

PANDEMICS, NATURAL DISASTERS AND FINANCIAL CRISES

DTCC'S TOP RISK EXECUTIVES SHARE LESSONS LEARNED

As the pandemic swept the globe in early 2020, the social restrictions that ensued forced the overwhelming majority of the financial sector to work from home. As we enter the ninth month of this “new normal,” what challenges have we encountered, and what are some of the lessons we’ve learned?

Hear from Michael Leibrock, DTCC Managing Director and Head of Counterparty Credit Risk and Systemic Risk, and David LaFalce, DTCC Managing Director, Head of Business Continuity and Resilience, as they discuss how the pandemic affected DTCC, as well as their roles within the firm.

WHAT WAS THE BIGGEST CHALLENGE YOU FACED DURING THE FIRST COUPLE OF MONTHS OF THE PANDEMIC?

DL: DTCC is a critical partner to the financial industry—nearly all equities and fixed income trades in the United States clear through our NSCC, DTC, and FICC subsidiaries. As head of Business Continuity Management and Resilience, my group evaluates proactive and reactive measures to ensure the continued operation of the firm.

Contrary to many, the pandemic didn't catch me or others in my vocation by complete surprise. In 2007, the [Federal Financial Institutions Examination Council \(FFIEC\)](#) issued guidance to identify continuity planning to minimize the potential adverse effects of a pandemic. That same year, the financial services industry conducted a pandemic flu exercise designed to stress test the business continuity plans of more than 2,700 participating organizations. In 2014, the financial sector conducted a refresher exercise to validate the controls detailed in the FFIEC's 2007 guidance.

One of the biggest challenges that DTCC faced from an operational standpoint was helping people adjust to operating in a different environment and adapting to all the unknowns. Many of us had never managed or worked for an extended period in a remote situation, and some needed to alter their management style. DTCC helped employees acclimate through constant communication, including frequent company updates and leadership calls. Zoom calls have been a vital substitute for in-person meetings and helped many through the adjustment phase.



David LaFalce
DTCC Managing Director Head of
Business Continuity and Resilience

“From these events, the financial industry emerged stronger and the lessons learned helped the industry establish frameworks to guide it during the most volatile periods.”

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ML: Perhaps the biggest challenge my team faced was monitoring the impact of the extreme market volatility on our clients during March and April. This volatility and spike in trading volumes led to an industry-wide increase in margin calls. As such, my team had to perform enhanced due diligence on many clients to verify that their financial condition, and in particular their liquidity profiles, remained stable. Our Risk teams performed this enhanced due diligence and monitoring while still completing their everyday responsibilities—all while working in an unfamiliar environment.

After the initial volatility subsided, DTCC created a COVID-19 Impact working group, an initiative involving multiple stakeholders from across the firm. The working group meets regularly to identify, assess and mitigate potential risks across the enterprise and reports regularly to DTCC's executive management about the status of this effort.

FINANCIAL MARKET UTILITIES (FMU) PLAY A CRITICAL ROLE IN THE FINANCIAL MARKETS BY PROVIDING TRADE GUARANTEES, MARGIN EFFICIENCIES, TRADE NETTING, ETC. – THEREFORE, INDUSTRY FIRMS AND REGULATORS LOOK TO THE FMUS TO PROVIDE STABILITY DURING PERIODS OF MARKET STRESS OR CRISIS. HOW HAS DTCC BEEN ABLE TO CONTINUE PROVIDING THESE SERVICES IN THE FACE OF EXTREME MARKET VOLATILITY?

DL: Core to being an FMU is availability to member firms. At both DTCC and in my prior employment at another FMU, I have witnessed three pandemics, several natural disasters, 9/11, and a few financial crises.

From each of these events, the financial industry emerged stronger and the lessons learned helped the industry establish frameworks to guide it during the most volatile periods.

ML: For many years DTCC has mitigated risk for the industry during prior periods of intense market volatility. These numerous experiences, along with our practice of performing ongoing stress testing of our portfolios, regularly reviewing and testing our risk models and other critical processes, all helped us prepare for the events in March and April.

WE HAVE TALKED ABOUT THE IMPACT OF THE PANDEMIC TO THE ECONOMY AND FINANCIAL MARKETS, BUT PERHAPS THE MOST SIGNIFICANT IMPACT ON THE FINANCIAL SECTOR, INCLUDING CENTRAL COUNTERPARTY CLEARING HOUSES (CCP), HAS BEEN THE DRAMATIC SHIFT IN STAFF WORKING FROM HOME. WHAT IMPACT HAS THIS NEW MODEL HAD FOR DTCC AND THE INDUSTRY AT LARGE?

DL: For DTCC, the most significant operational risk was the continued operation of our vault, which holds roughly \$70 trillion in physical securities. In those first few weeks, we needed to find a way to keep the operation open while still maintaining the safety of those essential workers and the staff who support the vault.

Cybersecurity is still a concern, given the remote environment; however, the number of attacks has been about the same as it was before the pandemic. Now, paper and printing have become the new privacy risks, as shredders and locked containers for disposal of sensitive documents are not readily available for most individuals. We need to ensure individuals at home are disposing of printed materials safely and securely.



Michael Leibrock
DTCC Managing Director and Head
of Counterparty Credit Risk and
Systemic Risk

“As an industry, we need to continue to challenge ourselves to think outside the box about all possible risks on the horizon and to ensure that whatever events do occur, that we have the necessary resilience to withstand its impact.”



ML: The switch to work from home was a pretty seamless transition. Even during the market's most volatile days, we performed all our processes—a testament to our staff's dedication and DTCC's robust systems, prior testing and resiliency plans.

From a systemic risk point of view, to date, the work from home model has also had minimal impact on both DTCC and apparently the industry as a whole. For example, DTCC has performed extensive stress testing to ensure that we would be well prepared in the case of a significant market event. Even during the market's most volatile days, our systems and models functioned as intended. We will naturally continue to evaluate and identify any emerging risks and stay vigilant.

WHILE NOBODY KNOWS FOR SURE HOW LONG THE PANDEMIC AND ECONOMIC FALLOUT WILL LAST, TO DATE WHAT ARE THE ONE OR TWO LESSONS LEARNED FOR DTCC?

DL: The biggest lesson learned is that a remote culture is possible for the financial industry. There is not a one-to-one relationship between sitting in an office and productivity. A remote culture will allow increased flexibility and improved satisfaction for employees. Additionally, the ability to geographically distance employees will enable firms to be more resilient to regional events.

ML: Echoing what David said, we learned that our firm, along with most of the financial sector, can work from home for a sustained period of time without compromising the quality of our work. The other lesson learned is that despite best efforts to anticipate emerging risks, there's no guarantee that we will always anticipate the nature and depth of the next significant market event. Therefore, as an industry, we need to continue to challenge ourselves to think outside the box about all possible risks on the horizon and to ensure that whatever events do occur, that we have the necessary resilience to withstand its impact.

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