

## Faith-based investors push bankers for transparency

Dennis Sadowski Catholic News Service | May. 7, 2010



Traders work on the floor of the New York Stock Exchange May 5. (CNS photo/Brendan McDermid, Reuters)

**WASHINGTON** -- As Congress debates legislation to restrict the activities of financial traders, a group of faith-based institutional investors is pressuring four of the nation's largest banks to become more transparent in the way they transact investment deals.

The investors, under the banner of the New York-based Interfaith Center on Corporate Responsibility, have introduced shareholder resolutions that call upon the banks to act more openly and with clarity in the trading of financial products known as derivatives.

If votes at two recent shareholder meetings mean anything, the campaign seems to be catching on.

Resolutions offered during shareholder meetings at Citigroup and Bank of America met with unprecedented success. A Citigroup resolution April 20 captured 30 percent of the vote; a similar measure at Bank of America April 27 garnered 39 percent of shareholder votes.

Traditionally, shareholder resolutions receive single-digit support the first time they are offered. Even resolutions encouraging divestment from South Africa under apartheid in the 1980s met with minimal success when first proposed. Eventually, the resolutions were approved and the widespread divestment from South Africa that followed helped bring down the apartheid system.

ICCR representatives say transparency in derivative trading is necessary to prevent another economic meltdown and a deepening of the current steep recession.

Two more banks are being targeted by ICCR-backed resolutions: Goldman Sachs May 7 and JPMorgan Chase May 18.

The firms are four of the five financial institutions reportedly accounting for 96 percent of all derivatives trading in the United States.

For the record, a derivative is a financial contract with its value linked to the expected future price movements

of an asset -- a share of stock or a currency, for example.

While such trading is not illegal, questions have arisen over how derivatives were packaged and marketed and whether investors were fully informed about what they were buying before the economic collapse in 2008.

Oblate Fr. Seamus Finn, director of social justice for the Missionary Oblates of Mary Immaculate and a leader within the ICCR, said the resolutions evolved from a 30-year effort to call attention to banking practices that enrich a few while placing people worldwide at deeper risk of financial losses and deeper poverty.

"We believe derivatives, improperly handled, are a risk for the entire financial institution," Finn said.

Catherine Rowan, corporate responsibility coordinator for the Maryknoll Sisters, was to present the ICCR-backed resolution at Goldman Sachs. She expected the meeting to be interesting in light of the recent negative publicity the company has received.

"We see this as an opportunity to educate our fellow shareholders," Rowan told Catholic News Service May 3. "It's the shareholders' responsibility to hold management accountable. We're trying to illustrate the need for greater transparency and disclosure."

Goldman Sachs is the poster child for banking practices run amok. The firm remains under fire from politicians and regulators for the way it packaged and sold mortgage-related securities before the 2008 collapse of the housing market.

The firm's practices in those deals led the Securities and Exchange Commission April 16 to file civil fraud charges against it and one of its traders, Fabrice Tourre, alleging they misled clients in the marketing of mortgage securities. During subsequent Senate Banking Committee hearings, senators publicly rebuked Goldman Sachs executives.

If that's not enough, the Justice Department has opened a criminal investigation into the firm's activities. Whether charges will be filed remains uncertain.

Throughout it all, Goldman Sachs executives have denied any wrongdoing.

It should be noted that derivative trading is not illegal. The questions in this case revolve around whether Goldman Sachs and the other banks fully shared with investors that the derivatives being sold were based on shaky mortgages.

Admittedly, derivatives are a sometimes risky investment. Shrewd investors know they ought to have a good picture of what they are getting into.

However, Sr. Barbara Aires, coordinator of corporate responsibility for the Sisters of Charity of St. Elizabeth in Convent Station, N.J., said failed financial deals reach far beyond individual investors or institutions hedging their bets on big gains in a short period of time.

"We have seen the impact of these failed situations, whether it was in the housing debacle or whether in the Enron-type thing," Aires told CNS. "We see unbelievable practices where some people make enormous amounts of money and others go down the drain.

"Producing wealth and capitalism, I'm not for getting rid of all this," Aires said. "But it needs balance, and it needs fairness."

Legislation that would rein in banking practices by eliminating irresponsible risk-taking and improving

oversight of banking firms is pending in the Senate. The likelihood of its passage grew after the Goldman Sachs hearings.

The Senate began amending the bill May 4 after Republicans dropped objections in late April to beginning debate on it.

Even should the bill pass, the ICCR will continue to push for openness in financial deal making. It is important, Maryknoll's Rowan said, that each financial institution being targeted publicly state its commitment to fair banking practices.

"We've been working on this issue ... and we will continue to plug away," she said.

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