

24 things on the Chief Control Officer's Mind

April 2023



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Q1 Chief Control Officer Survey: What are the 3 top things you wish to debate with your peers in Q2 2023?

In March 2023 iCOOC members participated in a Control and Business Risk survey.

Despite a pressing need to adapt operating models and securing funding to further develop emerging risk and more so, horizon scanning capabilities, the focus remains the here and now and getting the business into tomorrow in good order.

Broadly speaking the survey can be categorised into 4 areas of interest, with very few subjects being noted as a delegated attendance by the global Control Officers when asked to note which subjects, they would wish to attend the debate and which ones they would delegate.

- » Model, governance, and frameworks
- » Sanctions Risk
- » Supervision and eComms
- » Innovation and change within 1LoD.

To accommodate these debates, iCOOC will be providing a series of cluster calls (on-line forums) and a Q2 face to face roundtable in London and New York. These will be by invitation only, where the Control Officer can delegate attendance to an SME for virtual calls, to MD level only for the round table forums.

Credit Suisse: leadership or a failure of controls?

What was not tabled or suggested in the survey response was a case study analysis into the failure of Credit Suisse. This event most certainly has taken the control, supervision, and surveillance communities to a moment of reflection. Lessons will most certainly be learnt, but many point quite rightly to these lessons have been tutored for the last decade and yet, Credit Suisse still failed.

The role leadership, or lack of it, the requirement for ethical behaviour or the lack of it, and the embedded culture that sat like a permafrost at the heart of the bank appear to be the cornerstones of failure.

Last summer Credit Suisse, already noted as 'the troubled Swiss bank', had been placed on a watchlist by the UK's financial watchdog, the FCA over concerns it has not done enough to improve its culture and financial and risk controls.

A letter from the Financial Conduct Authority (FCA), seen and recorded by the Financial Times, said it wanted to see evidence the bank was improving its accounting accountability and halting the string of scandals that have rocked the bank. The FCA stated the cultural issues included a lack of internal challenges to potentially high-risk deals. It was also accused of a "lack of curiosity" over what had caused its run of losses and scandals and the FCA demanded a review of the effectiveness of its board, risk and audit committees.

Throughout the numerous accounts and analysis already out in the open domain as to why Credit Suisse failed, a failure in the art of leadership in addressing cultural inefficiencies that were the norm, is the common refrain.

As The Washington Post summarised “What went wrong? Credit Suisse’s failings included a criminal conviction for allowing drug dealers to launder money in Bulgaria, entanglement in a Mozambique corruption case, a spying scandal involving a former employee and an executive and a massive leak of client data to the media.

Its willingness to engage with clients that some other banks avoided, such as disgraced financier Lex Greensill and failed New York-based investment firm Archegos Capital Management, lost it billions of dollars and compounded the sense of an institution that didn’t have a firm grip on its affairs. Many fed up customers voted with their feet, leading to unprecedented client outflows in late 2022. The loss of business was especially dramatic in Asian wealth management, which for many years had been an important source of profit growth.”

The assessment of why it failed will be of equal interest to how UBS will make this forced marriage work. Credit Suisse is c.50,000 employees, their integration into UBS will not be a marriage of kindred spirits as opposed to a marriage of convenience. How UBS manages this cultural integration and comes out on top, will be debated for many years hence.

The following are links to relevant articles, expressing different views on the demise of Credit Suisse. We can already review what come to pass with Credit Suisse and can look on with interest as to how UBS will come to terms with the cultural integration process with its troubled Swiss sibling:

» Credit Suisse: a failure of regulatory culture (by Simon Brady, 22 March 2023):

<https://www.omfif.org/2023/03/credit-suisse-a-failure-of-regulatory-culture/>

» Culture clash: the challenge of uniting fierce rivals UBS and Credit Suisse (Anjli Raval, Stephen Morris and James Fontanella-Khan in London, March 23, 2023):

<https://www.ft.com/content/12d8b5c0-12c7-4769-8f03-e68424abe36e>

» Credit Suisse failed time and time again to learn the importance of risk management (Eliot Wilson, co-founder of Pivot Point and a former House of Commons official (March 21st, 2023):

<https://www.cityam.com/credit-suisse-failed-time-and-time-again-to-learn-the-importance-of-risk-management/>



Activity	Proposed Subject of Debate	Example CCO Comment	CCO Attendee	SME Delegated Attendance
Model, Governance and Frameworks				
1	What is the role of a controls officer vs a risk manager?	I can see the value in this discussion, but understanding to what purpose the conclusion is to be used will shape the debate i.e., is this a 1 v 2LoD debate? Would love this to be open to thinking about what it should be as opposed to how we work within the current structure	✓	
2	Aligning global frameworks, regulation, and jurisdictional matrices	Taking this and mapping global regulations to internal policy and controls and how to practically do it and maintain it would be a useful discussion (see serials 7, 8)	✓	
3	Restructuring the 3 lines to deliver better productivity and reduce duplication. Improving internal controls programs across the three lines of defence.	Could not this be a discussion with the FMSB in relation to the work they are doing with the input from our/the iCOOC 2022 + 2023 papers?	✓	
4	Control Program for Booking Models - PRA SS 5/21	Would delegate attendance to booking model lead?		✓
iLOD Operating Model (e.g., group/segment/desk)				
5	A topic of interest is the management of regulatory libraries by other FIs. At what level of granularity is each bank tracking it? What's material enough for inclusion?	What technologies are available for regulatory emerging risk and horizon scanning to be undertaken with effect?	✓	
6	Policy management and regulation	Specifically: keep up to date risk/controls/ regulation in policies + mapping policy accountability to the Senior Managers accountabilities	✓	

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Supervision and eComms				
7	I'd be particularly interested in the eComms discussions, given how much the industry has spent on it. Some have built a regional in-sourcing hub to bring consistency to 1st level reviews and have deployed voice and text, but we understand, not video	Benchmarking should be something everyone cares about to ensure we run in similar control environments: is this the case, how do we work together to realise benefit from market-wide benchmarking?	✓	✓
8	Supervision: systems maturity against PRA expectations and length/cost of roadmaps	Best served by joint attendance of CCO and their heads of Supervision	✓	✓
9	Supervision: Quality and performance of supervision tracking – operating models and involvement of NFR/ Control Office/Central Team		✓	✓
10	Supervision: Supervisory Control Data Challenges and options being taken for supporting operating models		✓	✓
11	What is the operating model to support substantive supervision?		✓	✓

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Sanction's Risk				
12	Sanctions: Third Party Sanctioned Securities List Providers – issues with service or coverage?	Would be dependent upon whether Sanctions sits within the auspice of the Control Officer and/or head of nonfinancial risk.		✓
13	Sanctions: how our peers are adapting their sanctioned securities control frameworks to the increasingly complex sanctions environment – are they taking a highest standard approach or are they tailoring controls based on trading activity, jurisdiction, and counterparty?			✓
14	Sanctions: Sanctions Prohibitions vs Risk Appetite and issues in adopting controls when applying a higher threshold than to what is proscribed			✓



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Innovation and change within iLoD				
15	Diversity of thought initiatives, measurement, and technological progress	<p>» Can we align this to culture/neurodiversity, and the emergence of technologies to help measurement etc.?</p> <p>» It would be good if this was oriented to diversity of thought related to leveraging technologies we can use to enhance our control posture - in house application of technologies, in house development of tools, and how we're working with vendors.</p>	✓	
16	Reconfiguring the RCSA to support end to end process assessments	SME to attend – more likely to be on the COO management team		✓
17	Scenario analysis/ testing program approaches for operational resilience	Tabletop exercises akin to those ran by AW post Russian invasion of Russia were very useful	✓	✓
18	The use of AI within risk and control	Any user cases? Known and reliable solutions providers? How can it be best deployed to best effect?	✓	
19	Areas of cross-industry collaboration (within controls and/or nonfinancial risk)	What options presently exist? Can we collectively review and make recommendations? What is the best surveillance option available, who can testify for it? What options are there for utilisation, within regulatory horizon scanning, case study analysis and so on.	✓	
20	What is ESG Risk and how is it managed across LODs without duplication?	<p>We've developed an ESG Risk capability in the 1st line. Our goal is to ensure that we design and offer products/services that touch the E&S with appropriate controls, tight processes and in compliance with applicable regulations across jurisdictions.</p> <p>This would be very lean, leveraging our other 1st line risk teams instead of duplicating, and leveraging 2nd line partners.</p> <p>How are others approaching this subject?</p>	✓	
21	The path to efficient AML programs	<p>Years ago, when many banks were in trouble due to weak sanctions programs, AML Compliance programs were shored up to clear regulatory findings. As technology has advanced and continuous monitoring has been established, many of the structural activity remains, but is likely not needed.</p> <p>It would be good to hear how programs have evolved to create efficient AML/KYC programs across the 3 LODs.</p>	✓	
22: Note	E-trading/Algo Trading controls	Managed separately through the iCOOC Algo Trading Risk and Control Working Group		

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