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# Taking The Floor: Models, Morals And Management In A Wall Street Trading Room

Professor Daniel Beunza, Professor of Social Studies of Finance, Bayes Business School

Webinar

Tuesday, 26 September 2023





## A Word From Today's Chairman

Mike Wardle  
CEO & Head of Indices  
Z/Yen Group





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# Today's Agenda



- 11:00 – 11:05 Chairman's Introduction
- 11:05 – 11:25 Keynote Presentation – Professor Daniel Beunza
- 11:25 – 11:45 Question & Answer



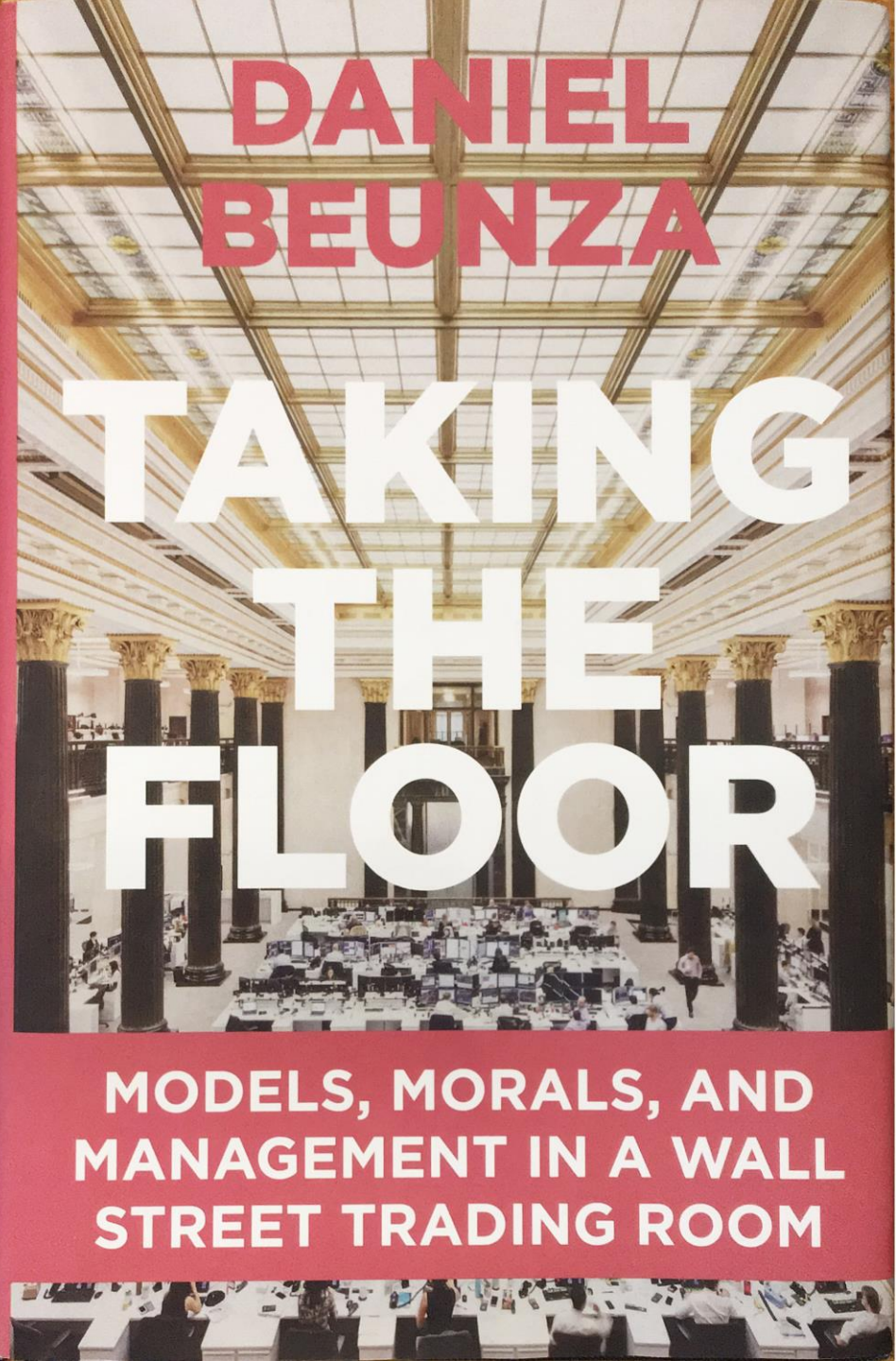
## Today's Speaker

Professor Daniel Beunza  
Professor of Social Studies of  
Finance  
Bayes Business School



# “Taking the Floor”

**Prof. Daniel Beunza**  
Bayes Business School,  
City, University of  
London  
FS Club  
September 2023



LIVE  
12:39 pm ET

**FINANCIAL REGULATIONS**

**WILLIAM DUDLEY**  
Federal Reserve Bank of New York  
President & CEO

**C-SPAN**  
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# Bank culture

- William Dudley, NY Fed, 2014:
  - “Culture is what people do when no one’s looking.”
- UK Salz Review:
  - “Bankers were engulfed in a culture of ‘edginess’ and a ‘winning at all costs’ attitude.”
- UK Banking Standards Board:
  - “To promote high standards of behaviour and competence.”





How to improve the culture of organisations whose decisions are shaped by economic models?



“Wall Street banks are badly managed. Too large, too complex.”

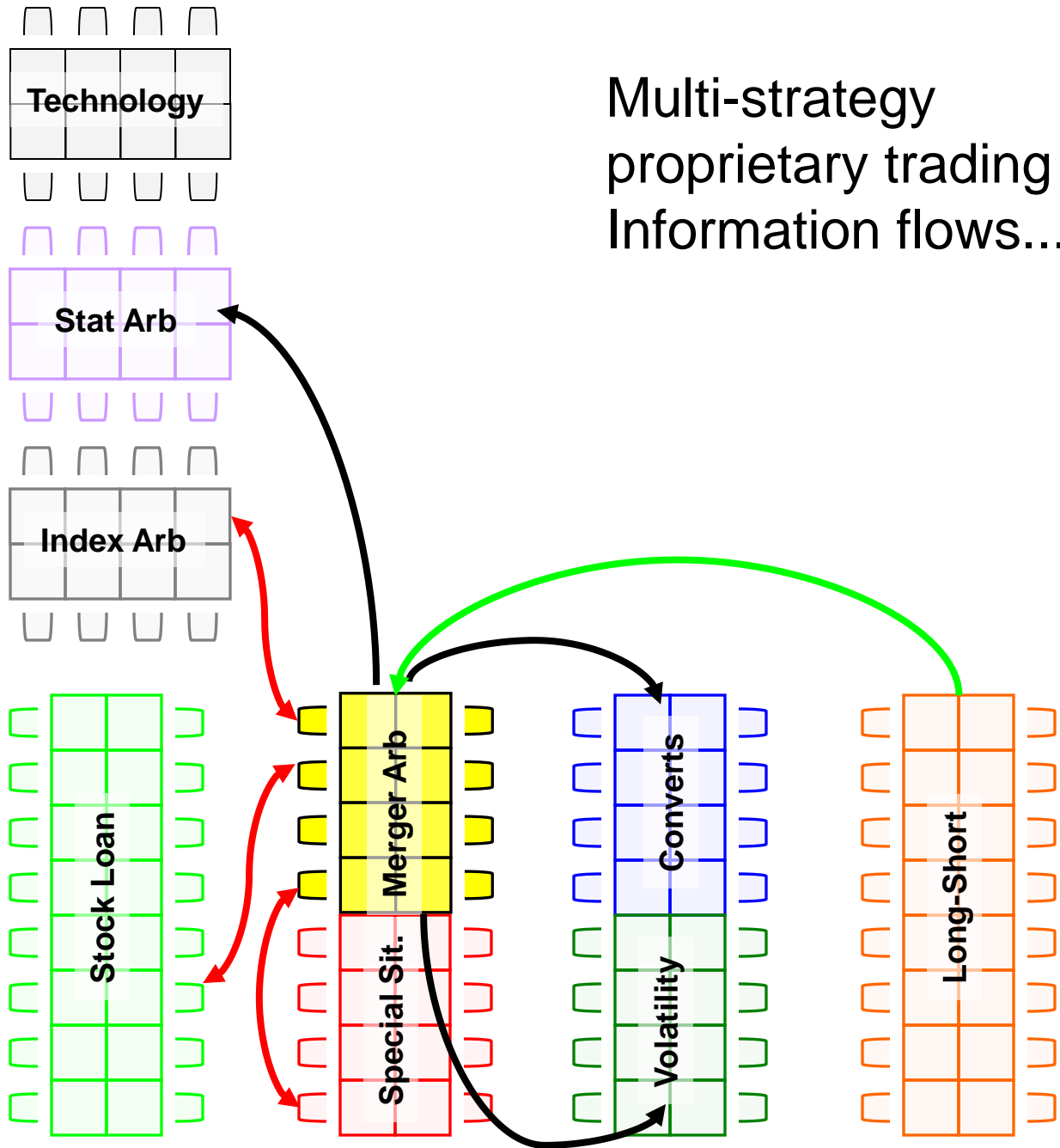
“Mark my words: when the next crisis comes, not one but two of the large banks will disappear”

Bob's trading room was not representative, but illustrative

1999-2003

First study





Multi-strategy  
proprietary trading  
Information flows...

“If the boss does not give the trader the same bonus as others, the trader will go, ‘I heard Joe at a party, he got five hundred thousand. What, don’t you like me?’”

### **Organizational justice**

Perceptions of injustice impact job attitudes and behaviors at work (Greenberg, 1987)

2008-2015  
Revisiting the  
trading floor





- Co-head and a few others were late. “I had everyone come in the room, and then I locked the door.
  - “Bob, can we come in?”
  - “No, none of you can come in. You’ll have to spend time with me alone. That’s your punishment.”
- “The reputation that I developed, which I allowed to persist, was that I would burn down my own house before I would compromise with my principles or my rules”

From market incentives to organizational norms

# 1987-1995 Premier Financial

- “Equity derivatives, commodity derivatives, credit derivatives ... the absolute globalization of the business.”

# Introduction of control models

- Premier quantified the cost of risk
- Bank introduced Value at Risk to help Bob manage risks in the derivatives book
  - “So, you may think you're taking too much interest rate risk but maybe proprietary trading has the opposite [view]. ‘So, Bob, what's your problem? Step on the gas.’”

- But... the model was imperfect
  - “Traders absolutely hated it. They spent all day examining the risk management system, finding its intellectual deficiencies to humiliate them and to drive around the barrier.”

**Moral disengagement (Bandura 1996)**

A perception of unfairness can lead to the detachment of immoral behaviors from self-condemnation or other negative emotions

# Model-based moral disengagement

- **A discursive-material mechanism**
  - The weakening of self-condemnation caused by perceptions of injustice associated with the use of imperfect models to manage the organization

# How to prevent disengagement?

At Bob's trading room:

- Limited in size to 160 traders
- No lucrative over-the-counter derivatives
- Risk management model data ignored
- No “subjective” bonuses
- Middle managers strictly enforced norms

# Proximate control

- Material and discursive mechanisms that reinforce organizational norms and relations, preserving a sense of justice and sustaining self-condemnation when norms are breached





# Comments, Questions & Answers



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- Wed, 27 Sept (11:00-11:45)      Satellite Technology For Assessing Global Terrestrial Carbon Stock – State Of The Art & Future
- Thu, 28 Sept (09:00-09:45)      Launch Of Global Financial Centres Index 34
- Thu, 28 Sept (17:30 – 20:30)      FS Club Mixer – Creating Real Business Value From AI

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