, 2012).

The current banking value system, with its overreliance on monetary aspects, has no future. To understand this, we must realize how detached financial institutions and financiers have become from the real economy. In an infamous interview, one trader said of the current crisis 'We do not care that much about the economy (…) Our job is to make money (…) Personally I have been dreaming of this moment for three years. I go to bed every night and I dream of another recession'.[3] At Goldman Sachs clients were allegedly referred to as 'muppets', and at internal meetings no attention was paid to how the bank could help its clients, but rather how it could make money out of them (Smith G., 2012).

In my view, the problem is not so much that banks are driven by money. It is rather that financial institutions are entirely focused on achieving a single goal – maximizing revenue forecasts. In the capitalist system it is natural for businesses to pursue higher sales; but our world has become too complex and interconnected for us to concentrate all our energy on a single goal, with little or no regard for other aspects. This paper is a modest attempt to reconcile capitalism and ethics, something many have argued is no longer possible. Capitalism is the best economic system mankind has so far developed, for it increases productivity and creates opportunities for all. However, financial institutions need to broaden their spectrum of objectives in order to perform their intended role in society. In a business environment where there is so much emphasis on achieving a single goal, ethical standards are likely to be pushed aside.

Intrinsic motives are superseded by bonuses

Some of the best-paid jobs in the world are in banking and finance. Average salaries for first-year analysts at investment banks are $100,000 a year, and the managing director is paid $400,000 or more (Rapoza, 2013). However, these are only *average* figures across the industry – the biggest firms pay much more than that. Of the nearly 30,000 people employed at Goldman Sachs, almost a thousand were paid $1 million or more in 2008. In 2009 the average individual bonus at the same bank was estimated at $675,000 (Quinn, 2009). During his trial, rogue trader Jérôme Kerviel revealed that he had performed risky transactions in the hope of receiving a large bonus – he had expected to net €600,000 for his 2007 results (Benedetti-Valentini, 2008). Wall Street bankers grew so accustomed to large remunerations that in 2009, amid huge losses and multi-billion bailouts with taxpayers' money, they granted themselves a total bonus of $18.4 billion (Shnayerson, 2009).

[3] Goldman Sachs Rules the World', www.youtube.com/watch?v=CTE6nXyKSnQ

L'analyse de l'image de soi et des egos démesurés est importante à considérer dans le cas de pratiques financières déloyales. Les employés de banque perdent progressivement le sens de la proportion et l'humilité. Plusieurs raisons expliquent cette tendance: La grande taille des institutions financières, l'efficacité des lobbies du secteur, le train de vie luxueux de nombreux employés et la dépendance de nos vies au secteur financier qui gère tout.

A well-known phenomenon in psychology is the 'crowding-out effect', whereby intrinsic motives are gradually pushed aside by extrinsic motives for taking a particular action. In the case of bankers' huge salaries, monetary rewards may well have suppressed such intrinsic motives as a sense of morality, equality or contribution to society. In other words, financiers might in all conscience prefer to be involved in more socially beneficial projects – but their decisions will be affected by the prospect of large bonuses.

This phenomenon has been researched by David Greene, who offered his students a reward for studying harder. However, once he took the reward away, the students studied less than they had done to start with (Greene, Sternberg & Lepper, 1976). Essentially, their efforts were driven by the reward rather than by the wish to study in its own right. By the same token, bankers are driven by their bonuses rather than by what they do, and why.

Self-image and inflated egos

Another important factor when analysing the sources of unethical practices in finance is self-image, or what has been called the Galatea effect. The theory is that people's ideas about themselves can greatly affect their actions and attitudes. Bank employees are seemingly often convinced that they are not bound by society's normal standards. One former investment banker has talked about an atmosphere of 'inflated egos'. A comment by Goldman Sachs CEO Lloyd Blankfein that bankers are doing 'God's work' has been repeatedly criticized, and condemned (Phillips, 2009). According to an internal Barclays report, 'a few investment bankers seemed to lose a sense of proportion and humility' (Treanor, 2013). A feeling that you are not bound by the rules leads to disregard for normal standards, and has surely led to some of the unethical practices at financial institutions.

There are at least four sources of such exaggerated self-esteem. First, many of these institutions are 'too big to fail'; this gives them an upper hand in relations with regulators and the general public, who have to pay close attention to what banks say and do. Second, the financial sector has one of the largest and most effective lobbies. For example, in the early 2000s they proved very effective at making sure the derivatives market remained unregulated. In 2011 the US financial sector spent nearly $500 million on lobbying (Opensecrets, 2011). Third, high levels of remuneration and luxurious lifestyles have convinced many that their privileged status is justified. Finally, all of our lives are affected by finance, but only a few of us really understand it. It is only the bankers that actually know the sector inside-out, and this gives them a sense of power and authority. As one trader famously said, 'governments don't rule the world – Goldman Sachs rules the world.'[4]

Here it is also worth mentioning a contrary phenomenon known as

[4] Goldman Sachs Rules the World', http://www.youtube.com/watch?v=CTE6nXyKSnQ

L'effet Pygmalion est un phénomène contraire, qui repose sur la perception des autres et leurs attentes en matière de comportement. Les services financiers sont ceux qui inspirent le moins confiance. Selon cette théorie, si les gens pensent que les banquiers ne sont pas dignes de confiance, alors la probabilité est forte pour qu'ils le deviennent.

La pression du temps est un facteur important qui explique aussi les pratiques non éthiques. Il nuit à la capacité de prendre du recul et de juger de manière objective. Dans certaines banques, la semaine de travail comprend 70 à 80 heures et parfois jusqu'à 100 heures.

La très forte compétition interne est un autre facteur expliquant l'avènement de pratiques déloyales. Trop de rivalité interne incite les gens à tricher et à contourner les règles, la course aux primes ne faisant qu'accentuer cette tendance.

the Pygmalion effect. This concerns how individuals are perceived and expected to behave by others. According to the 2013 Edelman Trust Barometer, financial services have been the least trusted sector for three years in a row (Edelman, 2013). The problem is that if the general public thinks bankers are untrustworthy there is – according to the theory – a higher likelihood that they actually will be. Other people's expectations lead them to act accordingly. For example, the Pygmalion effect has played a part in many recent accounting frauds. One reason why financial statements at HealthSouth or Enron were falsified was to meet market analysts' high expectations (Associated Press, 2006). Another example is the Greek government, which asked Goldman Sachs to help it conceal the true size of its debt (Balzli, 2010). If the Greeks had not expected Goldman Sachs to be able to help, they would have never approached the bank, and the bank would never have had the opportunity to act unethically.

Time pressure

A fourth element conducive to unethical practices at financial institutions is time pressure. Tight schedules are often beneficial, as they make people work harder and more efficiently. However, working under constant deadlines with no time to reflect on what you are doing comes at a cost. This may seem strange, but in fact constant time pressure has much the same effect as the tunnel vision mentioned earlier: it impairs people's ability to judge situations from a different perspective. An experiment conducted by John Darley and Daniel Batson has shown that people tend to focus so much of their energy on deadlines that they fail to assess situations properly and respond in the right way (Darley & Batson, 1973).

Banks are known as places where you need to put in a lot of working hours. According to one former bank employee, 'You do not know how hard you can work, short of slavery, unless you have been an investment banker (…) It is not merely the hours, but the extreme and unrelenting time pressure' (Smith Y., 2010). Normally, a typical working week is 70-80 hours (Comstock, 2010); when necessary, however, this can increase to 100 hours or more.

Internal competition

Another element of corporate culture at financial institutions that is conducive to unethical practices is extremely intense internal rivalry. Research has shown that mid-level competition can be very useful in the workplace; but too much rivalry has been found to prompt people to cheat and bend the rules. This especially holds true in environments where winner-takes-all reward systems are applied. When people are faced with the prospect of failing to secure the first prize, their ethical standards are likely to be challenged and indeed compromised.

Jobs in finance are known to be

Les institutions financières entretiennent cette compétitivité via des méthodes d'évaluation éreintantes et extrêmement difficiles. La forte remuneration n'est plus le moyen d'acquérir des biens de consommation mais une donnée essentielle de sa propre image avec la reconnaissance comme objectif ultime.

highly competitive. According to an independent report on the culture at Barclays, 'winning at all costs comes at a price: collateral issues of rivalry, arrogance, selfishness and a lack of humility and generosity' (Treanor, 2013). Enron's culture was also based on constant conflict and competition. The company developed the most gruelling and harsh evaluation systems in the US, and each year 10-15% of employees were fired because of their low performance grades (Thomas, 2002). In financial institutions future employment is seldom guaranteed. Managers hold constant feedback sessions, and the poorest performers are quickly fired. At the same time, most banks publish motivational rankings of their best employees. Moreover, internal hierarchy – the 'corporate ladder' – is used to entice employees with prospects of quick promotion. Bank employees tend to be strong-willed and career-oriented. The rules for being promoted are usually laid out clearly in internal documents, so that people are in no doubt about what is expected of them. What makes internal competition even fiercer is that many financiers no longer just see their annual remuneration as a means of meeting their consumption and living requirements, but as a key part of their self-image. They pursue higher bonuses in order to win recognition and build self-esteem.[5]

Trois raisons externes expliquent cette constante compétition: le secteur attire toujours plus d'étudiants, il est très homogène au niveau du profil de ses employés, et en fin les résultats des employés sont très facilement comparables.

There are also at least three external reasons for fierce competition. The first is that a large number of finance and economics graduates enter the labour market each year. Since finance offers above-average salaries, many seek careers in this sector. The second reason is that finance is a very homogeneous environment. Financiers' personalities, work cultures, skills and abilities are very similar; almost the only differentiating factor is experience. This makes comparison and internal replacement easier. Moreover, since corporate cultures are almost identical across the industry, it is easy to recruit people from another companies. The third factor that boosts internal rivalry is the fact that employees' results are easily comparable in terms of revenues generated for the company.

Lack of true diversity or strong individuals

A final challenge to ethical standards is that working environments at financial institutions are very homogeneous. Companies impose strict rules and regulations on their employees to ensure similar attitudes and thinking patterns. Goldman Sachs employees were strictly forbidden to talk to the press, could not party in public in groups of more than twelve, and were told what kinds of clothes were and were not acceptable at work (Comstock & Wachtel, 2011). At Lehman Brothers, allegedly, people were fired because they wore the wrong clothes and were told which charities to sup-

[5] 'Ethical risks: why do good people end up doing bad things?', http://www.youtube.com/watch?v=XtFiHb_c6n4

Le manque de personnalités fortes et de véritable diversité, qui caractérise le secteur, est un challenge pour les standards éthiques. Les enterprises formatent les collaborateurs pour qu'ils préfèrent leur employeur à leur propre famille.

Les employés recrutés doivent rentrer dans le moule pour maintenir la meilleure homogénéité possible. Chaque recrutement peut inclure jusqu'à une dizaine d'entretiens pour flatter le candidat et le rendre encore plus dévoué à son entreprise.

Des études montrent que les individus adoptent très facilement les normes et actions imposés par leur environnement professionnel. Les standards éthiques ont tendance à être plus facilement enfreints dans des environnements homogènes avec une forte loyauté propre à la culture d'entreprise. L'exemple donné par les cadres supérieurs est donc déterminant.

port.[6] Employees are expected to show limitless commitment to the company. 'It wasn't uncommon to ask associates to reschedule their weddings' (Smith Y. 2010). A former intern at Goldman Sachs says her internship at the bank was 'deeply upsetting' and she felt 'indoctrinated' (Wachtel, 2011). Yet many bankers do not hesitate to talk about their love for the company. It is as if the institution has actually replaced their families.

The first stage in creating and maintaining homogeneity, commitment and subordination among employees is the recruitment process. Top investment banks typically only target graduates from a very limited number of schools. The recruiters' main job is to assess whether a candidate fits into the corporate culture.[7] They also look for 'money-mindedness', as well as 'hunger and drive'. Before making a job offer, top banks will have up to ten interviews with the best candidates. This is not so much to learn more about them as to make new employees grateful for the opportunity they have been given by being hired, and thus to increase their loyalty and commitment to the firm. The notion of diversity at investment banks is also a myth; it is only a slight exaggeration to say that everybody graduated from a top business school, passed CFA exams, lives a luxury life, is money-oriented and only has friends that work at the same bank.

Three separate experiments by Philip Zimbardo (Zimbardo, 2007), Solomon Asch (Asch, 1955) and Stanley Milgram (Milgram, 1963) have shown that people are very liable to adopt the norms and actions imposed on them by their environment, their peer group or a higher authority, without thinking much about what these really stand for. This is especially true of individuals who lack self-esteem and see themselves as a product of their environment rather than a driving force. A junior banker who lets himself be told what to wear and which charities to support, and cannot even decide his own wedding date, certainly fits this pattern.

Ethical standards are more likely to be violated in such a homogeneous and highly loyal corporate culture, since everybody is expected to toe the line and not ask too many questions. In fact, everything depends on whether a few top executives can set a good example, for middle-level bankers simply adopt the norms and behaviours that trickle down through the organization.

Conclusions

The finance industry is a key element in getting the economy back on track. It has never been bigger and more important than today. With its size, however, comes responsibility. Financial institutions failed the test of the 2008 financial crisis. Since then, owing to banks' stubborn resis-

[6] Lehman Brothers "Terrifying" Culture Exposed…', www.huffingtonpost.com/2010/03/22/lehman-brothers-terrifyin_n_508594.html

[7] 'Overview of the Investment Banking Analyst Recruiting Process', http://investmentbankingjobsguru.wordpress.com/2008/08/22/overview-of-the-investment-banking-analyst-recruiting-process/

L'industrie financière est un element clé pour remettre l'économie sur pieds. La responsabilité est devenue une donnée essentielle. La culture d'entreprise très critiquable a joué un role négatif dans la crise récente. Une action rapide est indispensable pour y remédier. Nous avons tendance à blamer les individus au lieu de s'intéresser aux lacunes du système pris dans son ensemble.

tance, very little has changed. Every so often yet another story of fraudulent practice comes to light.

Banks' flawed corporate culture has played a negative role in the recent crisis, and swift action must be taken to remedy it. I hope the above diagnosis of its most fragile points will prove a useful contribution. The paper's final conclusion is that the public is often too quick to blame individuals, describing them as greedy, arrogant risk-takers – and overlooking the shortcomings inherent in the system as a whole. •

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Primum non nocere (first do no harm): can the principles of medical ethics be applied to finance?

Ethics in Finance, Robin Cosgrove Prize
Global edition 2012-2013

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Ethics can be defined as the principles that govern a person's or a group's behaviour. Normative ethics is the branch of ethics concerned with what makes an action right or wrong.

Finance professionals frequently face ethical decisions and questions of right and wrong, and must constantly balance risk versus reward and outcomes for clients, the firm and themselves. Recent events suggest that the finance industry has not been getting these ethical decisions right. We are currently experiencing a financial crisis on an unprecedented scale, worldwide growth has stalled, governments are printing an extraordinary amount of money, and confidence in finance professionals is at an all-time low. Record fines have been paid by banking institutions for offences ranging from mis-selling of derivatives and fixing of interest rates to manipulation of commodity markets. The proliferation of peer-to-peer lending sites, cooperatives and credit unions demonstrates consumers' wish to move away from the financial companies they no longer trust.

If the finance industry is getting it wrong, who has been getting it right? With politicians cheating on their expenses, journalists tapping private phone lines and even our sports heroes turning out not to be who we thought they were, who is setting the right example?

An Ipsos Mori poll conducted in the UK in 2013 found that physicians were the most trusted profession, with 89% of respondents saying that they would trust physicians to tell the truth. The figure for bankers was just 21%; more worryingly, it had fallen from 29% in 2011. Trust in financial professionals is being eroded.[1]

[1] Ipsos Mori, *Trust in Professions*, 2013 and 2011.

Les professionnels de la finance doivent constamment trouver un équilibre entre le risque et la récompense, les revenus pour les clients et ceux pour l'entreprise et pour eux meme. La côte de confiance des financiers est à un niveau historiquement bas.

Dans le milieu medical, qui inspire plus confiance, la question de l'éthique est beaucoup plus développée et le secteur financier pourrait s'en inspirer. Les quatre principes presents sont l'autonomie, la bienfaisance, la non-malfaisance et la justice. Chacun de ces principes sera évalué pour voir comment les financiers peuvent les appliquer au quotidien.

L'autonomie implique que les patients/clients peuvent contrôler ce qui leur arrive grâce à une communication adaptée des médecins qui respectent avant tout leurs choix. Appliqué au monde de la finance, l'autonomie implique que les banquiers s'assurent toujours de la comprehension de toute la transaction par les clients et évitent la vente abusive.

If we take this public perception of truthfulness as a yardstick for ethical behaviour, perhaps the finance industry could learn from the medical profession. In the medical sector, the study of ethics is significantly more developed than in the financial sector. A widely accepted framework for biomedical ethics is the four principles plus attention to their scope of application introduced by Beauchamp and Childress in *Principles of biomedical ethics* (1978).

The four principles are autonomy (respect for the rights of the individual), beneficence (do the most good), non-maleficence (do no harm) and justice. These four principles are deemed *prima facie*: each of them is mandatory unless it conflicts with another one, in which case we must choose which one to abide by. This framework provides a simple and understandable means of assessing moral dilemmas faced by medical practitioners. I would argue that all ethical questions can be answered with reference to these four pillars, and that this framework can be applied to other sectors[2] – a theory that will be tested in this paper. I will evaluate each of the four principles in turn, discussing how finance professionals can apply them to the judgments they make every day, and whether this framework is sufficient to help them make better choices. Currently, it is investment banks that bear the brunt of the criticism and are taking much of the blame for the financial crisis. This paper will therefore focus on that area of the financial world.

Autonomy

The first principle, sometimes considered *primus inter pares*, is autonomy. This is the notion that patients have the right to control what happens to them, free of coercion or coaxing. In practice, this places an obligation on medical practitioners to fully explain to patients the benefits and potential risks of any proposed treatment, so that they can give informed consent. Physicians must be able to communicate in language that patients understand, as well as listen to patients and their concerns. The other aspect of autonomy is respect for patients. The classic case study used in medical ethics is a Jehovah's Witness who refuses a blood transfusion. The physician may believe that a blood transfusion is the most effective course of treatment, but so long as the Jehovah's Witness has understood the available options and the risks involved, the physician must respect his or her wish not to have the transfusion.

So how does this relate to the finance world? In medicine, physicians must explain the risks and rewards of medical treatment; in finance, we are dealing with the risks and rewards of complex financial products. Both scenarios involve a potentially vulnerable party relying on the advice of a person with significant influence. If we apply the au-

[2] Gillon, R. (1994). *Medical ethics: four principles plus attention to scope*, *BMJ*, 309:184.

Les réglementations mises en place depuis la crise ont renforcé la surveillance de l'information devant être transmise aux clients, afin que ce dernier puisse prendre une decision éclairée. Les banquiers n'ont apparemment pas appliqué cette règle, motivés par le gain de commissions lors d'opérations parfois inutiles. Le corps medical n'est généralement pas confronté à ce genre de conflits d'intérêts. La structure d'incitation serait donc responsable des actions contre l'éthique prises par les financiers.

La notion de bienfaisance consiste à produire une action bénéfique pour les patients, en minimisant les dommages. Une information préalable basée sur une evaluation des risques est indispensable. Avec leur rôle crucial dans l'économie mondiale, les banques ne doivent apporter que des avantages favorisant le développement global et la croissance.

tonomy principle to a financial transaction, bankers have an obligation to make sure their clients understand the transaction they will be entering into; there should not be any hidden costs or risks that the client does not comprehend.

It is also the banks' duty not to coerce their clients into buying products or entering into transactions that they do not wish to. The recent mis-selling claims demonstrate that bankers have been guilty of selling products that were not properly understood. Clients may have given their consent to these products, but it is questionable whether that consent was informed.

Regulations introduced since the crisis have tightened up supervision of the information that must be supplied to clients. One of the aims of the 2010 Dodd-Frank Act is to enhance consumer protection. Title VII of the Act provides a framework for regulating over-the-counter derivative markets. Its purpose is to increase transparency in the market and reduce systemic risks. It is the responsibility of the Commodity Futures Trading Commission (CFTC) to implement part of this framework, and in this connection it has drawn up what are known as the External Business Conduct Standards (EBCS). These place pre- and post-trade obligations on swap dealers: material economic terms and a pre-trade mid-market price must be provided to clients, and scenarios must also be supplied on request. This is to ensure that clients are aware of all of the relevant facts so that they can make an informed decision. Bankers appear not to have abided by the autonomy principle, which this rule is designed to enforce.

Why have bankers failed to respect their clients and allow them to make informed choices? One key difference between finance professionals and physicians is the incentives involved. If bankers earn a commission on each product sold, they may be tempted to persuade their clients to enter into unnecessary transactions. Such conflicts of interest are not usually found in the medical profession, for physicians do not normally stand to benefit from their patients being treated.

In certain circumstances, however, they do; for example, private plastic surgeons are paid for each operation they perform. Indeed, the plastic surgery industry has recently been criticized for aggressive marketing techniques, insufficient advice and lack of protection for consumers. In the UK an in-depth review of some of these practices is now being conducted, and may lead to increased regulation and consumer protection.

It would thus appear that the incentive structure may be what causes professionals to act unethically. Lawmakers, too, have recognised this; a proposal to cap bankers' bonuses at 100% (or, with explicit shareholder approval, 200%) of their salaries is currently making its way through the European Parliament. We have also seen an increase in the level of defe-

Les résultats potentiels dans le domaine chirurgical peuevent être comparés aux variations potentielles qui existent dans le cas d'opérations financières avec des taux variables. La probabilité des différents scénarios dans ce secteur peut varier de manière spectaculaire et s'avérer être très défavorable au client.

La FSA a trouvé de nombreuses lacunes dans les opérations de vente de swaps aux PME. Les clients n'ont pas reçu d'informations assez éclairées pour prendre les bonnes decisions, ce qui rammène à la notion d'autonomie.

La règle Volcker prévoit, pour les banques d'investissement, l'interdiction d'avoir des pupitres de négociation pour compte propre, qui presentent des risques trop importants pour la clientele et le système financier global.

rred compensation bankers receive, designed to align bankers' incentives with those of the bank as a whole.

Beneficence and non-maleficence

Beneficence is the notion that physicians' actions must benefit their patients. It is difficult to discuss beneficence without also considering non-maleficence. In accordance with these principles, physicians aim to produce a net benefit for their patients while minimizing any harm. In order for physicians' actions to be beneficial, they must have sufficient education and training and they must have empirical evidence that they can use to determine the benefits and risks of a course of action. Armed with this information, they can then make an educated assessment of whether the intervention is the best course of action. The autonomy principle must then be applied, so that patients can make their own assessment of the risks and rewards.

Banks play a critical role in the worldwide economy. They provide essential services to clients, ranging from simple loans and deposits to complex transactions – all of which should promote global growth and development when banks are operating correctly. I think everyone would agree that bankers therefore have an obligation to create benefits and minimize harm. With this in mind, do the beneficence and non-maleficence principles help us determine the appropriate course of action in various scenarios? To analyse these principles, I will consider two hypothetical situations.

First, a client approaches a bank to hedge interest-rate risk on a floating-rate loan. If interest rates rise, liability increases; if they fall, it decreases. In order to hedge this risk an interest-rate swap may be entered into, with the client paying a fixed rate to the bank and in return receiving a floating rate to cover the loan interest. This would appear to benefit the client, who is locked into a fixed rate and no longer has to worry about moves in interest rates. However, if interest rates decrease after the transaction is entered into, the fixed rate the client is locked into will be higher than if the transaction had not been entered into at all.

When the transaction is first considered, neither the banker nor the client can know which way interest rates will move. In order to assess whether the transaction will yield a net benefit they must consider the potential moves in interest rates and the resulting outcome if they do, or do not, enter into the transaction. We can compare this to a physician advising a patient on the potential outcomes of surgery.

Where this differs from the medical scenario is that the likelihood of different interest rates can vary dramatically over time. If medical research has determined that the survival rate for a particular type of surgery is X%, that figure is unlikely to change between the surgery being discussed and being carried out. If the

Une preuve supplémentaire de réglement appliquant l'implémentation des principes de bienfaisance se trouve dans les directives propres à Bâle III. Parmi les causes de la crise financière figurent les prêts hypothécaires subprime originaires des Etats-Unis et la méthode de répartition des risques.

La justice peut être divisée en trois catégories appliquées à la medicine: la distribution équitable des resources limitées, le respect des droits des individus et celui des lois moralement applicables.

Pour voir si les principes de la justice peuvent s'appliquer à la finance, il faut se demander si les financiers ont des revendications concurrentes auxquelles ils doivent allouer des resources. La question essentielle est de savoir quand et où s'appliquent les obligations morales.

patient is comfortable with that level of risk, the surgery can take place.

However, when a client is hedging interest-rate risk, the likelihood of the various scenarios may change dramatically after the transaction has been entered into. For example, a client that entered into a ten-year GBP interest-rate swap in July 2007 would have paid a fixed rate of 5.96% in exchange for the 3-M LIBOR. Five years later, on 31 July 2012, following the financial crisis and the subsequent decrease in interest rates, the 3-M LIBOR stood at just 0.74375%; the client would be paying 5.96%, but would have paid significantly less had no swap been entered into at all. In July 2012 the five-year swap rate was 0.96%; this would mean the client would have to pay 5% in order to terminate the transaction and go back to paying the 3-M LIBOR. From this we can conclude that, although in 2007 it might have made sense to assume the transaction would yield a net benefit, in the long term the client would have been better off not hedging his or her interest rate risk at all.

In 2012, Britain's Financial Services Authority (FSA) announced that it had found significant failings in the selling of swaps to small and medium-sized enterprises (SMEs).[3] Barclays, HSBC, Lloyds and RBS are now going through a review process and providing redress to clients to whom these products were mis-sold.

[3] *FSA agrees settlement with four banks over interest rate hedging products*, FSA press release, 29 June 2012

The FSA found the following examples of 'poor sales practice':

• Poor disclosure of exit costs;

• Failure to ascertain customers' understanding of risk;

• Non-advised sales straying into advice.

Although in a different economic climate the interest-rate hedging might have yielded a net benefit, the FSA found that clients were not given sufficient information to make an educated decision. This brings us back to the need to abide by the autonomy principle; bankers can advise their clients on the potential outcomes and how likely those outcomes are, but must also draw attention to the fact that these likelihoods may change. Clients can then make an informed decision.

As a second example, let us consider proprietary trading desks within investment banks. Their purpose is to generate profits and create shareholder value by investing and taking risks. However, in doing so they put the bank's capital at risk, and may erode shareholder value. The Volcker Rule introduced under the Dodd-Frank Act stipulates that investment banks are no longer allowed to have proprietary trading desks. This type of speculation has been judged to pose such a risk to the financial system that it must be prohibited. The risk to customer deposits, and the potential shockwaves in the financial system, outweigh the possible benefits from proprietary trading. In the past, the banks them-

En examinant la portée du principe de l'économie, les questions philosophiques semblent moins complexes dans la finance que dans le milieu medical.

Partant du principe que les hedge funds et banques d'investissement sont experts dans leur domaine, les banques n'ont pas à considerer les principes de bienfaisance en faisant des affaires avec eux.

Les banques ont-elles l'obligation de fournir un bénéfice pour la société et l'économie globale ou doivent-elles uniquement servir les intérêts de leurs clients et investisseurs? Elles doivent en tous les cas ne nuire à aucun parti.

selves decided how much of such trading to undertake. Limits and controls were in place to monitor the level of risk being taken and conclude whether it was appropriate.

Again it would seem that regulations have been introduced to enforce banks' adherence to ethical principles. Not trusting banks to weigh up the risks and benefits properly, regulators have taken that decision away from them.

We see further evidence of regulations implementing the beneficence and non-maleficence principles in Capital Requirements Directive IV (CRD IV), part of the European Commission's implementation of Basel III. Article 122a states that investors in securitization will face punitive capital charges if the originator does not retain a 5% economic interest in the structure.

Among the causes of the financial crisis were the model whereby subprime mortgages were originated in the US and the method of risk distribution. The 'originate-to-securitize' model meant that the originator of the loan no longer cared whether or not the borrower defaulted, for once the loan was securitized the originator was not at risk. Taking this a step further, there were even situations in which the originator could stand to profit from defaults on loans through shorting of the securities the loans were packaged into. The purpose of article 122a is to ensure that the interests of the original lender and the investors in securitization are aligned. Lenders must always have what is known as 'skin in the game'. This gives them an incentive to ensure that the products they originate and sell yield a net benefit and minimize harm, as they also risk being harmed if the products fail.

Justice

The fourth principle, justice, can be subdivided three categories when applied to medicine: fair distribution of scarce resources, respect for people's rights and respect for morally applicable laws (Gillon, 1994).

This principle raises ethical questions about the allocation of resources. Consider an expensive new drug. Should everyone have the same access to it? How are such drugs to be allocated between competing claims? Should they be given to those that can pay the most for them, or to those with the greatest need, or should they be distributed equally?

In considering whether the justice principle applies to finance, we can ask whether financiers have competing claims to which they must allocate resources. In the context of corporate finance or investment banking, this principle does not seem relevant. Whereas in medical ethics the debate continues on whether need trumps ability to pay, in finance it appears to have been settled. Those who can pay get access to the resources. If corporations need to raise funding in the capital markets, it is simply a question of supply and demand; if they are willing to pay what the investors

Des règlements ont également été introduits pour minimiser les éventuels dommages en renforçant la situation des fonds propres des banques. Bâle III traite aussi de la liquidité des banques en introduisant un ratio de couverture de liquidités.
Les différentes mesures visent à s'assurer que les banques peuvent resister aux chocs et maintenir la stabilité du système financier.

demand, they can raise the funding. Conversely, if there are many investors wishing to buy the same bond, the investor willing to pay the highest price will be the purchaser.

Scope

As well as the four principles, we must also consider their scope. When and where exactly do the moral obligations apply? This may seem a fairly obvious question for healthcare professionals, who have an obligation to provide benefits and minimize harm to the patients in their care. But things can get more complicated. For example, patients' autonomy must be respected – but what if the patient is a minor, or mentally impaired? At what point does a child fall within the scope of respect for autonomy?

In considering the scope of the autonomy principle, the philosophical questions that arise appear less complex in finance than in the medical world. Once provided with sufficient information, clients in the financial world should be able to make an autonomous decision. It may seem obvious that the beneficence and non-maleficence principles apply when a client approaches a bank for financial advice – but if hedge funds or other banking institutions wish to enter into a transaction, are they entitled to the same protection?

We may believe that, as market participants, investment banks and hedge funds are experts in their fields, so that banks do not have to abide by the beneficence and non-maleficence principles when doing business with them. It is not banks' responsibility to provide them with the information that would usually be given to other counterparties, as they can determine for themselves whether they need this information – and, if so, they can calculate it themselves.

Once again we find that regulators have attempted to answer these questions for us. The aforementioned External Business Conduct Standards, drawn up to supervise the information supplied to clients, are very clear about their scope. Transactions between swap dealers and major swap participants do not fall within it.

A second question we can ask about the scope of the beneficence and non-maleficence principles is whether banks have an obligation to provide a net benefit to society and the economy as a whole – or are only required to provide a net benefit to their clients and shareholders. Throughout the financial crisis we have seen that banks are systemically important and that their actions can have dire consequences for the world economy. The phrase 'too big to fail' has entered everyday speech, and it is now widely accepted that banks have a duty to provide benefits to their clients and shareholders but, at the same time, to 'do no harm' to the economy and society as a whole.

Regulators are in agreement on this, and the aforementioned Volcker Rule is designed to prevent banks from taking risks disproportionate to the potential benefits.

Regulations have also been intro-

Chacun des quatre principes étudiés est très pertinent pour le monde de la finance, mais la question est de savoir s'ils peuvent être appliqués aux questions éthiques qui se posent dans ce domaine. Bon nombre des problèmes du secteur auraient pu être évités avec une telle application, selon les régulateurs financiers.

De nombreux règlements ont donc été mis en place, en particulier aux Etats-Unis, afin de garantir l'autonomie et la protection des clients.
Les discussions sur l'éthique progressant, on peut espérer que les débats à venir améliorent encore la situation actuelle, Abordés sous l'angle de la banque de financement et d'investissement, les quatre principes évoqués pourraient également s'appliquer au domaine de la banque de détail.

duced to 'minimize harm' by strengthening banks' capital position. Basel III, which was drawn up in 2010 and will be phased in over the next six years, increases from 2% to 7% the amount of Tier 1 capital that banks must hold; and 'systemically important financial institutions' are required to hold an additional amount on top of this. The definitions of which assets can form part of Tier 1 capital are also stricter. In addition, Basel III addresses the liquidity of banks by introducing the liquidity coverage ratio. Banks must be able to withstand a 30-day stress scenario by holding enough liquid assets to cover potential cash outflow during the stress period. The net stable funding ratio has also been established; this focuses on longer-term liquidity, measuring long-term stable funding against the liquidity profiles of the assets being funded. Capital requirements are also increased for counterparty credit risk arising from derivatives and repos. All these measures are designed to ensure that banks can withstand shocks, and to maintain stability in the financial system.

Conclusion

Having considered each of the four principles, can these be applied to the ethical questions that face the finance world? Do they provide a framework on which we can base our decisions? I would argue that the principles are very relevant to the finance world, and that many of the issues currently facing the sector could have been avoided if these principles had been adhered to.

Financial regulators also seem to believe that these four principles are relevant and should be complied with. In the wake of the financial crisis, a great deal of effort has gone into establishing its causes – and identifying the practices that need to be stopped if we are to make our way out of it.

In assessing the four principles I have found that many of the regulations introduced, or soon to be introduced, can be directly linked to them.

In adopting the Dodd-Frank Act, US regulators have recognised that clients' autonomy is important and was not being properly respected. To address this, they have introduced regulations to protect clients and their rights more effectively. Regulations have also been introduced to make sure that in future banks do more good than harm. I will not discuss whether the regulators' actions are sufficient to achieve these objectives, but I highlight them as evidence that the four principles can provide a framework for the finance industry.

As the discussion on ethics in finance progresses, we may hope that as much thought and debate goes into it as in the field of medical ethics. Although this paper has approached the topic from a corporate and investment banking angle, I believe that the four principles could also be extended to the field of retail and consumer banking. •

Common sense

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Finalist

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* The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated to.

Even today many people are still clutching their heads and wondering 'How did we ever get into this situation?' The economic, financial and housing crisis that the world is now experiencing is appalling, and every aspect of every society throughout the world has been affected by the 'miracle' of globalization. Worse, this recession (like so many before it) has been overshadowed by the lack of ethical values – which is the most worrying thing about the whole crisis.

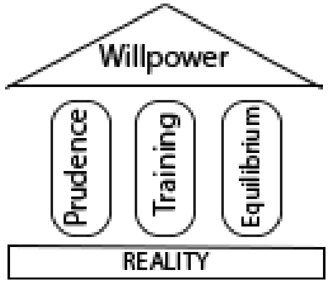
The purpose of this paper is nothing less than to appeal to common sense and the principle of prudence (cast aside for reasons of convenience, self-interest or simply greed) in every area of society, but above all in the financial sector, so that we may return to economic growth that is sustainable in the medium and long term. We have to restore ethical values and live in accordance with the truth, rather than a 'reality' invented and sustained by a semblance of controlled market disequilibrium. When we go to university we are told that the market cannot be controlled, and that we must adapt to it, managing our businesses or investments in response to the changes imposed on us. However, in recent decades we have seen only too often how the market has attempted to control itself using rules whose effect was to heat up an already overheated economy – as dictated by fallible central regulators.

Alexander Pope (1688-1744) said that 'to err is human; to forgive, divine'. Some have added 'to rectify is for the wise' – and, since the damage has been done and there is no point in adding fuel to the fire, we have to be wise, learn from our mistakes and finally see this crisis for what it is: an opportunity for change. To grasp this opportunity, we must erect the basic pillars of growth (prudence, training and equilibrium) on solid ground (reality), with a strong, dynamic roof (willpower) to protect the structure.

See the following illustration:

La crise financière, économique et immobilière a touché l'ensemble de la société, mais elle a surtout mis en avant le manque de valeurs éthiques, ce qui est le plus inquiétant. Le but de ce texte est de faire appel au bon sens et au principe de prudence, dans le domaine financier, afin de revenir à une croissance économique durable. Il faut restaurer les valeurs éthiques et vivre en conformité avec la vérité.

Nous devons être sages, apprendre de nos erreurs et voir cette crise comme une opportunité de changement. Les piliers fondamentaux de la croissance sont la formation, la prudence et l'équilibre, le tout avec de la volonté et une base solide qui est la réalité.



Solid ground: reality

Any decision, whether it be in the economy or in any other area of society, must be based on reality, for otherwise we would not be able to perform even the most basic transactions, from applying for a loan to buying a loaf of bread. To make a decision to consume we first need real money, for however great our desire to consume may be, the inescapable bottom line is reality. Yet financial institutions have responded to our immoderate desire by creating various means of consumer credit or other instruments that have fed this expansion in artificial credit. In recent decades we have seen how decisions made by businesses were largely determined by variables exogenous to the actual market (such as governments, or central banks), forcing economic agents to take unnecessary risks. To take just one example, one of the many causes of the current crisis was the low interest rates imposed by central banks all over the world. By keeping interest rates low, what these institutions did was increase demand for cheap money. The law of supply and demand tells us that, when an increase in demand exceeds the increase in supply, the prices of the product – in this case, the rates of interest on money – must increase in order to maintain market equilibrium. And yet this did not happen. So as not to hamper their competitive growth, the central banks used monetary policy to keep interest rates lower than they should have done. This policy forced financial institutions to increase supply in some way or other just to stay in business. This is where human imagination came into play, with the development of the notorious 'subprime' mortgages and other mechanisms designed to turn illiquid assets into securities negotiable on secondary markets. At the same time, under pressure of market forces, financial institutions tried to increase their liquidity by granting loans to people with a high risk of default. This artificial growth in credit was built on the sandy, unreliable soil of a market with too much public intervention. The regulators opened a seemingly protective umbrella that many convinced themselves could never leak. When reality caught up with the institutions' balance sheets, and hence with all the businesses that had bought these negotiable securities throughout the world, billions of dollars evaporated in a matter of minutes – for balance-sheet assets were recorded at their *market prices*. These were much higher than the assets were actually worth – and now all the unnecessary risks the system had been forced to bear came home to roost.

Toute décision doit être fondée sur la réalité. Les institutions financières ont répondu à notre désir immodéré en créant divers moyens de crédit à la consommation qui ont nourri cette expansion du crédit artificiel. Ces dernières décennies, les décisions prises par les entreprises ont souvent été déterminées par des variables exogènes à la réalité du marché, ce qui a obligé les spécialistes à prendre des risques inutiles.

Alors que le secteur financier repose sur la confiance, l'intervention publique excessive a fortement nui au système financier. Les banques centrales ont perdu le contact avec la réalité.

Si la survie des entreprises financières dépend de la prise en compte de nombreuses variables, elles ont tendance à avoir plus de succès dans leurs démarches que les gouvernements qui confondent rentabilité et intérêt, sécurité et risque.

Our financial system depends on trust. Intermediaries' main function is to ease the flow of money from savers to investors through trust, since savers do not trust investors but do trust financial institutions. If the intermediaries fail to do their jobs properly, trust breaks down – and the system collapses.

Although this is just one example of what has happened in recent years, it is easy to see how excessive public intervention can damage the financial system. When central banks believe they *are* the market and act to maintain sustainable growth within in, they lose contact with reality and with the real value of assets and investments, creating a discrepancy between the risks assumed and the returns to be obtained. This sounds like common sense – and that is precisely what it is. The West has got used to manipulating a market with thousands of variables, most of which are ignored when decisions are made. Cultural standards, levels of satisfaction with politicians and people's levels of education are no less important variables than inflation, interest rates or taxes. Even though businesses' survival depends on taking all these factors into account, they tend to be more successful in their investments than governments, which confuse profitability with interest, and security with risk.

Governments have an important part to play in controlling abuses and protecting investors, especially if they set out to increase the available information on market players. However, information will never be perfect – this is a natural limitation of the market – and so central banks and other public institutions will never be able to know the full impact of their actions upon the market. Thus, in the clear absence of systemic vision, governments, central banks and other regulators should avoid intervening in the day-to-day workings of the markets, for – among other things – this may favour established major businesses and curb new initiatives that are more innovative and, if they have the necessary opportunity and funding, perhaps more profitable. Markets are fairly free to self-regulate: they find and exhaust opportunities for arbitration; but when information is imperfect abuses also occur, for in that case a handful of people are able to play with a great deal of information. That is why, as stated above, the role of such institutions must be to increase the available information on the market, to penalize abuses by businesses, to protect investors and to supervise compliance with the basic principle of prudence, which will be described below. The result will be a market with less intervention, more freedom and more justice for all.

The role of the regulators must be confined to this, for too much intervention creates a gulf between businesses and reality. The more infallible the regulators think they are, the wider the gulf becomes – and the wider the gulf, the more painful the eventual readjustment. So why not stay as close to the solid ground of reality as possible, rather than have to jump off high cliffs to get back down there? *That* is common sense.

Les banques centrales et autres institutions publiques ne seront jamais en mesure de connaître l'impact de leurs actions sur le marché. En l'absence de vision systémique claire, elles devraient éviter d'intervenir dans le fonctionnement au jour le jour des marchés, qui sont assez libres de s'autoréguler. Ces institutions doivent se contenter d'augmenter l'information disponible sur le marché pour pénaliser les abus commis par les entreprises et protéger les investisseurs. Le résultat sera un marché avec moins d'intervention, plus de liberté et de justice pour tous.

The first pillar: prudence

La prudence, premier pilier, signifie étymologiquement la mise en garde que toute personne doit observer lors de la prise de décisions. Directement liée au risque et au rendement, elle est une notion fondamentale pour le système financier.

Before discussing the value of this pillar, we need to understand what the word means. Etymologically it comes from the Latin *prudentia*, which in turn comes from the Latin *providentia*, i.e. looking ahead, being able to see the future consequences of one's present actions. In this paper it is used more in terms of accounting, but its etymological origins are the same: prudence means the caution that every person – whether an individual or a legal entity – should observe when making decisions, the ability to analyse and to distinguish the truth amid the haze of disinformation. This pillar is directly related to risk and return: higher rates of return mean greater risk, and so greater prudence is required when making a decision. This pillar is of immense value to the economy. Banks rely on it to stay in business, companies invest on the basis of it and even the smallest investors are very much aware of this principle when making decisions.

Prudence is essential to the financial system, and lack of it is what has got us where we are now. When regulators kept interest rates low, 'anything goes' became the order of the day, and financial institutions threw caution to the winds. Many businesses depend on efficient risk management in order to survive, but it is of truly vital importance to the success of any financial institution. When banks were forced to keep interest rates low at a time of growing demand for credit, they imprudently granted substantial loans to unemployed people and turned them into liquid assets in order to survive in the competitive market. The lenders took the money and invested it in housing speculation: house after house was bought simply to be sold at a profit, and public investments were made with dubious rates of return, for purely selfish reasons. Regulators also forgot the principle of prudence when they decided to change the rules for company balance sheets so that assets were no longer recorded at their purchase prices but at their market prices – in other words, they artificially inflated trust out of all proportion. Businesses, in turn, were caught in a spiral of competition, interest and speculation that spread to the smallest investors – who have been hit hardest by the whole situation, for they are far worse placed than businesses to obtain truthful information. When reality, and real value, caught up with these inflated balance sheets, the readjustment was very painful for all concerned, but especially for the most vulnerable people: small investors. And this is what has hampered economic recovery most of all – for they, the small savers, are the very people regulators were supposed to protect. They no longer trust the system, and with good reason: their money has vanished in investment funds that were given the highest ratings by supposedly impartial agencies. And

Beaucoup d'entreprises dépendent de la gestion efficace des risques pour survivre. Ces dernières années, les principes de prudence ont été oubliés, en particulier par les régulateurs quand ils ont décidé de changer certaines règles.
Les petits investisseurs ont été parmi les plus touchés et ont perdu la confiance qu'ils avaient accordée au système.
L'intervention des banques centrales et autres institutions publiques dans les marchés doit cesser urgemment.

Il faut être prudent si nous voulons retrouver le chemin du retour à la confiance et à la croissance économique stable. La confiance dans les intermédiaires financiers doit être rétablie.
Le pilier du milieu est la formation. Face au manque de valeurs éthiques dans le système économique et dans l'éducation, il faut privilégier la véritable expérience qui garantit l'efficacité.

now that the agencies have been proved wrong, they are not being forced to face the consequences. Those who have misbehaved beneath the regulatory umbrella must not be allowed to get away with it. It is only when investors see justice done in the market that they will dare to invest and credit will again start circulating through the system – which is why public disintervention in markets is so urgently needed.

In short, companies' and banks' balance sheets must once again record the *purchase* prices of their assets, and prudence must once again become a key part of their decision-making. Only thus, by keeping a cool head, can we find the way back to trust and stable economic growth. It is vital to restore market trust and credibility, otherwise there is a risk that normal market mechanisms will break down. If investors cannot entrust their money to intermediaries – through deposits, investment funds and other instruments – who *can* they trust? Are we about to see the re-emergence of small local moneylenders? Probably not, but we must face the fact that the market's engines have been very badly damaged. Once trust in them evaporated, the whole system ground to a halt.

The middle pillar: training

As already stated, the most worrying thing about the crises we are now experiencing is the lack of ethical values in the economic system and in education, and the disturbing dehumanization of the global education system, whose consequences can be seen in all areas of human life. Especially in the economy, professional success has come to depend on greed, selfishness, individualism and lying. The current ideal is to *win*; if you are at the top of the pyramid, you are considered a success. Yet nowadays success is confused with power and fame. To be truly successful, professionals must have experience – not just CVs full of all the right things, but specific obstacles they have surmounted and barriers they have overcome in order to achieve their full potential.

Today, in offices throughout the world, we can observe the phenomenon of demotivation: people unable to find meaning in their lives, wandering through the corridors with no other aim than to get back home at night. The conformity of easy, comfortable living is distracting us from our potential and depriving the world of top researchers, ethical investors and great philosophers. Winning is a concept that is part of success. The dehumanization of education does not mean the end of this – for it is the goal everyone is still blindly pursuing – but something worse, which is mistaken for success: the idea that what you *have* says what you are *worth*. And this is the root of the problems we now face: anything goes, provided you are *worth something*. How often have we seen businessmen commit crimes in order to maximize their personal profits, or governments give preferential treatment

La démotivation croissante dans les bureaux et la déshumanisation des activités financières ont généré la domination du concept de succès. Il est l'objectif à atteindre et il détermine ce que vous valez. Tel est le triste constat actuel.

La seule façon de prévenir la récurrence d'une crise comme celle que nous vivons actuellement est la formation. Les professionnels doivent être formés dans la finance et la comptabilité, mais aussi dans la philosophie, la sociologie et d'autres disciplines humanistes, ainsi que le droit et la politique. Ils doivent apprendre à travailler en équipe, pour unir leurs forces et créer des synergies.

to 'friendly' businesses, purely out of self-interest? Such things destroy trust, and the repercussions are disastrous. Who will ever reinvest in a business whose CEO has run off with millions? Who will deposit their money in a bank that has failed to make a correct market analysis? The lack of truth, information and partnership that appears to underpin professionals' success has destroyed trust both within and outside the system, corrupting it and preventing it from working as it should.

The only way to prevent recurrence of a crisis like the one we are now experiencing is training – but not just any training. What the system needs is professionals with *all-round* training. Excessive specialization, without a broad humanistic base, produces blinkered people. They lack a systemic view of what is going on and end up making the wrong decisions, with serious consequences – and, to make matters worse, unpredictable ones, for people do not know exactly who they are dealing with. The disinformation that affects the system in general – and this is where governments *should* intervene – is aggravated by the poor individual training of its economic agents. Professionals need to be trained not only in finance and accounting, but also in philosophy, sociology and other humanist subjects, as well as law and politics. They must know how to work in teams, so that they can pool their strengths and create synergies. In most industrialized countries' education systems, teamwork is indeed encouraged – but it is not *taught*, for the social component of man has been forgotten. Teamwork involves collaboration rather than cooperation – in other words, it means that individuals arrive at conclusions and solutions they would not have arrived at by themselves, and so optimize their performance. Such collaboration depends on individuals sharing their ideas generously and openly. This notion is completely at odds with today's culture of the power of information, and yet it is the lack of truthful information – in the Information Age – that has helped us dig this hole under our feet.

Such systemic training of the individual must be provided from earliest childhood right through to postgraduate university studies. Such all-round training will ensure that professionals are able to analyse and understand the problems they face more broadly, fully and holistically, so that they can make the best decisions and keep any adverse consequences to a minimum.

Being an ethical person does not just require good all-round training, but also great determination and awareness in order to make the right choices – a predisposition to do good, which must be promoted by a just society in which bad behaviour has bad consequences. Justice will be done in the economy when the market is free to self-adjust, for it will expel businesses that do not create enough value; but the same coherence must apply to everything professionals do.

Les professionnels pourront alors prendre de meilleures décisions en minimisant les conséquences fâcheuses. Ils devront faire preuve de détermination et d'une sensibilité accrue. Notre système financier a urgemment besoin d'une génération de professionnels capables de voir au-delà de leurs décisions en étant créatifs et novateurs. Si nous voulons changer le marché, c'est nous même qu'il faut commencer par changer.

Le troisième pilier, l'équilibre, est essentiel. La notion de proportionnalité est ici importante car elle permet de créer une confiance dans le système en le rendant plus prévisible. Le meilleur exemple d'équilibre doit être trouvé dans les entreprises, qui doivent en priorité équilibrer leurs budgets. Pour rester solides, saines et honnêtes, il faut aux entreprises financières un personnel dynamique, une grande prudence et enfin de l'équilibre et de la cohérence pour optimiser leurs performances.

All-round professionals would have made an exhaustive analysis of investment funds before risking their depositors' money in them; all-round professionals would not have jeopardized their companies' viability by speculating in securities that inflated their balance sheets; all-round professionals would have known that high-return investments are also high-risk investments; and so on. Our financial system urgently needs a generation of professionals who are able to see beyond their decisions and be creative and innovative *without forgetting that there is no escaping from reality*. The market is the outcome of the decisions made by the people in it – which means it is simply a reflection. If we want to change the market, we must change ourselves.

The third pillar: equilibrium

Equilibrium is essential in all areas of society, not just the economy. If justice is to be done, the punishment must fit the crime. University results are usually proportionate to the effort the student makes. Such proportionality generates trust in the system by making it to some extent predictable. If the return on a treasury bond is 8%, we know there is a high risk of losing our money. The problem is when this equilibrium is upset and investments that appear to challenge this proportionality rule appear on the market, offering high returns for low risk. Common sense tells us one of two things: either whoever is offering the product does not know what he is offering (which is most unlikely), or else it is a scam – in other words, people who are better informed than the rest are using their knowledge for personal gain. In recent years, unfortunately, there has been a proliferation of such products, which take advantage of investors' lack of information. Many have been duped, but others have followed their instincts and kept out of trouble.

The best example of equilibrium is to be found in businesses. All businesses have to balance their budgets: their assets must equal their liabilities plus their net worth. In the final stages of the boom, businesses all over the world had balance sheets that were far removed from reality, with billions' worth of underlying losses that remained undeclared thanks to creative accounting by their finance departments. However, as stated earlier, when a business is built on the sandy soil of lies, it ends up leaning like the Tower of Pisa and eventually collapses under its own weight. For a business to remain strong, healthy and upright, it needs three main supporting beams: (1) dynamic staff with all-round training and a systemic view of the market; (2) large doses of caution that encourage it to seek real information about the market, rather than rely on appearances; and (3) equilibrium and coherence, allowing it to maximize its performance because it operates as a whole rather than as the sum total of its various departments.

La volonté est le moteur du changement et le toit principal nécessaire à la croissance. Il faut changer ses habitudes et considérer le bien-être des générations futures. Pour changer la situation actuelle, il faut former les individus et pour cela, il faut une volonté profonde de changement et d'amélioration.

Tout repose sur la volonté, mais utilisée à bon escient, c'est à dire pour le bien être de la société et non pas pour satisfaire des fins personnelles ou une volonté de puissance. Si un seul gouvernement avait eu la volonté de cesser de se focaliser sur le court terme et de tester l'efficacité de ces piliers, la crise n'aurait pas duré aussi longtemps. La volonté protège et garantit les piliers évoqués comme le toit protège une maison. Sans lui, il n'y a que quatre murs à la merci des éléments.

The roof, and the engine of change: willpower

Every journey begins with the first step. To change a situation, you have to want to change it. The leaders of the world's countries have to see their nations' need for change and truth. Willpower is the most difficult part of the structure to build, for it is made up of habits that are acquired by repetition. Good actions lead to good results, and bad ones to bad ones. Willpower is difficult enough at individual level, but with countries the difficulty increases exponentially, for no country wants to take the first step in the wrong direction and risk being left behind on the road to growth. And yet we urgently need to abandon short-term thinking and consider the well-being of future generations. Disinformation, lack of ethics, poor training and greed are now flooding through our financial system, which is a reflection of our society. Whether from ignorance or fear, the citizens of many countries now think of financial markets as ogres. The only way to change this is to train people – and the only way to train them is to want to.

We live in a dynamic world, a complex environment. There are thousands of businesses constantly innovating, and spending thousands of millions on the process. Why? Because the only way to survive in the market is to adapt to the environment. Businesses have to be dynamic in order to survive, but governments do not. Businesses do not control the market, but simply adapt to it; but governments – far from adapting to market changes – thought *they* were the market. This ignorance turned the desire for change into a desire for power. They all thought they knew what was best, for between them they formed the market. Yet reality, and the real value of investments, trump all speculation. The market has meted out the punishment we deserved. All countries fear change, because what they have seems to work from time to time, and they prefer not to take risks. On the other hand, change brings more change. But not all change is for the better. If it is in accordance with human nature there will be hope; but, if not, we will keep on having the same problems, and keep on destroying ourselves. If just one government had had the willpower to stop focusing on the short term, look beyond the next general elections and test the effectiveness of these pillars, the rest would have followed suit and the crises would not have lasted so long.

Willpower protects the pillars just as a roof protects a house. Faced with a harsh climate and unpredictable events, we must always have the willpower and determination to do the right thing – for a house without a roof would be nothing but four walls at the mercy of the elements.

La cohérence est une notion très importante car il est nécessaire d'agir et de penser sur la base du bon sens. Quand nous sommes cohérents, nous sommes moins susceptibles de prendre de mauvaises décisions. La cohérence conduit à innover pour créer de la valeur ajoutée, l'incohérence détruisant la confiance dans le monde financier. Nous avons une belle occasion de passer à un modèle de croissance stable et durable à moyen et long terme. Les marchés dépendent finalement des personnes qui les composent. Pour restaurer la confiance, ce sont donc les gens que nous devons changer en priorité.

The beauty of coherence

Besides training or the proposal to reduce public intervention, the purpose of this paper is to raise awareness of the need to act and think on the basis of common sense. The main problem right now is the lack of trust in the financial system – made worse by the lack of information throughout the economic structure. There are many ways to restore trust, some of them very ingenious and innovative, but the most obvious one is also the most effective: common sense. When we act on the basis of common sense, we are coherent, and when we are coherent we are much less likely to make wrong decisions. Coherence means that we will act correctly, but not unadventurously. It leads us to innovate in order to create added value that is recognised by the market, and to make prudent decisions. However, in order to be coherent and prudent, we need a broad basis of training, failing which we could not make judgements and decisions based on reality. This century's professionals have forgotten the systemic view. A decision affects more than one variable; in fact it affects all the variables that depend on it, and the ability to see these links entirely depends on the person that is looking. That is why we must train professionals to see them – not just the obvious numerical ones, but also the social and human ones, as well as the holistic system of the economy and business. What is more, reality is governed by a key principle that we all have to live by, namely that everything is in equilibrium. When businesses or other institutions fail to take account of this, they lose touch with reality; and eventually that means having to lie. But lies soon catch up with you, and there is a great likelihood of incoherence, which – as already stated – destroys trust.

We are in serious trouble; but the greatest obstacle is refusing to make the necessary leap. We now have a golden opportunity to shift to a stable growth model that is sustainable in the medium and long term. Markets are not good or bad in themselves, but depend on the people within them. If we want to change the direction of the market and create trust, we have to change the people within it.

So let's do it.•

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Epistemological foundations for the relationship between ethics and finance

Ethics in Finance, Robin Cosgrove Prize
Iberoamerican edition 2012-2013

First Prize *ex-aequo*

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* The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated to.

'Even though they are specialists, financial professionals can also learn something by considering their activities in a broader intellectual context'
Ramiro de Maeztu,
El sentido reverencial del dinero

Reflecting on the relationship between ethics and finance is currently an *oxymoron* and not just in scientific terms but also, and above all, in terms of what ordinary people think – in other words, in terms of common sense. Luckily, the most elementary common sense tells us when something is wrong, as is clear from the general public's growing criticism of 'the system'. In my view, the now widespread distrust of anything connected with the economy and business – let alone finance – is due to a failure in understanding these activities, and ultimately to a misunderstanding of humanity itself. Although this growing aversion leads many to dismiss theoretical reflection in favour of action, the reality is that, without appropriate theoretical foundations, practice gets lost in good intentions.

The economy's present identity crisis is the result of its continuous, progressive shift away from reality toward an impersonal, objective and universal (in-human) science that is not so much based on a true anthropology, but rather on a reductive, pragmatic and ideological view of humanity. In what follows, I will attempt to explain the ultimate cause of the contentious relationship between finance and ethics in modern thinking and, in doing so, I must first analyse the technical nature of finance and its relationship to human activity, so that we can truly speak of ethics.

La méfiance désormais généralisée à l'égard de tout ce qui concerne l'économie et les entreprises est due à une défaillance dans la compréhension de ces activités, et finalement, à une mauvaise compréhension de l'humanité elle-même. A travers ce texte, je vais tenter d'expliquer la véritable cause de la relation controversée entre la finance et l'éthique dans la pensée moderne. Pour y parvenir, je dois d'abord analyser la nature technique de la finance et sa relation avec l'activité humaine, afin que nous puissions véritablement parler d'éthique.

Aristote, qui peut être considéré comme le premier économiste analytique, décrit l'homme comme un animal politique, consacré au bien de sa maison puis à celui de la ville où il vit. Pour Aristote, la gestion de l'économie est avant tout une éthique de la vie privée, qui implique la quête des besoins relatifs à la maison et au bien être. A l'opposé de l'enrichissement personnel, superflu et inutile.

The private dimension of the economy

In classic Western thinking, man is considered a social being by his very nature. Aristotle defines him as a 'political animal' (*politikon zoon*), i.e. a being devoted to the good of the city (polis). But, before being a political animal, he is a 'householding animal' (*oikonomikon zoon*)[1] and Aristole's analysis of the configuration of the home, known as 'domestic economy', constitutes his most innovative contribution to the history of economic thought. Thus we may say that 'Aristotle was the first analytical economist... It was he who laid the foundations of science and who first posed the economic problems with which all later thinkers have been concerned.'[2] From a philosophical point of view, the history of economic thought is a dialogue with Aristotle.[3]

The meaning Aristotle gives to the economy is very different from its meaning in modern times.[4] He understands the economy (*oikonomike*) as 'household management', and to refer to this idea he uses a word derived from *oikos*, which means dwelling, home or family. The economy is an art and an ethic of private life, for the family obtains what it requires to meet its basic, limited needs. Within the management of the home, Aristotle identifies chrematistics (*chrematistike*) as the component devoted to acquisition rather than use, (Aristotle. *Politics*, 1256a) i.e. it is at the level of means. There is a natural chrematistics, which concerns what is needed for the home and good living (and hence has a limit), and another, unnatural chrematistics, which seeks to acquire that which is unnecessary, or superfluous. (Aristotle. *Politics*, 1257a).

Seen in this light, the economy is not just an organization of instruments or means, not just a technique, but also includes an ethical component. It is concerned with the good of man and the community (the common good). Chrematistics, on the other hand, has no end, for its object is not need, but money and if it is not then subordinated to economics, it boosts human desire, as Aristotle illustrates in a poem taken from Solon: 'No bound to riches has been fixed for man (Aristotle. *Politics*, 1257b). Wealth, then, when it is seen in terms of the abstraction of money, rather than in terms of the reality of things, becomes aimless. Indeed, 'ethical questions refer to the way in which man wants,'[5] and so education is needed if we are to want the right things.

[1] See *Eudemian Ethics*, VII, 10, 1242 at 22-3. The noun zoon means 'living being, animal'.
[2] Roll (1950), p. 33.
[3] Berthoud (2002), p. 60.
[4] Modern economic theory is considered to have begun with the publication of Adam Smith's *The Wealth of Nations* (1776), which to some extent represents its independence from moral philosophy and hence the start of value neutrality. Cf. Finley (1973), pp. 17-20.

[5] Cruz Prados (1999), p. 159

L'économie comporte donc un volet éthique car elle concerne aussi le bien être de l'homme et de la communauté dans laquelle il vit.

Dans leurs écrits, Platon et Aristote ont été les premiers à relater la première crise économique, qui était avant tout une crise de la vie publique. Aristote était déjà conscient de l' importance des échanges pour le développement de la ville.

Le principal problème des échanges est de définir le montant d'un bien pouvant être échangé contre un autre sur une base équitable et juste. Les notions de nécessité et d'utilité sont ici essentielles. La solution, qui va rendre les échanges possibles, est l'argent, soit une représentation conventionnelle de la nécessité.

The public dimension of the economy

While the private aspect of the economy appears at the start of *Politics* – as a condition of possibility for the polis – its political dimension is discussed in Book V of *Nicomachean Ethics*, which deals with justice. Here Aristotle distinguishes between universal and private justice, and within the latter he distinguishes between distributive justice (equality according to geometrical proportion) and commutative justice (equality according to arithmetical proportion). Immediately afterwards, in Chapter 5, and in the context of commutative justice, he discusses the subject of justice in exchange as a form of reciprocity that keeps the community together (Aristotle. *Nicomachean Ethics*, 1132b).

Although rationality in the ancient world was very different from what it is today, in this particular case we could say that Plato and Aristotle were reflecting on the first economic crisis, which was a crisis of public life. However, unlike his master Plato, whose solution not only inspired socialist currents of thought, but also pervades the dominant modern economy[6] – and who, in *The Republic*, ends up abolishing money – (Plato. *The Republic of Plato*, V 464d), Aristotle was aware of the importance of exchange for the development of the city. Yet, he realized that the logic of *do ut des* ('I give that you may give') is not a sufficient basis for the unity of the city, which is why he mentions the *spirit of grace*, the 'gift', as it were, that is present in all exchange and transcends its technical aspect: 'This is why they give a prominent place to the temple of Graces – to promote the requital of services; for this is characteristic of grace – we should serve in return one who has shown grace to us, and should another time take the initiative in showing it' (Aristotle. *Nicomachean Ethics*, 1133a).

The main problem of exchange is how to determine which amount of a good to exchange for another on a fair basis; this is known as the 'problem of commensurability' (Aristotle. *Nicomachean Ethics*, 1133b). Strictly speaking, things in themselves are incommensurable, i.e. they cannot be compared from the ontological point of view, but in terms of need (*chreia*) or usefulness (for instance, St Augustine shows how a mouse is ontologically more valuable than wheat, and yet we prefer the latter for its usefulness to human life). The solution that makes exchange possible is money (*nomisma*), which comes to be a conventional – not by nature but by law (*nômos*) – representation of need (Aristotle. *Nicomachean Ethics*, 1133b). There are those that claim Aristotle laid the founda-

[6] There is no technical solution to the problem of social order, and any claim to the contrary leads to the tyranny of turning the city into a 'big family' where all things are held in common.

En analysant les différentes formes d'échanges, Aristote conclut qu'ils sont de deux natures: l'une naturellement propre au bien être de l'homme dans la communauté, et l'autre qui ne l'est pas, le problème étant de pouvoir distinguer les deux. Le troc est ainsi opposé à l'échange qui implique de l'argent.

La nature même de l'argent est très fallacieuse car elle pousse l'homme à accumuler peu à peu, à devenir riche pour être riche, soit un système sans limite qui corrompt en poursuivant une fin inappropriée.

tions for the analytical treatment of money, yet, as Aristotle worried, the introduction of money[7] into exchange poses a risk to the city.

The development of exchange

In Book 1 of *Politics*, he analyses the birth of exchange and identifies various forms of it: barter, or exchange that does not involve money; using money to acquire something one needs; buying and selling in order to earn money; and lending money at interest (known as usury).[8] He examines the development of relations of exchange over time, and investigates the nature of exchange value and its impact on human behaviour. As regards the end (*telos*) of these forms of exchange, he concludes that they are of two different kinds: one that is natural to man's good life in the community, and one that is not. The problem of course remains how to distinguish between the two.

In the city, men 'exchange with one another the necessaries of life and nothing more' (Aristotle. *Politics,* 1257a). In this way Aristotle presents the need for exchange and the first form it takes: barter, i.e. exchange of goods that does not involve money, represented by C-C´ (commodities). This kind of exchange is necessary in order to supplement natural self-sufficiency; but it logically leads to the other kind, involving money: a good is sold (C-M), and the money it is sold for is used to buy another good (M-C´). This is represented by C-M-C´, and as long as things are sold in order to buy other things, money is a means of obtaining a good that one wants to consume. Aristotle accepts the C-M-C´ circuit,[9] since its end is consumption; but when things are bought (M-C) in order to sell them for a larger amount of money (C-M´), i.e. when the M-C-M´ circuit is created, money is pursued for its own sake, and Aristotle considers this unjust.

The nature of money

The difference between C and C´ in the first case is qualitative (they are incommensurable) and they refer to things that are used in different ways. But the difference between M and M´ is quantitative; M´ is necessarily a larger amount because this is the only possible difference between two amounts of money, which is commensurable. So the risk here is that if M can be turned into M´ there is nothing to stop it from increasing further to M´´, and so on ad infinitum: 'there is no limit of the end, which is riches of the spurious kind,

[7] See, for example, Polanyi (1977), Schumpeter (1954), or Moreau, (1969).

[8] Nowadays the term 'usury' means lending money at excessive rates of interest. However, Aristotle does not admit differences in degree: all interest is usury and, given its purpose, is intrinsically bad and equally unjust.

[9] The distinction that Aristotle makes between exchange value and use value may create ambivalence on this issue, for the exchange value of a good is not its 'proper and particular' use. Yet Aristotle does not use the term 'unnatural' (*para phusin*), and the fact that something is not 'proper and particular' does not mean that it is bad.

Le fait de pouvoir échanger générant des abus potentiels de pouvoir et de l'injustice, il faut réduire au minimum les effets indésirables des rapports d'argent. La question est de savoir si l'argent est un moyen ou une finalité en soi.

Aristote distingue trois types d'activités humaines, chacune régie par un type de rationalité. La contemplation est ainsi régie par la raison théorique, l'action par la raison morale et la production par la raison technique. Chacun des différents usages de la raison donne lieu à un genre différent de la connaissance.

and the acquisition of wealth' (Aristotle. *Politics,* 1257b). The fourth type of exchange involves money but no goods, i.e. M-M´, or usury. 'The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it... interest is money from money… that is why of all modes of getting wealth this is the most unnatural' (Aristotle. *Politics,* 1258b). Money produces interest, yet it was not invented for that purpose, but rather to facilitate exchange. For ancient Athenians, lending money was a sign of friendship, and its purpose was to keep the polis stable.[10] In the same way, any activity or profession can be corrupted by pursuing an inappropriate end: 'The quality of courage, for example, is not intended to make wealth, but to inspire confidence; neither is this the aim of the general's or of the physician's art; but the one aims at victory and the other at health. Nevertheless, some men turn every quality or art into a means of getting wealth; this they conceive to be the end, and to the promotion of the end they think all things must contribute' (Aristotle. *Politics*, 1258a).

The key to grasping the difference lies in the relationship to money and the distinction between goods presented in Ethics. Natural chrematistics pursues useful things, for their use value; but unnatural chrematistics – which includes trade (*kapelike*) – is guided by exchange value, which is ultimately the same as desire for money. Exchange value quantifies things, assigning them a logical category different from that which is naturally theirs (the ability to satisfy a need). The essence of money is to be an exchange value, and as such has no inherent limits (it is a quantity, not a quality), which is why it cannot become an end in itself.

What is certain is that money, although ambivalent, is nonetheless necessary and cannot be eradicated.[11] Instead, its adverse effects must be minimized, for the possibility of exchange opens the door to abuse of power, injustice, violence and lack of reciprocity. The great problem of usury (M-M´) is the claim that technique can, by itself, ensure gain, distorting the idea of wealth. As Aristotle saw it, the city is viable as long as chrematistics does not predominate and this duality remains a latent element in modern economic thought. Neoclassical economists tried to solve this duality by creating a conceptual link to the notion of utility. If utility is the only purpose of action, they postulated, its results matter more than action itself and the question of whether money is a means or an end becomes irrelevant.[12]

[10] See Millet (1991) and Meikle (1995).

[11] This is what Plato and Marx expressly claim, but it is also implicitly derived from the theory of Walrasian equilibrium in which, paradoxically, money is logically unnecessary.

[12] Basically, utilitarianism insists on quantification in monetary terms, for it maintains that there are no incommensurable ultimate values. Williams (1972), pp. 96-112.

Toute pratique étant normative, elle doit réfléchir sur les moyens et les fins. L'économie devient donc une science pratique.

Three kinds of rationality

Aristotle identifies three kinds of human activity (*energeia*): contemplation (*theoria*), action (*praxis*) and production (*poiesis*), each governed by a different kind of rational excellence (*arete*). Thus contemplation is governed by theoretical reason (*sophia*), action by moral – practical – reason (*phronesis*) and production by technical reason (*techne*). Aristotle does not contrast thought with activity, recognising that all complex human activity is marked by unity between conception and execution, and that in relation to this there are three kinds of thought (*dianoia*): theoretical thought, which speculates on something; practical thought, which works; and productive thought, which makes (Aristotle. *Metaphysics,* II 2 y VII 1).

Each of the various uses of reason (theoretical, practical and technical) gives rise to a differentiated kind of knowledge – or science in the broad sense – depending on the object of its study. Theoretical reason enables us to know the essence and causes of things, which is fundamental for an overall view of things. Practical reason enables man to reflect on his actions so that they are organized to their own perfection. That is why all practice is normative, and must reflect on means and ends. Technical reason, on the other hand, only moves in the realm of means, and is aimed at results.

Seen in this light, economics is a practical science, whereas chrematistics is a technical one, meaning that it cannot lay claim to the clarity of the exact sciences, as most positive schools of thought suggest. In *Nicomachean Ethics*, Aristotle warns that 'Our discussion will be adequate if it has as much clearness as the subject-matter admits of, for precision is not to be sought for alike in all discussions … We must be content, then, in speaking of such subjects and with such premises to indicate the truth roughly and in outline … for it is the mark of an educated man to look for precision in each class of things just so far as the nature of the subject admits' (Aristotle. *Nicomachean Ethics*, 1094b).

Understanding the economy in this sense presupposes a difference between action (*praxis*) and production (*poiesis*), which are two different ways of doing things (Aristotle. *Nicomachean Ethics*, 1140a). Even though the way in which Aristotle makes this distinction has been greatly criticized (in his day the difference was not just internal, but rather external, since production was a job for slaves), there is certainly an implicit reference to the relationship between technical reason and moral reason (*phronesis* and *techne*), which is one of subordination. In any case we are faced with two kinds of teleology: 'For while making has an end other than itself, action cannot; for good action itself is its end' (Aristotle. *Nicomachean Ethics*, 1140b).

Pour Aristote, l'analyse de la technologie est nécessaire: il s'agit d'une sorte de vertu, car orienté vers la notion de bien, mais elle peut aussi être utilisée de mauvaise manière. Les questions instrumentales deviennent donc toutes des questions morales. Selon lui, dans tous les arts et les sciences, la fin et les moyens devraient être sous notre contrôle de manière équilibrée.

Epistemology of technology

There is some ambiguity in the term *techne*, alternatively translated as 'art' or 'craftsmanship', i.e. to refer both to manual or industrial arts and to instrumental methods – used by people who are skilled at something – in order to achieve ends. Aristotle sometimes refers to *techne* as a state (*hexis*) and sometimes as a faculty (*dynamis*). In the first sense, 'art, then, as has been said, is a state concerned with making [*poietike hexis*], involving true reasoning, and lack of art [*atechnia*] on the contrary is a state concerned with making, involving a false course of reasoning; both are concerned with the variable' (Aristotle. *Nicomachean Ethics*, 1140a). Here he defines *techne* as a kind of virtue (or vice) that does not lead to the morally good, but to the intellectually correct – i.e. *techne* provides the most efficient means of achieving the proposed ends, whether these are good or bad. This is a 'kind of virtue', for virtue is strictly directed towards the good, whereas *techne* is ambivalent and can be used badly. Aristotle refers to this second meaning of art as a mere faculty (*dynamis*), for he is loath to state that something can be intellectually good but morally bad.[13] In order for *techne* to be a virtue, it must be subordinated to *phronesis*.[14] Technical reason certainly requires moral reason in order to be good, but the latter also needs the former in order to achieve good, for 'practical wisdom is a virtue and not an art' (Aristotle. *Nicomachean Ethics*, 1140b). Thus *phronesis*, as a moral and intellectual virtue, includes and perfects *techne,* allowing for a human use of it (Aristotle. *Nicomachean Ethics*, 1141a, 1141b, 1142a, 1143b, 1153a).

Ultimately, all instrumental questions are moral questions, but the ends must be human – they cannot be relegated to mere mechanical causality. 'There are two things in which all well-being consists: one of them is the choice of a right end and aim of action, and the other the discovery of the actions which contribute towards it… In all arts and sciences both the end and the means should be equally within our control' (Aristotle. *Politics*, 1331b).

Action and production

Aristotle's distinction between action and production had major consequences for the modern economy, often owing to misinterpretation.[15] When he says that, in addition to an internal end, production has an end outside itself, whereas action does not (it is an end in itself), he is thinking of the rationality that underlies every kind of activity. As Crespo says, echoing Agazzi, 'The practical dimension concerns itself with knowing and justifying the end, a value in itself that implicates all action. This of course involves means,

[13] *Dynamis,* unlike *hexis*, can be used for opposing purposes.

[14] Murphy (1993), p. 106.

[15] The interpretation was that production has a tangible purpose and action an intangible one; this is reflected in Smith's notions of productive and unproductive labour.

La distinction d'Aristote entre l'action et la production a eu d'importantes conséquences pour l'économie moderne.
Les techniques sont moralement ambigues. Telles une expression de la capacité de l'homme à faire les choses, elles sont devenues plus complexes et plus puissantes au fil du temps. Il n'y a pas de technique neutre et objective: elle est toujours guidée par des intérêts humains et la finance ne fait pas exception. Je vais vous démontrer que la prétendue neutralité de la science et de la technique est une illusion.
L' autonomie de la raison est de loin l'élément le plus caractéristique de la modernité.

Orienter l'action depuis l'extérieur, comme cela se pratique habituellement dans le monde physique, est problématique car cela revient à annuler l'action. Ce qui determine l'action est pourtant bien son caractère subjectif, soit ce qui se passe au sein du sujet qui agit.

but only insofar as they are implicated in an end, which is what leads to action. In reality, when moving into the practical field, these are not really means, but rather parts of the end. Practical rationality does not address means as means, but rather in themselves, as particular ends that must be in harmony in a horizon of totality. This totality is a certain way of conceiving life itself.'[16]

We can thus conclude that techniques are morally ambiguous. As an expression of man's ability to make things, they have become more complex and powerful over time, capable of determining future possibilities and making it difficult to correct wrong decisions. There is no such thing as a neutral, objective technique, but rather is designed and driven by human interests – and finance is no exception. Thus, in the next section, I will turn to demonstrating that the supposed neutrality of science and technique is a fallacy.

Modernity and the reign of technique

The autonomy of reason is by far the most characteristic feature of modernity. Indeed, there has been a radical change in the understanding of the rational, which lost its profound sense of openness to truth and has become an instrument for the pursuit individual certainty. This change resulted in the consideration of man as an individual, who can act only by using his thinking mind, as seen in Descartes, without any need for tradition or community. Those who set out in pursuit of certainty end up abandoning the language of culture and tradition in favour of a supposedly universal, objective language, whether in its natural form (physics) or its abstract one (mathematics), finally applying it to human action, which is reduced to a mere externality.

For Hegel, the political economy of the Scottish Enlightenment represented the science of modernity *per excellence,* whereas Kant believed that Newton's physics were the leading science of modernity. Although there were other schools of thought, modern economic theory originally arose in response to the need to explain the meaning of society. Yet, it seriously erred in designing the political economy as a kind of 'social physics', forcing a hypothesis of man that has caused all kinds of problems. This hypothesis considers man as an isolated, pre-social individual, a concept that is known as 'methodological individualism,' and gave rise to the famous notion of *homo oeconomicus*.

Modern physics (Galileo, Newton, Descartes) has been so idealized because it reveals an order behind the seeming chaos of nature, an order that, moreover, admits mathematical expression, as observed in astronomy. Yet, approaching the coordination of individual decisions as a mathematical problem requires an *a priori* theoretical rationality, reducing human action to an external

[16] Crespo (2006), p. 28.

Le problème n'est pas dans les technologies qui sont appliquées, mais plutôt dans la mentalité dominante, basée sur la technique, et dans la manière dont la finance est utilisée pour retrouver une dimension pratique de l'action.

theory of decision-making. It was not until the late nineteenth century, when Lagrange's model of mechanistic equilibrium in mathematical physics influenced the German empirical philosophy of Weber and Fechner, that some economists, such as Jevons, Edgeworth and Walras, attempted to explain the meaning of society by turning political economy into mathematical psychics. Yet the 'flight from psychologism' initiated by Pareto and concluded by Debreu was needed in order for a new axiomatic mathematics (Hilbert) to develop, so that action could be deemed a mere externality. This led to what has been called the 'formalist revolution' in economic theory.

The impact of the formalist revolution

Action theory comes down to *a priori* calculation of plans that maximize individual advantages not on the assumption of personal interest, which presupposes a degree of intentionality, but as a mathematical property. The problem in guiding action externally, as usually happens in the physical world, is that, instead of maintaining action's decisive, subjective character, it cancels action out by depriving it of its meaning, i.e. 'When human action is reduced to a mathematical decision-making problem, the agent disappears. He does not act or even think; rather, his action is thought for him; he does not move, but rather is moved.'[17] The purpose of the economy is not consumption, which by definition is concrete and limited, but chrematistic production, understood as a mathematical function that is dominated by calculation. As for technique, it is nothing more than instrumental domination.

Constructing a kind of 'neutral' foundation for society is seriously problematic because a semblance of order is achieved by eliminating multiple views of the common good, which – however paradoxical it may seem – are precisely what keeps a political community together. Inevitably, economics – or rather its chrematistic aspect – becomes a substitute for what was once meant by politics. Making it part of a theory turns the human acquisitive process into an autonomous, neutral activity, ratifying the moral neutrality of the maximization of gain, 'a manifestation of the European spirit's move toward individualism, subjectivism and rationalization.'[18]

As Koslowski points out in his famous essay *Ethics of Capitalism*, the liberation of the economy from morality leads to justification of contracts on the basis of mere formality rather than their substance (which is justice), probabilistic morality – in other words, laxity – as an expression of subjectivism, and loss of control over interest payments (in accordance with market forces rather than conditions of justice).[19] Ultimately, this is a consequence of not facing up to the complex problem of

[17] Martínez Echevarría (2012).

[18] Koslowski (1997), p. 31.

[19] Koslowski (1997), p.46.

Le caractère éthique de l'économie dépend du fait que la politique, activité pratique dont le but est le bien commun, ne perde pas son caractère dirigeant. Il faut mettre en avant les efforts conjoints des hommes pour se procurer les moyens de mettre leur capacité productive au service et à la disposition de la société.

value, by transferring it to the individual and reducing the incommensurable to common terms (with money acting as a 'common denominator'). Ultimately, ethics in economics, and hence financial ethics, is only possible if politics – a practical activity whose purpose is the common good (including partial and instrumental goods, and hence all technologies) – retains its governing role.

A return to practical reason

Such an extensive theoretical discussion to arrive at general, straightforward conclusions may seem unnecessary and even absurd. It is indeed very typical of modern thought to give priority to action. Yet, as we have seen, it is theory that guides practical and technical action. When there are no firm theoretical foundations for reality, i.e. when we do not look more closely at causes, we cannot move beyond the mere level of means. This is clearly seen in the repercussions of economic crises (especially the one in 2008), when analysts solely discussed issues of *financial engineering* – whereas all crises reflect the vast number of personal decisions that are made in society. The problem is not in the technologies that are applied, but rather in the prevailing 'technicist' mentality and the key to changing the way finance is used lies in a return to the practical dimension of action.

This has major implications. Modern economic rationality, as it has developed, is an attempt to control reality, whether theoretically or technically, by claiming to predict the future in absolute terms. In this sense, the problem of coordinating a multitude of individual decisions ends up as a regression to infinity, as can be seen in game theory. Human rationality develops within practice, and hence is uncertain. That is why economic theory systematically fails in its precise approach to human existential time, for it has to develop more and more hypotheses in its attempts to explain reality in terms of models.

Reason is a single power with two uses: theoretical and practical. Theoretical reason is open to truth and clings to it once it possesses it; it is thus more thoroughly and definitively updated than practical reason. Practical reason, on the other hand, is open to many possibilities and so is never 'closed', not even to error (theoretical reason does not make mistakes, only the person who reasons), which is why it has to be corrected. A re-evaluation of practical reason requires the present tense, for practical reason cannot hope to know reality without action.[20] Practical reason enables us to compare contingent goods that are within our control and are open to many different possibilities – ultimately, means – in order to find the best

[20] However, acts of practical reason are not actions but acts, and their known objects are mental forms commensurate with their acts. Reason has four feasible acts: practical concept, counsel or deliberation, practical judgement and precept or command. Thomas Aquinas, *Summa Theologiae* II-II ps., q. 153, a. 5, co.

among them (*practical counsel*), to be aware of our deliberative ability, to assess our acts, to correct them when they do not improve reason, and to differentiate between what is urgent and what is important (*euboulia*); to judge what is probable (particular, contingent, possible and plausible), arranging the order of things with more or less good sense and experience (*practical judgement*); to choose – decide on – the most appropriate of possible actions, and finally to receive a mandate to work towards an end (*precept*). The key to progressing in this direction lies in an appropriate anthropological underpinning, which implies understanding reality, tradition and culture as they really are. New financial trends are moving further and further away from stock markets and complex derivatives, to focus instead on initiatives that involve communities and acknowledge their real needs and capabilities. The 'anti-community' gains that resulted from speculation and the efficient use of 'language' are increasingly being replaced by communal efforts to put its productive capacity at society's disposal. The concept of capital, synonymous with wealth until most recently, is now expanding to include relational, cultural, intellectual and moral aspects, with a growing cooperation and respect for nature. With a true anthropology to guide it, technique, finance in particular, can be geared toward the service of man and its potential will then be truly remarkable. •

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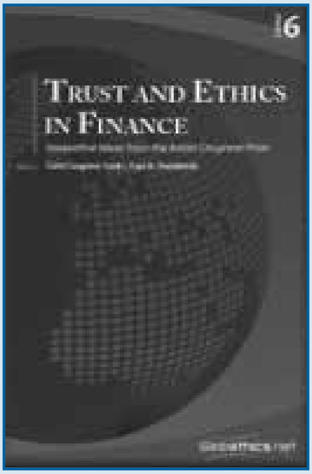

Trust and Ethics in Finance
Innovative ideas from the Robin Cosgrove Prize
2006-2011

Carol Cosgrove-Sacks
and Paul H. Dembinski (eds)
Published by Globethics.net

The values that guide finance professionals and the core role played by trust in the modern finance industry have been the dominant themes of the best papers submitted for the Robin Cosgrove Prize since it was launched in 2006. Inviting young people to submit innovative ideas to advance ethical approaches to the world of finance in its many manifestations has stimulated a global debate on the role of ethics and integrity in finance.

It is important to note that the prize was launched before the topic of ethics in finance became fashionable. It is not a reactive exercise to the current crisis. The aim is to prompt a shift in thinking throughout the world of finance the fresh ideas submitted for the prize have global relevance. The twenty-three essays in this volume come from young researchers on six continents; their innovative ideas will contribute to future-oriented ethical solutions.

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ETHICS IN FINANCE - ROBIN COSGROVE PRIZE- 2014/2015

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5th EDITION

The Robin Cosgrove Prize promotes greater awareness among young people throughout the world concerning the benefits of ethics in finance, and encourages good-quality management of banking and finance based on trust and integrity.

The competition for the Robin Cosgrove Prize invites young professionals and academics under 35 years of age to submit written papers setting out innovative and creative ideas for promoting ethics in finance.

This prize honours the vision of Robin Cosgrove, an investment banker who died at age 31. He believed passionately that a major barrier to economic development was the lack of integrity and ethical practice in banking and finance.

The Ibero-American Prize was initiated in 2008 with the support of MAPFRE (Spain's largest insurance company) to focus on the special challenges of ethics in finance in the region, with papers to be submitted in either Spanish or Portuguese. In 2012, the Polish Banking Association carried out a Polish edition.

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Le concours est ouvert aux jeunes professionnels et chercheurs afin qu'ils soumettent des contributions portant sur des analyses ou des propositions innovantes qui visent la promotion de l'éthique dans la finance.

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