

Opportunities for Sustainability Along the Financial Services Value Chain

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The Nordic Unions have prioritized the development of a stable and sustainable financial system. You are meeting here today as leading economies that have developed stable and sustainable systems, and now you seek to enhance this position, as finance continues to globalize and the Nordic countries seek strong trade ties with Europe and the world. You are also seeking to engage with a wider group of stakeholders and, moreover, sharpen the debate and fine tune your message to each of them. You have also made sustainable finance your priority moving forward. IISD welcomes your commitment to sustainability, and we want to be a partner in this process.

Finance is the central nervous system of global capitalism. Despite the headlines featuring self-serving financiers, finance is an essential social institution, not only as a source of capital, but also for managing the risks that enable creative people and visionary thinkers to transform their ideas into tangible assets. These assets come in the form of greener technologies, scientific research, health care improvements, infrastructure solutions, better public welfare, strategies to deal with changing climates, social networking technologies and more. The connections between financial institutions and individual people are fundamental to society. However, getting the terms of these interconnections right—given that we are all human and fallible—is where the challenge lies.

It would be an understatement to say that we are living through times in which public hostility towards financial institutions runs high. The perceived unfairness of extremely high salaries, bonuses in the midst of public bailouts, and the arrogance of CEOs ensures that they never fail to hit the headlines.

Yet we cannot let this hostility get in the way of financial innovation, for, ironically, more democratic globalization needs more financial innovation, not less. Lower-income countries—indeed all countries, including the visionary Nordic economies—need more financial activity, which means better financial instruments and more financial innovation.

For example, in the 2013 budget speech India's Finance Minister said that India was looking to invest US\$1 trillion in its infrastructure, and that he planned to raise 47 per cent of this sum from private investors. He thus called for "new and innovative instruments" to mobilize funds of this magnitude. He also announced provisions to introduce exchange-traded funds and asset-backed securities.¹

¹ 2013 Union Budget Speech delivered by the Hon. Dr. P. Chidambaram, Minister of Finance, India. Retrieved from <http://ibnlive.in.com/news/full-text-union-budget-201314-read-finance-minister-p-chidambarams-budget-speech/375639-7-255.html>

However, financial innovation needs to happen in a much more transparent manner than it has in the past, and it needs to be more intrinsically linked to the real economy, that is to the goods, services, infrastructure, and commodities that drive economic prosperity, social equity and environmental stewardship. These needs remain pressing:

- In Germany, Denmark and Sweden, the gap between rich and poor expand from 5 to 1 in the 1980s, to 6 to 1 today.²
- Human trafficking generates profits of more than US\$32 billion.³
- Swiss Re reports that weather and climate disasters cost the global insurance industry around US\$130 billion in 2011, but only US\$60 billion of these losses were insured.⁴

To provide for better financial innovation, financial capitalism needs to be “democratized.” The first step in this direction is to recognize the roles and responsibilities—the fiduciary duties—of the different actors in the financial system. These actors interconnect in the complex web that forms the global financial system, and it is at the interconnection points that the system needs to be regulated. (And indeed, these are the weakest links in all value chains—and the source of all value chain fallouts—from the crumbling clothing factories in Bangladesh to avian flu). In finance, for regulation to be effective, each different actor needs to be rewarded for prudent risk taking and for prioritizing gains in the longer term.

This observation will be at the core of our message to you today.

I will focus on the major actors of the financial ecosystem, who they are, and what you—the unions, as the social custodians of this industry—can do to make financial capitalism more stable and sustainable.

Banks

At the heart of the system we have bankers. Their practice has evolved through the centuries, but their role remains fundamental. They take deposits, make loans, provide transaction services and contribute to the money supply. The 2007 crisis was not linked to this traditional business model but to alternative models under which mortgages to individuals were not retained on the balance sheets of banks, but grouped together into securities and sold to other banks and investors.

This process of securitization has also led to the emergence of so-called “shadow banks.” These are institutions that do not accept deposits and therefore are not subject to the same regulatory oversight as banks. Shadow banks include not only failed former investment banks such as Bear Stearns and Lehman Brothers, but they also include Structured Investment Vehicles that were created by commercial banks before 2007, into which the riskier parts of the business were moved in an effort to escape banking regulation.

Because shadow banks do not accept deposits from society, they need to use a different source of funding for their activities. They purchase securitized loans and use “repos” (repurchase agreements) through which they sell these securitized loans overnight to investors with the agreement to buy them back, the next day, at a higher price. Investors like these instruments, as they are very much like overnight deposits. Hence shadow banks are also “creating money,” just like commercial banks do through the fractional reserve system. The risk in these transactions is the maturity mismatch, because shadow banks are using repurchase agreements, which are short-term funding instruments, to finance their long-term investments.

² Organisation for Economic Co-operation and Development (OECD). (2011, December). *Divided we stand: Why inequality keeps rising*. Retrieved from <http://www.oecd.org/els/soc/dividedwestandwhyinequalitykeepsrising.htm>

³ International Labour Office (ILO). (2008). *ILO action against trafficking in human beings*. Retrieved from http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@declaration/documents/publication/wcms_090356.pdf

⁴ Swiss Re. (2013). *Sigma study on natural catastrophes and man-made disasters in 2012*. Retrieved from <http://www.swissre.com/sigma/>

The issue is that shadow banks bring serious competition to traditional banks. Thus traditional banks are likely to be highly inclined to branch out into new lines of activity through the creation of shadow banks that are not subject to the higher capital and liquidity rules of Basel III.

This creates new risks in the economic system, and indeed, this is why the structure and regulation of shadow banks is so critical. In addition, in the future shadow banks will become even more important as we will look to them to take over the “heavy lifting,” the risky financing that traditional banks may refrain from doing in order to meet Basel III requirements.

This is the new frontier for policy-makers and regulators and indeed you, the unions. Shadow banks need to be followed and nurtured. However, they also need to be closely monitored and closely regulated. The reality is of course that given the pace and sophistication of financial innovation, it might be extremely difficult to keep pace with new kinds of shadow banks as they emerge.

We also need to bear in mind that lower-income communities do not have access to banking. In the U.S., the Federal Reserve estimates that 25 per cent of those in the bottom fifth of income have no transaction accounts at all.⁵ Hence, there is a lot to say in favour of alternative banking models, including micro and small business finance, cooperative banks, post banks, and others.

Investment Banks

These are players that do not accept deposits but underwrite securities, including seasoned share issues, initial public offerings, place shares with institutional investors, underwrite mergers and acquisitions and other related activities. In effect, they help companies, countries, and high-net worth players raise capital and manage assets. They are highly diversified firms, dealing also in lending, institutional investor services and investment management. They were also at the heart of the financial crisis. Investment banks need to be closely followed at the points at which they interact with other actors in the financial ecosystem.

Investment banks are remodelling their businesses in light of the ongoing reforms. These will be based on marginal cost of capital, the internal booking, pricing and confirmation models for e-trading and the like.⁶ They will also set up “separate legal entities” for trading riskier and more capital-intensive instruments: will we see different licences for transacting different products? What would this mean for supervision and transparency?

Mortgage Lenders and Securitizers

Let us move on to mortgage lenders and securitizers. Housing and shelter are fundamental human rights, and there is a strong motive for the financial sector to be involved in providing them.

The 2007 crisis taught us how some mortgage lenders sold the mortgages that they originated to mortgage securitizers, who in turn grouped them together to form residential mortgage-backed securities.

These securities were placed in a trust that allowed collateralized debt obligations (CDOs) to be issued based on the same mortgage pool. These CDOs were then divided into parts called “tranches” which were based on the perceived repayment capabilities of the original mortgage holder. In case of default, the senior tranche was paid first, followed by the second and third respectively.

⁵ Domhoff, D. W. (2012). *Wealth, income, and power*. University of California at Santa Cruz. Retrieved from <http://www2.ucsc.edu/whorulesamerica/power/wealth.html>

⁶ Accenture. (2013). *Responding to regulation in 2013 and beyond: Understanding the current and long-term implications*.

Different tranches thus carried different levels of risks and so were priced accordingly. And the first tranche—considered very unlikely to default—was awarded AAA ratings by securities rating agencies.

Yet this whole system collapsed when some the holders of the underlying mortgages began to default. What went wrong? The rating agencies had given away too many AAA ratings, that was clear, as was the fact that mortgages had been given to many people who could not afford them.

But what is less well known is that tranching system functioned fairly well.

Sun Young Park, based at the Korean Advanced Institute of Science and Technology, made an interesting observation several months ago. He found that only 0.17 per cent of the principal of U.S. AAA-rated sub-prime mortgage back security tranches issued between 2004 and 2007 had experienced losses due to underlying mortgage default as of 2011.⁷

We need to remember that mortgage securitization was designed by the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal Home Loan Mortgage Association (Fanny Mae)—both government-sponsored enterprises. And both enterprises went bankrupt and came under government control in 2008.

What really went wrong was neither Freddie Mac nor Fanny Mae—nor the rating agencies—ever believed that housing prices would fall, and so they did not plan for it. Such is the concern with systemically important institutions that are too big to fail. The moral hazard for them to take unreasonable risks is high, as there is the implicit understanding that governments will step in to the rescue with taxpayer money

Securitization itself arose to address the information asymmetry problem that Claire Hill aptly describes in her article “Securitization, a low-cost sweetener for lemons,” published 10 years before the crisis in 2007.⁸ Bundling mortgages into securities that are evaluated by rating agencies and dividing up these securities into tranches based on their risk profile reduces the risks that investors get stuck with “lemons.” This reinforces the argument that I made earlier—that the securitization logic worked, but the human assumption that rating agencies were infallible and that housing prices would not fall was the crux of the problem. Indeed, to make matters even more complicated, in the U.S., in 2001, laws were passed that enabled banks to compute risk-weighted capital using securitized mortgages rated AAA or AA at a 20 per cent risk weighting, rather than the 50 per cent risk weighting that was typically awarded to mortgages. This, together with the incentive for banks to move assets off their balance sheets as explained earlier, exacerbated the impacts of the 2007 sub-prime mortgage crisis.⁹

In saying this, I am not claiming that no malpractice occurred in the hands of mortgage securitizers. Dishonest individuals sold the toxic tranches to unsuspecting investors and engaged in many other misdemeanors. However, this does not negate the benefits of securitization. Importantly, the process provided low-cost loans to a vast number of lower-income citizens and afforded them opportunities to have homes earlier in their lives and better homes that they would have otherwise had.

The challenge now is to develop better mortgage institutions and better contracts.

⁷ Park S. Y. (2012, March). *Anatomy of ABS CDO: Why do ABS CDOs exist?* Korea Advanced Institute of Science and Technology (KAIST).

⁸ Hill, C. (1996). *Securitization, a low-cost sweetener for lemons*. *Washington University Law Review*, 74(4). 1061-1126.

⁹ Schiller, R. J. (1998). *Macro markets: Creating institutions for managing society's largest economic risks*. Oxford: Oxford University Press.

- For example, contracts could be more flexible, with a “pre-planned workout” (with options to modify the terms of the mortgage). Prof. Robert Schiller at Yale University has articulated several ideas on this.¹⁰
- We could envisage shared equity arrangements, such as home equity fraction interests that allow homeowners to sell shares in their homes.
- There are ideas around homeowner partnerships that enable people to become partners with an institution in buying their homes.

Such innovations are also essential to democratizing finance, and we should not let past mistakes get in the way of finding new solutions.

Traders

Traditionally, traders were people we imagined worked on the floors of stock exchanges, but today traders work electronically, providing liquidity and price discovery across the market. Public discontent is also directed at traders. Their value to the real economy remains suspect and so is their reputation to be self-serving at the expense of all others.

Much has also been said about the anomalies caused by high-frequency trading and automated high speed trading—the flash crash of May 6, 2010 is particularly salient. Worth highlighting, however, is that the scope of trading has also increased.

Take, for example:

- The non-farm labour statistics index launched by Goldman Sachs.
- The EIB Longevity Index linked to longer life expectancies and related pension payments.
- There were attempts made to launch a derivative market for residential real estate prices for single-family homes at the Chicago Mercantile Exchange.¹¹
- There also a number of prediction markets linked to the probability of events.

These are all noteworthy efforts that can be designed to work in favour of inclusive finance. Given that technology will drive financial trading, we need to appreciate that trading will also create the incentives and the opportunities for better coordinated economic activity, and that financial trading can also evolve in tandem, creating positive feedback loops.

Remember, that there can be no market without traders, and regulating them (and increasing transparency on their trades) might be a far more effective way to dampen bubbles than any mathematical model or high-level government committee.

In the words of Montesquieu, in *Book II of The Spirit of the Laws (Esprit de la Loi)*:

Most people are well qualified for choosing those whom they are to entrust with part of their authority—They can tell when a person has fought many battles... They can tell when a judge is assiduous in his office . . . But are they capable of conducting an intricate affair, of seizing and improving the opportunity in critical moment of action? No; this surpasses most peoples’ abilities.

This is what traders do and this is why we need them.

¹⁰ Schiller, R. J. (2012). *The subprime solution*. Princeton: Princeton University Press.

¹¹ Schiller, R. J. (2008, March). *Derivative markets for home prices* (Yale University, Economics Department Working Paper No. 46; Cowles Foundation Discussion Paper No. 1648). Retrieved from <http://ssrn.com/abstract=1114102>

Financial Engineers

And how about the financial engineers of the EU Emissions Trading System? These are bright people that start with a problem that needs a market solution and then design a market and associated contracts to help find solutions.

As a sustainability specialist, what comes to my mind is the U.S. sulphur dioxide cap-and-trade program, aimed at the acid rain problem in the 1960s. Today, we have a market for the capping and trading of carbon dioxide. There are now six climate exchanges across the EU and the U.S., and the World Bank has sponsored a parallel “cool bond” market. The take home here is that financial and market solutions hold the key to solving a variety of other pressing problems, and financial engineers need to become our allies.

Insurers

Insurers are custodians of risks, and we remember that there are large segments of lower-income communities that still remain outside the insurance markets. Together with the democratization of finance, the democratization of insurance is urgent. For those of us that want to dabble further:

- New insurance innovations to help hedge against weather and climate change are gaining ground in sectors such as agriculture, fisheries and tourism.
- We can also work to advance more long-term weather and catastrophe coverage: both are typically short term.
- We could also envisage futures markets for the insurance of career incomes.
- Or what about livelihoods insurance that we could buy on our carriers, on our university degrees, or even in the education of our children? In this way, we can take the risk to specialise in niche areas, without the anxiety of “being employable.”

Derivatives Dealers

Now let me turn to those who sell derivatives, i.e., those who sell forwards, futures, options and swaps for which there is a derivative price. Critics have suggested that they form the “Wall Street gambling casino,” as many of these instruments have no direct benefit to the real economy. And certainly, there have been a lot of disreputable practices in the use of these instruments.

But what is true is that these instruments provide commodity and property markets (and related industries) with legitimate means of hedging against a variety of risks. It is also true that investors crowd into these products because they are set up to bring substantial returns.

The challenge for us, therefore, is to seek to create alternative products, with reasonable returns, and with links to the real economy that would provide these investors with alternatives. Derivatives exist because there is market for them—and because they are profitable.

In this vein, IISD Senior Fellow Thomas Myers has proposed an Institutional Investors Bill of Rights that will bring together investors and sovereign wealth funds to collectively generate market-ready deliverables such as seller compliance, portfolio selection, listing requirements, sustainable investing guidance for corporate treasurers, alternative rating systems and more. The aim would be to generate the necessary intelligence to steer investors away from exotic speculative instruments to real-economy investments. Might this be a viable idea for collaboration with IISD in the coming months?

Lawyers

We have lawyers—every single financial device is supported by the small print of a long and complex contract. And lawyers also bring unscrupulous players to justice and help politicians and regulators write their ideas into laws, policies and regulations. We need to better engage with these actors because they can catalyze our call for democratic finance.

Lobbyists

There is increasing concern about lobbyists and their power to capture both the regulatory and political processes. The special interests involved in the financial sector are particularly strong, and this strength has been very visible in the ongoing regulatory reform process.

We can begin to counteract this influence by asking for increased transparency in political contributions and campaign contributions, especially in countries where there are no laws expressly requiring this. Then we need to spend the time and take the effort to use this information—to make public, and to name, shame and blame any and all instances where conflicts of interests have occurred.

Regulators

Let us move to the regulators. You, the unions are the main “social partner” of regulators. These are usually bold and astute individuals, and their intellect is fundamental for finance to deliver on sustainable development. And they share your call for a sustainable and stable industry.

The media holds high-performing financiers and CEOs in high esteem, but how often do we hear of “high-performing regulators”? Perhaps here is where you might begin to make a change? Make a fuss over regulators that are successful in doing their job?

The most pressing issue however, is whether regulators will be given the space and resources to do their job. Finance is the most globalized of all industries, and, given the notional volumes and values traded, regulators are ridiculously poorly resourced. In the run-up to the crisis, anecdotal evidence suggests that the Securities and Exchange Commission was down to fewer than 50 staff!

There is also the issue of the “revolving door” between the financial industry and its regulatory bodies. Most regulators come from the private sector. They have a stint at regulating and then might go back to the private sector. We thus need to question where the interests and loyalties of these individuals lie. At the same time, given the speed of specialization in the finance sector, those best placed to regulate are indeed those who have designed and traded these instruments in the first place.

At IISD, we are of the view that the financial industry might never be fully regulated because the industry is so global. As emerging countries seek to increase the sophistication of their financial markets, opportunities for arbitrage will persist, and financial innovators will always remain many steps ahead of regulators in exploiting loopholes and finding ways to circumvent the spirit and the letter of even the best designed laws. Such is human nature—and such is the way of the world. As Shakespeare wrote of human nature in *The Merchant of Venice*, “When he is best, he is a little worse than a man, and when he is worst, he is little better than a beast.”

Educators

In bringing about sustainable finance, educators are fundamental, and the challenge here is to engrain societal and sustainable values into the mathematics and technicalities of finance.

The baseline might be perhaps to begin with human psychology and neuroscience in ways that draw synergies between nature, the human mind and the financial system. In the words of neuroscientist Read Montague, “even in the simplest forms of life, valuation mechanisms are inevitable. Even the single cell e-coli bacteria has a mechanism to establish the concentration of their fluid environment of the amino acid L aspartate which they consume, and a mechanism to propel them towards higher concentrations of it.”¹²

Might we teach young financiers about the dopamine-gating hypothesis that draws analogies with the signals sent by the human brain and how these signals are more influenced by unanticipated rewards? And that reactions are strongest when news of the reward is received rather than when the reward is actualized? For this is how markets work—they react to the moment when information is received rather than when the information plays out in the economy or company. The news that dividends are to be issued is what drives share prices up, rather than the date when the dividends are indeed disbursed. Hence incentives have also to be so designed.

Public Goods Financiers

Let us not forget the public goods financiers, noting that public goods are not naturally provided for in free market systems and therefore represent a deep financial problem. We need to bring in the financial technologies that we have in so-called “straight” financial markets into the provision of public goods. The failure to do so is apparent in the global debate regarding Public Private Partnerships (or PPPs or P3 as they are commonly called).

The public perception is that the private consortiums building and operating PPPs—generated public infrastructure—are making far too much money on the back of the public purse. The reality might not be as simple as that.

- We need to ask if the financial, construction and operational risks and revenues were holistically evaluated at the onset.
- We need to ask if governments understood these risks and have the necessary deal-making skills to undertake these projects.
- We need to ask if we can indeed expect governments to be dealmakers.
- Might we not make this a part of the ongoing G-20 agenda towards “smart government”?

Policy-Makers

We come now to policy-makers. Central banks are monetary policy-makers and the lenders of last resort. They face perhaps an impossible task in managing panic situations when lending is fundamentally a matter of human trust.

Then there are the fiscal policy-makers who deal with tax and public expenditure matters. In Europe, these experts are particularly challenged. How do they achieve balanced budget stimulus? In theory, when interests rate are low, if you increase both taxes and spending, you may look at a balanced budget multiplier of 1. To make a gross oversimplification, this means that GDP goes up in tandem, euro-for-euro, with the increase in government expenditure.

¹² Montague R. (2012). Digging deep into the brain. Extract from Read Montague at TED Global2012. Retrieved from <http://blog.ted.com/2012/06/27/digging-deep-into-the-brain-read-montague-at-tedglobal2012/>

But the trick is that tax increases weaken the impacts of stimulus, and it is very difficult to determine in hindsight what large government projects can be undertaken that can also be speedily terminated when the economy improves.

- Perhaps the response lies in a market solution—could governments issue leveraged shares in their GDP? Shares that go up and down at a better ratio than one-for-one with GDP?
- What might have been the implications for Greece and Cyprus if their debts were so financed?
- We need to lobby for financial innovation in both fiscal and monetary policy-making. Indeed, with large-scale currency swaps, asset purchases and quantitative easing, this innovation has already begun.

Philanthropists

Philanthropists are stakeholders as well, and were first defined by Adam Smith in his 1759 book *The Theory of Moral Sentiments*. The fundamental urge to give wealth away was argued as well by Andrew Carnegie in his 1889 article “The Gospel of Wealth.” Here are groups of people who have done well under market forces, and we can work with them and learn from them about innovation, incentives and the inner workings of the system itself.

Accountants

We need to consider the role of accountants. Paramount here is the lack of harmonization between financial accounting and reporting standards across the world and the opportunities this creates for regulatory arbitrage.

Sustainable finance, on the other hand, requires that gains and losses be accounted for over the longer term—for only then can the actors in the financial industry practically begin to take a longer-term perspective on their decisions. How can we realistically ask finance to be more sustainable if we are measuring the value of assets and productivity from quarter to quarter? In the same vein, we can also ask if financial performance is the only way to value a company. Surely their contributions to environmental stewardship and social progress are just as important? Are shareholders and investors also not parents, consumers, entrepreneurs, employees, suppliers, insurance holders and citizens? Surely they want clear air, wholesome food, a stable climate and scenic landscapes? And if the response is “Yes,” will they not agree that shareholder value needs to include non-financial performance?

On this note, we would recommend that you take a closer look at the emerging debate on integrated reporting. Integrated reporting seeks to develop an alternative valuation and reporting format for companies that is based on a much larger basket of values than financial performance alone.

The Not-for-Profit Community

We come to the not-for-profit community. In us, you have a viable ally. The downside however, is that there are still only a few of us that have the technical skills to address the real issues of high finance head on. As we witnessed with Occupy Wall Street and its derivate movements across the world, the impressive collective courage of these people was sadly not accompanied by the much-needed intellectual argument that was necessary to advance their cause.

Unions

And finally, we turn to you—the unions. You are arguably the most important social partner in the ongoing financial sector reform process. Might it also be true to say that your traditional power base of collective bargaining has been somewhat weakened, due to the globalization of the financial markets and more importantly, the increased diversification, innovation and specialization of financial products and services?

Next Steps

Financial innovation and specialization has left many of us far behind, but we need to get up to speed on understanding this better.

Better regulating (and so democratizing) finance is the next frontier. And how this frontier is managed will depend on the choices we make as individuals and as societies and what trade-offs we can live with. But to make wise choices, first and foremost, we must increase our understanding of the financial system and increase our literacy regarding financial markets overall.

Before I began to work on this speech, I thought that financial literacy was indeed fundamental. But having spent more than several hours thinking about this next frontier, I have come to a different conclusion: that we cannot begin to democratize finance if we don't understand human psychology, human behaviour, how close the human nexus is to efficient market theories, and how close our human weaknesses are to imperfect markets.

For what are the most important challenges that we need to address in our financial system?

- We need to regulate and nurture shadow banking.
- We need beef up transparency and supervision of central counter parties.
- We need to increase transparency and data reliability across OTC markets.
- We need to provide for more flexible debt instruments.
- We need to allow for leverage.
- We need to see emerging speculative bubbles and dampen them.
- We need to promote monetary policies that can increase spending in times of stress and manipulate interest rates and taxes when economies are better able to support them.
- We need tax laws that reward long-term risk taking.
- We need policies that will reward companies that look beyond the bottom line.
- We need to recognize that market volatility, especially in commodity and currency markets, can affect the lives of millions in countries that can do nothing about it.
- We need to realize that some level of speculation is necessary for price discovery.

All of what I have just said is not only about complex instruments, algorithms, mathematics and contracts, but also about how we humans behave. As such, there always will be powerful psychological reasons for politicians and policy-makers to act out the folly of "The Emperor's New Clothes" as embodied in the fairytale by Hans Christian Anderson. An example of this from our own doorstep is that, until 2010, European banks had no capital requirements for holding euro-denominated government bonds.

We also need to grow up..We need to admit that the financial crisis we are living through is not merely the fault of greedy, dishonest players, but was also caused by the

- structural shortcomings of our financial institutions.
- the failure of these institutions to recognize and address risks.
- the psychological reasons to choose not to recognize risks.
- the fact that supervisors and regulators were poorly resourced and funded.

We also need to heed those who say that a lot of the ongoing reforms are being designed to avoid public bailouts rather than to make the financial system more accountable, and that they are being designed to appease public anger, rather than based on the advice of visionaries who want a more stable and sustainable future.

We at IISD want to accompany you as you work towards a more sustainable industry, and to try to lessen the impacts of the next crisis and ensure that capital is allocated to ventures that will ultimately ensure sustainable development everywhere.

Epilogue

I would like to end by reading to you an extract from *The Little Prince*, (Le Petit Prince) by the French writer, poet and pioneer aviator, Antoine de Saint-Exupéry.

This is from Chapter 13, when the Little Prince visits the fourth planet—the planet of the businessman—and he finds the businessman counting “his stars.”

And what do you do with five-hundred millions of stars?” asked the Little Prince.

“Five-hundred-and-one million, six-hundred-twenty-two thousand, seven-hundred-thirty-one. I am concerned with matters of consequence: I am accurate.” Said the businessman.

“And what do you do with these stars?”

“What do I do with them?” Nothing. I own them. Remember, I am concerned with matters of consequence”

“And what good does it do you to own the stars?”

“It does me the good of making me rich.”

“And what good does it do you to be rich?”

“It makes it possible for me to buy more stars, if any are discovered.”

“And what do you do with the stars?” asked the little prince.

“I administer them,” replied the businessman. “I count them and recount them. It is difficult. But I am a man who is naturally interested in matters of consequence.”

The little prince was still not satisfied.

But you cannot pluck the stars from heaven, and then take them with you, can you?” asked the little prince.

“No. But I can put them in the bank.” Retorted the businessman.

“Whatever does that mean?”

“That means that I write the number of my stars on a little paper. And then I put this paper in a drawer and lock it with a key.”

“And that is all?”

“That is enough,” said the businessman.

“It is entertaining,” thought the little prince. “It is rather poetic. But it is of no great consequence.”

On matters of consequence, the little prince had ideas which were very different from those of the grown-ups.

"I myself own a flower," he said to the businessman, "which I water every day. I own three volcanoes, which I clean out every week (for I also clean out the one that is extinct; one never knows). It is of some use to my volcanoes, and it is of some use to my flower, that I own them. But you are of no use to the stars . . ."

The businessman opened his mouth, but he found nothing to say in answer.

"The grown-ups are certainly altogether extraordinary," said the little prince simply, talking to himself, as he continued on his journey.

Thank you for inviting us to share this important occasion with you. It has been more than an honour—it has been a moment of great consequence.

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