

Summary Notes – Credit Crisis Roundtable discussions – December 2008

General Overview

The Credit Crisis, while seemingly less well defined by the day, is dominating the Financial Services industry (and world) activities and conversations. The current generally accepted view of the causes and underlying drivers has the US housing market and monetary policy at the center of the crisis' eruption. See the image beneath "December Frankel Chart" at <http://wiki.fisd.net/index.php/CreditCrunch2008> for a look at some of the briefing materials provided to new US Congressional members. As a global organization at the center of the information within financial markets, FISD members have a unique set of perspectives and views, shaped by regional and local situations, but shared across livelihood goals and business practices – what it takes to get the job done.

Obviously, members are concerned. There are multiple gradations to the sets of concerns expressed. Below we outline and discuss member concerns, observations, and speculations from recent Roundtables (in London and New York) and related staff conversations. Broadly put, members share both concerns and questions across the board, while having differing perspectives on the causes and impact the Credit Crisis has had to either their local situation or to other geographic regions to date.

Universally, everyone is wondering how things are going to turn out, and what happens next. There is universal consensus that overall regulatory and structural responses will be significant and happen soon. Given that the government policy and regulatory staffs at the moment are still largely grappling with their understanding of the situation, there is significant anticipation of possible moves and concern that member issues not get "lost in the shuffle".

Breaking down member views and concerns along fairly crude axes of geographic location and economic development, we can make the following observations:

- The sense of bewilderment, or, possibly more accurately, betrayal, is higher in the developed countries.
 - "This is just not supposed to be happening" is a strong theme among US members, with the concurrent feeling that things had gotten out of hand a while back in regard to both compensation and the lack of either oversight by regulators or integrity/a sense of responsibility on the parts of various firms or individuals.
 - In Europe, members express similar thoughts but are having a different experience. There are two primary factors that stand out when compared to the US:
 - The Euro-zone is the world's largest combination of developed economies in close proximity. Cross-border currency issues are mitigated partially by the Euro, but regulatory integration is

incomplete and credit/capital flows still tend to react along national lines.

- While the entire European market is roughly equal to the size of the US market, each local market is both smaller and more tightly regulated (this varies). This means that European member firms tend to be closer to the epicenter of reactions and it tends to hit them operationally quicker than in US.
- In Asia, the picture is more mixed and the sample of member reactions is smaller, not as current (Oct-Nov timeframe), and more anecdotal. Generalizing, however, we can say that many in the Pac-Rim aren't spending as much time trying to figure out why as they are battering down the hatches – the waves of currency and debt crises that have swept through the developing world over the past 20 years have created almost a sense of resignation in less developed countries. General attitudes that “If China goes down, all hope is lost” and “You guys, Westerners in general, Americans in particular) really screwed up” seem to be rough approximations.

From the two roundtables, European member interest in broadening the dialog seems to be several weeks ahead (so far) of that in the US. Listed below are summary bullet points representing distillation of representative member comments by general topic. Paraphrasing of direct quotes (“to protect the innocent”) is represented by *italics*.

Regulators

- Multiple concerns expressed about the possibility of “knee-jerk” reactions on the part of Regulators.
- Regarding member dialog with Regulators:
 - We need to be able to explain to Regulators what they're seeing and what they are getting when they ask for information.
 - *They (Regulators) don't know what to look for.*
 - *They'll believe whatever they are told – including that data quality issues can be “cleaned up” despite a lack of resources.*
 - Strong pressure from Senior Management to say “*Everything's under control*”
 - *The Back Office will only get resources if regulators require certain standards.*
 - Some (many?) Data Managers are reluctant to voice their concerns regarding systems and data quality (or lack thereof) for fear of upsetting Senior Management.
 - Need to make sure we're not in a position where we are “*defending the indefensible*”.
- An FISD Working Group is forming to coordinate member message and outreach to regulators.

- Will the regulators listen to our members? Or are we too far down the totem pole?
- Federal Reserve – FISD has an open invitation to provide input and background education.
- Is it the same message from all FISD constituencies? (probably not)
- Is it the same message from different people/departments inside the same firm? (probably not)
- Initial role of FISD group will likely be as a resource for policy makers and regulators seeking to understand data plumbing at financial institutions – rather than in an advocacy role
- Can FISD construct a minimum standard and take that to Regulators?
- Joint program with JWG-IT to address Customer Data issues with FSA, FISD to tie this into Instrument and Product work being done separately.

Data Quality

- There is a general lack of metrics and standards regarding quality for both data Content and Process.
- Concerns that addressing data quality issues will require more resources that will not be forthcoming. *“Unfunded mandates, just like Congress”*.
- *No quality controls from the business side - -what there is comes from the tech side and it’s generally limited to tech issues that don’t reflect business process usage.*
- *“Business side/Senior management is not going to fund quality improvement unless forced”* by regulators.
- There seem to be no metrics with which to gauge the impact of outsourcing on quality management.
 - *“The key area for quality is exception processing, every time we outsource we lose valuable experience, but this doesn’t appear to be a concern or to even show up in the accounting.”*
 - *“How can you say Risk Management systems are measuring risk if you don’t pay any attention to the quality of the underlying data?”*
 - *“Proper market data quality – where does this fit in the equation? Why isn’t it even in the equation?”*

Job Market

- So far, it appears that the Front Office has been hit harder than the Back Office, several members expressed the belief that it is only a matter of time before the cuts hit Operations.

Pricing between Constituency Members

- It appears that Consumer firms have been hit hardest first, that Vendor firms are starting to see the reactions in their relationships, and that Exchanges have so far been relatively unaffected.
- Exchange volumes are up, and Vendors expressed concern about increases in Exchange fees.
- A sizable number of Content Providers are not aware of the impact of changes they implement on their customers (Vendors and Consumers)
- Vendors are losing fees in some cases because headcounts are going down – i.e. job losses at Consumer firms are causing subscription seat counts to go down.
- Vendor comment: *“Budgets clearly falling, while there appears to be a 10-20% increase in demand for pricing of structured products.”*
- Consumer Comment(s):
 - *“We have word from on high – no fee increases will be paid whatsoever”.*

General Observations and Comments

- Some sentiment was expressed that things are currently only hitting the largest players - *Not everyone is hurting – there are 365 banks in Switzerland, “363 are doing well”.*
- Members thought that FISD could facilitate a dialogue between risk management professionals and the data management and market data people that support them (besides the obvious conversations that will occur in each firm). Possible outreach to trade association(s) for risk management industry.
- Ratings Agencies –
 - *“Chinese walls made of rice paper.”*
 - *“Where’s the Liability?” Is it possible to get “claw backs”?*
 - *How can these guys be trying to raise prices now?*
- Instruments migrating from OTC to exchange based trading:
 - There are significant costs involved here though out the supply chain.
 - Where are these being taken into account? No one seems to be discussing them yet.
- Consumer comment(s): *“Hopefully there is a paradigm shift now regarding budget – in the past it was clear that a dollar of sales was more important than a dollar of cost savings. Now saving money is more important than before, there seems to be some acknowledgment that increasing sales carries possibly disproportionate operational cost repercussions.”*

