The crisis in financial services we have just experienced was part of the worst downturn since The Great Depression. Losses to our industry across the world have been estimated by the IMF to be more than 4 Trillion dollars.

None of us is likely to forget its impact and we need to learn from the experience to help avoid repetition. In fact, a crisis doesn't have to be a normal part of the business cycle, occurring every "x" years. Nasim Taleb of NYU, in his book The Black Swan: The Impact of The Highly Improbable, attributes problems like this to "unrecognized" risks, which normally manifest themselves after several years.

In this crisis there were many unrecognized risks due to loosened or ignored risk management practices at various banks, funds and other financial intermediaries, at many levels. In addition to the unrecognized risks, recognized risks were in some instances responded to slowly. Risks in this era of high automation, need to be addressed quickly, including in real time where appropriate. Lastly, risks associated with new products were in some instances not properly or not completely assessed.

Regulators missed opportunities to spot troubled areas, and rating agencies contributed with overstated assessments. In fact, rating agencies have been criticized for potential conflicts of interest, while the users of rating agency data were criticized for over reliance on rating agencies and insufficient due diligence of their own.

On the subject of capital and coverage ratios, there were many reasons that overall bank leverage was increased. A key contributor, however, was the increase in the use of securitization as a way to get around capital rules. It was also thought that securitization moved, and kept, risk outside of the banking system. Unfortunately, these developments led to a reduction in lending standards, and investor over reliance on bond raters, as well as to overlooking real credit risk.

Finally, there have been profit and compensation schemes that benefited from questionable activities, at the expense of long term shareholder value, as well as at times, undermining risk management.

After the crisis we have heard from various industry groups, politicians and regulators suggesting an overhaul of risk management practices, including governance and supervision, in banks, funds, insurance companies and other entities. Increased capital, caps on leverage, and managing collateral efficiently have been put forth as part of the fix. Ideas on improved risk management information flows, timing, and integration included developing integrated views of risk across products and counterparties, as well as the use of clearinghouses and exchanges to better establish, track, and help control products such as derivatives. Public anger is fueling policy makers developing new regulations and agencies to protect investors and consumers, as well as policies on compensation which support long term shareholder value.

There is basic agreement that effective risk management's key requirements are transparency, information, robust practices, a strong capital position, and a systemic view of interconnectedness.

Today we are especially fortunate to have 3 very distinguished panelists, each of whom will present ideas on improving risk management in our industry. This will be followed by an open forum discussion to hear comments from the general assembly.

 

Our panelists are:

Dr. Patrick M Parkinson, who is Director of the U.S. Federal Reserve Board's Division of Banking and Regulation. This division develops regulatory policy and oversees supervision of state member banks, bank and financial holding companies, and U.S. branches and agencies of foreign banks. Previously, he was Deputy Director of the Board's Division of Research and Statistics, and was the principle staff advisor to the Board's Chairman on issues considered by the President's Working Group on Financial Markets. He has also served as Counselor to Treasury Secretary Geithner, and in 1999 - 2004 co-chaired the CPSS-IOSCO Joint Task Force on Securities Settlement Systems. Pat holds a Ph.D. in economics from the University of Wisconsin-Madison.

John Trundle is a Managing Director and is Chief Risk Officer for the Euroclear group, with enterprise-wide responsibilities for the assessment and management of risk. This covers all risks including operational, credit, market, and liquidity risks. He is responsible for the risk framework and risk-related corporate policies and their enforcement. John is also a member of the Euroclear Group Management Team, and a member of the Board of Euroclear UK and Ireland. Previously, he was with The Bank of England since 1979, where he held many positions including being Head of the Business Continuity Division, and the Market Infrastructure Division. While head of the latter, he was actively involved in international payment and settlements with the ECB payments committee and the Committee on Payment and Settlement Systems (CPSS). John holds an MBA from the London Business School and an economics degree from Cambridge University.

Christine Coe is the Chief Risk Officer for HSBC Securities Services, London. She has been with the HSBC Bank Group for over 25 years and has been involved in all aspects of risk management from consumer finance through to major corporate finance. She was appointed a Credit and Risk Director in 1993, and took responsibility for First Direct from 1996-9 before concentrating on the commercial sector. Chris joined Global Investor Services in 2002 as Head of Risk and Control. Following HSBC's acquisition of The Bank of Bermuda she moved to the Global business line of HSBC Securities as Chief Risk Officer with responsibility for Credit and Operational Risk policy and control. Today, her responsibilities have expanded to include Funds Risk globally and approval of sub-custody arrangements. She has also been active in a number of industry groups and chaired cross industry parties working on the European Directives with government departments.

Pat will be our 1st speaker, followed by John and Chris.

 