Ethics: an Essential Prerequisite of the Financial System

Specially Commended

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Les normes éthiques sont essentielles pour maintenir la stabilité et l'harmonie dans l'espace social au sein duquel les individus interagissent.

Ethics in general deals with human behaviour that is acceptable or 'right', and that which is not acceptable or 'wrong' according to conventional morality. General ethical norms encompass truthfulness, honesty, integrity, respect for others, fairness, and justice. They relate to all aspects of life, including business and finance. Financial ethics is, therefore, a subset of general ethics.

Ethical norms are essential for maintaining stability and harmony in social life, where people interact with one another. Recognition of others' needs and aspirations, fairness, and co-operative efforts to deal with common issues are an example of aspects of social behaviour that contribute to social stability. In the process of social evolution, we have developed not only an instinct to care for ourselves but also a conscience to care for others.

However, situations may arise in which the need to care for ourselves runs into conflict with the need to care for others. In such situations, ethical norms are needed to guide our behaviour. As Demsey (1999) puts it: 'Ethics represents the attempt to resolve the conflict between selfishness and selflessness; between our material needs and our conscience'.

An inconsistency at the heart of finance

Ethical dilemmas and ethical violations in finance can be attributed to an inconsistency in the conceptual framework of modern financial-economic theory, and the widespread use of a principal-agent model of relationship in financial transactions. The financial-economic theory that underlies the modern capitalist system is based on the rational-maximizer paradigm, which holds that individuals are self-seeking (egoistic) and that they behave rationally when they seek to maximize their own interests. The principal-agent model of relationships refers to an arrangement whereby one party, acting as an agent for another, carries out certain functions on behalf of that other. Such arrangements are an integral part of the modern economic and financial system, and it is difficult to imagine it functioning without them.

La théorie écono-mico-financière qui sous-tend le système capitaliste moderne est fondée sur le paradig-me de l'humain ration-nel, maximisateur de profit (rational-maxi-mizer), selon lequel les individus sont intéres-sés (égoïstes), et agis-sent rationnellement lorsqu'ils cherchent à optimiser leur intérêt propre.

Le problème est que cette vision va à l'encontre des princi-pes de confiance, de loyauté, de fidélité, de responsabilisation et de souci pour l'intérêt des autres, censés être à la base des relations entre agents et mandants.

La théorie de l'agence part du principe que l'agent et son mandant sont chacun animés par leur intérêt propre et cherchent à maxi-miser leur gain au sein même de leur relation.

The problem is that the behavioural assumption of the modern financial-economic theory runs counter to the ideas of trustworthiness, loyalty, fidelity, stewardship, and concern for others that underline the traditional principal-agent relationship. The traditional concept of agency is based on moral values. But if human beings are rational maximizers, then agency on behalf of others in the traditional sense is impossible.

As Duska (1992) explains it: 'To do something for another in a system geared to maximize self-interest is foolish. Such an answer, though, points out an inconsistency at the heart of the system, for a system that has rules requiring agents to look out for others while encouraging individuals to look out only for themselves, destroys the practice of looking out for others'.

The agency theory: a structured relationship

The ethical dilemma presented by the problem of conflicting interests has been addressed in some areas of finance, such as corporate governance, by converting the agency relationship into a purely contractual relationship that uses a carrot-and-stick approach to ensure ethical behaviour by agents. In corporate governance, the problem of conflict between management (agent) and stockholders (principal) is described as an agency problem. Economists have developed an agency theory to deal with this problem.

The agency theory assumes that both the agent and the principal are self-interested and aim to maximize their gain in their relationship. A simple example would be the case of a store manager acting as an agent for the owner of the store. The store manager wants as much pay as possible for as little work as possible, and the storeowner wants as much work from the manager for as little pay as possible. This theory is value-free because it does not pass judgment on whether the maximization behaviour is good or bad and is not concerned with what might be a fair wage for the manager.

It drops the ideas of honesty and loyalty from the agency relationship because of their incompatibility with the fundamental assumption of rational maximization. 'The job of agency theory is to help devise techniques for describing the conflict inherent in the principal-agent relationship and controlling the situations so that the agent, acting out of self-interest, does as little harm as possible to the principal's interest' (DeGeorge, 1992).

A paradoxical situation

The agency theory turns the traditional concept of agency relationship into a structured (contractual) relationship in which the principal can influence the actions of agents through incentives, motivations, and punishment schemes. The principal essentially uses monetary rewards, punishments, and the agency laws to command loyalty from the agent.

Cette théorie est indépendante de tout jugement de valeur, car aucun jugement n'est porté quant à savoir si le comportement de maximisation est bon ou mauvais.

La théorie de l'agence convertit le concept traditionnel de la relation agent-mandant en une relation structurée (contractuelle) dans laquelle le mandant peut influencer les actes des agents par des mesures d'incitation, de motivation et de punition.

Le système économique complexe moderne est caractérisé par une situation paradoxale : d'une part, le besoin de déléguer ses affaires à autrui grandit mais, d'autre part, la description donnée de la nature humaine met l'accent sur l'égoïsme des comportements.

Most of our needs for financial services - management of retirement savings, stock and bond investing, and protection against unforeseen events, to name but a few - are such that they are better entrusted to others because we have neither the ability nor the time to carry them out effectively. The corporate device of contractualization of the agency relationship is, however, too difficult to apply to the multitude of financial dealings between individuals and institutions that take place in the financial market every day.

Individuals are not as well organized as stockholders, and they are often unaware of the agency issue. Lack of information also limits their ability to monitor an agent's behaviour. Therefore, what we have in our complex modern economic system is a paradoxical situation: the ever-increasing need for getting things done by others on the one hand, and the description of human nature that emphasizes selfish behaviour on the other. This paradoxical situation, or the inconsistency in the foundation of the modern capitalist system, can explain most of the ethical problems and declining morality in the arena of modern business and finance.

Ethical violations…

The most frequently occurring ethical violations in finance relate to insider trading, stakeholder interest versus stockholder interest, investment management, and campaign financing. Business in general and financial markets in particular are replete with examples of violations of trust and loyalty in both public and private dealings. Fraudulent financial dealings, influence peddling and corruption in governments, brokers not maintaining proper records of customer trading, cheating customers of their trading profits, unauthorized transactions, insider trading, misuse of customer funds for personal gain, mispricing customer trades, and corruption and larceny in banking have become common occurrences.

Insider trading is perhaps one of the most publicized unethical behaviours by traders. Insider trading refers to trading in the securities of a company to take advantage of material 'inside' information about the company that is not available to the public. Such a trade is motivated by the possibility of generating extraordinary gain with the help of non-public information (information not yet made public).

It gives the trader an unfair advantage over other traders in the same security. Insider trading was legal in some European countries until recently. In the United States, the 1984 Trading Sanctions Act made it illegal to trade in a security while in the possession of material non-public information. The law applies to both the insiders, who have access to non-public information, and the people with whom they share such information.

Approaches to dealing with ethical problems in finance range from establishing ethical codes for financial professionals to efforts to replace

Ceci explique la plupart des problèmes éthiques et le déclin de la moralité dans le monde moderne des affaires et de la finance.

Le délit d'initié (le fait de profiter d'informations sur une entreprise inconnues du public) est sans doute l'un des comportements contraires à l'éthique les plus médiatisés dans le monde des affaires.

Les solutions proposées pour régler les problèmes d'éthique dans la finance vont de l'élaboration de codes de déontologie destinés aux professionnels de la finance jusqu'aux travaux visant à substituer le paradigme de l'égoïste (rational-maximizer) par un modèle selon lequel les individus sont supposés être altruistes, honnêtes et fondamentalement vertueux.

the rational-maximizer (egoistic) paradigm that underlies the modern capitalist system by one in which individuals are assumed to be altruistic, honest, and basically virtuous.

… and ethical codes

It is not uncommon to find established ethical codes and ethical offices in American corporations and in financial markets. Ethical codes for financial markets are established by the official regulatory agencies and self-regulating organizations to ensure ethically responsible behaviour on the part of the operatives in the financial markets.

One of the most important and powerful official regulatory agencies for the securities industry in the United States is the Securities and Exchange Commission (SEC). It is in charge of implementing Federal securities' laws, and, as such, it sets up rules and regulations for the proper conduct of professionals operating within its regulatory jurisdiction.

Many professionals play a role within the securities industry. The most important of these are accountants, broker-dealers, investment advisers, and investment companies.

Any improper or unethical conduct on the part of these professionals is of great concern to the SEC, whose primary responsibility is to protect investor interests and maintain the integrity of the securities' market. The SEC can censure, suspend, or bar professionals who practice within its regulatory domain for lack of requisite qualifications or unethical and improper conduct.

The SEC also oversees self-regulatory organizations (SROs), which include stock exchanges, the National Association of Security Dealers (NASD), the Municipal Securities Rulemaking Board (MSRB), clearing agencies, transfer agents, and securities information processors. An SRO is a membership organization that makes and enforces rules for its members based on the Federal securities' laws. The SEC has the responsibility of reviewing and approving the rules made by SROs.

Other rule-making agencies include the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), and state finance authorities. Congress has entrusted to the Federal Reserve Board the responsibility of implementing laws pertaining to a wide range of banking and financial activities, a task that it carries out through its regulations. One such regulation has to do with unfair or deceptive acts or practices. The FDIC has its own rules and regulations for the banking industry, and it also draws its power to regulate from various banking laws passed by Congress.

Professional codes of good conduct

In addition to federal and state regulatory agencies, various professional associations set their own rules of good conduct for their members. The American Institute of Certified

L'une des agences officielles les plus importantes et puissantes dans le secteur des valeurs mobilières aux États-Unis est la *Securities Exchange Commission* (SEC).

La SEC peut réprimander, suspendre ou radier certains professionnels exerçant dans son domaine de compétences pour manque des qualifications requises ou pratiques impropres ou contraires à l'éthique.

Outre les agences fédérales et étatiques, plusieurs associations professionnelles ont fixé leurs propres règles de bonne conduite, applicables à leurs membres.

En adhérant à leurs organisations professionnelles, les personnes qui travaillent dans la comptabilité acceptent de respecter les règles déontologiques exigeantes de leur profession.

Public Accountants (AICPA), the American Institute of Certified Planners (AICP), the Investment Company Institute (ICI), the American Society of Chartered Life Underwriters (ASCLU), the Institute of Chartered Financial Analysts (ICFA), the National Association of Bank Loan and Credit Officers (also known as Robert Morris Associates), and the Association for Investment Management and Research (AIMR) are some of the professional associations that have well-publicized codes of ethics.

By joining their professional organizations, people who work in the field of accounting agree to uphold the high ethical standards of their profession. Each of the major professional associations for accountants has a code of ethics. The Code of Professional Conduct of the American Institute of CPAs (AICPA), the national professional association for CPAs, sets forth ethical principles and rules of conduct for its members.

The principles are positively stated and provide general guidelines that CPAs (or any professionals, for that matter) should strive to follow. The rules of conduct are much more explicit as to specific actions that should or should not be taken. The Institute of Management Accountants (IMA) Standards of Ethical Conduct applies to practitioners of management accounting and financial management, and the Institute of Internal Auditors (IIA) Code of Ethics applies to its members and to Certified Internal Auditors (CIAs).

The other approach to address the ethical problems in business and finance consist in re-examining the conceptual foundation of the modern capitalist system and changing it to one that is consistent with the traditional model of agency relationship. The proponents of a paradigm shift question the rational-maximizer assumption that underlines the modern financial-economic theory and reject the idea that all human actions are motivated by self-interest.

Towards a paradigm shift?

They embrace an alternative assumption - that human beings are to some degree ethical and altruistic - and emphasize the role of the traditional principal-agent relationship based on honesty, loyalty, and trust. Duska (1992) argues: 'Clearly, there is an extent to which [Adam] Smith and the economists are right. Human beings are self-interested and will not always look out for the interest of others. But there are times they will set aside their interests to act on behalf of others. Agency situations were presumably set up to guarantee those times'.

The idea that human beings can be honest and altruistic is an empirically valid assumption; it is not hard to find examples of honesty and altruism in both private and public dealings. There is no reason this idea should not be embraced and nurtured. As Bowie (1991) points out: 'Looking out for oneself is a natural, powerful motive that needs little, if any, social reinforcement. [...] Al-

L'autre approche proposée pour régler les problèmes d'éthique dans le monde des affaires et de la finance consiste à revoir le fondement conceptuel du système capitaliste moderne.

Cette approche part d'une hypothèse bien différente, selon laquelle l'humain a une certaine dimension éthique et altruiste ; une hypothèse empiriquement recevable.

Parmi les caractères distinctifs de certaines professions, comme les médecins ou les comptables, figure l'acceptation des responsabilités du professionnel envers le public.

La profession de comptable est largement régie par une autorégulation assurée par diverses associations professionnelles plutôt que par des réglementations du gouvernement.

truistic motives, even if they too are natural, are not as powerful: they need to be socially reinforced and nurtured'.

If the financial-economic theory accepts the fact that behavioural motivations other than that of wealth maximization are both realistic and desirable, then the agency problem that economists try to deal with will be a non-problem. For Dobson (1993), the true role of ethics in finance is to be found in the acceptance of 'internal good' ('good' in the sense of 'right' rather than in the sense of 'physical product'), which, he adds, is what classical philosophers describe as 'virtue' - that is, the internal good toward which all human endeavour should strive. He contends: 'If the attainment of internal goods were to become generally accepted as the ultimate objective of all human endeavours, both personal and professional, then financial markets would become truly ethical'.

Ethical responsibilities and professional reputation

A distinguishing mark of professions such as medicine and accounting is acceptance of their responsibilities to the public. The AICPA Code of Professional Conduct describes the accounting profession's public as consisting of 'clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of Certified Public Accountants (CPAs) to maintain the orderly functioning of commerce'. Many, but not all, CPAs work in firms that provide accounting, auditing, and other services to the general public; these CPAs are said to be 'in public practice'.

Regardless of where CPAs work, the AICPA Code applies to their professional conduct, although there are some special provisions for those in public practice. Internal auditors, management accountants, and financial managers most commonly are employees of the organizations to which they provide these services; but, as professionals, they, too, must also be mindful of their obligations to the public.

The responsibilities placed on accounting professionals by the three codes of ethics and the related professional standards have many similarities. All three require professional competence, confidentiality, integrity, and objectivity. Accounting professionals should only undertake tasks that they can complete with professional competence, and they must carry out their responsibilities with sufficient care and diligence, usually referred to as due professional care or due care.

The codes of ethics of the AICPA, IMA, and IIA all require that confidential information known to accounting professionals not be disclosed to outsiders. The most significant exception to the confidentiality rules is that accounting professionals' work papers are subject to subpoena by a court; and that nothing

Toute transgression des règles déontologiques peut entraîner l'exclusion d'une personne de son corps professionnel.

analogous to attorney-client privilege exists. To a large extent, the accounting profession is self-regulated through various professional associations rather than being regulated by the government. The AICPA, the IMA, and the IIA have internal means to enforce the codes of ethics. Furthermore, the professional organizations for CPAs in each state, known as state societies of CPAs, have mechanisms for enforcing their codes of ethics, which are usually very similar to the AICPA Code.

Box 1: Self-regulation of accounting professionals?

The state government issues a CPA's license to practice, usually through an organization known as the state board of accountancy. Since state laws governing the practice of accountancy typically include important parts of the AICPA Code, the Code thus gains legal enforceability. Consequently, ethical violations can result in the state decision to revoke a CPA's license to practice on a temporary or even permanent basis. Because a licensed CPA is also likely to belong to the AICPA and the state society of CPAs, investigations into violations of ethics may be carried out jointly by the AICPA, the state society, and the state board of accountancy.

CPAs in public practice that audit the financial statements of public corporations are subject to Federal securities' laws and regulations, including the Securities Exchange Act of 1934. The Securities and Exchange Commission (SEC), which administers these laws, has broad powers to regulate corporations that sell their stock to the public. One important SEC requirement is that an independent CPA carries out audits of these corporations' financial statements. The SEC has the authority to establish and enforce auditing standards and procedures, including to determine what constitutes independence for a CPA.

The SEC has largely delegated the setting of standards to the private sector but retains responsibility for overseeing and enforcement. In 1998 the SEC and the AICPA jointly announced the creation of the Independence Standards Board (ISB), a private-sector body whose mission is to improve auditor independence standards. In announcing the formation of the ISB, the SEC reaffirmed the crucial importance of the CPA's independence: '[M]aintaining the independence of auditors of financial statements [...] is crucial to the credibility of financial reporting and, in turn, to the capital formation process' (SEC Release FRR-50, 1998).

Dans le contexte mondialisé actuel de la finance, où les affaires se traitent souvent sans aucun contact personnel, il existe un besoin essentiel d'établir des contrats ayant force obligatoire.

Pour être appliqués, les accords implicites nécessitent une relation de confiance fondée sur une bonne foi réciproque.

Par conséquent, l'édification de rapports de confiance pourrait constituer une exigence éthique centrale.

Violations of ethical standards can lead to a person being publicly expelled from the professional organization. Because of the extreme importance of a professional accountant's reputation, expulsion is a strong disciplinary measure. However, ethical violations can lead to even more adverse consequences for CPAs because of state and Federal laws.

There are many occasions when proper business ethics are exercised by organisations and commercial firms that consider themselves socially responsible and viable. Most financial organisations value their investors as a way of exercising ethics in their business. They call this the Human Capital Value. By considering people as their prime asset, businesses around the world scale their way to success. Those involved in the organisation may include employees, investors, stakeholders, contractors and suppliers.

However, in this age of global competition, modern businessmen believe that ethics do not help the business to succeed and prosper, but rather that they limit it's resources. The new business age has given birth to a new set of business ethics which are in the best interest of the business itself, these ethics include: valuing diversity, distributed power, reality testing etc. These ethics are further known to be global ethics.

Opportunistic agents try to maximise their wealth, even at the expense of others. Since to maximise wealth, agents may act with 'guile and deceit', agents no longer trust each other. This may for example lead to lenders charging higher rates of interest on their loans because they cannot trust borrowers to invest fully in the most profitable projects. The result is at best a makeshift balance, one that maximises nobody's wealth. On this point, Dobson (1993) quotes the business ethicist, Norman Bowie: 'The conscious pursuit of self-interest by all members of society has the collective result of undermining the interests of all'.

Current trends

In today's globalised world of finance, where businesses often deal with each other often without any personal contact, the need for enforceable contracts is crucial, if the whole system is to avoid failure. Furthermore, the problem of enforcing contracts is not purely external to the business. The now prevalent view of the firm as a 'nexus of contracts', containing within it people with very different and sometimes conflicting objectives. When one takes this view of the corporation, it begins to look much more like a structured market, structured so as to minimise costs and maximise efficiency.

The problem of enforcing contracts is not therefore merely one of the firm's interactions with other entities, but one that touches the very heart of the firm. Explicit contracts can be enforced through the courts (at a cost), but implicit contracts require trust and mutual good will for their enforcement. It would

Les entreprises tentent de faire que les gens aient confiance en leurs activités en envoyant des « signaux » pouvant convaincre ou non le marché qu'elles sont dignes de confiance.

Or, ces signaux ont un certain coût, ce qui réduit l'efficacité des bonnes entreprises.

Un manque d'information ou une « asymétrie de l'information » complique souvent la tâche des mandants lorsqu'ils souhaitent savoir à l'avance s'ils peuvent faire confiance à leur agent.

Une fois établie, une bonne réputation augmente la valeur des revendications implicites que l'entreprise vend aux parties prenantes.

seem, then, given the importance of contracts for the functioning of the financial system, that building trust could be considered as be a central ethical requirement.

Trust for trust's sake is irrational in finance

Unfortunately, the finance paradigm has already decided that to pursue trust for more than merely materialistic, opportunistic ends is irrational. As Dobson says: 'But for trust to work, agents must be intrinsically trustworthy. They cannot merely act in a trustworthy manner when it suits their material ends. What is required is trust for trust's sake. But clearly «trust for trust's sake» is irrational within the finance paradigm […] an individual who forgoes material gain in order to honour some trust-based agreement would be as irrational as an individual who forgoes material gain because the moon happened to be full […]. Within the finance paradigm, the act of honouring trust *in and of itself* has absolutely no value' (italics in the original).

Firms try to create confidence in what they are doing by sending out 'signals' which may or may not convince the market that they are trustworthy. 'Good' firms need to send out 'signals' that cannot be mimicked by 'bad' firms if they are to be effective. If giving such a signal is not too costly, the good firm that gives it creates a 'separating equilibrium' in which it is clear who is who to outside agents. However, such signals do have some cost, and this reduces the efficiency of the good firm. Again, at best we can have a 'second-best' outcome, with a 'residual loss' due to the contractual enforcement problem between agents.

Opportunistic agents cannot be trusted

It is important to realise here that we are not dealing with a redistribution of income from principal to agent, but with an absolute loss from which no-one gains. Lack of information or 'information asymmetry' can make it difficult for principals to know in advance whether they can trust agents, and 'moral hazard' describes the situation where it is uncertain whether agents will honour or abuse the trust placed in them. In both cases, proponents of finance theory would argue that firms could build a 'reputation' of trustworthiness, that is consistent with the opportunistic and maximising assumptions of the finance paradigm.

Reputation is not well defined in the literature of finance; but by extrapolating from the annual *Fortune* survey to rank companies by their reputation and a number of other sources: reputation is a behavioural trait. A firm builds its reputation by demonstrating a consistent mode of behaviour through a series of contractual situations.

Once built, a reputation increases the value of the implicit claims sold by the firm to stakeholders. Thus, a firm's desire to earn future profits by

Mais ce débat laisse totalement de côté la motivation que tout salarié est susceptible d'avoir à ne pas ternir la réputation de son entreprise.

Un comportement éthique est essentiel : il permet de préserver la confiance au sein du marché.

Les pratiques du monde des affaires qui ont survécu pendant la révolution industrielle ont été celles qui permettaient une approche davantage orientée vers la notion de vertu.

maintaining its reputation may act as an implicit contractual enforcement mechanism.

Yet we still hear of financial scandals, even among the most respectable of banks and financial agencies. Furthermore, firms like Salomon brothers that were the subject of a serious fraud, seem to bounce back into action after a short period of reorganisation and 'knocking heads together'. From the point of view of the finance paradigm, there was a fundamental flaw: opportunistic agents cannot be trusted.

Challenging the financial paradigm

The first challenge offered to the finance paradigm comes from the way financial markets themselves operate. After Salomon brothers were involved in stitching up the market for US Treasury bonds, an expert on the incident, Clifford Smith, claimed that Salomon was punished for its unethical behaviour by the financial markets. This implies that there was some moral basis to the 'punishment', which took the form of economic sanctions incurred by Salomon brothers as a result of the scandal. However, to see whether there was a moral basis to this censure and not purely a financial one, the underlying motivation for the censure needs to be established.

In an indirect way, this information was forthcoming through the approval that the new chief executive, Warren Buffett, received when he stated: 'If I hear of an employee losing the company money, I'll understand. However, if I hear of any employee losing Salomon one shred of reputation I'll be ruthless!' This statement is important because it separates the loss of reputation from the loss of money, with the implication being that reputation is not purely an instrument used in the maximisation of wealth. In other words, an employee who makes a technical error, losing money for Salomon Brothers, will be treated with understanding, but an employee who sets out to exploit other agents in the market, gaining money for Salomon Brothers but tarnishing the reputation of the firm's honesty, will be treated severely. This is clearly in open contradiction with the tenets of the finance paradigm.

This discussion still leaves aside the motivation that any given employee might have for not tarnishing the company's reputation. After all, many would maintain, what matters is what the person does, not why they do it. However, this 'practical' argument includes a fatal inherent weakness: 'an agent who is not motivated to act ethically will sooner or later act unethically'. The last-ditch stand of the finance paradigm against this thinking is the 'Confidence School' position: scandals undermine confidence in financial markets, which may reduce the number of participants in the market and reduce the efficiency of the market.

This explains why ethical behaviour is important: it maintains confidence in the market. This justification of ethics only supports the position that unethical behaviour is unacceptable if it undermines confidence in the market. The obvious implication is that if something can be done in such a way as to not undermine such market confidence, the behaviour is acceptable, on condition it maximises wealth.

L'éthique de la finance est sous-développée en comparaison avec l'éthique du monde des affaires ou les déontologies professionnelles.

This connects what may well seem to be a very distant ethical tradition and language to the notion of quality control and procedures, something familiar to all business people in the post-Japanese technological era. It was proven during the industrial revolution that the traditions of business that survived were those that maintained a more virtue-based approach. Only later were these eclipsed by the forms that are more familiar to us today. It has also been proven that businesses that operate on the virtue of ethics and compete efficiently in financial markets, even if there are opportunistic agents. Furthermore, markets cannot operate without such virtuous agents.

Néanmoins, ces dernières années ont été marquées par un regain d'intérêt pour l'interface éthique/finance.

When Aristotle described life's ideal as one of 'intellectual pursuit' or 'contemplative enquiry', he accepted that the material wealth of his society was sufficient for only a fraction of its inhabitants to realize this ideal. The triumph of our age is that the wealth generated by the firm through the market system has freed the majority of humanity from the fetters of material servitude. But the victory has been Pyrrhic.

Établir un socle déontologique à la base des activités financières ne veut pas dire imposer une contrainte ou une limite aux agents financiers.

It would be an understatement to say that the discipline of finance has not been strongly associated with ethics; if anything, the two areas have been opposed to each other as mutually exclusive. Even where such an opposition is not maintained, it remains true that the ethics of finance is underdeveloped compared to the fields of business ethics or professional ethics. Most financiers have not had in-depth ethical training, whereas ethicists lack an understanding of the technicalities of financial management. The situation is thus self-perpetuating.

The essential condition for finance

In recent years, however, following a series of stock market crashes, bank scandals and the present general financial instability, there is a renewed interest in the interface between ethics and finance. Within the field of Catholic Social teaching, an important step was taken in 1994 with the publication of the booklet *Modern Financial Systems and the Ethical Imperatives of Christianity* (original in French), written by two members of the French Treasury. Its publication followed a series of meetings between top financiers under the auspices of the Pontifical Council for Justice and Peace.

The Ethics of Finance has thus arrived at an auspicious time, and it merits considerable attention.. Its central aim is to show that the theory of finance, with its assumption of self-interested opportunism and

Il s'agit plutôt d'imposer une condition préalable nécessaire qui permettra la survie du système financier.

maximisation of wealth on the part of every agent, cannot explain what really happens in financial systems. Additionally, taught in a fundamentalist and uncritical way in business schools, the ideology behind the theory of finance leads to the distortion of agents' behaviour in practice, and the undermining of the proper functioning of a healthy financial system.

It is worth noting that a proper theoretical understanding of finance requires a necessary foundation in some set of ethical assumptions that reach beyond the sphere of technical financial. In other words, an ethical basis to the operation of finance is not a constraint or a limitation placed on financial agents, but rather the prerequisite condition that will allow the financial system to continue to exist. •

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