

PEOPLE AND CAREERS

The market risk controller emerges from the shadows

(Translated by Crédit Agricole CIB)

The Kerviel affair and the crisis have focused the spotlight on this profession which is now attracting certain traders.

By Sophie Gauvent

By committing EUR 50 billion, Jérôme Kerviel, the former trader at Société Générale whose trial opened on June 8 in Paris, placed the bank in a situation of exceptional risk. In early 2008, this unprecedented affair sent shockwaves through all financial institutions and while they strengthened operational risk prevention as a priority (since Société Générale termed Jérôme Kerviel's behavior "fraudulent"), other functions are also very much concerned. This is the case with market risk controllers whose importance has also been highlighted by the crisis. Prior to these two events, these professionals, like all risk managers, were often perceived as obstacles by the front office. Indeed they examine on a permanent basis the positions taken by traders, assess the risks incurred and check that limits are not breached. During the years of euphoria, front office operators tended to look down on them.

A strengthened function

Today the climate has changed. *"Since the crisis and the Kerviel affair there has been a rebalancing of the power relationship between traders and market risk controllers,"* notes Jacques Beyssade, Chief Risk Officer at Natixis. *"They are now considered true contributors to the business,"* adds Denis Marcadet, chairman and founder of the head-hunting firm Vendôme Associés. The function is now more attractive and currently features increasingly strengthened staffing. For example, at Crédit Agricole Corporate & Investment Bank (CACIB), the staff of the market risk department (which includes controllers) has been increased by 6% in two years. Bernard Crutz, the department head, explains: *"The number of our market risk controllers has increased because their responsibilities have been broadened."* In fact, risk managers have been highly solicited since the Lagarde report which drew lessons from the Kerviel affair: they must pay more attention to unusual transactions, receive more alerts from the back office and examine the nominal amounts committed by each trader (and not simply the difference between buy and sell positions, since Kerviel's net position did not make it possible to appreciate the magnitude of the risk to which he exposed his employer). Lastly they examine the bank's positions on listed products. The crisis also gave more work to these specialists: the use of stress tests has been extended and comes in addition to Value at Risk (VaR) calculations.

Senior staff

With the multiplication of assignments, banks have had to recruit staff and in particular senior staff who must have a scientific background and be fully at ease with the IT applications and mathematical models used. Engineers are particularly appreciated because they understand complex products, which is still essential even if the tendency is currently for "plain vanilla"

products. In effect, *“the stock of complex financial products must still be verified,”* stresses Bernard Cruz. Moreover, financial innovation is continuing apace and controllers must be able to keep pace with this creativity. With senior staff, experience counts more than diplomas. *“Our assignments to find market risk controllers involve senior staff with previous experience in this area of expertise,”* says Vincent Picard of the recruitment firm Fed Finance. *“However personality is also very important. To be selected, candidates must have an aptitude for teaching and know how to communicate and explain what they do.”* Recruitment firms and head hunters are not necessarily involved in banks’ searches. The banks favor internal hiring thanks to employee mobility. And market risk control can involve staff with various different profiles, and in particular traders themselves! *“With the crisis, certain traders have seen their positions come under threat,”* notes Tania Petersen, a partner with the head-hunting firm CTPartners. *“Many of them have turned toward market risk control.”* However, these renegades can be motivated by factors other than simply saving their jobs: trading takes a toll after several years and with risk functions currently offering more power, they have become very attractive to front office operators. Compensation, which has long been much higher on the trading side, has been upgraded on the risk side (*see the interview on page 51*), while certain traders have seen their variable pay crumble during the crisis. As a result, there are no longer any real obstacles to preventing a market operator to turn toward risk control. When he does make the move, he is generally oriented toward the control of the products he developed as a trader.

Staff with non-scientific backgrounds make their appearance

Young candidates are better trained

Former front office staffers also make excellent controllers. *“I am well aware of the useful information that is requested of traders,”* explains a market operator who has become a risk manager. *“If a trader hems and haws, I know how to justify my position and win the day.”* The category of professionals who work to structure collateralized debt obligations (CDOs) is also involved in these transfers. *“The change is relatively easy since these credit specialists work closely with the risk function,”* notes Tania Petersen. Within banks other career paths are also possible. In the back office (and more particularly with transaction confirmations), the middle office and internal audit, in internal control and general inspection as well, certain professional staff is susceptible to becoming market risk controllers. *“These changes are even fairly traditional,”* notes Denis Marcadet. Market risk control is also accessible to junior staff since recent graduates are increasingly better trained. In effect, risk teaching has considerably developed over the past few years. For example, in 2004, Aix University opened a professional master’s degree specialized in *“financial risk (in the sense of market risk) in banking and finance.”* The students in this post-graduate program have university training (in mathematics, economics or finance) or are graduate engineers. However, several non-scientific profiles have begun to appear in the world of risk. *“Given the crisis, it has become clearly apparent that an obsession with numbers and models can be a trap,”* notes Jacques Beyssade. *“It is good to have a risk team and in particular a market risk function that include a few members with a more humanities-oriented background such as graduates of Sciences Po (Paris), universities and business schools.”* Still the greatest number are those with strong mathematics backgrounds. After gaining experience in market risk control, they can subsequently develop in other risk functions. One of the projects susceptible in the future to absorbing a number of these staff is the implementation of capital calculations for market risk. This responsibility, generated by the reform of Basel II, is a major undertaking for the banks. *“It relies on the “stressed VaR” concept (calculated over a period of great stress – editor’s*

note) *which experienced market risk controllers are fully apt to master,*” believes Bernard Crutz. Other possible career paths: *“This function is a very good breeding ground that can lead to trading,”* believes Tania Petersen. And recently, certain risk managers have moved to compliance or internal control. These paths are frequently followed by those who are put off by the new face of market risk control. *“Occupying this position now implies taking on greater responsibility and some people cannot stand the stress,”* notes Tania Petersen. All of these factors will continue to inspire a renewal of profiles in large banks’ risk functions.

The implementation of capital calculations is a major undertaking

TESTIMONY

Sophie Coutant, Head of Exotic IRD (Interest Rate Derivatives) Risk Management at Crédit Agricole Corporate & Investment Bank

“After trading, I moved to market risk control”

A quant by training and initial experience, Sophie Coutant, 36, is a graduate of the well-known Probability and Finance Master 2 program managed by Nicole El Karoui at Paris VI University. She completed her education with a doctoral thesis on probability as applied to finance and then joined Crédit Lyonnais where she soon became part of the market risk control unit at the corporate and investment bank. After the merger with Crédit Agricole, she was involved in particular with exotic interest rate derivatives. Beginning in June 2006, she became a trader in these same products. *“This activity flourished until the summer of 2008,”* recalls Sophie Coutant. *“In the fall of 2008, having heard that a position had become available in risk management for structured interest rate products, I applied. In effect, my front office activity had slowed but above all risk functions are exciting. As a result I moved from trading to market risk control.”* She currently tracks the products she developed as a trader.