

CAS-WG: Risk subject-group meeting

15.5.12

Chair: Kiri Self, CEO – TRG Post-Trade Services

Rapporteur; Darren Pearson, Principal Consultant, TRG Post-Trade Services

Venue: Grant Thornton, Finsbury Square, London.

- Introduction by KS – Welcomed attendees to the first Risk subject-group meeting.
- Thanks were expressed to Grant Thornton for hosting the event.

Overview

- KS reiterated key messages from CAS subject-group launch meeting in February 2012

Meeting scope & objective

- To discuss & agree initial actionable items to bring to the forthcoming initial plenary sessions *Wednesday 30 May, 2 -5pm* at The London Stock Exchange, 10 Paternoster Square, EC4M 7LS. [Register Here](#)
- KS opened the floor for suggested discussion points & actionable items for the initial plenary sessions

The following is a list of issues & questions raised & discussed:

- Enterprise Risk Mgmt (ERM) – In many instances, specific business-lines within firms are siloed, views were expressed that such models are a potential barrier to true ERM
- Counterparty-Risk – The potential for defaults, how are these to be handled?
- The now wider appreciation of Operational-Risk & the impact to firms that do not view this area as a priority.
- Ownership of Operational-Risk; how should this feed ERM?
- Strong views were expressed that current Ops. Risk indicators are likely to have been in-place for some-time but have not been given sufficient priority by mgmt.
- The competency of senior mgmt was questioned i.e. do they actually understand all aspects of their business? Both the HBOS & RBS incidents were cited in this regard.
- FSA Rules under SYSC - Corporate governance – Are these now to be more rigorously enforced to ensure that mgmt are much more aware of their responsibilities? It was acknowledged that these FSA rules have rapidly become a 'bible' for senior-management per the new climate in the industry.
- It was expressed that appreciation of Operational-Risk simply must now be a priority at board-level within firms.
- The floor expressed that there are already existing regulations in-place which are only now being enforced by regulators.
- The floor agreed that a change of culture was needed at many firms per the impact to risk-assessment, operational or otherwise. It was expressed that oversight of operational-risk can no longer be viewed as an afterthought in the new climate within financial-services.
- It was expressed that business & technology groups that work in silos can be a restriction to cross-silo risk-assessment.
- Contract-risk – Is there impact to existing agreements per new regulations?
- CCP default risk – How will this scenarios be handled? Need clarity.
- Commodity hedges & unintended consequence – Current restrictions are impacting other sectors e.g. airlines & fuel-hedges.

- Collateral-Risk – The types of assets that are acceptable is reducing for various reasons including the sovereign-debt crisis. This is increasing liquidity-risk & is another example of unintended consequences of new regulations.
- Special Purpose Vehicles (SPV's) – Are such entities a hidden-risk based on new regulations?
- It was suggested that there may be knowledge to be gained by looking outside of financial-services in-order to have a view of how other sectors assess their risk?
- The floor asked whether a global definition of systemic-risk actually existed.

Whilst the IMF describes systemic-risk as follows below, others may differ i.e. the Bank of Intl settlements (BIS) definition. Both are detailed below for information:

IMF definition; ““A risk of disruption to financial services that is (i) caused by an impairment of all or parts of the financial system and (ii) has the potential to have serious negative consequences for the real economy”.

BIS definition; “The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”

Summary:

Actionable items selected for the subject-group's initial plenary meeting:

- 1/ Ownership of Operational-Risk; how should this feed ERM?
- 2/ Commodity hedges & unintended consequence; current restrictions are impacting other sectors e.g. airlines & fuel-hedges.

- Other info; Proposals for Chair, Co-Chair or Rapporteur (Notary) will be announced at the forthcoming plenary session to be held on: **Wednesday 30 May, 2 -5pm** at The London Stock Exchange, 10 Paternoster Square, EC4M 7LS. [Register Here](#)

This & other CAS WG subject-groups were created to gather discuss & agree proposals on wider-industry concerns. With this mind, the full-suite of subject-groups is as follows: Risk, Regulation, Standards & Market-Infrastructure

Kiri Self – CEO – Post-Trade Services, The Realization Group
Darren Pearson – Principal Consultant – Post-Trade Services, The Realization Group

Ends.