The Control Officer's guide to booking model controls

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Controlling business activity in alignment with the firm's booking model is a challenge for global banks with complex legal entity structures, vast geographical footprints and strategies spanning multiple products and client offerings. Regulators demand a robust control framework with appropriate management oversight, as most recently articulated by the Prudential Regulation Authority (PRA) in their Dear CEO letter last year in setting out their priorities. In addition, there is an uptick in bilateral regulatory focus in this space which banks can't afford to ignore.[1]

We believe global banks should focus on a strategic, forward-looking approach covering the following eight areas to deliver a booking model control framework that meets regulatory demands:

1. Establish the baseline

Regulators have explicitly set out the expectation for the bank's booking model to be well documented with clear rationale.[2] Global banking groups have seen their booking models evolve as the firm's strategy develops, legal entity rationalisation and optimisation opportunities emerge, and regulatory requirements tighten. Documentation can often be light, piecemeal, and inconsistent across entities and divisions. Coordinated effort is needed to ensure there is robust documentation in place to explain the arrangements and the rationale so there is transparency, consistency and a single source of truth across the organisation.

[1] PRA Dear CEO Portfolio letter to Wholesale Banks, September 2023

[2] PRA SS1/18 "International banks: the PRAs approach to branch authorisation and supervision", FED "2019 Resolution Plan Guidance for US G-SIBs"

2. Create a golden source of mandates

Well defined mandates are paramount in operationalising booking arrangements to translate the model into trading parameters business activity must align with, ensuring there is no ambiguity. The gold standard includes a hierarchy of legal entity, divisional and desk strategies as well as individual trader mandates. This eliminates the risk that a trader or desk is given the mandate to trade a product or in a jurisdiction that is not in sync with the division or entity strategies. Mandate hierarchy also allows for changes to be cascaded, reducing change management effort. While mandate definition will generally account for business and entity strategy and purpose, firms tend to miss a trick when they don't also consider the entity's licensing and permissioning status in client jurisdictions. This lens should also be embedded within legal entity mandates to avoid regulatory non-compliance on cross-border activity.

3. Know your booking model

The PRA expects senior management to demonstrate they understand the bank's booking model and how it operates. This extends to all employees involved in trading and facilitating execution, and highlights the need for effective training and communication to ensure the firm's booking arrangements, mandates, controls and escalation procedures are well understood. This includes senior management, traders, sales people, risk managers and control officers.

4. Actively manage your mandates through technology tools

Ongoing mandates management can lag behind organisational moves and strategy changes resulting in outdated mandates and ineffective controls. There needs to be a robust process with well-defined roles and responsibilities and Service Level Agreements (SLAs) for the review, approval and maintenance of mandates. Organisations are moving towards database solutions and workflow tools to support the process while creating a centralised and standardised source of mandates that provide immediate visibility and auditability of mandate parameters. This creates a robust and scalable foundation to leverage within the control framework, while also allowing for wholesale controlled and efficient change management.

5. Implement preventative trading controls

Regulatory expectation for preventative controls means banks have to move away from sole reliance on detective controls towards limiting the ability to deviate from established booking arrangements. This is a challenging ask for global banks with complex technical landscapes. In our experience, when it comes to control implementation, there is no "one size fits all". Banks should consider alternate effective options depending on the activity flow e.g. voice versus electronic, structured products, off system trade bookings. Data quality and technical ability to meet latency requirements to ensure accurate and timely control outcomes will drive "hard versus soft block" decisions. A forward thinking, strategic approach to achieve consistent application of booking model rules across all control points would leverage a centralised solution which lends itself to centralised monitoring and consolidated reporting while facilitating efficient change management. Effectiveness of the control framework will also rely on an operating model that articulates ownership of the framework, its implementation and ongoing monitoring.

6. Establish booking model governance and oversight

Under PRA guidelines, the responsibility for monitoring and controls must be allocated to a Senior Management function. Oversight committees with legal entity alignment and representation from senior management, risk, control officers, the business and compliance must have the authority and responsibility to ensure booking arrangements are properly defined, embedded and controlled. Policy and procedures should reflect the expectations to effectively implement governance with appropriate action taken for any policy breaches. Monitoring and investigation processes need to be in place with clear routes to escalation to management for further action and decisions, including reporting to regulators as appropriate.

7. MI for effective supervision

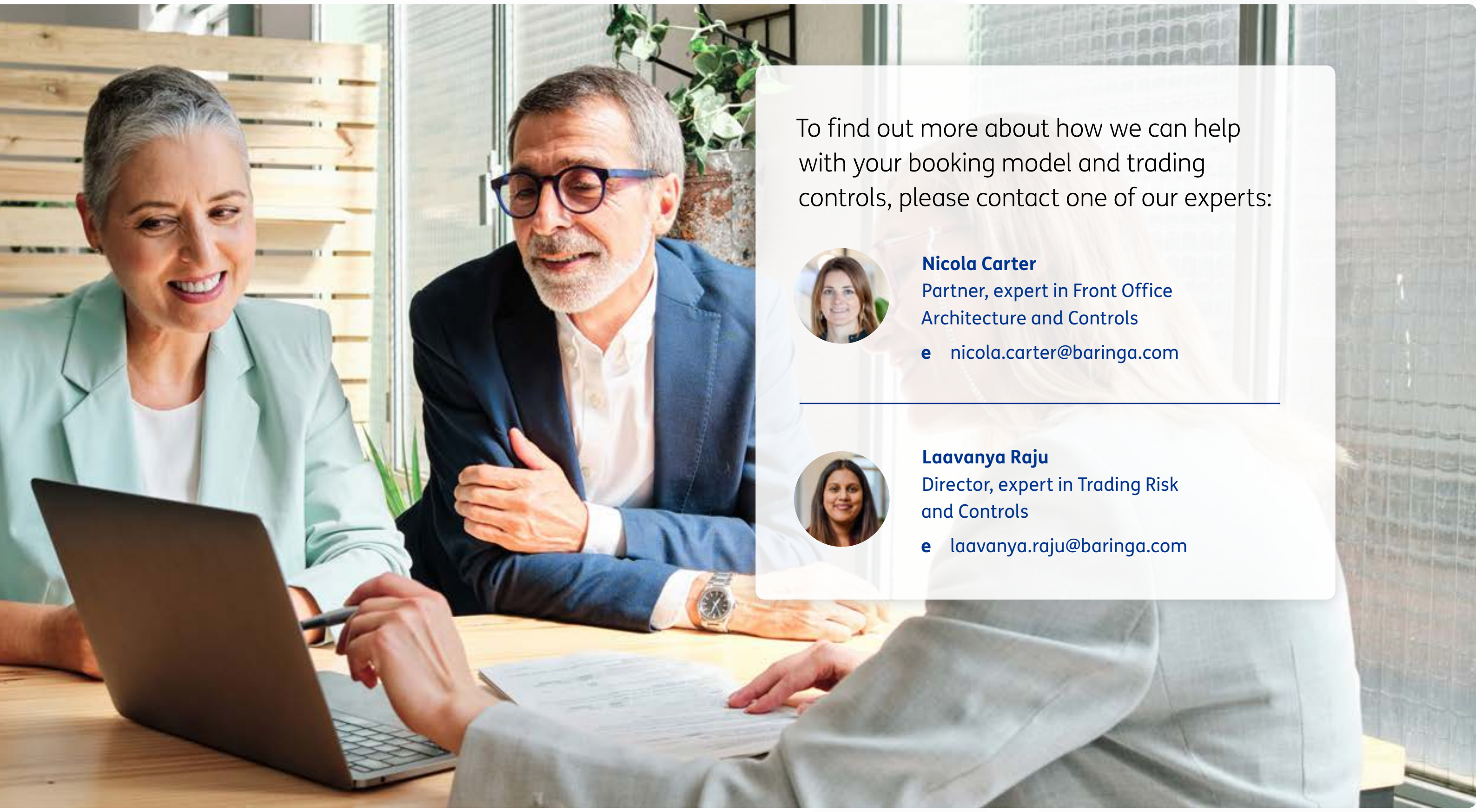
Effective supervision requires good visibility of the firm's trading activity and booking exceptions to identify emerging risk patterns. This relies on having the infrastructure and data at the required grain and lineage that is accurate, complete and timely (eg type or volume of activity by entity, jurisdiction or business, including remote booking). Management Information and analytics will provide metrics and insight allowing for timely risk mitigation decisions. Actionable, automated reporting puts the firm in a position to respond to regulatory requests more confidently and allows for efficiency in how time is spent ie solving the problem rather than finding the problem.

8. Continually assess and review

Defining the booking model is not a one and done exercise as it has to keep up with the firm's evolving strategy, structure and changing regulations.
A periodic review will ensure continued compliance. Similarly, there should be a periodic risk assessment of control effectiveness with any mitigating actions planned, tracked, and executed to ensure the intended booking arrangements are followed.

Stay ahead of regulatory scrutiny

Each bank will be at a unique stage in their journey of defining their optimal booking model, operationalising it and controlling for it. They will be grappling with their own set of challenges stemming from evolving strategies, complexity of infrastructure, rationalisation and optimisation efforts, and their regulator's priorities. As such banks are likely to be further along in some areas highlighted above, while others may need more attention. Wherever they are in this journey, they will want to focus on getting all eight steps right to stay ahead of regulatory scrutiny, avoiding remediation work.



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