Research Question
How did the global financial crisis of 2007-2009 affect the frame of reasoning for regulation?

Hypothesis
The crisis highlighted the importance of fairness in the distribution of financial risk

Moral Foundations Theory
- 5 categories of moral concerns:
  - Authority (comply; respect; protest)
  - Fairness (reasonable; rights; prejudice)
  - Harm (protection; safety; suffered)
  - Loyalty (enemy; member; together)
  - Purity (integrity; pervert; preserve)
- Moral Foundations Dictionary (Graham et al., 2009)
- A set of terms associated with each concern

Measuring Moral Rhetoric
- Based on Sagi & Dehghani (2014)
- Words as vectors in a semantic space
- Data points: Paragraphs of Basel II & III
- Basic measure: Angle between vectors of paragraphs and terms from the Moral Foundations Dictionary

Semantic Spaces
- Topicality: Words that occur together likely relate to the same topic
- Based on Infomap (Takayama et al., 1999)
- Similar to Latent Semantic Analysis (Deerwester et al., 1990)
- Semantic space is based on patterns of word co-occurrence
- Linear space generated using Singular Value Decomposition (generalized factoring)

The Basel Accords for Risk Management
International treaties on the regulation of the banking industry
Based on 3 pillars:
- Basel I (BCBS 4)
- Basel II (BCBS 128)
- Basel III (BCBS 188 & 189)

Latin America Debt Crisis
Lehman Brothers collapse
Global financial crisis
2007
2008
2009
2010
2011
2012
2013

Samples of text from the accords
Basel II: Authority
"A bank may be required to submit these policies and procedures to supervisors...") (BCBS 128, pg. 213)

Basel II: Purity
"Banks with loan portfolios concentrated in a particular market segment and range of default risk must have enough grades within that range to avoid undue concentrations of borrowers in particular grades" (BCBS 128, pg. 91)

Basel III: Fairness
"These stakeholders, rather than depositors, must bear the risk that recovery will not be forthcoming." (BCBS 189, pg. 55)

Basel III: Loyalty
"Banks must apply a "corresponding deduction approach" to such investments in the capital of other banks, other financial institutions and insurance entities." (BCBS 189, pg. 24)

Moral Language in the Basel Accords: A Quantitative Analysis
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Summary
- A shift in language
- from authority and integrity (purity)
- to fairness and loyalty
- Regulators are influenced by their surroundings and social climate

Future Directions
- Do we see similar shifts in other agreements following the crisis?
- Does moral language affect
  - ... the views of individuals reading the text?
  - ... how the treaties are implemented by legislators?

References