

Get Smart About Scandals Past Lessons For Future Finance

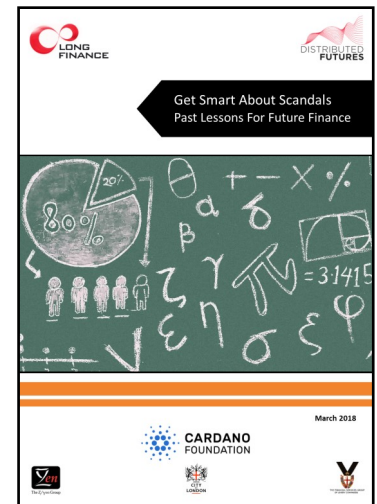
At a time when the velocity of change in technology and systems is challenging the business and economic models for conducting financial services, it is prescient to analyse the cause and effect of financial scandals past and present.

Overview

The financial world is shaken at intervals by scandals or revelations involving activities which, although not strictly speaking legal, provoke a level of moral indignation.

So what defences can be set up to ensure that corruption and scandal are to be prevented or at least avoided? Since the banking crash of 2008 in particular, compliance has become a major issue. Transparency, in turn, has become a rather over-used word, but is still a valuable concept. Smart Ledgers should prove to be a workable system that will cast light into dark corners and will prevent the continuing existence of what are sometimes referred to as Old Spanish Practices. It will hopefully reinforce confidence in companies, the system and financial centres, which is all to the public good.

Measures need to be considered in ensuring that different working practices will become the industrial standard. There needs to be a clear policy on ethical issues at individual and company level, backed up by a system of oversight and compliance that can function without being obtrusive. So it is worth looking at such financial scandals, the circumstances which engendered them, and the measures taken both before and after which were designed to prevent them, in order to see whether there is a discernible pattern which can be traced and therefore classified and used in the hope that such things can be headed off or even avoided in future.



Report Extracts

The Mississippi Bubble 1718

When King Louis XIV of France died, his opulent lifestyle left the country in dire financial straits. John Law, an itinerant Scotsman, persuaded the Duke of Orleans that he had a cunning plan to resolve the problem: a state-owned bank would issue a fiat currency by taking in gold and issuing paper money – which could be redeemed in due course at face value. The state would therefore be able to lend money to entrepreneurs, and thereby invigorate the economy and recoup the benefits via taxation. Phase 2 was to launch the Mississippi Company, along the lines of the East India Company which had created so much wealth for Holland. However, Louisiana was little more than a swamp at the time and did not yield the returns anticipated. John Law increased the nominal value of the Company by issuing further stock. At this point some investors became justifiably anxious and tried to withdraw their funds. The reserves were not there and the crash was spectacular.

Report Extracts

Vehicles for Fraudulent Behaviour	Corrupt Practices And Procedures	Bubbles, Booms And Busts
Technology Opens New Horizons for Fraudulent Behaviour	Taxation: Its Role In Corrupt Practices	Bubbles, Booms And Busts Are Unexpected Periodic Events
The Madoff Scandal	Tax Heavens or Havens?	Bubbles Or Waves?
The Enron Scandal	The Legal & Moral Dilemmas of Globalisation?	The Poseidon Bubble
Pyramid Selling	No Room For Complacency In Combating Intrusive, Questionable And Illegal Activities	The Dot.Com Boom And Bust
Cyber Crime - An Emerging Developing Form of Financial Crime	Enterprises Disguise Illegal Activities Internally	Cryptocurrencies – A Suitable Case For Treatment Under Boom And Bust?
Criminal Authorities: Behaviour & Reaction	Rules & Regulations – A Response To The Global Financial Crises Since 2007	“Cash Is King” In A Financial Crisis
Globalisation, Digitisation And Growth Of Financial Crime	The Moral Hazard of Lehman Brothers, Northern Rock & Others	The Financial Risks Of Cash Markets
Cryptocurrencies: Don’t Confuse The Technology With The Product And Service	Moral Hazard And Government Intervention	Controlling Economic Development During Market Booms
Growth Of Products And Services Derived From Cryptocurrencies	A Post-Mortem On The Global Financial Crisis	Factors Contributing To A Boom

Conclusions

- There is too much detailed regulation.
- Regulations are too complex to detect or prevent financial scandals.
- One size of regulation does not fit all.
- Although current forms of sanction for violation of financial regulation are severe, they don’t seem to deter scandals.
- Adherence is paid to the forms and processes of regulation as much as the substance.
- Advances in globalisation present complexity and conflicts across jurisdictions arising from differences of business culture and ethics.
- Major financial centres have to develop their own specific agents of change to address financial scandals.

Measures need to be introduced in the four key areas of: **Policy, Procedures, Structures, and Training.** Recommendations include:

- Reviewing the financial regulatory and compliance procedures
- Strengthening identity and verification checks on new enterprises
- Drawing on a wider range of skills and resources to pursue e-criminals, with support from commercial and law enforcement agencies.
- Review and develop programmes for teaching ethics.

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