The Financial Conduct Authority (FCA)
Redefining the Meaning of z System Integrity

Andrew Hoyt Robichaux
Thursday, August 13, 2015
4:30 PM – 5:30 PM, Oceanic 6

Session 17530

Evaluations Please!
Modern transportation, communication and information systems have made all business 'International Business'. As with all business affairs past and present, honesty, integrity and compliance to a higher moral standard are critical to maintaining consumer and shareholder confidence. To this end, organizations have been created to enforce such compliance, such as the Securities and Exchange Commission and the European Securities Committee.

This presentation will focus on:

- The recently created Financial Conduct Authority (FCA),
- Several FCA notable cases, and
- Details of the Royal Bank of Scotland's mainframe meltdown.

Andrew Hoyt Robichaux is a Technical Support Analyst with NewEra Software, Inc. His primary role is to document the ongoing changes that impact the configuration syntax of z/OS, JES, VTAM, CICS and TCP/IP and their related Operator Command. He is “New to Z”, attending his first SHARE. He is an Eagle Scout and a recent graduate of the University of the Pacific Eberhardt School of Business, from which he holds a BS in Business Administration.
Hello My Name is Andrew!

I am very, very New to z.

I have just completed the New to z Sessions.

Maybe I’ll be a player in zNextGen!

This is my first SHARE. Do you remember yours?

This my first conference presentation. I hope you like it!

Session Evaluations!

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Now let’s find out a little about you!

Did you turn off the lights before you left your house?
Did you get some cash for the trip from an ATM?
Did you drive to the airport? Or to Orlando?
If you flew, was the trip enjoyable?
How is your hotel room?

Trust and Confidence!
We have all manner of dependencies!

Trust and Confidence!
z Systems and Business Integrity

We have all manner of "Watch Dogs"!

HIPAA
Health Insurance

Gramm-Leach-Bliley
Financial Institutions

PCI
Payment Cards

DOD-DISA-STIG
Government - Military

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What do they do for us?

- Honesty
- Integrity
- Conformity to higher order moral standards

…these values are critical to maintaining consumer and shareholder confidence and trust in organizations and their processes.
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Financial Conduct Authority!

- Created in the United Kingdom on December 12th, 2012
- Replaced the outdated Financial Services Authority
- Created to make a new regulatory framework for financial services firms, and was given the responsibility of maintaining financial stability.
- Brought together prudent macro and micro financial regulation.
The FCA’s Mission

• To protect consumers and to ensure the stability of the UK financial systems and to promote healthy competition between financial service providers.

• To ensure that consumers have access to financial services that meet their needs from firms they can trust.

• Over the long term, to create more sound, stable, and resilient financial markets

Conduct Risk!

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What is Conduct Risk?

- The risk to a consumer of the failure of an institution’s controls and operating procedures.
- Conduct Risk is detrimental to bank customers and has an overall negative impact on consumers.
- Examples:
  - Not being able to gain access to desired financial products (ATMs, Checking, Savings Accounts).
  - Incorrect investment advice.
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FCA Case Studies!

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Background and Facts:

- Failure to properly protect one of their client’s custody assets, worth more than 16 and a half billion British pounds ($24,554,887.50 USD).

- Said failure caused the client to incur extra risks, costs, delays, and potentially even losing all of their assets if Barclays became insolvent.
Barclays Bank

- Findings:
  - An investigation was launched and found that Barclays had been playing “fast and loose” with the rules put in place to prevent such protection failures from happening.
  - Barclays was hit with 37 million Pounds in fines ($55,062,475 USD), which at the time was the highest fine the FCA had ever imposed on a negligent party.
Background and Facts:

- HomeServe: An insurance intermediary that sells home emergency and repair insurance coverage to consumers.
- Their issue was a bit more serious; HomeServe had a systematic and long running failure to deliver on the services they were selling.
- Failure to properly investigate complaints, insufficient compliance requirements, and reluctance by the management team to discuss risks with customers if a cost implication was involved.
HomeServe

• Findings:
  – It was found that HomeServe was operating its profit driven business model in such a way as to reap from as many paying customers as possible, even if it meant taking advantage of them.
  – HomeServe is to pay about roughly 17 million British pounds ($25,298,975 USD) in damages to its customers.
  – HomeServe has already paid out 13 million British pounds in damages.
In this case, both of these banks were guilty of the same thing. Lloyds and the RBS attempted to manipulate the fees payable to the Bank of England for their participation in the Special Liquidity Scheme, a crisis aid system. They attempted to manipulate the rates they would pay out and were caught.
Lloyds Bank and The Royal Bank of Scotland

• Finding:
  
  – Over 70 million British pounds ($104,172,250 USD) in fines were assessed.
  
  – Both banks were also complicit in the manipulation of the LIBOR (London Interbank Offered Rate) exchange rates.
  
  – With these infractions factored in, the fines totaled 105 million British pounds ($156,258,375 USD).
In the same time period of the RBS manipulation of their fee payment rates, they suffered some infrastructural damages.

They had a technological meltdown, rendering their 6.5 million customer base unable to access their accounts.

The FCA determined that over 100 million payments went unprocessed, which were directly related to inadequate systems and controls.

Their judgment was swift, as the RBS caused widespread disruption not only to their customers, but to the financial systems and the general public as a whole.
In Depth with The Royal Bank of Scotland

- The resulting fine was 56 million British pounds ($83,337,800 USD).
- Additionally, 400 million ($595,270,000 USD) more in fines were recently assessed by the FCA on November 20th 2014 related to the failures in controls in the foreign exchange market manipulation.
Recent FCA Citations

• Six major international banks have been cited for over 1.4 billion US dollars in fines.

• The banks and their traders were attempting to manipulate the market for foreign exchange rates
  – The process by which banks buy and sell currencies

• A thirteen month investigation by the FCA revealed the fraud, and brought about 1.4 billion dollars in fines filed jointly by the FCA and the US Commodity Futures Trading Commission.
An additional one billion US dollars was levied by the Office of the Comptroller of the Currency against the US based banks.

Both British and American agencies cooperated, as this posed a major threat to the integrity of the world financial system, and would severely undermine confidence in the UK financial system.

It was driven by corporate profit and management’s personal wealth.

The FCA may make a recommendation to reform bank pay and bonus structures, to perhaps include increased taxation on bonuses as a means to increase transparency to the market.
# z Systems and Business Integrity

## Other Recent Citations - Extracted from Rolling Stone

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<td>Allowed terror-supporting states and international drug dealers to launder billions</td>
<td>$1.92 billion</td>
<td>$13 billion</td>
<td>$2.6 billion</td>
<td>$8.9 billion</td>
<td>$7 billion</td>
<td>$16.65 billion</td>
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<td>The mass mortgage deception that Alayne Fleischmann describes</td>
<td>$1.61 billion</td>
<td>$6.55 billion</td>
<td>$2.4 billion</td>
<td>$8.9 billion</td>
<td>$4.3 billion</td>
<td>$8.03 billion</td>
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<td>Failed to report concerns about client Bernie Madoff to U.S. authorities</td>
<td>$26 days of 2013 pretax profits</td>
<td>104 days of 2013 pretax profits</td>
<td>38 days of 2013 pretax profits</td>
<td>290 days of 2013 pretax profits</td>
<td>81 days of 2013 pretax profits</td>
<td>181 days of 2013 pretax profits</td>
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<td>Allowed rogue terror states like Sudan and Iran to launder money</td>
<td>$450 million</td>
<td>$800 million</td>
<td>$2.4 billion</td>
<td>$8.9 billion</td>
<td>$4.3 billion</td>
<td>$8.03 billion</td>
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<td>Basically, the same mortgage deception as Chase</td>
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<td>Still more mortgage deception, only worse than both Chase and Citi</td>
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* excluding consumer relief and estimated tax deductions
What does the FCA want to change?

• Currently, the FCA endeavors to increase transparency and ethical business practices in its UK realm.
  – Considering ways to change how investment funds handle research and management fees.

• Investment funds calculate fees as a percentage of the total investment. Fees are not disclosed in a way in which the average investor can see the exact costs related to the investment.
  – Many do not know that these costs even exist.

• The FCA also believes that financial service providers should have a legal fiduciary responsibility to act in the best interests of the consumers.
**What does the FCA want to change?**

- Current practice is that customers are to be treated fairly.
- The FCA, however, does not have the legal authority to enforce any changes.
  - Such rules may conflict with a firm’s profit strategy.
- Correcting these issues is a part of the FCA’s ongoing strategy to foster a more stable and ethical financial marketplace.
FCA’s Performance To Date

- So far, the Financial Conduct Authority has done an excellent job in enforcing a new standard of integrity for the firms within its scope of authority.

- The FCA has cooperated with international agencies such as the US Commodity Futures Trading Commission in order to improve the integrity and stability of the international financial markets.

- A Firm that does not operate with integrity may be able to generate great short term profits, but in the long run it could turn disastrous, like it did in Barclays’ case.

- So far the FCA has proven itself to be a competent organization, doing the job for which it was created and rectifying shady business practices.
Recent Developments

• The Royal Bank of Scotland.
  – As the FCA investigation went on, more information has been discovered since last year.

• The RBS incident was caused by a failure in their IT systems, resulting in the inability of nearly 6.5 million of their customers accessing their accounts inaccessible.

• However, there was a larger underlying cause to their IT failure.
Recent Developments

• At the core of the problem was a software compatibility issue.

• The Royal Bank of Scotland updated the software that processed updates to their customer’s accounts overnight.

• They had discovered a problem with the upgrade, and then decided to uninstall it and roll back to the previous version.

• However, they did not test the consequences of that action, and did not realize that the software upgrade would be incompatible with the previous version.

• This resulted in the complete failure of their systems, and since then, RBS has set aside 125 million pounds in compensations and costs because of the disruption.
Conclusion! The UK is not the only one!

The regulatory structure in most Western countries nowadays is becoming not only extremely well organized and detailed, but also very strict.

Just this year, Australia, New Zealand, Japan and, probably most conspicuously, the United States have all been involved in a very detailed reformation process as to how to monitor activity in the financial markets under their jurisdictions.
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