A study on talent in the financial market, winner of the IV edition of the Jaime Fernández de Araoz Corporate Finance Award

Madrid, 7 June 2011.- Professors Patrick Bolton, of Franco-American nationality, Tano Santos, a Spaniard, and José Scheinkman, a Brazilian, have obtained the IV Jaime Fernández de Araoz Corporate Finance Award, for their work entitled "Cream Skimming in Financial Markets", which analyses the issue of talent in the financial market. Patrick Bolton and Tano Santos will receive the award this afternoon from H.R.H. the Prince of Asturias.

Bolton is the David Zalaznick Professor of Business at Columbia University; Santos is the Franklin Pitcher Johnson, Jr. Professor of Finance and Economics at Columbia University and researcher at FEDEA; and Scheinkman is Theodore A. Wells ’29 Professor of Economics at Princeton University. The three are also researchers at the National Bureau of Economic Research (NBER).

"Cream Skimming in Financial Markets" offers a different vision of the financial markets and questions whether the amount of talent flowing towards the financial sector is efficient or whether, on the contrary, it is excessive according to traditional economic criteria. The work shows that the peculiar structure of the financial markets leads to a distribution of talent which is skewed towards financial dealers and that, from an efficiency perspective, society would benefit from a redistribution of talent from the financial world to the business sector.

The conclusion reached by the article is that the financial market has two levels: a first one where informed agents and the best talent negotiate and facilitate liquidity to the risks with the best perspectives and a second one in centralised markets where only the risks with the worst perspectives are negotiated. The practice whereby the most talented and best-informed agents keep for themselves the best risks is known as "cream-skimming".

The goal of the Award, the only one of its kind in Spain, is to contribute to the development of the economy and business finance by recognising a research work in this field. The winner of this Award, sponsored in this edition by La Caixa, CUNEF and Universia, receives 10,000 euros and a sculpture by Martín Chirino. The jury was composed of leading individuals in the economic, business and academic worlds, the Chairman being Juan María Nin, Director General of La Caixa and Vice President of Criteria CaixaCorp.

The Jury declared that "the winning work is of an enormous quality and shows that many talented young people have been drawn to the world of finance, particularly the segment where the less transparent transactions take place (OTC markets), in contrast to the entrepreneurial world or that of large industry and analyses the causes of this phenomenon, concluding that the high remuneration paid in the financial sector is one of the main reasons for this. A question which this work raises is what should be done to improve the education of future talent, such as encouraging their access into the labour market and how the entrepreneurial spirit can be boosted."

The Technical Committee of the Jury described the work as being of a very high quality, rigorous, clear and relevant. The study builds a mathematical model to analyse the market for the most talented individuals in the United States. Since the Award came into being in 2005, more than 100 papers have been submitted by 200 authors from more than 30 different countries relating to a wide variety of subjects. The first edition of the Award was won by a study concerning international transactions, in 2007 the winning work concerned the remuneration of executives; and the last edition was won by a study which analysed the question of internal corporate governance.

In this fourth edition of the Jaime Fernández de Araoz Corporate Finance Award, the Secretariat received 17 papers from authors of 20 different nationalities. All of the authors are from the academic and university world, apart from three from the European Bank of Reconstruction & Development (whose headquarters are in London), the Federal Reserve of New York and from Caja Madrid. The authors are from universities such as Stern School of Business, Columbia, Princeton, Notre-Dame, Oxford, Wharton, IESE, Milan and Lancaster.

Patrick Bolton and Tano Santos will receive the Award from H.R.H. the Prince of Asturias this afternoon, in a ceremony to be held in the Auditorium of CaixaForum.

The Award commemorates Jaime Fernández de Araoz Gómez-Acebo, a graduate in Economics and Business Science from CUNEF, who devoted his professional life to investment banking. Between 1989 and 2003, he worked for Lehman Brothers, Banco Santander and, finally, Citigroup where he was Managing Director. In all of these companies, Jaime showed his immense human and professional qualities. He died in an accident in 2003 at the age of 37.

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