



PRESS RELEASE

Trento, 1 June 2009

## The crisis tribunal

### FINANCE ON TRIAL: THE SENTENCE

#### Seven charges - the people's jury found the defendant 'guilty' on five counts

The jury of Trento Festival of Economics, Passing judgement on FINANCE with full autonomy and freedom, after the debate which saw the participation of Professor Marco ONALDO and Professor Luigi ZINGALES, respectively in the role of prosecution and defence counsel, with dott. MASSIMO GAGGI as President of the court, having examined the documentation and listened to the conclusions of the parties:

#### Considering:

- that finance and the innovative instruments introduced in the last few years are a useful means for the development of the real economy if they are not used in a distorted manner, as demonstrated by the PP Onado and the defence witness Brunnermeyer;
- the inadequacy of the pricing methods which led increasingly less consideration to be paid to collateral and increasingly more to the price of other instruments, leading to a progressive detachment from reality;
- that individually each bank could affirm that it had put hedging into practice but from a macroeconomic point of view the market was not providing the necessary coverage, the risk instead increasing;
- that there were obscure aspects of the general financial system which were deliberately kept in the shade through the use of unregulated markets, an exchange of financial instruments with high counterparty risk and the creation of undercapitalised off balance sheet vehicles;
- the conflict of interest endemic within the financial world and the complicity of the banks and supervisory authorities;
- that the jury reiterates, as stated by both parties, that no blame is to be attached in any way to profit and that indeed the pursuit of legitimate profit is the basis of capitalism.

As regards the following charges, it issues its **judgement**:

1. That knowingly and deliberately it created complex financial instruments, preventing investors from evaluating the effective risk.

**GUILTY**

2. That knowingly and deliberately it concealed the risks intrinsic in complex financial instruments and in non transparent or opaque company vehicles;

**GUILTY**

3. That knowingly and deliberately it accredited procedures or contractual agreements with the public as "financial innovations" useful for collective economic development, whereas in truth their only purpose was to obtain enormous profits, albeit at times only apparent;

**NOT GUILTY**

4. That knowingly and maliciously it misled thousands of families, leading them to take out mortgages at conditions that were subsequently shown to be different from those represented and financially unsustainable, with terms that the banks had provided for from the beginning; practices that were defined as predatory lending in economic practice and literature, with the aggravating factor of the continuation of the crime and the seriousness of the damage caused;

**GUILTY**

5. That it intentionally and systematically underestimated the risks taken, creating an enormous danger for the whole global financial system, obtaining however fat profits;

**GUILTY WITH POSSIBLE MALICE**

6. That it knowingly induced the authorities responsible for drawing up international accounting criteria to adopt techniques suitable for swelling profits in the initial phase of the boom and subsequently induced them to abandon them rapidly as soon as the crisis became apparent, with the result of artificially expanding profits and creating confusion and uncertainty among investors;.

**NOT GUILTY**

7. That in a systematic manner it maliciously presented the supervisory authorities with a distorted and false picture of its situation, in this way obstructing supervisory activities.

**GUILTY**

Furthermore, the jury has taken into consideration the request presented by the defence: it therefore rejects the counter-action proposed by the defence for calumny by the prosecution because the facts have been shown to be well-founded, on the basis of the reasons given above.

Furthermore, the jury has reached a decision as regards the defence request for condemnation of the regulators alone. As regards this point the jury recalls that the regulators have already been brought to trial separately and condemned and believes that the financial system is also responsible.

For these reasons the Jury condemns:

the management of banks to refund earnings linked to the responsibilities ascertained and to socially useful work.

SPOKESPERSON FOR THE JURY: Stefano Alli Maccarani, Florence.