The Ethics of Banking and Finance
ETHC 3500 (3 credits / 45 class hours)

SIT Study Abroad Program:
Switzerland: Banking, Finance, and Social Responsibility

PLEASE NOTE: This syllabus represents a recent semester. Because courses develop and change over time to take advantage of unique learning opportunities, actual course content varies from semester to semester.

Description
This seminar covers the financial code of ethics and addresses sustainable financing, socially responsible investment (SRI) issues, ethical banking, and legal and practical aspects of integrating environment, social justice, and corporate governance (ESG) issues to institutional investment. The seminar gives a detailed overview of major institutional actors, key players in European and global networks in the field of banking and sustainable financing, and the international standards in the fight against tax avoidance and money-laundering. This course is highly practice-oriented; each module contains at least one field visit to a corresponding local organization or NGO. Lecturers are drawn from academic institutions, non-governmental organizations, government agencies, and research centers, or are individuals recognized as specialists in their fields.

Learning Outcomes
The Ethics of Banking and Finance course comprises 45 class hours of instruction (3 credits). Upon completion of the course, students will be able to:

- Understand the notion of ethical and sustainable financing;
- Note the difference between the main sustainable financing instruments, like SRI, micro-finance, impact investing, and philanthropy;
- Understand the business model of ethical banking;
- Apply SRI analysis;
- Develop analytical tools for evaluating different investment strategies;
- Demonstrate the strengths and weaknesses of the existing legal and regulatory framework of sustainable financing;
- Interrelate ESG and finance issues in study format.

Language of Instruction
This course is taught in English, but students will be exposed to vocabulary related to course content through in-country expert lectures and field visits in a wide range of venues and regional locales.

**Course Schedule**

*Please be aware that topics and excursions may vary to take advantage of any emerging events, to accommodate changes in our lecturers’ availability, and to respect any changes that would affect student safety. Students will be notified if this occurs.*

**Module 1: Banking and Ethics**

This introductory session to the basics of sustainable financing and ethics allows students to discover the historical dimension of the concept, main fields, terminology, and examples for financial institutions that are functioning in a purely ethical way.

**Session 1: Introduction to Sustainable Finance: History and Milestones**

The objective of this session is to give an introduction to the notion of what is often described as “ethical, sustainable, social, alternative, development, or solidarity” banking and financing.

**Required Reading:**

E.P. Delia: ethical investment in a dynamic society: From basic beliefs to economic growth and personal happiness, in: Introducing Ethical Investment in a Dynamic Society - Edited By E.P. Delia, Chairman APS Bank, AN APS BANK PUBLICATION 2012

Introduction to Ethical Finance and Responsible Investments, PRICE (Promoting Responsible Investments and Commerce in Europe: Fair Trade and Ethical Finance Responds to Global Crisis), EC - Creative Commons license, 2014

**Session 2: Fields of Sustainable Financing**

This section gives an overview and explores the principles of Sustainable and Responsible Investments (SRI), Social and Economic Governance (ESG) issues, Impact Investing, charity, and philanthropy.

**Required Reading:**

Alessandra Viscovi: What is meant by ethical investments? in: Introducing Ethical Investment in a Dynamic Society - Edited By E.P. Delia, Chairman APS Bank, AN APS BANK PUBLICATION 2012

**Session 3: Business Model of the Ethical Bank/Community Bank**

This session provides students with a critical assessment of a sample of ethical banking which includes new bank, green bank, responsible bank, alternative bank, civil bank, and charity bank.

**Required Reading:**

What really differentiates ethical banks from modern banks? FEBEA, 2012


**Module 2: Financial Policy and Ethics**

This module shows the recognition of the importance of sustainable financial issues in institutional investment and the efforts and measures made in cross-sectorial cooperation.
Session 1: Ethics of Institutional Investment
This session addresses legal and practical aspects of integrating environmental, social, and governance issues into institutional investment. The session focuses on rules and standards (ISO 14001, EMAS, SA 8000) and sample case studies.

Required Reading:

Session 2: Benchmarking Investment Policies of International Banks
This session evaluates how internationally operating banks integrate sustainable financial principles in their investment policies on two core dimensions: content and transparency/accountability procedures.

Required Reading:
Close the Gap - Benchmarking investment policies of international banks, Nijmegen, April 2010, BankTrack.

Session 3: Sustainable and Responsible Investment (SRI) and Financial Analysis
This session is an introduction on how to measure the corporate performance of environment, social, and governance factors of companies.

Required Reading:
Sustainability leadership report - Measuring perception vs. reality. Brandlogic and CRD Analytics, 2011, INAUGURAL STUDY COVERING 100 GLOBAL CORPORATIONS. Matching actual corporate sustainability performance with perceptions among investment professionals, purchasing/supply management professionals and graduating students from the US, China, Japan, Germany, UK and India.

Session 4: Implementing SRI
This session provides first-hand experience in integrations of SRI principles in the asset management. The session has a field visit component to a private bank or Pictet, BCGe, etc.

Module 3: Major Actors in Sustainable Financing
This module gives an overview of the major actors and institutional players in the field of sustainable financing and investment.

Session 1: Sustainable Financing and NGOs Sector
This session explores civil society expectations of the role and responsibilities of Financial Institutions (FIs) in fostering sustainability.

Required Reading:
Collevecchio Declaration: The role and responsibility of financial institutions.

Session 2: Multistakeholder Initiatives
This session investigates Pan-European and worldwide cross-sectoral networks for advocacy, public policy and research, implementation of sustainable and responsible investment (SRI), EUROSIF, United Nations-supported Principles for Responsible Investment (PRI), UNEP Finance Initiative, and the UN Global Compact.
Session 3: Involvement of Banking Sector
This session explores the commitment of financial institutions to ensure that the projects financed and advised by them are developed in a manner that is socially responsible and reflects sound environmental management practices.

Required Reading:
The Equator Principles June 2013, A financial industry benchmark for determining, assessing and managing environmental and social risk in projects.

Session 4: Sustainable Financing and Information Agencies
This session includes a field visit to Thomson Reuters, Geneva, and shows what information agencies can do and what kind of services they have related to sustainability financing issues (climate change, carbon pricing, fossil fuels, corporate governance, etc).

Module 4: Tax Avoidance and Ethics
This module tackles the challenges of authorities and governments facing tax avoidance, money-laundering, and ethical financing and introduces its global and European institutional regulations. Case Study: Switzerland.

Session 1: Tax Avoidance and Global Financial Processes
This session introduces the global financial processes which monitor tax avoidance and which include The Financial Action Task Force (FATF), Foreign Account Tax Compliance Act (FATCA), and World-Check.

Required Reading:
International standards on combating money laundering and the financing of terrorism and proliferation, The FATF Recommendations, 2013 FATF/OECD

Session 2: European Finance
This session presents the major reform projects: European supervision, regulation of Credit Rating Agencies, regulation of Hedge Funds, Private Equity Funds, regulation of OTC derivatives trading, short selling and Credit Default Swaps, measures to make the financial sector contribute to the costs of crisis, capital requirements, and a broader framework for crisis prevention and management.

Required Reading:
Session 3: Case Study of Anti-money Laundering Acts and Rules
This session focuses on Switzerland as a case study for established rules and regulations to address anti-money laundering.

Required Reading:

Module 5: Market Pressures and Ethics
Through some examples, this session shows how market pressure influences certain fields which are playing a crucial role in positioning a company on the market, and it highlights the importance of accounting, credit rating, and natural capital.

Session 1: Creative Accounting and Ethics
This session addresses the notion of an ethical or moral accountant versus a good accountant and approaching the role of accountants in corporate financial statements regarding sustainability issues.

Required Reading:

Session 2: Rating Agencies (CRAs)
This session investigates the key role of credit rating agencies in financial markets by helping to reduce the informative asymmetry between lenders and investors and issuers on the other side. It also addresses the potential impact of CRAs in developing countries.

Required Reading:
Standard & Poor’s Financial Services LLC. 2014. Guide to credit rating essentials - What are credit ratings and how do they work?

Session 3: Business Competition and Natural Capital
This session examines the new concept of natural capital approach as a spectrum of physical assets within the natural environment that deliver economic value through ecosystem services.

Required Reading:
Chairman APS Bank, AN APS BANK PUBLICATION 2012
Module 6: Investissements d’Avenir: Sustainable Business and the Environment

Environment-related risks increasingly feature in financial valuation and businesses are warier about the impacts of investment on natural capital and biodiversity loss. Changes in policy and technology have had material impacts on financial investments, as is the case with carbon risk management. Also, the changing regulatory environment is impacting banks’ capacity to provide long-term loans. This module addresses the intricate relationship between finance and the environment. In particular, it looks at the workings of divestment, stranded assets, and the changing regulatory environment in Europe.

Session 1: Ethics of Finance, Environment, and Policy in Europe

This session provides an overview of the impact the divestment movement is having on financial investment. The focus is on the changing regulatory environment in Europe and its implications on banking and financial responsibility.

Required Reading:

Session 2: Divestment and Finance in Europe

This session examines the divestment movement in Europe. Under pressure from pressure groups including students and environmental militants, businesses and investors are divesting from thermal coals, tar sands, large oil majors, and the companies with the most impact on climate change. Citing ethical and environmental reasons, more and more public and not-for-profit institutions are redirecting their investments in sustainability-oriented funds.

Required Reading:


Session 3: Stranded Assets

‘Stranded assets’ refers to assets which suffer from unanticipated or premature write-offs or are converted to liabilities because of environment-related risks. This session addresses ways in which environment-related risks could affect the financial sector and what financial institutions can do to manage such risks. The session also analyzes the underlying logic for why the financial sector should care about the environment and environment-related risks.

Required Reading:


Session 4: Review and Wrap-up of the Seminar
This session provides an overview of the main issues addressed in this course, including sustainable financing, socially responsible investment (SRI) issues, ethical banking, and the legal and practical aspects of integrating environment, social justice, and corporate governance (ESG) issues to institutional investment. The discussion will be framed around key reflection questions that have been approached either through guest speakers’ presentations, field visits, or assigned readings.

Evaluation and Grading Criteria
Papers will be graded on style and structure, depth of analysis, and synthesis of secondary and primary sources.

Description of Assignments:
Midterm, final exams, and participation constitute the course requirements. In all exercises, students are asked to reflect analytically and to integrate the briefings, lectures, readings, and field visits.

- **Midterm paper**: midterm assessment includes an analytical paper on an issue related to international finance, crises, and social responsibility covered in the first three modules. The paper should be 6-8 pages long.
- **Final exam**: this is an in-class exam. Students will have to respond to essay questions related to modules 4, 5, and 6.
- **Participation**: attendance, punctuality, active involvement in discussions, and completion of reading assignments are absolutely essential for passing this seminar.

Assessment:

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<td>Participation</td>
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Grading Scale:

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Expectations and Policies

- **Show up prepared**. Be on time. Have your readings completed and points in mind for discussion or clarification. Complying with these elements raises the level of class discussion for everyone.
- **Have assignments completed on schedule, printed, and done according to the specified requirements**. This will help ensure that your assignments are returned in a timely manner.
- **Ask questions in class. Engage the lecturer**. These are often very busy professionals who are doing us an honor by coming to speak.
- **Comply with academic integrity policies** (no plagiarism or cheating, nothing unethical).
- **Respect differences of opinion** (classmates, lecturers, local constituents with whom we engage on site visits). You are not expected to agree with everything you hear, but you are expected to listen across difference and consider other perspectives with respect.

Please refer to the SIT Study Abroad handbook for policies on academic integrity, ethics, warning and probation, diversity and disability, sexual harassment, and the academic appeals process.