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TRUST RATIONALIZERS AS THE INSTITUTIONAL INFRASTRUCTURE OF FINANCIAL MARKETS: A CONCEPTUAL FRAMEWORK FOR STRUCTURED TRUST ELASTICITY

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ABSTRACT

Modern financial markets operate under conditions of increasing information asymmetry, making independent risk assessment increasingly difficult and shifting the process of trust formation toward specialized intermediaries. Despite substantial advances in the literature on financial intermediation and institutional economics, there is still no integrated conceptual framework that brings together the various categories of such intermediaries into a coherent institutional construct while explaining their systemic role in shaping market expectations.

This article aims to address this gap by developing the theoretical concept of trust rationalizers, defined as the set of entities and institutions that professionally assess risks, provide information intermediation, or otherwise reduce transaction costs in the process of trust formation in financial markets. Based on a structural-functional analysis, the study identifies the functional groups of trust rationalizers and examines their systemic role in mitigating information asymmetry, structuring market expectations, and influencing trust elasticity, particularly by distinguishing between fundamental changes and informational noise within the information environment.

The scientific novelty of the study lies in distinguishing two components of trust elasticity: elasticity with respect to fundamental changes in risk (E_fund) and elasticity with respect to informational noise (E_noise). The paper demonstrates that the effective functioning of trust rationalizers increases the former while reducing the latter, thereby structuring rather than merely amplifying market responses. The practical significance of the findings lies in providing a theoretical foundation for regulatory reforms aimed at strengthening the independence, accountability, and transparency of trust rationalizers. Such reforms are particularly relevant for Ukraine in the context of post-war economic recovery and efforts to enhance the country's investment attractiveness.

Drawing on an analysis of the European Union's regulatory approach, the study further demonstrates the need for deeper institutionalization, greater independence, and enhanced accountability of institutions belonging to the category of trust rationalizers. Their effective functioning is shown to constitute one of the key prerequisites for ensuring financial stability.

Keywords: trust, institutionalization of trust, trust rationalizers, trust elasticity, information asymmetry, market discipline, financial stability

JEL Classification: D82, G21, G28, L51

INTRODUCTION

The modern financial system operates in an environment characterized by increasing complexity of financial instruments, the globalization of capital markets, and the rapid dissemination of information. Under these conditions, trust constitutes a fundamental prerequisite for investment transactions and the stability of financial intermediation. At the same time, growing information asymmetry between financial institutions, depositors, and investors gives rise to moral hazard, adverse selection, and procyclical fluctuations that undermine market discipline. As a result, independent risk assessment has become increasingly difficult for most economic agents, while the process of trust formation has become progressively more delegated.

This issue has become even more relevant in the context of the ongoing digitalization of financial services, the expansion of open banking, the widespread use of automated credit-scoring models, and the emergence of integrated financial platforms. These developments have increased economic agents' reliance on external institutional signals when assessing risk. Consequently, trust is becoming less dependent on direct customer experience and increasingly shaped by the quality of the institutional infrastructure supporting financial markets.

The growing importance of institutions that professionally assess investment risks, establish industry norms and standards of conduct, and ensure the fulfillment of financial obligations suggests the emergence of a distinct institutional layer that structures market expectations and reduces transaction costs within the financial system. However, insufficient independence, excessive concentration of influence, or conflicts of interest within these institutions may transform them from mechanisms of financial stabilization into sources of systemic risk. Despite extensive research on information asymmetry and financial market regulation, academic literature still lacks a comprehensive conceptual framework that integrates these diverse institutions into a single institutional category and explains their influence on trust elasticity and financial stability.

Against this background, the study addresses the following research questions:

1. How do institutions engaged in information intermediation and risk assessment influence the formation of trust within the financial system?
2. Can these institutions be conceptualized as a single institutional category?
3. How does the quality of the functioning of trust rationalizers affect the structure of trust elasticity and, ultimately, financial stability?

Addressing these questions requires the development of a coherent theoretical framework capable of explaining the institutional mechanisms through which trust is formed, transmitted, and sustained in modern financial markets. This need provides the primary motivation for the present study.

LITERATURE REVIEW

The role of trust in the financial system has been extensively examined within the theoretical traditions of information economics and institutional economics. The seminal works of Akerlof (1970), Spence (1973), and Stiglitz and Weiss (1981) established the foundations for understanding adverse selection and moral hazard arising from asymmetric information among market participants. Subsequently, Diamond (1984) and Holmström and Tirole (1997) demonstrated the role of financial intermediation as a mechanism of delegated monitoring that mitigates information asymmetry and reduces transaction costs.

Within institutional economics, Williamson (1985) and North (1990) conceptualized trust as an institutional mechanism that enhances the predictability of economic behavior and reduces uncertainty. Fukuyama (1995) further expanded this perspective by interpreting trust as a form of social capital that contributes to the efficiency of economic systems. However, these approaches primarily focus on the institutional preconditions of trust and provide limited explanation of the mechanisms through which trust is systematically structured in contemporary financial markets.

From a broader socio-scientific perspective, trust has been defined as a mechanism that enables economic agents to act under uncertainty regarding the future behavior of others by accepting vulnerability in exchange for the expectation of cooperation (Gambetta, 2020). This conceptualization is particularly relevant for financial markets, where trust cannot be reduced solely to rational calculation. Instead, institutional intermediaries capable of structuring and validating expectations perform a distinctive economic function.

Boot, Milbourn, and Schmeits (2006) examined the role of information intermediaries, arguing that credit ratings function as coordination mechanisms that align market expectations. White (2010) and Partnoy (1999), in turn, analyzed institutional distortions in the operation of credit rating agencies, highlighting conflicts of interest and excessive market dependence on external assessments. Following the Global Financial Crisis, Brunnermeier (2009) and Adrian and Shin (2010) emphasized the procyclical nature of financial markets and demonstrated how information signals may either amplify or mitigate systemic risk.

Within the European regulatory framework, the need to strengthen the independence and accountability of institutions that generate market signals has been reflected in Regulation (EC) No. 1060/2009 governing credit rating agencies. This approach evolved toward a differentiated multi-level governance architecture in which supranational rules for systemically important institutions coexist with greater national discretion for smaller domestic institutions. As a result, Member States frequently favor regulatory coordination and cooperation over complete institutional integration (Lannoo, 2020).

Related studies on regulatory capture (Carpenter & Moss, 2014) demonstrate that institutions established to mitigate risks may themselves become sources of systemic distortions.

Petricevic and Teece (2019) further argue that the ongoing restructuring of globalization and increasing economic fragmentation enhance the importance of institutions capable of reducing uncertainty and sustaining trust among market participants.

Despite this extensive body of research, most existing studies focus either on information asymmetry, the regulation of individual institutions (particularly credit rating agencies), or the behavioral dimensions of trust. The literature lacks a comprehensive theoretical framework capable of integrating the diverse range of institutions – including rating agencies, auditors, financial regulators, deposit guarantee schemes, professional associations, and digital financial infrastructures – into a unified institutional category that systematically influences financial market functioning, delegated trust formation, and the elasticity of trust. Previous studies have generally analyzed these institutions separately or examined trust primarily as a broad social phenomenon, without linking these analytical levels within a coherent conceptual framework.

Furthermore, limited attention has been devoted to understanding how the quality of these institutions influences the structure of trust elasticity, particularly the distinction between market responses to fundamental changes in risk and responses driven by informational noise.

The scientific novelty of the study lies in three principal contributions. First, it introduces the generalized category of trust rationalizers as an institutional infrastructure supporting the functioning of financial markets. Second, it distinguishes between trust elasticity with respect to fundamental changes in risk and trust elasticity with respect to informational noise. Third, it conceptualizes trust rationalizers as institutions that structure market responses and perform a countercyclical stabilizing function within the financial system.

AIMS AND OBJECTIVES

The aim of this study is to develop a comprehensive theoretical framework for trust rationalizers as a distinct institutional category within the financial system and to explain their role in mitigating information asymmetry, structuring market expectations, shaping the elasticity of trust, and contributing to financial stability.

To achieve this aim, the study pursues the following objectives:

1. To conceptualize trust rationalizers as a unified institutional category encompassing organizations that professionally assess risks, intermediate information, standardize market signals, or otherwise reduce transaction costs in delegated trust formation.
2. To identify and classify the functional groups of trust rationalizers within the institutional infrastructure of the financial system based on their roles in information processing, regulation, market discipline, infrastructure provision, legal protection, reputation building, and digital verification.
3. To examine the mechanisms through which trust rationalizers mitigate information asymmetry, structure market expectations, and facilitate delegated trust in financial markets.
4. To develop the concept of structured trust elasticity by distinguishing between trust elasticity with respect to fundamental risk changes (*E_fund*) and trust elasticity with respect to informational noise (*E_noise*), and to explain how the quality of trust rationalizers affects each component.
5. To assess the implications of the proposed framework for financial stability, including the stabilizing and potentially procyclical effects of trust rationalizers, and to derive institutional and regulatory implications, with particular reference to the European Union's regulatory approach and Ukraine's post-war financial reconstruction.

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METHODS

This study is grounded in a systems approach, which conceptualizes the financial system as a multi-layered institutional structure in which trust is formed not only through direct interactions between counterparties but also through a network of specialized intermediaries.

A structural-functional analysis is employed to classify trust rationalizers according to their functional roles within the financial system. This approach enables the systematic categorization of analytical-signaling, regulatory-supervisory, infrastructure-guarantee, digital, legal-enforcement, and reputational institutions as components of a unified institutional infrastructure.

The conceptual novelty of the study lies in distinguishing two components of trust elasticity: elasticity with respect to fundamental changes in risk and elasticity with respect to informational noise.

The research further applies logical-theoretical analysis to develop the generalized institutional category of trust rationalizers. In addition, elements of comparative regulatory analysis are used to examine the European Union's regulatory framework to identify institutional mechanisms that promote the independence and accountability of trust rationalizers.

The study also incorporates conceptual modelling, allowing trust rationalizers to be interpreted as a countercyclical institutional mechanism that contributes to the stabilization of financial markets.

Accordingly, the proposed methodology integrates institutional, systems, and structural-functional approaches with elements of theoretical modelling to develop a comprehensive conceptual framework of trust rationalizers as a component of the institutional infrastructure supporting financial stability.

The study is predominantly conceptual and theoretical in nature and is aimed at developing a generalized institutional model of trust rationalizers. Empirical examples and selected regulatory cases are used primarily for illustrative purposes to demonstrate the mechanisms through which trust rationalizers shape market expectations and influence the structure of trust elasticity.

RESULTS

Modern financial markets operate under conditions of profound information asymmetry, giving rise to a delegated process of trust formation and increasing the importance of specialized institutions that professionally assess risks and standardize financial information.

This issue has become particularly significant because trust in the financial system is inherently multi-layered. In addition to trust in the investment object itself, market participants must also place trust in the institutions responsible for its assessment, regulation, and supervision. Poor institutional performance, insufficient independence, or weak accountability may transform these institutions from stabilizing mechanisms into sources of systemic risk, thereby amplifying procyclicality and weakening market discipline. For Ukraine, this issue is especially important in the context of expanding financial inclusion, enhancing investment attractiveness to support post-war economic recovery, and developing a comprehensive conceptual framework for institutionalizing the role of trust rationalizers in maintaining financial stability.

Assessing investment risk is a complex and multidimensional analytical process requiring diverse expertise and professional competencies. This task is further complicated by the depth of information asymmetry, whereby issuers, corporate managers, and borrowers possess substantially more complete information regarding the actual condition of assets, associated risks, and future prospects than potential investors or depositors. Such asymmetry creates the conditions for the classical market failures of adverse selection and moral hazard (Akerlof, 1970), thereby undermining market discipline and reducing overall confidence in the financial system.

Information asymmetry prevents investors and depositors from accurately distinguishing between reliable and risky investment opportunities. Consequently, market participants tend to rely on average risk assessments, which drive high-quality issuers out of the market through adverse selection. Following the conclusion of financial contracts, borrowers and financial institutions may be encouraged to assume excessive risk by shifting potential losses onto investors or guarantee schemes, thereby creating moral hazard. As a result, the pricing of risk becomes distorted, market signals lose their informational value, market discipline weakens, and the probability of defaults and systemic crises increases. The accumulation of negative investment experiences gradually erodes overall trust in the financial system.

In practice, investment decisions are rarely made without the involvement of professional organizations and experts that assist in assessing investment risks. These include credit rating agencies, valuation experts, investment advisers, and other professional intermediaries that can collectively be regarded as trust rationalizers. Market regulators also possess important characteristics of trust rationalizers because they determine the scope of mandatory information disclosure, including the publication of ratings and identified risks associated with market participants. Likewise, professional associations may perform a trust-rationalizing function when they monitor the quality of their members' activities and implement effective self-regulatory mechanisms to remove high-risk or non-compliant participants.

Professional investors are able to partially compensate for information asymmetry by employing sophisticated analytical techniques, including scenario analysis, sensitivity analysis, cash flow valuation, and multifactor risk models. Nevertheless, even for institutional investors, information asymmetry cannot be eliminated completely. For ordinary depositors and retail investors, conducting comparable analyses is practically impossible because of limited financial resources, restricted access to information, insufficient analytical expertise, and time constraints.

It is precisely at this point that trust rationalizers become indispensable. As institutional intermediaries, they perform the professional verification, standardization, and interpretation of investment-related information. In doing so, they compensate for information asymmetry by transforming complex, multidimensional, and often opaque information into standardized and comprehensible market signals that facilitate rational decision-making by market participants (Figure 1).

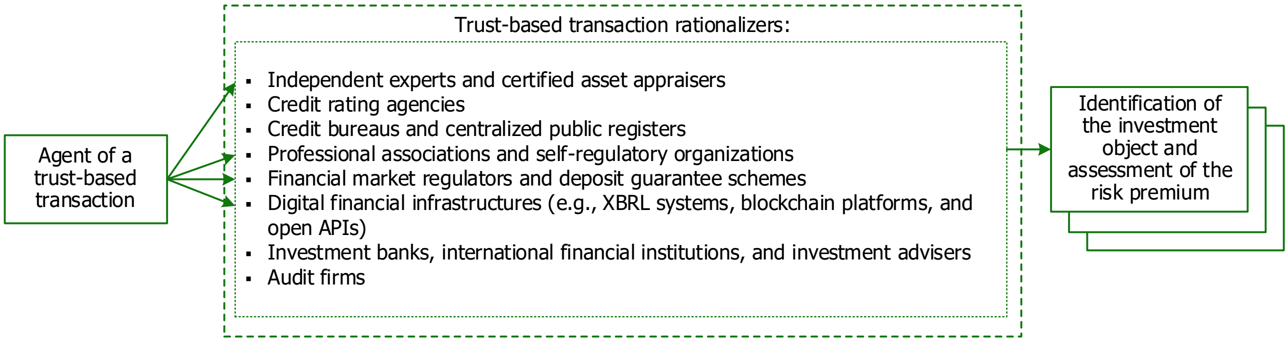

Figure 1. Rationalization of trust-based transactions.

From the perspective of institutional economics, trust rationalizers perform at least two interrelated functions.

First, they reduce information asymmetry. Through auditing, credit rating, expert assessment, and the disclosure of standardized information, trust rationalizers narrow the information gap between the investment entity and potential investors.

Second, they reduce transaction costs. Rather than conducting a comprehensive risk assessment independently, investors delegate part of the analytical process to specialized institutions. This substantially lowers the costs associated with information search, verification, monitoring, and due diligence.

Within this framework, institutionalized trust should not be viewed merely as an abstract socio-psychological concept but rather as the outcome of an institutional infrastructure that enhances the predictability and standardization of market expectations. Trust rationalizers transform subjective expectations into more objective assessments of risk, thereby reducing uncertainty in trust-based financial transactions.

This role becomes particularly important in the context of expanding financial inclusion. Broad access to financial services is possible only when the institutional environment provides a minimum level of reliability and transparency. For ordinary depositors and retail investors, confidence in the financial system largely depends on the existence of effective financial regulation and supervision, deposit guarantee schemes, credit and investment ratings, mandatory external audits, and compliance with professional standards. Together, these institutional mechanisms constitute the foundation of rational trust, without which participation in the financial system would involve excessive risk.

Accordingly, trust rationalizers establish the institutional conditions necessary for the effective functioning and expansion of financial inclusion, which, in turn, strengthens market discipline. As participation in financial markets broadens, the reputation of financial institutions becomes increasingly important, market sensitivity to risk signals increases, and mechanisms of market self-discipline become more effective.

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At the same time, delegated trust introduces a new category of risk – the risk arising from the errors, misconduct, or lack of integrity of the trust rationalizers themselves. When these institutions operate under conflicts of interest, weak accountability, or politically influenced regulation, they may amplify rather than reduce information asymmetry. Under such circumstances, informational errors can become systemic, while distortions in trust may spread throughout the entire financial system.

Therefore, the effectiveness of trust-based transactions in financial markets depends not only on the characteristics of the investment object but also on the quality of the institutional environment and the professional accountability of trust rationalizers. Strengthening the institutionalization of their activities through appropriate regulation, effective supervision, and enhanced accountability is essential for ensuring high-quality financial inclusion and the long-term stability of the financial system.

Based on their primary functions, trust rationalizers may be classified into the following functional groups (Table 1):

Table 1. Functional classification of trust rationalizers.

Functional Group	Representative Institutions	Primary Functions
Analytical and signaling institutions	Credit rating agencies, audit firms, independent asset valuers, investment advisers, credit bureaus, analytical agencies, financial data platforms (e.g., Reuters and Bloomberg), financial media	Generate market information, reduce information asymmetry, conduct professional assessments of financial conditions and risks, and evaluate investment prospects by transforming complex and asymmetric information into structured and comprehensible market signals.
Regulatory and institutional bodies	Central banks, financial and banking supervisory authorities, securities commissions, competition authorities, professional self-regulatory organizations (e.g., associations of valuers, auditors, banking and stock exchange associations)	Rationalize trust through licensing, establishing and enforcing market rules, introducing professional standards, certification, and self-regulation. They also monitor compliance with regulatory requirements, impose sanctions on violators, and enhance the predictability of market participants' behavior.
Infrastructure and guarantee institutions	Payment systems, central securities depositories, clearing institutions, stock exchanges, deposit guarantee schemes, export credit agencies, insurance companies, and public investment guarantee mechanisms	Provide the technical, organizational, and financial infrastructure required for the execution of financial transactions. They reduce counterparty risk through clearing, settlement, and ownership registration mechanisms, while allocating and insuring risks through guarantees, reserves, and compensation arrangements. These functions enhance confidence in contract enforcement and asset protection, thereby strengthening rational trust in financial markets.
Digital trust rationalizers	Financial reporting systems (XBRL), blockchain infrastructures, open-data platforms (APIs), e-government systems, centralized registers	Automate data verification and reporting processes, improve data reliability, reduce opportunities for manipulation, and facilitate continuous monitoring through digital technologies that minimize human error and lower transaction and monitoring costs.
Legal enforcement institutions	National and international courts, law enforcement agencies, cybercrime units, and related institutions	Strengthen trust by ensuring contract enforcement and protecting property rights. They reduce opportunistic behavior, enhance the predictability of legal enforcement, and minimize legal uncertainty and unexpected losses in financial transactions.
Reputational institutions	Supervisory boards, independent directors, internationally recognized ratings, stock market indices, and international financial institutions (e.g., the IMF, World Bank, EBRD, and European Investment Bank)	Build and capitalize the long-term reputation of market participants by transforming their performance history and reputation into an institutional asset that subsequently influences their access to financial resources and the cost of capital. Their involvement also signals compliance with international standards and reduces country- and institution-specific risk.

In the context of trust formation, trust rationalizers perform at least four key functions:

1. Informational and evaluative function – providing quantitative assessments of risk through credit ratings, scoring models, indices, and other analytical tools, thereby reducing information asymmetry and generating reliable market signals.

2. Regulatory and disciplinary function – establishing market rules and constraining opportunistic behavior among market participants.

3. Guarantee and assurance function – minimizing the risk of contractual default and facilitating the allocation and sharing of losses.

4. Stabilization function – structuring the elasticity of trust, reducing the volatility of market expectations, and mitigating procyclical fluctuations.

While institutional economics traditionally views trust as a mechanism for reducing uncertainty and transaction costs, trust in modern financial markets increasingly assumes a delegated form (Diamond, 1984), resulting in a multi-level trust architecture consisting of:

- Level 1 – trust in the investment object itself
- Level 2 – trust in the institutions responsible for assessing, rating, or supervising the investment object;
- Level 3 – trust in the legal enforcement framework and the institutional guarantee infrastructure.

Beginning with the second level, these institutions become the primary focus of the present study, as they constitute the institutional foundation upon which trust in the modern financial system is built.

Trust rationalizers exert a significant influence on trust elasticity because they contribute to the formation of market participants' reputations, establish the framework for risk assessment, and structure the market signals upon which financial decisions are based. Through information standardization, professional analysis, and regulatory oversight, they reduce uncertainty and limit excessive market reactions to short-term or noise-driven information shocks. Consequently, the effective functioning of trust rationalizers does not merely alter the overall sensitivity of trust; rather, it makes trust more structured and more closely aligned with underlying economic fundamentals by reducing excessive elasticity and restraining procyclical fluctuations in financial markets.

When institutional signals are inaccurate or highly synchronized, trust rationalizers may amplify procyclical dynamics. During expansions, they may contribute to excessive optimism and underestimation of risk, whereas during downturns they may reinforce market panic and liquidity shortages. Consequently, institutions intended to stabilize financial markets may themselves become sources of systemic instability.

Trust rationalizers may be defined as professional market actors that serve as institutionalized information intermediaries. Through the collection, standardization, analytical processing, and independent evaluation of data, they transform fragmented or unevenly distributed information into standardized and verified risk signals. In doing so, they reduce information asymmetry and transaction costs, mitigate uncertainty and opportunities for opportunistic behavior, strengthen market discipline, and provide a rational foundation for investment and other economic decisions.

Alongside their important stabilizing role, trust rationalizers are also associated with significant institutional risks arising from the nature of their functioning. One such risk is the concentration of trust, whereby a limited number of institutions become the dominant source of information signals for the entire financial system. Empirical evidence from the credit rating industry demonstrates that declining competition among rating agencies weakens the quality of informational and disciplinary signals (Camanho et al., 2022), reinforcing the need for greater structural diversification within the ecosystem of trust rationalizers. Without such diversification, the likelihood of regulatory capture (Carpenter & Moss, 2014), conflicts of interest, and loss of institutional independence increases, potentially leading to significant distortions of market signals. Particularly dangerous are synchronized systemic errors, in which identical methodologies or similar interpretative approaches generate large-scale mispricing of risk capable of amplifying procyclical market dynamics. These risks are especially pronounced in environments characterized by weaker disclosure requirements and lower levels of transparency within the institutional infrastructure of trust rationalizers (Aramonte & Avalos, 2021).

Accordingly, the growing importance of trust rationalizers within the financial system must be accompanied by stronger institutional accountability, greater transparency, enhanced public oversight, and the development of a competitive institutional environment. Only the combination of rigorous professional standards, effective supervision, and limitations on excessive market concentration can preserve the stabilizing role of trust rationalizers while minimizing the risk that they themselves become a source of systemic instability.

This gives rise to an institutional paradox. The more central trust rationalizers become to the functioning of the financial system, the more systemic the consequences of their own errors, conflicts of interest, or loss of independence may become. As a result, institutions originally intended to reduce information asymmetry and stabilize financial markets may themselves become sources of informational distortions and catalysts of destabilizing procyclical fluctuations.

Following the Global Financial Crisis, credit rating agencies in the European Union became subject to substantially stricter regulation and supervision by the European Securities and Markets Authority (ESMA). Several EU regulatory acts have been introduced to strengthen the role, independence, and accountability of trust rationalizers, most notably Regulation (EC) No. 1060/2009 on Credit Rating Agencies. The Regulation was adopted to safeguard the independence and integrity of the credit rating process by establishing a prudential regulatory framework governing the activities of credit rating agencies, thereby protecting investors and financial markets from the risks associated with improper or misleading rating practices.

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The Regulation establishes the conditions governing the issuance of credit ratings and introduces comprehensive organizational and conduct requirements for credit rating agencies, their shareholders, and related parties. These measures are designed to safeguard institutional independence and prevent conflicts of interest, including restrictions on analysts' involvement with rated entities, mandatory agency rotation, and limitations on cross-shareholdings. In addition, the Regulation enhances transparency through the mandatory disclosure of rating methodologies and underlying assumptions, the publication of transparency reports, the establishment of liability for intentional misconduct or gross negligence, continuous improvement of rating methodologies, and measures intended to reduce the destabilizing effects of rating announcements by regulating their timing. Furthermore, it seeks to reduce excessive market reliance on external ratings by requiring market participants to perform their own independent credit risk assessments.

For Ukraine, strengthening the accountability of trust rationalizers is equally important. This should include, at a minimum, the introduction of transparent and harmonized professional standards governing information intermediaries, asset valuers, and auditors, together with enhanced financial and legal liability for professional misconduct.

In this context, the institutionalization of trust requires a clearly defined framework of responsibility for the dissemination of misleading information, strengthened regulatory requirements concerning transparency, timely disclosure of risks and conflicts of interest, the implementation of robust internal risk management systems, and the effective enforcement of sanctions for regulatory violations. Equally important is strengthening the role of professional associations, which should ensure compliance with professional quality standards among their members and implement effective self-regulatory mechanisms to remove unethical or high-risk participants, particularly in sectors where valuation distortions are most likely, such as asset appraisal. Investment advisers should have clearly defined professional responsibilities and bear financial liability for negligent or misleading recommendations. At the same time, financial regulators should ensure transparency in financial reporting, conduct effective supervision of regulatory compliance, and communicate identified risks in a timely manner, thereby reinforcing market discipline and strengthening financial stability.

Unlike previous approaches, which conceptualize trust elasticity as a single measure of market sensitivity, the present study proposes distinguishing between trust elasticity with respect to fundamental changes in risk and trust elasticity with respect to informational noise. This distinction provides a theoretical explanation for why the same institutional mechanisms can simultaneously strengthen market discipline while reducing excessive market reactions driven by panic or temporary information shocks.

The Impact of Trust Rationalizers on Trust Elasticity

Previous studies have measured trust elasticity as the ratio of the percentage change in the level of trust to the percentage change in the reputation of the trust object, which can be xpressed as follows:

$$E_T = \frac{\%\Delta T}{\%\Delta R},$$

where T is the volume of trust, and R is the reputation of the trust object.

A high elasticity value indicates that trust responds strongly to changes in reputation.

The initial assumption was that high-quality functioning of trust rationalizers reduces excessive trust elasticity by preventing procyclical fluctuations. However, a deeper analysis allows for broader theoretical generalizations.

Trust rationalizers may simultaneously perform two opposite functions:

1. Increasing constructive elasticity – when rationalizers enhance transparency, improve the quality of analytics, and ensure disclosure of reliable and accessible information, so that even a slight deterioration in key indicators triggers an adequate market response. In this case, trust becomes more sensitive to real risk, strengthening market discipline in a positive way.
2. Reducing destabilizing elasticity – when rationalizers filter informational noise, explain the nature of changes, and prevent panic-driven interpretations, thereby limiting excessive reactions to short-term informational shocks.

Accordingly, it is useful to distinguish two components of trust elasticity:

$$E_T = E_{fund} + E_{noise},$$

ΔE_fund / Δα > 0 та ΔE_noise / Δα < 0,

where E_{fund} denotes the elasticity of trust with respect to fundamental changes in risk, E_{noise} denotes the elasticity of trust with respect to informational noise, and α represents the quality or intensity of the functioning of trust rationalizers.

This implies that as the quality of trust rationalizers' functioning (α) increases, trust becomes more elastic to fundamental risk changes (E_{fund}), while becoming less elastic to informational noise (E_{noise}). The overall effect depends on market structure, the level of rationalizers' activity, and the degree of synchrony in their signals.

When trust rationalizers exhibit a high degree of activity, and their signals become highly synchronized, they may reinforce procyclical dynamics, whereby a single negative signal triggers a cascading market reaction. Conversely, in a competitive and institutionally balanced environment, trust rationalizers contribute to financial stability by fostering a high-quality, structured elasticity of trust that enhances the market's responsiveness to fundamental risks while reducing excessive reactions to transitory information shocks.

To avoid excessive theoretical abstraction, it is useful to consider several illustrative examples of how trust rationalizers influence financial market behavior during periods of crisis. Under such conditions, they function as an institutional mechanism for filtering informational noise, simultaneously increasing the market's sensitivity to fundamental risks while dampening reactions to short-term, emotion-driven impulses (Figure 2).

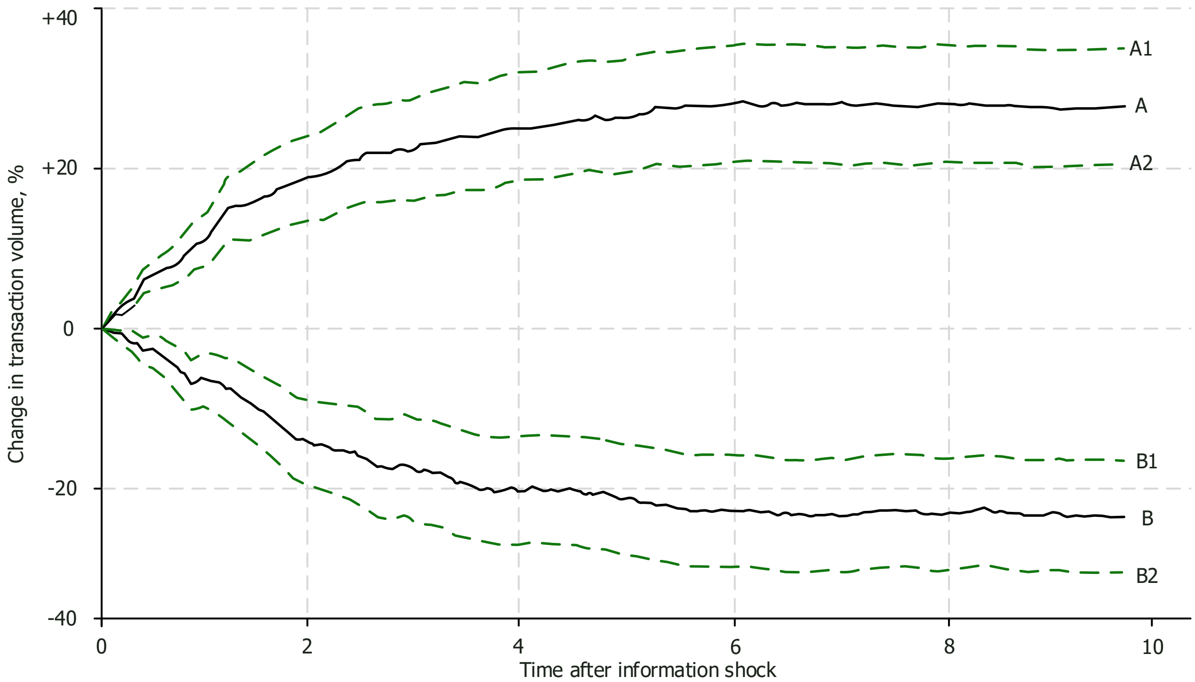

Figure 2. Transaction volume behavior during information shocks with stabilization and constructive elasticity effects.

Accordingly, under certain conditions, trust rationalizers may increase trust elasticity, while under others they may reduce it. This is not a contradiction but rather reflects two distinct mechanisms through which trust rationalizers influence market behavior.

4. **The disciplinary effect.** Trust rationalizers increase trust elasticity when they:
   - enhance market transparency by providing accurate and reliable signals (curve A1 in the case of positive information);
   - rapidly communicate objective negative information (curve B2).

   Under these conditions, even a relatively small deterioration in fundamental indicators immediately triggers a market response consisting of: (i) capital outflows from the financial institution and (ii) corrective actions by its management. In this case, an increase in trust elasticity represents constructive elasticity, which strengthens market discipline by making market participants more responsive to genuine changes in underlying risk (curve B2).

5. **The stabilization effect.** Trust rationalizers reduce trust elasticity when they:
   - filter out informational noise;

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- provide explanations for observed changes;
- prevent panic-driven and emotionally biased interpretations of events.

As a result, excessive reactions to temporary information shocks are mitigated (curves A2 and B1). In this case, a reduction in trust elasticity represents the stabilizing function of trust rationalizers.

Accordingly, it is essential to distinguish between:

- trust elasticity with respect to fundamental risk, and
- trust elasticity with respect to informational noise.

Taken together, these findings suggest that trust rationalizers increase the elasticity of trust in response to fundamental risk while simultaneously reducing its elasticity with respect to informational noise. Thus, their role extends beyond simply increasing or decreasing trust elasticity. Rather, they structure and reshape its composition, improving the quality of market responses. Specifically, they increase the sensitivity of trust to economically justified changes and fundamental risks while reducing excessive reactions to noisy or misleading information.

It should be acknowledged that the present study has certain limitations. The proposed framework is primarily conceptual and theoretical in nature and does not seek to provide a comprehensive econometric validation of the proposed model of trust elasticity. Such empirical testing constitutes an important avenue for future research.

The proposed concept of trust rationalizers extends the traditional literature on information asymmetry and delegated trust. Unlike previous studies, which have generally examined institutions such as credit rating agencies, auditors, or financial regulators in isolation, the present study integrates these institutions into a unified institutional category that performs the broader function of structuring market expectations.

The concept of structured trust elasticity further explains why the effective functioning of trust rationalizers does not merely reduce market volatility but fundamentally changes the nature of market responses. Under such conditions, financial markets become more responsive to fundamental risks while exhibiting lower sensitivity to informational noise and panic-driven reactions.

The practical significance of the proposed framework lies in its potential application to the design of regulatory policies aimed at strengthening the transparency, accountability, and independence of institutions that generate market signals. This is particularly important for countries characterized by elevated institutional uncertainty and for transition economies, including Ukraine.

DISCUSSION

The findings of this study provide a new perspective on the nature of trust within the financial system. Unlike most previous studies, which conceptualize trust primarily as either a behavioral characteristic of economic agents or a by-product of the effectiveness of financial institutions (Arrow, 1972; Fukuyama, 1995; Guiso et al., 2008), the proposed framework demonstrates that, in modern financial systems, trust is increasingly generated through specialized institutional mechanisms responsible for the production, verification, interpretation, and dissemination of risk-related information. In this context, the proposed category of trust rationalizers extends existing theoretical approaches by explaining how trust can be sustained even in the absence of direct interpersonal interactions.

The proposed concept also advances institutional economics by extending the traditional understanding of the role of institutions in reducing transaction costs (North, 1990; Williamson, 1985). Whereas classical institutional theories primarily view institutions as mechanisms for contract enforcement and the protection of property rights, the findings of this study suggest that a substantial part of the contemporary institutional infrastructure performs an additional function – the rationalization of trust-based decisions. Credit rating agencies, auditors, central banks, deposit guarantee schemes, financial regulators, judicial institutions, and digital verification mechanisms collectively shape the informational environment within which economic agents assess risk and make financial decisions.

The findings are also consistent with the literature on information asymmetry and signaling in financial markets while offering a broader interpretation of their role. Unlike traditional signaling theory (Spence, 1973), the proposed framework suggests that signals do not merely transmit information but also influence the very mechanism through which trust is formed. Consequently, trust rationalizers affect not only the quantity of available information but, more importantly, its interpretation, credibility, and capacity to generate coherent market expectations.

At the same time, the findings indicate that the impact of trust rationalizers is not unambiguously positive. Their effectiveness depends on institutional independence, accountability, competitive market conditions, and the absence of conflicts of interest. The experience of international credit rating agencies during the 2007–2009 Global Financial Crisis demonstrated that failures by key producers of informational signals may not only fail to reduce systemic risk but may actually amplify it. Thus, the proposed framework explains both the stabilizing and the potentially destabilizing roles of trust rationalizers within the financial system.

The practical significance of the proposed framework lies in its potential application to the design of financial stability policies. For transition economies, particularly Ukraine, strengthening the independence of financial regulators, developing auditing infrastructure, improving the judicial system, reinforcing deposit guarantee schemes, and integrating digital verification mechanisms should be viewed not as isolated institutional reforms but as complementary elements of a unified system for building trust in the financial sector. Such an approach is particularly relevant in the context of post-war economic recovery, where the confidence of international investors and financial institutions represents one of the key prerequisites for capital mobilization.

Nevertheless, the study has certain limitations. The proposed framework is primarily conceptual and requires further empirical validation. Promising directions for future research include the development of quantitative indicators for measuring the effectiveness of trust rationalizers, empirical assessment of their contribution to financial stability, and the integration of the proposed framework into models of institutional trust across different national financial systems.

CONCLUSIONS

This study develops the theoretical concept of trust rationalizers as a distinct institutional category encompassing entities and institutions that professionally perform risk assessment, information intermediation, and transaction cost reduction in the process of trust formation in financial markets. Unlike existing approaches that analyze individual intermediaries separately, the proposed framework integrates credit rating agencies, auditors, financial regulators, guarantee mechanisms, professional associations, and digital infrastructures into a unified institutional infrastructure.

The principal theoretical contribution of the study is the introduction of the concept of structured trust elasticity, which distinguishes between trust elasticity with respect to fundamental changes in risk and trust elasticity with respect to informational noise. The findings demonstrate that effective trust rationalizers increase the market's responsiveness to objective risk while simultaneously reducing excessive reactions to noisy and emotion-driven information. Consequently, trust rationalizers do not simply increase or decrease trust elasticity; they improve its structure and quality, thereby strengthening both market discipline and financial stability.

The findings further suggest that the effectiveness of trust rationalizers depends critically on their independence, accountability, transparency, and institutional diversity. Conversely, excessive concentration, conflicts of interest, or regulatory capture may transform these institutions from mechanisms of stabilization into sources of systemic risk and procyclical instability.

The proposed framework has practical implications for regulatory policy by providing a conceptual basis for strengthening the governance of institutions that generate market signals. These findings are particularly relevant for Ukraine in the context of post-war economic recovery and efforts to enhance investment attractiveness.

Future research should focus on developing quantitative indicators of the effectiveness of trust rationalizers, constructing a composite index of their performance, and empirically examining the relationship between the quality of trust rationalizers, structured trust elasticity, and financial stability.

ADDITIONAL INFORMATION

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CONFLICT OF INTEREST

The Author declares that there is no conflict of interest.

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РАЦІОНАЛІЗАТОРИ ДОВІРИ ЯК ІНСТИТУЦІЙНА ІНФРАСТРУКТУРА ФІНАНСОВИХ РИНКІВ: КОНЦЕПТУАЛЬНІ ЗАСАДИ СТРУКТУРОВАНОЇ ЕЛАСТИЧНОСТІ ДОВІРИ

Сучасні фінансові ринки функціонують в умовах поглиблення інформаційної асиметрії, що ускладнює самостійне оцінювання ризиків і зумовлює дедалі більшу делегацію процесу формування довіри спеціалізованим посередникам. Попри значний розвиток досліджень у царині фінансового посередництва та інституціональної економіки, у науковій літературі досі відсутня інтегрована концепція, яка об'єднувала б різні категорії таких посередників у цілісну інституційну конструкцію та пояснювала їхню системну роль у формуванні ринкових очікувань.

Метою дослідження є заповнення цієї теоретичної прогалини шляхом розробки концепції раціоналізаторів довіри, які автор пропонує розуміти як сукупність суб'єктів та інституцій, що професійно здійснюють оцінювання ризиків, інформаційне посередництво або іншим чином забезпечують зниження трансакційних витрат у процесі формування довіри на фінансових ринках. На основі структурно-функціонального аналізу визначено функціональні групи раціоналізаторів довіри та розкрито їхню системну роль у зменшенні інформаційної асиметрії, структуруванні ринкових очікувань і формуванні еластичності довіри, зокрема через розмежування фундаментальних змін ризику та інформаційного шуму.

Наукова новизна дослідження полягає у виокремленні двох складових еластичності довіри: еластичності щодо фундаментальних змін ризику (E_fund) та еластичності щодо інформаційного шуму (E_noise). Обґрунтовано, що ефективне функціонування раціоналізаторів довіри підвищує першу складову та одночасно знижує другу, тим самим не лише змінюючи інтенсивність, а й структуруючи ринкову реакцію. Практичне значення одержаних результатів полягає у формуванні теоретичного підґрунтя для регуляторних реформ, спрямованих на посилення незалежності, підзвітності й прозорості раціоналізаторів довіри. Такі реформи є особливо актуальними для України в умовах повоєнного економічного відновлення та підвищення інвестиційної привабливості країни.

На основі аналізу регуляторних підходів Європейського Союзу доведено необхідність подальшої інституціоналізації, зміцнення незалежності й підвищення відповідальності інституцій, що належать до категорії раціоналізаторів довіри. Показано, що їх ефективне функціонування є однією з ключових передумов забезпечення фінансової стабільності.

Ключові слова: довіра, інституціоналізація довіри, раціоналізатори довіри, еластичність довіри, інформаційна асиметрія, ринкова дисципліна, фінансова стабільність

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