Supervision - How much is enough?

Simon Boughey
Contributing Editor, 1LoD

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Any supervisor of a markets business at a bank, large or small, has to these days deal with a whole range of control functions that their recent predecessors would have thought both irksome and a waste of valuable time. Those days have, unhappily or happily, gone for good, but how much time should be spent on these supervisory duties is still very much a vexed and undecided question.

Many heads of front office supervision who sit in the first line of defence are unwilling to be drawn into giving precise and discrete answers to this question and, in fairness, there are a lot of variables to be considered.

A key differentiating factor is the size and complexity of the business being supervised. The bigger the business, the more complex the risks, and the more time a supervisor is likely to be spending on controls. In, for example, a large rates business there is likely to be a government bond desk, a forward desk, a structured products desk, an options desk and perhaps an inflation desk.

Within those various product lines, a flow desk would expect to see a relatively low percentage of cancelled trades and amended trades while a less vanilla business like options might expect to see more irregular trading patterns. These irregularities do not automatically suggest anything untoward; they are more often than not simply a function of the complexity of the product. But they must all be investigated and a bank which has more labyrinthine products will have to do more of this than a bank which doesn't.

Moreover, there is no one uniform model adopted by all. Banks define risk and also what supervision entails idiosyncratically. This will also affect how much time any supervisor spends dealing with these issues. The more egregious breaches in conduct are unquestionably within the purview of a supervisor, but elsewhere it can get a little murky. The wider the bank throws the net, then the greater the time and energy it requires from the supervisor.

Of crucial importance in determining the amount of time the supervisor spends on control – and the usefulness of that time - is the quality of systems that can be brought to bear. Banks have thrown a lot of money at this in the past few years but some have spent more than others and some systems are thus more comprehensive. The more sophisticated systems not only aggregate data but describe the connections between anomalies.

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Until a year or two ago, it was quite common for supervisors to receive a 30 page or 40 page PowerPoint deck at the end of each month, in addition to hundreds of emails and lengthy reports on cancelled, amended or late trades. There would be literally thousands of pages to look through and this couldn't be done with any degree of effectiveness. Now, the better banks are able to produce more granular data and join up the dots more.

"We can pinpoint the issues far better these days. We can tell a supervisor that the same person who missed training is the same person who booked late trades and is the same person who had expenses violations. Our supervisors receive a monthly report which has 18 different metrics for trading and 16 for sales so that they can know within seconds who they need to tap on the shoulder," says Chris Palmer, global head of front office supervision at JP Morgan in London.

Things will also depend on how long a supervisor has been in the job. If it's a new role, and the attestation forms have just been signed, then clearly it will behove him or her to spend longer on control tasks than it might do several weeks down the line. Getting one's head around what is required in any new job is not a matter of hours, and this is even more the case when something as potentially calamitous as conduct risk is concerned.

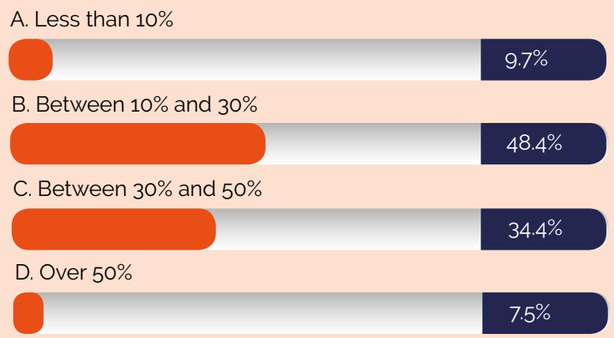
Finally, supervisors will spend longer on control on some days or during some periods than during others. During market volatility, for example, risk limits will be breached more than during periods of stability.

So, there are a lot of variables to be taken into account. Nonetheless, some observers and front office specialists do feel confident enough to come up with a number. Unsurprisingly, consultants were the most forthright of all. Edward Sankey, head of operational risk at Larocourt Risk Management, feels that no more than 20% or so of a manager's time should be taken up with supervision.

Any more than this, adds Sankey, and there's something wrong with the business and something wrong with the people in it. "Everyone in the business should know what makes for good and compliant business and what makes for improper business. I would say that if it takes more than 25% of the time then something is wrong and controls aren't embedded enough, and in fact I would say that a person at the top of a business unit should have to spend only 10%-15% of their time doing supervisory work," he says.

Colin Lawrence, who is director of the consultancy Risk & Financial , agrees that supervision should not take up more than 10%-20% of a manager's time, though he adds

How much time should Supervisors in the business be spending on Supervisory tasks?



Results from the audience poll at the 1LoD Summit, 16 November, 2017, London.

the important rider that it all depends on the size of the team in question, the complexity of the institution and the jurisdiction. .

Ian Mason, a legal director in the financial services regulatory team at law firm DLA Piper, who previously worked at the Financial Services Authority (FSA), the predecessor regulator to the FCA, suggests an average might be 30%, though on some weeks it could be less than 30% and on others it could be as high as 100% where a regulatory risk has crystallised.

For Chris Palmer, a figure of 20% also seems reasonable, given the level of automation of processes and intelligent automation that the big banks enjoy. Three or four years ago, the figure would have been much higher, he adds.

Mandy DeFilippo, head of risk management for fixed income and commodities EMEA at Morgan Stanley, says that, on any given day or week, a trading supervisor could spend considerable time focusing on conduct and related issues.

But this reflects a broader point that, in the current environment, many more situations are flagged for supervisors to review, as part of ongoing monitoring in the ordinary course, and also from day to day trading business.

"For example, in the past, certain situations used to be dealt with as pure client relationship issues. In the current regulatory environment, with the focus on first line supervision and conduct, these same instances may be viewed internally as potential conduct related situations, which a supervisor will need to know about and review in real time," she says.

At the most recent 1LoD conference in London in November, delegates were asked how much time supervisors should be spending on supervisory tasks. Some 48.4% - almost half – said that it should be between 10% and 30%, while 34.4% said it should be between 30% and 50%. Only 7.5% said it should be over 50%, while 9.7% said it should be under 10%.

It is very difficult, then, to establish a consensus, although a mean answer might be something around 25%-30%. But it is important to stress than a great deal depends on the variables. Moreover, assertions of bald percentages might be, in the final analysis, not all that helpful.

As Ruth Kemmer, global head of front office supervision at Nomura in London avers, "At this point, helping supervisors to understand their responsibilities is a lot more beneficial than saying 'you must spend X amount of time per day on this task'. We need to avoid the notion that supervision is just about completing a set of tasks on a list. The idea that you're done because you've ticked every box is not the right approach." ■

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