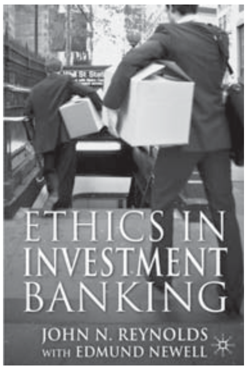

Ethics in Investment Banking

Palgrave Macmillan 2011, Hardback 178pp; £28.00
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by John N. Reynolds with Edmund Newell

reviewed by John Ellis

This book needed to be written. Many Church commentators now talk as if bankers, and especially the 'casino' investment bankers, are incurably morally degenerate. Others, including no doubt many readers of this journal, would like a more careful analysis and hope the story is not so uniformly bleak. Christians in the banking industry would appreciate someone redressing the balance.

John Reynolds, as a career investment banker who has recently ended his term leading the Church of England's Ethical Investment Advisory Group, is a confident guide. He is assisted by the Revd Dr Edmund Newell of Christ Church, Oxford, who was the founding director of the Institute established by St Paul's Cathedral to examine capitalism's morals several years before the Occupy Movement appeared.

Reynolds is familiar with the apparatus of compliance that surrounds financial business and is clear that ethical demands go beyond that. He starts by reviewing practical ethical issues that emerge from the recent financial crises before the book looks more philosophically at the relative usefulness of duty-based, consequence-based and virtue-based approaches to ethics in the investment banking context.

Ethics in Investment Banking reviews what various religious traditions have to say on business ethics before returning to very practical matters in exploring the everyday work of an investment banker. It draws helpful distinctions between the ethical issues arising from the trading role as opposed to the advisory role. The longest chapter is on issues with clients and shows investment banking to be much more about relationships than some might suppose.

Reynolds is clear that investment banking plays a necessary and desirable role in an advanced economy. As in other marketplaces, the ethical temptations are less constrained if there are small numbers of dominant firms but even then senior individuals can set an ethos in their own firm. He argues that central to good ethics in investment banking is to make sure that the firm's rights, those of its shareholders and those which relate to intellectual property, are ultimately subjugated to its duties, to its clients and the ethical health of the market.

Wisely, Reynolds does not share the common assumption of legislators that increased regulation can provide confidence in firms' internal ethics. To maximise the chances of firms adopting the highest ethics he favours industry-wide ethical codes, which in practice would imply global codes. Finally, the book's themes are gathered together in an attempt to set out what such ethical advice might look like.

The sceptic might feel that the book gives the benefit of the doubt to the bankers slightly too often. Those who know Reynolds might hear echoes of his own restless energy in the rapid switches from one topic to another, and perhaps extended examinations of more actual examples of the principles in action would have strengthened the argument. In particular, there is surprisingly little on the topic of pay and bonuses. It is noted that the financial incentives encourage risk-taking 'often at the expense of ethical behaviour' (p134) and the question of the appropriateness of very high rewards for bankers now backed by a Government guarantee is noticed (p.26). But we are left dangling.

Nonetheless, this book gives an insight into what it feels likes to be immersed in the complicated end of banking. Even the controversial views are informed ones. Read this book and be grateful for those who wrestle with what it means to be salt and light rather than enjoy the moral purity of the spectator.

John Ellis leads the national staff team of the Methodist Church and is also the Treasurer of the United Reformed Church. In previous careers he worked for the Bank of England, including as the Business Ethics Adviser, and as a Head of Department at the Financial Services Authority responsible for the supervision of a range of investment banks. He worships in an ecumenical parish in Kent.