

Rebuilding Trust **IN GLOBAL BANKING**

An address by **Mark Carney**
GOVERNOR OF THE BANK OF CANADA



2013 Thomas d'Aquino
Lecture on Leadership
February 25, 2013

IVEY

Lawrence
National Centre

Richard Ivey School of Business
The University of Western Ontario

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Rebuilding Trust in Global Banking, an address by Mark Carney, Governor, Bank of Canada.
Report prepared by the Lawrence National Centre for Policy and Management
at the Richard Ivey School of Business, Western University.

Suggested citation: Carney, Mark. Rebuilding Trust in Global Banking.
Editor, Leslie Coates. Lawrence National Centre for Policy and Management: London, ON, 2013.
Photographer, Steve Martin, Thompson Martin Photography.

Cover image: Stuart Campbell, Ivey HBA Candidate 2013, Richard Ivey School of Business and Mark Carney, Governor, Bank of Canada

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Thomas D'AQUINO

CHAIRMAN & CHIEF EXECUTIVE *Intercounsel Ltd.*
CHAIR *Lawrence National Centre Advisory Council*

At a tribute dinner in Toronto, in 2006, attended by a thousand well-wishers honouring Tom d'Aquino, one prominent Canadian leader said "no Canadian has done more over the past thirty years to shepherd Canadians in the way of wiser public policy."

The achievements of Tom as a lawyer, entrepreneur, author, educator and strategist are well known. He is perhaps best known for his leadership of the Canadian Council of Chief Executives, our country's premier business association composed of 150 chief executives and entrepreneurs. Tom assumed leadership of the Council in its formative stages. Upon his retirement from the CCCE as of December 31, 2009, member companies accounted for \$850 billion in annual revenues and \$4.5 trillion in assets. With a combined Canadian stock market value of \$675 billion, the companies are responsible for the majority of Canada's private sector exports, investment and training. In recognition of his exemplary leadership, he was named by the Canadian Council of Chief Executives Board of Directors, a Distinguished Lifetime Member. Under Tom's leadership, the Council has played a highly influential role in the shaping of fiscal, taxation, trade, energy, environmental, competitiveness and corporate governance policies in Canada. He is acknowledged as one of the private sector architects of the Canada-United States free trade initiative and of the North American Free Trade Agreement. He is active in policy circles throughout the world and has been referred to as "Canada's most effective global business ambassador."

Tom is very proud of his roots in Western Canada. A native of British Columbia, he was educated at the universities of British Columbia, Queen's and London (University College and the London School of Economics). He holds B.A., LL.B. and LL.M. degrees and an Honorary Degree of Doctor of Laws from Queen's University and from Wilfrid Laurier University.



Photo by Jean-Marc Carisse

Described as "a master of multidisciplinary skills," Tom honed his experience in government, business and law. He has served as a Special Assistant to the Prime Minister of Canada, as an international management consultant in London and Paris, as Special Counsel and Senior Counsel to two of Canada's largest law firms, and as an Adjunct Professor of Law lecturing on the law of international business transactions, trade and the regulation of multinational enterprise.

Tom is Chairman and Chief Executive of Intercounsel Ltd., a company he founded in the 1970s. He currently serves on numerous boards including Manulife Financial Corporation, CGI Group Inc. and Coril Holdings Ltd. He chairs the National Gallery of Canada Foundation and the Advisory Council of the Lawrence National Centre at the Richard Ivey School of Business. He also serves as the Chair of the Canada B20/G20 Committee, and as Co-Chair of the North American Forum and the Australia-Canada Economic Leadership Forum.

He is associated with two of Canada's leading academic institutions: as Distinguished Visiting Professor, Global Business and Public Policy Strategies at Carleton University's Norman Paterson School of International Affairs; and as Honorary Professor at the Richard Ivey School of Business.

A prolific writer and speaker, Tom is the co-author of *Northern Edge: How Canadians Can Triumph in the Global Economy* and he has addressed audiences in forty countries and in over one hundred cities worldwide. For thirty years, Tom has practiced leadership. For thirty years, he has been a close observer of leadership in others. Few Canadians are as well positioned as Tom to speak on the meaning of leadership.

Carol STEPHENSON

DEAN, O.C. *Richard Ivey School of Business*



In 2006, I announced the establishment of the Annual Thomas d'Aquino Lecture on Leadership – named in honour of Tom d'Aquino, chair of the Advisory Council for the Lawrence National Centre for Policy and Management and an exceptional leader himself. In that time, we have had the privilege of hearing from some exceptional Canadians – leaders such as Kevin Lynch, Clerk of the Privy Council and Secretary to the Cabinet of the Government of Canada; David Dodge, Chancellor of Queen's University and former Governor of the Bank of Canada; the Honourable John Manley, President and Chief Executive Officer of the Canadian Council of Chief Executives and former Deputy Prime Minister of Canada; Annette Verschuren, President of The Home Depot Canada and Asia; and the Honourable Michael Wilson, Chairman, Barclays Capital Canada Inc.

And of course, Tom himself delivered the inaugural lecture on November 9, 2006, at both the Richard Ivey School of Business and the Toronto Club.

In the past, a welcome would have been extended to you by Jack Lawrence, a distinguished alumnus of the Richard Ivey School of Business and founder of the Lawrence National Centre for Policy and Management. Those of us who knew Jack and valued his friendship certainly miss him. Jack believed firmly in corporate Canada's ability to affect the direction of public policy and in the importance of sound policy in ensuring a powerful voice for Canada on the global stage -- themes that are very much reflected in the career of this year's speaker guest lecturer: Mark Carney, Governor of the Bank of Canada.

As I look over the list of speakers who have taken part in this lecture, I realize what a privilege it has been for our students to be shaped by leaders who have themselves shaped the Canadian business landscape. This is an event that would make Jack proud.

Paul BOOTHE

PROFESSOR and DIRECTOR *Lawrence National Centre*



On behalf of the Lawrence National Centre for Policy and Management at Western University's, Richard Ivey School of Business, I would like to thank Governor Mark Carney for delivering the 2013 Thomas d'Aquino Lecture on Leadership. His lecture, entitled Rebuilding Trust in Global Banking, sent a clear message both to Ivey students and to the business community in Canada and beyond. Governor Carney stressed the need for business leaders to rebuild trust in banking by focusing on five 'C's': Capital, Clarity, Capitalism, Connecting with Clients and Core Values.

The themes of Governor Carney's lecture align closely with a central focus of our approach to business education at Ivey. Building on those themes, I would add a sixth 'C': Character. At Ivey, our aim is to build business leaders. Character is an essential element of leadership and we challenge students to think about values and character in every case that we teach. These issues are at the heart of Governor Carney's call to rebuild public trust in the financial system.

Tangible progress is being made. For example, in his lecture, the Governor described how boards of directors and risk committees of major banks have started "taking

more responsibility to ensure remuneration packages and employee behavior are aligned with updated institutional cultures." But there is more work to do and the Governor's five 'Cs' lay out a framework for the further reforms that lie ahead.

The goal of the Lawrence National Centre for Policy and Management at Ivey is to encourage students and faculty, business leaders, and public officials to understand, discuss and contribute to the building of sound public policy. Here again, character has a central role to play in building public trust. Governor Carney recognized the role of the public sector in rebuilding that trust and argued that the public sector "needs to be more vocal and appreciative when the [banking] industry makes major contributions."

Governor Carney's lecture reminds us that we need to stay the course on reform of the global financial system. His five 'Cs' provide the framework around which to organize that vital work. Rebuilding trust in banking, and in business more generally, is an endeavor we at Ivey heartily support. We hope that the students who attended the Governor's lecture will take his message to heart as they leave to become the next generation of business leaders.

Mark CARNEY

GOVERNOR OF THE BANK OF CANADA



Mr. Carney was appointed Governor of the Bank of Canada, effective 1 February 2008, for a term of seven years. As Governor, he is also Chairman of the Board of Directors of the Bank.

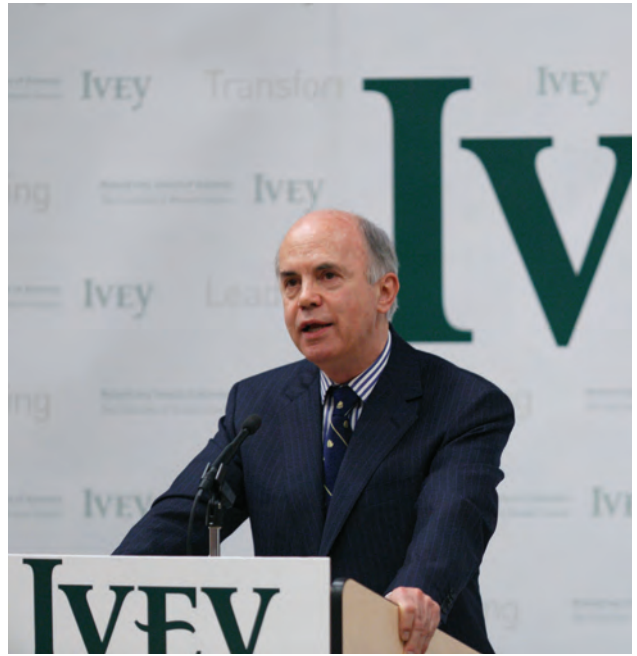
In addition to his duties as Governor of the Bank of Canada, he serves as Chairman of the Financial Stability Board (FSB) and as a member of the Board of Directors of the Bank for International Settlements (BIS). Mr. Carney is also a member of the Group of Thirty, and of the Foundation Board of the World Economic Forum.

Born in Fort Smith, Northwest Territories, Mr. Carney received a bachelor's degree in economics from Harvard University in 1988. He received a master's degree in economics in 1993 and a doctorate in economics in 1995, both from Oxford University.

Prior to joining the public service, Mr. Carney had a thirteen-year career with Goldman Sachs in its London, Tokyo, New York and Toronto offices. Mr. Carney was appointed Deputy Governor of the Bank of Canada in August 2003. In November 2004, he left the Bank to become Senior Associate Deputy Minister of Finance – a position he held until his appointment as Governor of the Bank.

On 26 November 2012, the Bank of Canada announced that Her Majesty the Queen had approved the appointment of Mark Carney as Governor of the Bank of England, effective 1 July 2013.

Mr. Carney will continue to serve in his current position as Governor of the Bank of Canada until 1 June 2013.



CLOCKWISE FROM TOP LEFT: Amit Chakma, President, Western University, Paul Boothe, Director, Lawrence National Centre, Mark Carney, Governor, Bank of Canada, Carol Stephenson, Dean, Richard Ivey School of Business, Thomas d'Aquino, Chief Executive, Intercounsel Ltd. • Thomas d'Aquino • Pre-lecture meeting with Governor Carney and Lawrence Centre Interns • (FROM LEFT) Thomas d'Aquino, Governor Carney, Paul Boothe, Leslie Coates, Michael King, Rod White, Eric Morse • Governor Carney greets Lawrence Centre Intern Shivani Chotalia • Governor Carney and Carol Stephenson



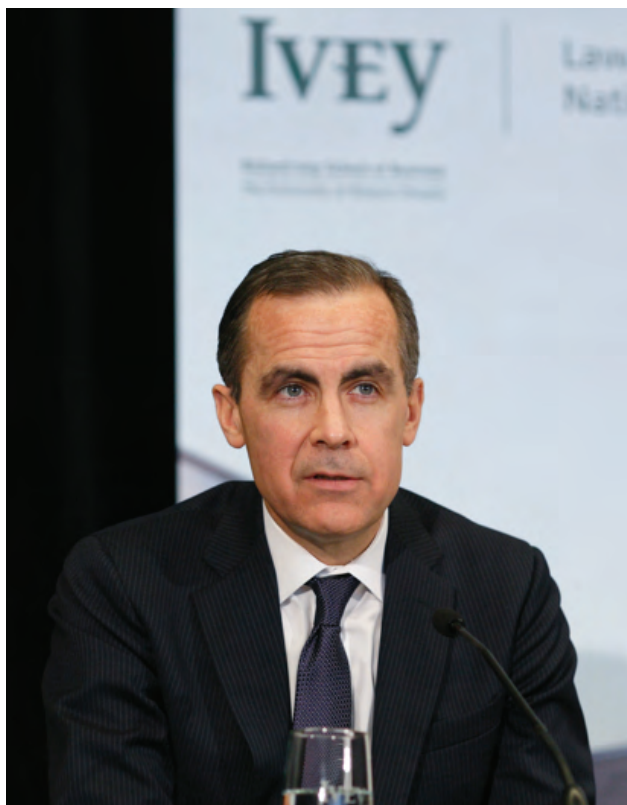
Rebuilding Trust **IN GLOBAL BANKING**

Introduction

Six years ago, the collapse of the global financial system triggered the worst global recession since the Great Depression.

Losing savings, jobs, and houses has been devastating for many. Something else was lost – trust in major banking systems. This deepened the cost of the crisis and is restraining the pace of the recovery.

The real economy relies on the financial system. And the financial system depends on trust. Indeed, trust is imbedded in the language of finance. The word credit is derived from the Latin, credere, which means “to have trust in.” Too few banks outside of Canada can claim credit today.



Mark Carney, Governor, Bank of Canada

Bonds of trust between banks and their depositors, clients, investors and regulators have been shaken by the mismanagement of banks and, on occasion, the malfeasance of their employees.

Over the past year, the questions of competence have been supplanted by questions of conduct. Several major foreign banks and their employees have been charged with criminal activity, including the manipulation of financial benchmarks, such as LIBOR, money laundering, unlawful foreclosure and the unauthorized use of client funds. These abuses have raised fundamental doubts about the core values of financial institutions.

In my remarks today, I will discuss the breakdown of trust and what is required to rebuild it. The G-20's comprehensive financial reforms will go a long way but will not be sufficient.

Virtue cannot be regulated. Even the strongest supervision cannot guarantee good conduct. Essential will be the re-discovery of core values, and ultimately this is a question of individual responsibility. More than mastering options pricing, company valuation or accounting, living the right values will be the most important challenge for the more than one-third of Ivey students who go into finance every year.

Trust Is Strained at Multiple Levels

Between banks and their shareholders: Most major banks outside Canada are now trading well below their book value, indicating shareholder concerns about a combination of the quality of bank assets and the value of their franchises (Chart 1).

Between banks and their debt-holders: Bank credit ratings have been downgraded, and even the revised ratings reflect continued reliance on sovereign backstops (Chart 2).

Between banks and their supervisors: For too many institutions, concerns over competence, conduct and, ultimately, culture have fed supervisory concerns and built the political case for structural measures, such as ring fencing, or prohibiting certain activities, such as proprietary trading.

Between supervisors in advanced economies: Fearful that support from parent banks cannot be counted upon in times of global stress, some supervisors are moving to ensure that subsidiaries in their jurisdictions are resilient on a stand-alone basis. Measures to ring fence the capital and liquidity of local entities are being proposed. Left unchecked, these trends could substantially decrease the efficiency of the global financial system. In addition, a more balkanized system that concentrates risk within national borders would reduce systemic resilience globally.

Between emerging and advanced economies: Given that the crisis originated in the advanced economies, the incentives for emerging and developing economies to ring fence their financial systems are particularly pronounced. This has been, at times, supplemented by more active management of capital inflows, further fragmenting the global system.

Finally, and most fundamentally, there has been a significant loss of trust by the general public in the financial system. There is a growing suspicion of the benefits of financial deregulation and cross-border financial liberalisation, a suspicion that could ultimately undermine support for free trade and open markets more generally.¹



Governor Carney, Thomas d'Aquino, Paul Boothe

The Costs Are Potentially Enormous

A global system that is nationally fragmented will lead to less efficient intermediation of savings and a deep misallocation of capital. It could reverse the process of global economic integration that has supported growth and widespread poverty reduction over the last two decades.

Within economies, the hesitancy of firms to invest reflects in part low confidence that their banks will be there to provide credit through the cycle.

Reduced trust in the financial system has increased the cost and lowered the availability of capital for non-financial firms. The massive response of central banks has provided some offset but access to credit remains strained.



Carol Stephenson

¹ See also "The Financial Crisis Inquiry Report: The Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States," Financial Crisis Inquiry Commission, January 2011.

Chart 1: Banks' price-to-book ratios

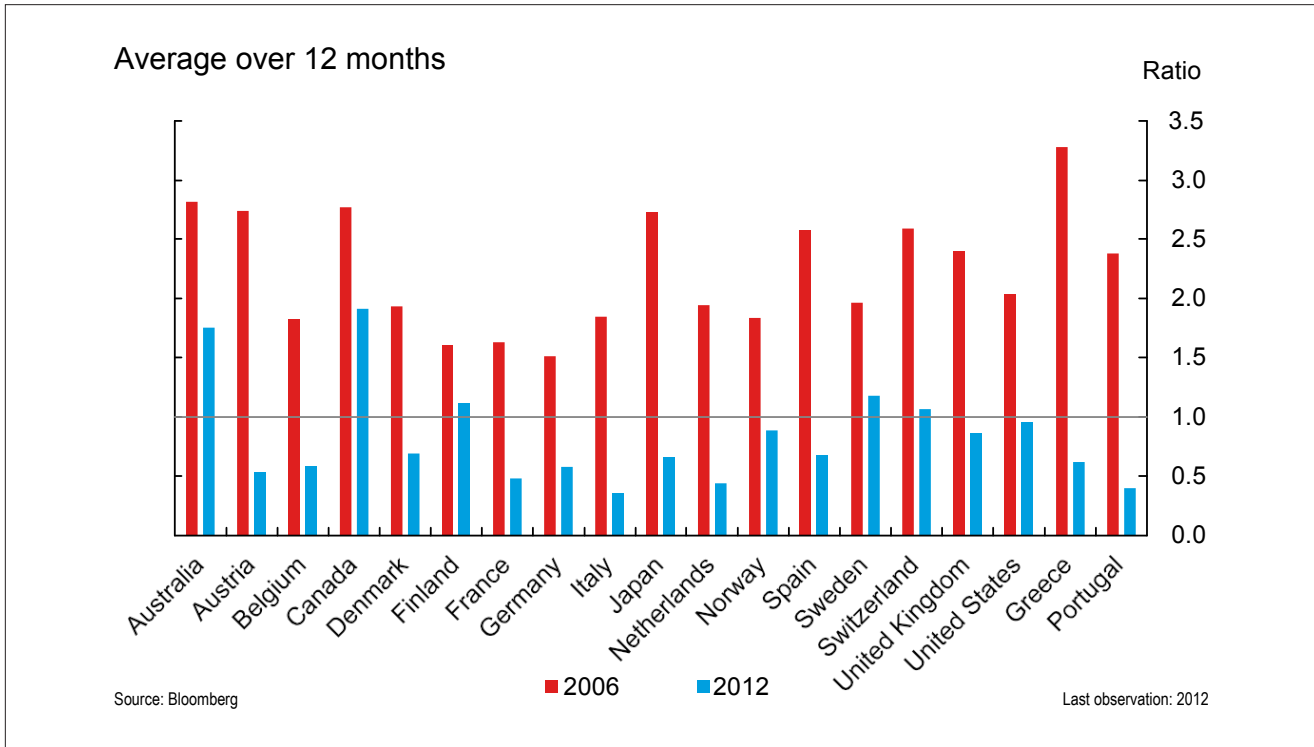
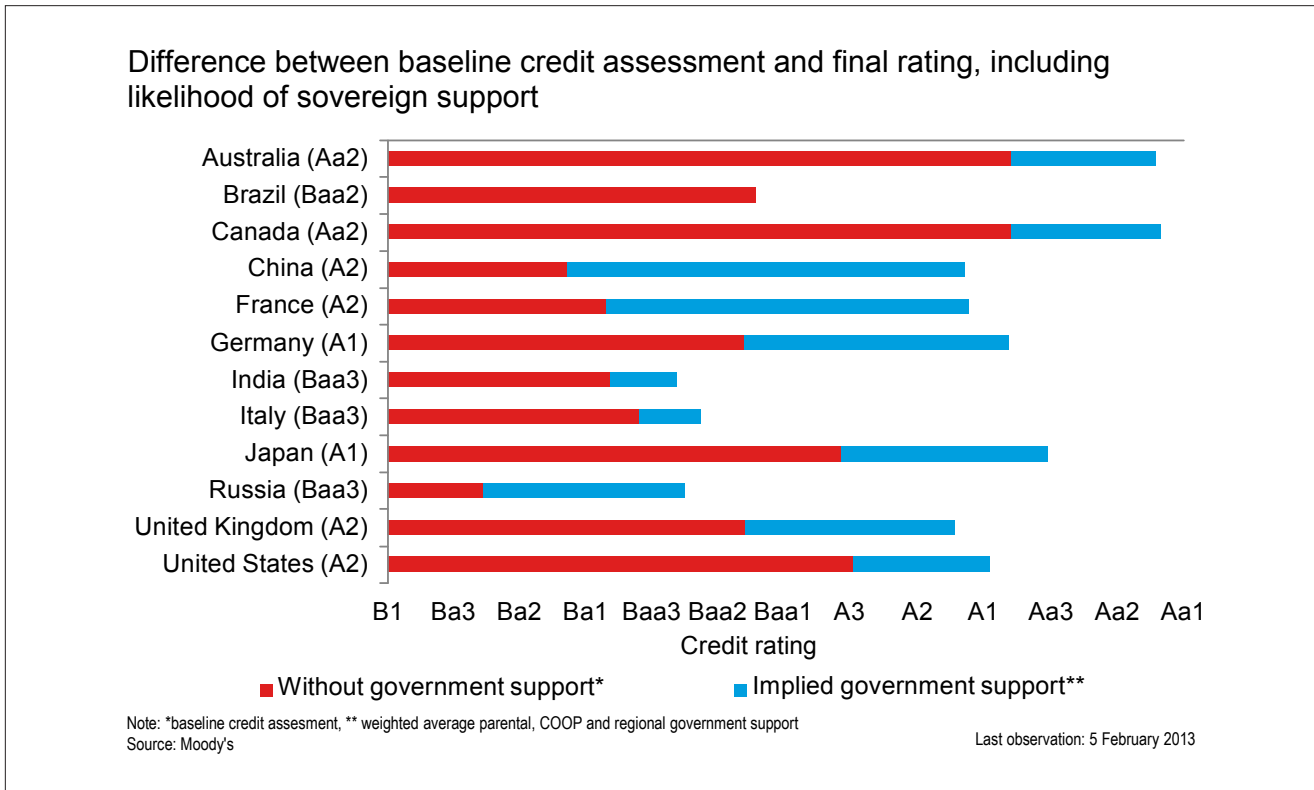


Chart 2: Level of implied government support



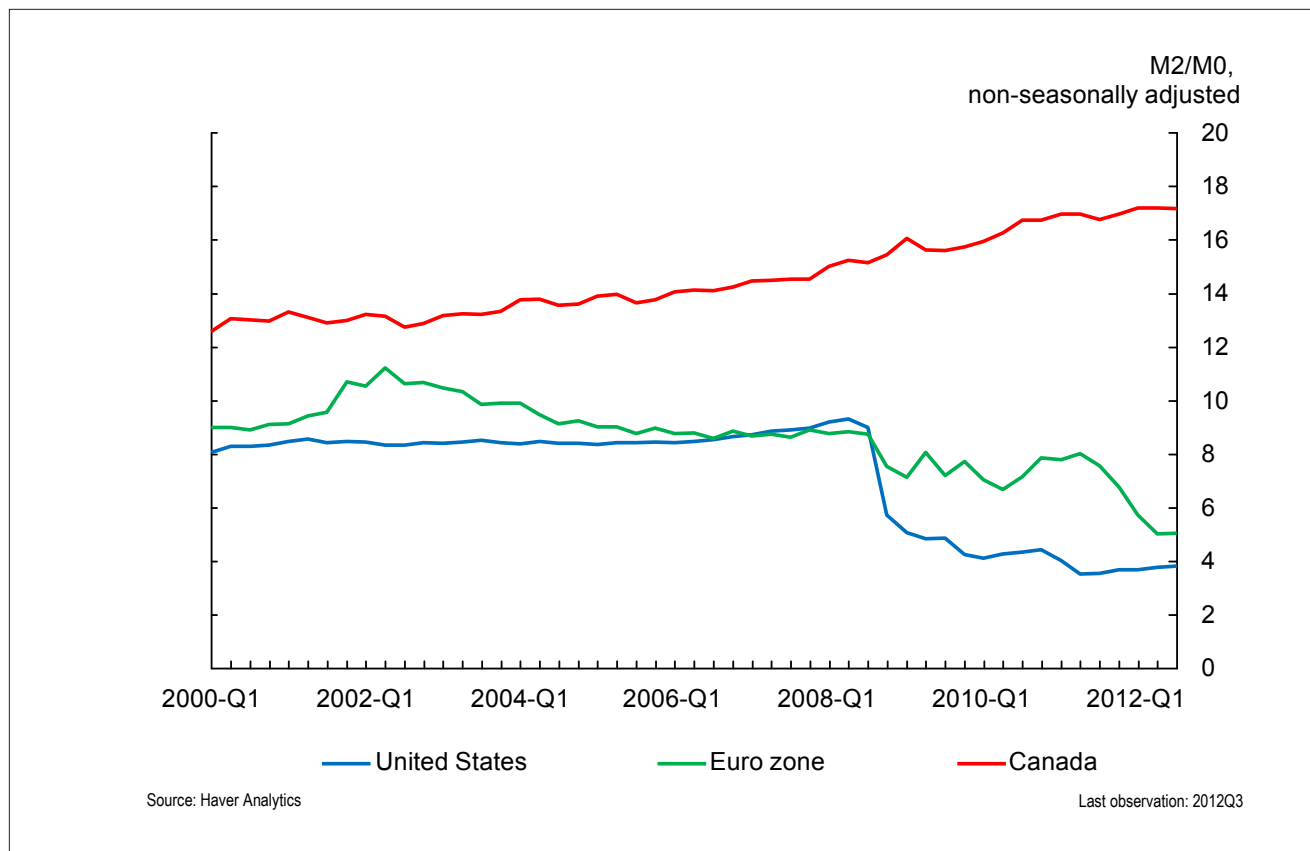
Consider fractional reserve banking, which allows banks to transform savings into investments, driving growth and wealth creation. At its core, such banking relies on the trust of depositors, bonds of trust that are so vital they have been reinforced by the state through deposit insurance and supervisory oversight.

In turn, the trust between financial counterparties multiplies base money created by the central bank many times, creating an aggregate credit supply that finances our modern economy.

When trust in the system is lost, this process reverses. Depositors and investors become reluctant to provide funding to banks, banks to lend to other banks, and, in some of the most affected countries, both are sceptical of the ability of governments to backstop the system.²

Since the crisis, money multipliers have plummeted in the crisis economies. In the United States and European Union, the ratio of M2/M0 fell by 55 and 40 per cent, respectively, between 2006 and 2012. While some of the decline reflects the end of excess and the weakness of credit demand in a deleveraging economy, the magnitude of the decline indicates the extent to which trust has been shaken. In contrast, in Canada, where trust in the system has, if anything, increased, the ratio has risen by 22 per cent (Chart 3).

Chart 3: Money multiplier



² This skepticism is in part related to the fiscal and sovereign debt situations in some of the affected countries.

Rebuilding Trust: The Five Cs

So what to do? A combination of institutional and individual initiatives – the “Five Cs” – is required.

The G-20’s comprehensive financial reforms will go a long way to rebuild trust. The good news is that there has been progress, even if it is not yet fully reflected in market valuations or public attitudes.

Capital

Many people remember the pivotal moment when Lehman Brothers collapsed, but that was only one example of a widespread failure of banking models across the advanced economies.

That same year, major banks in the United States, the United Kingdom, Germany, France, Ireland, Switzerland, the Netherlands and Belgium either failed or were rescued by the state. Gallingly, on the eve of their collapse, every bank boasted of capital levels well in excess of the standards of the time.

So it should be no surprise when building a more resilient system, the first priority was to strengthen the bank capital regime. Through higher minimums, surcharges for systemically important banks, countercyclical buffers and tougher definitions of capital, the largest banks will have to hold at least seven times as much capital as before the crisis.

As a backstop to the risk-based capital framework, a simple, but effective leverage ratio has been imported from Canada. It protects the system from risks we might think are low but in fact are not.



Governor Carney and Lawrence Centre team from left: Brook Coatsworth, Paul Boothe, Leslie Coates, Penni Pring

Since the end of 2007, major banks in the United States and Europe have increased their common equity capital by \$575 billion and their common equity capital ratios by 25 per cent.

Canadian banks are setting the pace. Since withstanding the financial crisis, they have become considerably stronger. Their common equity capital has increased by 77 per cent, or \$72 billion, and they already meet the new Basel III capital requirements six full years ahead of schedule.

Clarity

Greater clarity, the second ‘C,’ is critical to well-functioning capital markets. In the run-up to the crisis, financial institutions became increasingly opaque.

Their balance sheets were stuffed with mark-to-model assets, massive undisclosed contingent exposures, and debt classified as regulatory capital. Annual reports ran over 400 pages in some cases, leaving investors exhausted but no better informed.

In the past few years, there have been some improvements, including better accounting for off-balance-sheet securitisations, and enhanced disclosures of credit risk and the transfers of financial assets.

Encouraged by the G-20, U.S. and international accounting standard-setters have made progress toward a single set of high-quality reporting standards, particularly in the areas of revenue recognition and asset valuation.



Governor Carney



Governor Carney delivers the 2013 Thomas d'Aquino Lecture on Leadership

But more is required. The two boards have not yet been able to agree on a common approach for asset impairment based on expected, rather than incurred, losses. The G-20 has now called on them to redouble their efforts.

One of the most important initiatives to improve clarity is the work of a private sector group, the Enhanced Disclosure Task Force (EDTF), which was formed at the encouragement of the Financial Stability Board (FSB).³ It has made a series of recommendations to improve annual financial reporting by banks based on seven principles. Disclosures should be clear, comprehensive, relevant, consistent, comparable, and timely. Finally, annual reports should explain how risk is actually managed.

Once adopted, enhanced disclosure will contribute to effective market discipline, better access to funding, and, importantly, improved market confidence in banks.

The Bank of Canada joins the Office of the Superintendent of Financial Institutions in encouraging major Canadian banks to implement the EDTF standards as soon as is possible.

Better disclosure of a bank's current financial condition can be usefully supplemented by regular assessments of the impact of stress on it. Stress tests can expose excessive mismatches in maturities and currencies, find evidence of undue forbearance in lending and reveal excess or correlated asset concentrations. In the current environment, the FSB has emphasised particularly the value of stressing against sharp movements in yield curves.

Capitalism

Perhaps the most fatal blow to public trust has been the perception of a heads-I-win-tails-you-lose finance. Bankers made enormous sums in the run-up to the crisis and were often well compensated after it hit. In turn, taxpayers picked up the tab for their failures. Thus, at the heart of financial reform must be measures that restore capitalism to the capitalists.

To that end, the FSB is enhancing the role of the market. The measures to improve clarity will enhance market discipline.

The development of effective resolution tools will also help diminish the moral hazard associated with "too big to fail." The FSB has identified those banks that are systemically important at the global level and developed a range of measures that, once implemented, will help to ensure that any financial institution can be resolved without severe disruption to the financial system and without exposing the taxpayer to the risk of loss.



Press Attaché, Jeremy Harrison and Governor Carney

³ "Enhancing the Risk Disclosures of Banks," Report of the Enhanced Disclosure Task Force (29 October 2012). Available at: financialstabilityboard.org/publications/r_121029.pdf



Governor Carney

The knowledge that this could happen should enhance market discipline of private creditors who previously enjoyed a free ride at the expense of taxpayers.

While solid progress has been made it is not yet mission accomplished. In the coming months, jurisdictions need to articulate comprehensive plans to resolve each systemic institution. These should include effective cross-border agreements for handling a failure and, a minimum amount of bail-inable liabilities and the publication of a presumptive path for resolution.

To take stock, the FSB will report to the G-20 leaders at the St. Petersburg Summit on the extent to which “too big to fail” has been ended and, if not, what further steps are required.

Connecting with clients

Financial capitalism is not an end in itself, but a means to promote investment, innovation, growth and prosperity. Banking is fundamentally about intermediation—connecting borrowers and savers in the real economy. Yet, too many in finance saw it as the apex of economic activity.

In the run-up to the crisis, banking became more about banks connecting with other banks. Clients were replaced by counterparties, and banking was increasingly transactional rather than relational.

These attitudes developed over years as new markets and instruments were created. The initial motivation was to meet the credit and hedging needs of clients in support of their business activities. However, over time, many of these innovations morphed into ways to amplify bets on financial outcomes.

An important example of a useful, but eventually misused, innovation is securitisation, which initially provided funding diversification for banks while spreading risk among investors with different load-bearing capacities.

However, in the run-up to the crisis, highly complex chains developed, linking low-risk money market funds with high-risk subprime mortgages via off-balance-sheet structured



Ivey MBA and MSc students, Lawrence Centre Interns, staff and faculty attend the Lecture

investment vehicles (SIVs). Banks sold mortgages into the SIVs and many of the SIVs in turn wrote credit insurance contracts, often to the very banks that sponsored them, to “insure” the bank’s proprietary credit positions.

These links with banks were simultaneously too weak and too strong. The shift of credit exposure from originating bank to the SIV eroded underwriting and monitoring standards.

In addition, the transfer of risk itself was frequently incomplete, with banks retaining large quantities of supposedly risk-free senior tranches of structured products. Moreover, the insurance provided by the SIV was only as good as the quality of the mortgages bought by the bank. These dynamics were at the heart of the Canadian non-bank asset-backed commercial paper fiasco.

Similarly, the rapid expansion of banks into over-the-counter derivatives was initially motivated by the desire to provide hedges to their clients as end-users. These transactions eventually morphed into a mountain of intra-financial system claims, largely divorced from end-users, with banks and other financial entities trading among themselves.

The magnitude of these developments was remarkable. In the final years of the boom, the scale of shadow-banking

activity exploded. The value of structured investment vehicles, for example, almost tripled in the three years to 2007. Credit default swaps grew sixfold over the same period.

As intra-financial sector claims grew, banks became increasingly detached from their ultimate clients in the real economy. In most professions, people see the ‘real’ impact of their work: teachers witness the growth of their students, farmers that of their crops. When bankers become disconnected from their ultimate clients in the real economy, they have no direct view of the impact of their work. The LIBOR-setter sees only the numbers on the screen as a game to be won, ignoring the consequences of his or her actions on mortgage-holders or corporate borrowers.

Fortunately, there are some signs that global banks are returning to their roots. Complex securitisation chains have dissolved. Mechanistic reliance on credit ratings is declining. With higher capital requirements on trading activities (and the prospect of structural restrictions), traditional lending is looking more attractive. These shifts will promote diverse private sector judgments, reduce cliff effects and build resilience, and possibly over time, a measure of trust.



FROM LEFT TO RIGHT: Paul Boothe, Governor Carney, Amit Chakma, Thomas d'Aquino, Carol Stephenson



Paul Boothe and Governor Carney



Governor Carney and Shivani Chotalia

But there arguably has not yet been a full recognition of the need for banks to return to what Ed Clark calls “old fashioned banking—activities that help grow their country and communities.”⁴ To do this, some banks may need to reconsider their values.

Core values

The fifth ‘C’ – core values – is the responsibility of the financial sector and its leaders. Their behaviour during the crisis demonstrated that many were not being guided by sound core values.

Many in the wake of the crisis looked first to how compensation affects behaviour. Indeed, an important lesson was that compensation schemes that delivered large bonuses for short-term returns encouraged individuals to take on too much long-term and tail risk. In short, the present was overvalued and the future heavily discounted.

To better align incentives with long-term interests of the firm and, more broadly, society, the FSB developed Principles and Standards for Sound Compensation Practices. Core elements include deferred variable performance payments, paying bonuses in stock rather than cash, and introducing bonus clawbacks.

Of course, no compensation package can fully align the incentives of a bank’s shareholders and its risk-takers. Even if such a package could be devised it would not internalise the impact of individual actions on systemic risks, including on trust in the banking system.

More fundamentally, to think that compensation arrangements can ensure virtue is to miss the point entirely. Integrity cannot be legislated, and it certainly cannot be bought. It must come from within.

Purely financial compensation ignores the non-pecuniary rewards to employment, such as the satisfaction received from helping a client or colleague succeed. When bankers become detached from end-users, their only reward is money, which is generally insufficient to guide socially useful behaviour.⁵

⁴ E. Clark, “Building a Better Banking System for America” (speech to Chief Executives’ Club of Boston, Boston College, Boston, MA, 26 April 2012).

⁵ R. Rajan, “When Money Is the Measure of All Worth,” in *Fault Lines: How Hidden Fractures Still Threaten the World Economy* (Princeton, N.J.: Princeton University Press, 2010).



Bank of Canada hosts press conference at Richard Ivey School of Business

Few regulators and virtually no bankers saw these limitations. Beliefs in efficient, self-equilibrating markets fed a reliance on market incentives that entered the realm of faith.⁶ As Michael Sandel has observed, we moved from a market economy towards a market society.⁷

This reductionist view of the human condition is a poor foundation for ethical financial institutions needed to support long-term prosperity.

To help rebuild that foundation, bankers, like all of us, need to avoid compartmentalisation or what the former Chair of HSBC, Stephen Green, calls “the besetting sin of human beings.”⁸ When we compartmentalise, we divide our life into different realms, each with its own set of rules. Home is distinct from work; ethics from law.

In the extreme, as Ed Clark observed, “Bank leaders created cultures around a simple principle: if it’s legal and others are doing it, we should do it too if it makes money. It didn’t matter if it was the right thing to do for the customer, community or country.”⁹

To restore trust in banks and in the broader financial system, global financial institutions need to rediscover their values. This was the conclusion of research conducted here at Western.¹⁰

For companies, this responsibility begins with their boards and senior management. They need to define clearly the purpose of their organisations and promote a culture of ethical business throughout them.

But a top-down approach is insufficient. Employees need a sense of broader purpose, grounded in strong connections to their clients and their communities. To move to a world that once again values the future, bankers need to see themselves as custodians of their institutions, improving them before passing them along to their successors.



Governor Carney

6 T. Padoa-Schioppa, “Markets and Government Before, During, and After the 2007-20XX Crisis,” (Per Jacobsson Lecture, 27 June 2010, Basel, Switzerland).

7 Michael J. Sandel, *What Money Can’t Buy: The Moral Limits of Markets* (New York: Farrar, Straus and Giroux, 2012).

8 S. Green, *Good Value: Reflections on Money, Morality and an Uncertain World* (London: Allen Lane 2009).

9 E. Clark (remarks delivered at the Bank of Canada Annual Economic Conference, “Financial Intermediation and Vulnerabilities,” Ottawa, 2 October 2012).

10 J. Gandz, M. Crossan, G. Seijts, and C. Stephenson, “Leadership on Trial: A Manifesto for Leadership Development,” Richard Ivey School of Business, 2010.

Conclusion

It has been said that, “trust arrives on foot, but leaves in a Ferrari.”¹¹ After the Ferrari screeched out of the parking lot in 2008, what steps have been taken to rebuild trust?

There has been progress. As the new Basel capital rules are implemented, and the reliance on ratings agencies diminishes, market infrastructure improves; and as banks – and, crucially, their investors – develop a better appreciation of their prospects for risk and return, business models are beginning to change.

Already, a couple of banks have fallen off the list of globally systemic banks because they have simplified, downsized and de-risked their business models. Other institutions are de-emphasizing high-profile but risky capital markets businesses that benefited employees more than shareholders and society.

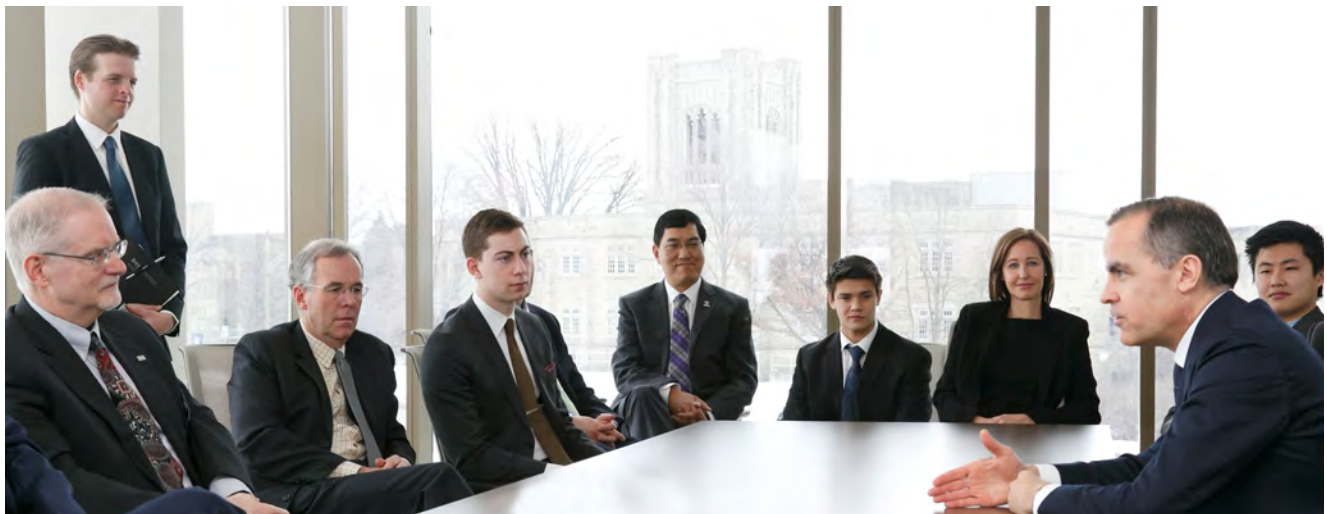
Global banks have made significant progress in reforming their compensation practices so that rewards more closely match risk profiles. In addition, boards of directors and risk committees are taking more responsibility to ensure that remuneration packages and employee behaviour are aligned with updated institutional cultures.¹²

Unfortunately, a spate of conduct scandals ranging from rigging LIBOR to money laundering has overshadowed these steady and material improvements.

This underscores that it remains the collective responsibility of banks, regulators and other stakeholders to rebuild trust in banking. Banks need to participate actively in reform, not fight it. Until recently, too few bankers acknowledged their industry’s role in the fiasco. The time for remorse is far from over.

At the same time, the public sector needs to be more vocal and appreciative when the industry makes major contributions. This has been the case with the EDTF and in work on bail-in debt, a key element of ending “too big to fail.” In addition, the best global organisations are now recognising the need to address their corporate ethics. All of these efforts should be publicly encouraged and reinforced.

Ultimately, it will be down to individual bankers, including the Ivey grads who will go into finance. Which tradition will you uphold? Will your professional values be distinct from your personal ones? What will you leave those who come after you?



Governor Carney meets with Lawrence Centre Interns

11 R. Sermon, “Investing in Integrity” (speech to the Trust and Integrity in the Global Economy Conference, Caux, Switzerland, 19 July 2012).

12 See a summary of a recent FSB workshop with the financial industry on compensation practices, available at financialstabilityboard.org/publications/r_130124.pdf, and the most recent FSB peer review of compensation practices, available at financialstabilityboard.org/publications/r_111011a.pdf.



CLOCKWISE FROM TOP: Thomas d'Aquino, Governor Carney, Paul Boothe, Leslie Coates, Michael King, Rod White • Paul Boothe and Governor Carney • Mitch Baran, Amit Chakma, Carol Stephenson, Thomas d'Aquino, Governor Carney • Richard Ivey School of Business Auditorium • Rod White, Governor Carney and Carol Stephenson • media



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Mission

Lawrence National Centre

The Lawrence National Centre for Policy and Management is committed to the development of sound public policy by providing a national forum for business, academia and government to think globally, act strategically and contribute to the societies in which they operate. The Centre creates dynamic networks that bridge business, academia and government.

"If we could achieve more cooperation between government and business, we would see a quantum leap in economic performance and productivity."

JACK LAWRENCE, Founder
Lawrence National Centre for Policy and Management

The Lawrence National Centre was established through a generous endowment by R. Jack Lawrence. Exploring the synergies between public policy and business strategy is at the heart of the Centre's mandate and we at the Centre advance our work through conferences, reports, seminars and public addresses aimed at building exceptional leaders and a more competitive Canada.

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CLOCKWISE FROM TOP LEFT: Pre-lecture meeting with Governor Carney and Lawrence Centre Interns • Governor Carney and Lawrence Centre Interns • (FRONT ROW SEATED FROM LEFT) Rod White, Paul Boothe, Governor Carney, Carol Stephenson, Eric Morse, Rowan McLeod. (SECOND ROW STANDING FROM LEFT) Kyle Murphy, Leslie Coates, Alan Si, Shivani Chotalia, Brendan Smith, Alysha Li, Amit Chakma, Stuart Campbell, Rachel Fridhandler, John Irwin, Ryan White, Thomas d'Aquino, Brook Coatsworth • Rod White and Governor Carney • Paul Boothe and Governor Carney



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IVEY

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2013