The Culture of the "City"

For centuries, London was the centre of global finance. The "bill on London" financed global trade, and large issues of cross border sovereign bonds were made in the London market. Even as the US became the global financial power and the dollar took over the reserve currency role in the interwar years, London retained its importance as the world's largest forex market, and a centre of global finance rivaling Wall Street. This would not have been possible without a culture of fair dealing. How times, and culture, change!

About six months back, the big news from the world of global finance was how Barclays rigged the BBA LIBOR rate. Since that story broke, practically every week a new incident is being reported, evidencing how rotten the culture of global finance has become. UBS and the state-owned Royal Bank of Scotland have also been found guilty of fraudulently rigging the LIBOR rate and fined respectively $ 1.5 bn and $ 600 mn. Litigation costs of LIBOR rigging are expected to be in billions! (RBS still wants to pay a bonus of £ 250 mn to its "investment banking" professionals!) Mis-selling of payment protection insurance products to individuals, to trusting retail clients was rampant. (The malpractices are expected to cost the industry as much as £ 12 bn!) Mis-selling complex derivatives to businesses (including in India), municipalities, and even to other financial institutions is another aspect of this culture. To quote from the September 2009 Mansion House speech by Lord Adair, Chairman, Financial Services Authority, U.K. "(the top managements of banks) *need to ask searching questions about whether the complex structured products they sold to corporate and institutional customers, truly did deliver real hedging value or simply encouraged those institutions into speculative and risky exposures which they did not understand.*" In 2008, two traders in Credit Suisse misled investors about the value of mortgage securities, and the bank lost $ 2.65 bn. And, before its collapse in 2008, Lehman Brothers managed to disguise a $ 50 bn debt, using an accounting practice certified legitimate in London. Attempts to circumvent regulation and taxes, indulging in money laundering transactions, helping customers to evade taxes, etc. have also become part of the accepted banking practices. In 2002, three NatWest employees conspired with Enron's finance head to perpetrate a fraud. And, J.P.Morgan is nearing a £ 500 mn settlement with UK authorities for tax evaded in bonus payments through an offshore trust.

One feels sad to see the post-"Big Bang" de-generation of values over the last three decades in the industry; of the increasing dominance of the "obscene bonus culture" as Barclay's Chairman of the Remuneration Committee described it; of the belief that money is the only measure of one's self-worth. This is perhaps the inevitable result of "traders" dominating the traditional banker who takes deposits for the purpose of lending money. No wonder the Financial Services Authority has recently come out with a set of measures for "Raising Banking Standards" since "it is vital that the UK remains an attractive place to do business". George Osborne recently promised to "change the whole culture and ethics of the business". And a Parliamentary Committee is currently holding hearings on the issue.

But coming back to traders, consider a partial list of major trading losses in the City during the last two decades:

- The 1995 collapse of Barings, once described as the "Sixth Great Power in Europe". To be sure, Nick Leeson's trading activities were conducted in Singapore but he came from the London culture. The head office also failed in supervising his activities.
- In 1999, a London trader with Credit Suisse First Boston tried to manipulate the Swedish stock market.
- In 2004, the National Australia Bank lost A \$ 360 mn in options trading in London.
- Over 2007-08, one of AIG's London units wrote credit default swaps, which brought the world's largest insurer to near collapse, and needed a huge rescue.
- In 2011, a UBS trader lost \$ 2.3 bn in trading securities.

- In 2012, J.P.Morgan lost as much as $ 5 bn through the activities of its Chief Investment Office in London whose ostensible purpose was to manage surplus liquidity and hedge balance sheet risks: the real purpose was to circumvent restrictions on proprietary trading in New York!

One wonders whether the root cause of such large trading losses is the prevalence of a weak compliance culture in London, based on an earlier, pre-1986 ethos. Or, is it the result of something altogether different? The latter thought arises from a recent book "The Hour Between Dog and Wolf" by John Coates. The author was himself a successful trader, but is now engaged in economic research in Cambridge University and the book is a result of his researches. His argument is that aggressive trading is the result of an excess of testosterone, the male hormone, in the blood of the trader, which lowers the fear of risk. Perhaps it is the famous London weather which is the root cause of the series of trading losses!

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