Give the regulators what they want

When the history of the twenty first century is written, how will transparency as a means of averting financial disaster be viewed? Simon Shepherd of MYRIAD Group Technologies examines the possibilities

It was clear from what followed the financial crisis in 2008 that no one really knew what was going on, although many were prepared to speculate about the eventual outcome. This must have caused great concern at the highest levels of public life. For the thoughtful 'man in the street', it probably led to prolonged bouts of sleeplessness, which was certainly the case in my household.

I remember attending a reception in Vienna on the Sunday evening in September 2008 when Lehman Brothers was deemed to be no longer viable as a major financial institution. I was standing next to an infrastructure provider who took a call from a senior regulator in New York. He was asked to discuss the ramifications. The person in question came off that preliminary call and announced to the assembled company what had just happened. Frankly, he probably should not have been so open so quickly, but he was visibly shocked and also concerned, because he was both unsure of just how he was going to be able to contribute to the ensuing conference call and concerned about a complete absence of a structure or agenda for the meeting he was about to join.

Clearly, there was no plan and, for a fortunately brief but alarming spell, the global financial system was genuinely under threat.

That weekend, the phrase 'shock and awe' took on a totally different meaning for regulators, central banks and politicians. The phrase 'the corridors of power' lived up to its meaning when senior bank executives were called to meetings in the offices of the UK's chancellor. Where were the war rooms? Where was the plan? What was the plan? From the little we know of the situation, it was all too hastily assembled, but it did, nonetheless, avert disaster.

The next day, the news was as much about Merrill Lynch falling into the hands Bank of America as it was about the demise of Lehman Brothers. There seemed to be widespread acceptance that this was the safest, and therefore the correct, thing to happen. No one was totally convinced or able to convince others. That fateful first week, after the seismic shock of the Lehman Brothers bankruptcy, people were called back to their offices and somehow the major institutions worked their way through to slightly calmer waters. But many institutions have subsequently paid significant fines levied by regulators and I am not convinced that all stakeholders would empathise with the term 'calmer waters'.

When the brief history of time is written, chapter 37 (or whichever it might be) will probably have politicians coming in for far greater scrutiny than that with which they have escaped so far in relation to the financial crisis—thank God for bankers, say the politicians. It is a moot point as to whether some politicians were asleep on their watch during the previous decade, or whether they simply turned a blind eye because the tax revenues were so enticing. Some banks and bankers took advantage like kids in a sweet shop, but now regulators are correcting the situation, and quite rightly so.

I say this as a former banker, a retail investor, a deposit holder and as the owner of a technology business now servicing the very largest financial institutions. Personally, I am pleased at the progress being made. Some of the regulations may be overbearing and some of it may go too far, but the financial system is, on balance, safer (and fairer) than it was before. If regulation swings slightly too far the other way then so be it; put it down to the regulatory cycle. We need to remember this in 20 or 30 years, when the next boom is being stoked by politicians and bankers with their own agenda and when, quite possibly, the regulatory foot is slightly off the legislative pedal.

But I am much more interested in the practical manifestations of this and about how we as a company can benefit from this developing situation. We have some wonderful anecdotal evidence of how the regulatory burden is having a real and immediate effect on staff and managers.

Picture the scene: a senior regulator parks herself or himself next to your desk and is clearly there for the morning. In fact, he or she remains there for the next three days. The regulator wants you to pull document after document, account after account and screen after screen, demonstrating that you actually do have the information that he or she needs and is requesting. When the self-same regulator gets distracted by a question from a colleague and returns to the screen and says, "run me a MYRIAD on that", you know you will satisfy them and I know, as a business manager, that my system is probably fairly well positioned, right here, right now.

Transparency is a wonderful thing and having systems and processes in place to service that transparency is absolutely the way forward. This scenario extends in two further ways. Imagine you are a senior manager overseeing that business line function: as a senior manager, you may well be invited to sit on the desk while the regulatory audit takes place. Ultimately, you are responsible for providing the transparency that the regulator seeks. You are responsible for having the systems, processes and controls in place that enable fast, accurate access to the information required. From a senior manager's point of view, your interests should actually be tied to those of the regulator because you both are, in some way, responsible for making sure that all of the little bits and bytes, once properly organised, can be used in such a way that they do not all add up incorrectly and that, when laid end-to-end, they can help to avert a disaster. Transparency reduces the likelihood of ensuing chaos.

Key concepts in this area now revolve around immediate availability of information, anytime, anywhere in the world. Data persistence, repeatability of processes and security around systems are all phrases that resonate with regulators and directly affect the major financial institutions. Can you carry out the same processes next year, without expending the same amount of effort that you did this year? Can you measure changes, year-on-year? Can you introduce standardised, systematic changes to your processes pan-enterprise, to satisfy the regulator's request for improvements? And can you do so quickly and efficiently, while also preserving access to past records for future comparison?

The further extension of the scenario above involves a different task for the senior manager—that of forward planning—to help to avoid meltdown in the future. What regulators now want to see is the capability to work through extreme difficulty and stress in the financial system at some unknown point in the future. The living will action plan is as much about capital cushions as it is about having the wherewithal to work through a nasty situation as that situation unfolds. The first issue is a financial one and the second is operational. That situation may entail the orderly winding down of your own organisation, which is categorically an operational issue.

In fact, shutting a large institution down overnight cannot practically happen anyway, and this is now seen as absolutely not the quickest and safest thing to do, despite what past thinking may have suggested.

Having a detailed plan for a workout is now a fact of life and this entails not only having a fully auditable trail of evidence around which aspects of the workout may depend, but it also involves having a credible, robust operational plan to underpin the workout as it actually happens. The moniker 'too big to fail' may be applied to the world's largest financial institutions, but the emergent standards by which they are judged will, in the main, be applied to all financial institutions, no matter how large or small.

Senior bankers caught asleep in the future will possibly go to prison, unlike politicians (two points which are both worth bearing in mind). The transparency required by regulators needs to uncover and review what you have done in the past. It needs to check whether your accounts are currently in order and not in any way replicated to distort your management information. Where there are gaps, being able to demonstrate that you know what those gaps are and that you are doing something to close them is actually part of the common sense reviews now taking place. Clearly showing that you are taking immediate, effective action to stop those gaps and that there is a remediation plan in place are key elements in securing the regulator's confidence that you are on top of the job.

Furthermore, translating that current action plan into your living will, as well as linking aspects of that plan to it, will then start to tick a plethora of other boxes which likely appear on the regulator's clipboard.

Of course, the regulator too will have a system that matches your own for comprehensive input and output capabilities, adaptability, robustness, security and reporting. Leading the way and 'running a MYRIAD for them' can only help ease their passage and set your institution apart from the crowd. **AST**

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