



THE GOOD, THE BAD, THE UGLY AND THE REALLY UGLY

The Good

As regular readers of my opinion pieces know, there are times when I despair at the lack of ethics among financial, business and political leaders but I have to thank Appian Asset Management for inviting me to their recent seminar where I had the opportunity to listen to somebody that certainly does not make me despair. I am talking about Fergal Quinn, formerly of Superquinn and currently a member of the Seanad.

I came away from his talk with the impression that if there were more people like him in this country we would not have got ourselves into the mess that we currently find ourselves. I also came away hoping that he will continue to act as a role model for many years to come.

I don't want to give the impression that I believe Fergal was one of the great retailers of all time because I think he found it hard to carve out a niche for his business. The competition from Dunnes, Tesco and Musgraves was enough to make life really difficult and in the end he was probably lucky that he was bought out before the bubble burst.

I also do not want to give the impression that he can achieve much in his current political role.

What I do want to say is that in all aspects of his life he gives the impression that he cares and I think that he therefore deserves praise.

(I recommend readers have a look at his website because he outlines his thoughts on many subjects: <http://www.feargalquinn.ie/index.php>)



The Bad

Unfortunately the news about low ethical standards in the financial world keeps on hitting the headlines.

We now have further evidence that quite a number of employees of hedge funds have been prepared to engage in insider trading. These get rich quick merchants try to claim that their mega salaries are justified by their brilliance but the reality for many of them is quite different. In particular the recent case of employees at SAC Capital

highlighted that the bribing of people with critical information was one of the ways that their good numbers were achieved.

SAC Capital may not be a household name here in Ireland but in the hedge fund world the founder of the company Steve Cohen was seen as one of the big shots. (As of the time of writing this opinion piece, Steve Cohen has not been personally charged with any wrongdoing but the investigation is still ongoing).

What makes the SAC Capital case interesting to people close to home is because one of the companies in which they were found to have traded on the basis of inside information was Elan.

Here is how the Irish Times reported the story:

SAC, Elan and a \$276m tip off: *One of Wall Street's biggest hedge funds is alleged to have benefited from the most lucrative inside tip of all time: on Elan's Alzheimer's drug, bapineuzumab.*

Mathew Martoma, formerly a portfolio manager at a unit of \$14 billion hedge fund SAC, had been bullish on "bapi" up to July 2008, when a doctor involved in clinical trials for the drug allegedly told him of serious side effects.

Martoma emailed SAC chief executive Steve Cohen, and a 20-minute phone call followed. SAC sold its entire Elan holding – 10.5 million shares – and then shorted the stock, which tanked when trial results became public.

The bapi bets realised \$276 million in illegal profits or avoided losses, say prosecutors. Cohen, worth \$9 billion, has netted annual returns of about 30 per cent over the past two decades. He has not been charged or accused, but the US government has now linked six Cohen employees to insider trading.

SAC Capital can now be added to the growing list of companies where people have been caught. (I wrote about Bernie Madoff in an earlier opinion piece). I hope the regulators manage to catch a few more of these thieves because it will help to reduce the extent to which the stock market is rigged against ordinary people.

The Ugly

HSBC and Standard Chartered have both been fined multi-million figures for their failures to put in place proper money laundering procedures:

(Reuters) - HSBC has agreed to pay a record \$1.92 billion fine to settle a multi-year probe by U.S. prosecutors, who accused Europe's biggest bank of failing to enforce rules designed to prevent the laundering of criminal cash. HSBC Holdings Plc admitted to a breakdown of controls and apologized in a statement on Tuesday announcing it had reached a deferred-prosecution agreement with the U.S. Department of Justice, as first reported by Reuters last week. "We accept responsibility for our past mistakes. We have said we are profoundly sorry for them, and we do so again. The HSBC of today is a fundamentally different organization from the one that made those mistakes," said Chief Executive Stuart Gulliver.

Unlike HSBC it appears as if the Chairman of Standard Chartered is still reluctant to say sorry. Here is how the Guardian reported the regulators response to his attempt to underplay their fine:

Sir John Peace really should know better. He is the chairman of a bank, [Standard Chartered](#), that has admitted responsibility for breaching US sanctions against Iran

and agreed to pay huge fines. In that position you cannot drop broad hints that you think the bank was a victim of a shake-down by [regulators](#). Peace's inflammatory words at his press conference earlier this month were: "We had no wilful act to avoid sanctions." Not surprisingly, the US department of justice and New York County district attorney's office have come down on him like a ton of bricks. They have, in effect, told him to sit on the naughty step and repeat the shameful lines for public consumption: "Standard Chartered Bank unequivocally acknowledges and accepts responsibility ... for past knowing and wilful criminal conduct in violating US economic sanctions laws and regulations, and related New York criminal laws."

And The Really Ugly

I am referring to what is known as the Libor scandal. This is really ugly because the scary thing about what we have found out is that the practice of manipulating such a crucial interest rate was so widespread that hundreds of people must have known about it.

Here is an extract from a Bloomberg article where they outline evidence of conversations involving Royal Bank of Scotland (RBS) traders (the source of this information is a court case involving one particular trader Tan Chi Min who is claiming unfair dismissal from RBS):

What's the call on Libor," Jezri Mohideen, then the bank's head of yen products in [Singapore](#), asked Danziger in an Aug. 21, 2007, chat. "Where would you like it, Libor that is," Danziger asked, "Mixed feelings, but mostly I'd like it all lower so the world starts to make a little sense," another trader responded. "The whole HF world will be kissing you instead of calling me if Libor move lower," Tan said, referring to hedge funds. "OK, I will move the curve down 1 basis point, maybe more if I can," Danziger replied.

The practice was so widespread that it appears nobody bothered questioning the ethics of the situation. The only thing that appeared to matter was making a bonus. This is why the question of changing banking culture is so crucial.

Conclusion

As usual I turn to Warren Buffett to give guidance as to what needs to be done (someday I'll have an original thought of my own!):

"Make it so the C.E.O. of the institution that fails or that goes to the government and needs help really gets destroyed himself financially," he said. "I mean, why should he come out any better than somebody who gets laid off from a job as an autoworker?"

Mr. Buffett said banks needed to change their incentives to executives who were focusing on short-term earnings gains. "It is nice to have carrots, but you need sticks," he said. "And the stick — the idea that some guy is worth \$500 million leaves and only has \$50 million left — is not much of a stick as far as I am concerned."

He added, "I really think there should ought to be huge downsides because the C.E.O. has to be the chief risk officer of a big bank."

Here is another great self explanatory Buffett quote:

If 50 of us were on a ship and there was a shipwreck, we all swam to an island, we knew we'd never be rescued - and fortunately it was a fertile island so we could all plant rice and grow enough to take care of ourselves. We would not take the five smartest people out of the 50 and tell them "why don't you start trading rice futures and speculate among yourselves", and by the way we think that's so valuable we're going to give you the most money and probably a favourable tax rate on top of it. Hell no, we'd get everybody producing rice.

I don't think I need say anything else.