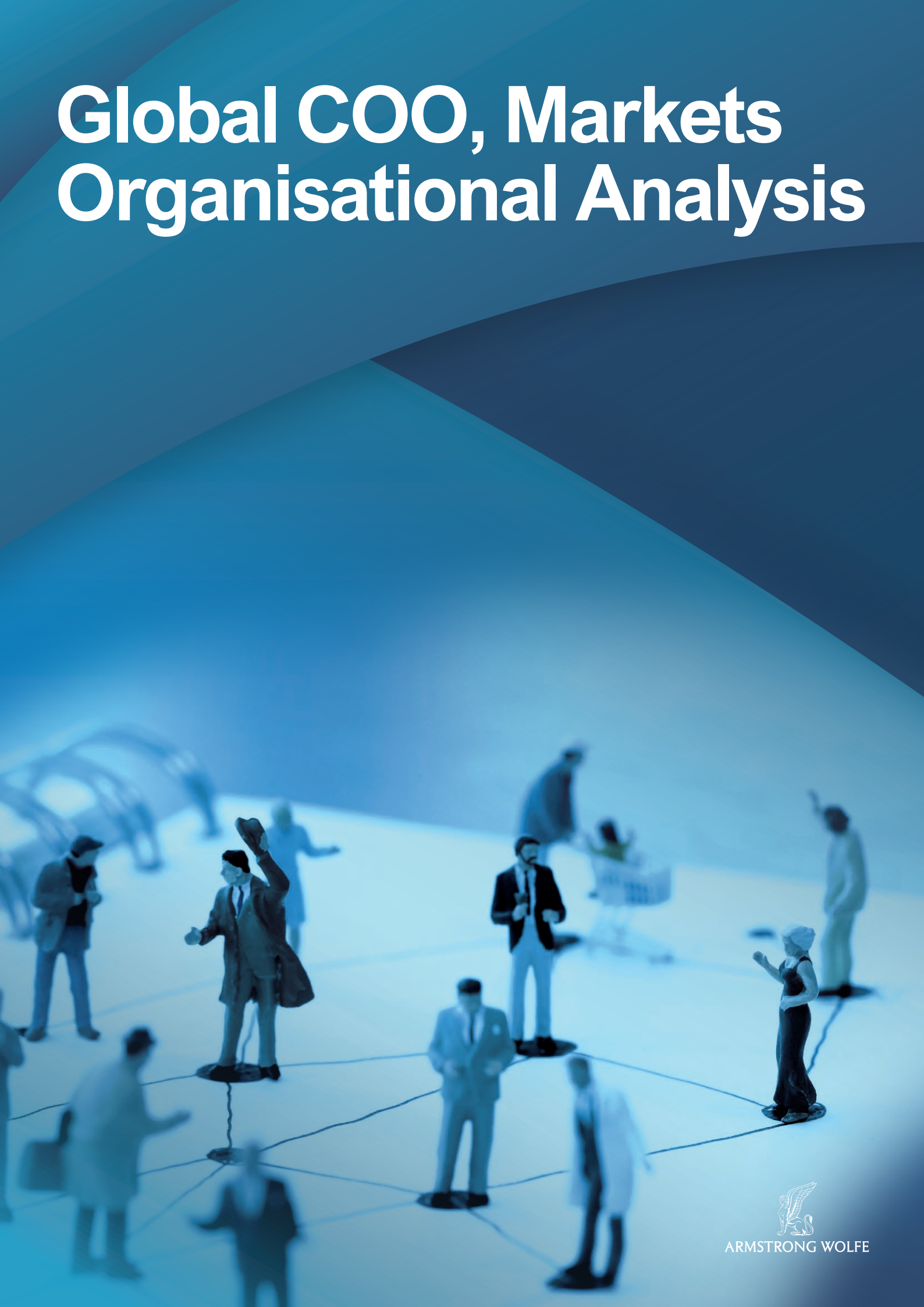
Global COO, Markets Organisational Analysis



ARMSTRONG WOLFE

Contents

Foreword — 3

Organisational Construct and Regional Dynamics — 5

Segregated or Integrated COO Model — 6

Population Analysis — 7

Contractor Workforce and Non-Financial Risk — 10

Operations and Change Management — 12

Future predictions of the roles of the COO/CCO and their focus — 14

Abbreviations used as follows:

- *COO - bank dependent: Chief Operating Officer, Chief Administration Officer, Business Manager*
- *CCO - bank dependent: (1st line) Chief Controls Officer, Global Head of Business Controls*

Executive Summary

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This report summarises the collective efforts of our COO Community who, in coming together to review their businesses, provide insights in the hope of identifying the most effective way of operating.

Business Operating Models

The most common operating model appears to be a 'business aligned' model where operations and middle office are not owned directly by the COO. However, trade capture drew division on whether this function should be owned by operations or the COO directly. Similarly, the majority of respondents identified the corporate level COO as the owner of their operations function as a central Operations and Technology utility, some with a Head of Operations receiving equal reporting ownership.

Most respondents identified the global COO-CEO partnership as being the most effective working relationship and essential to influence sustainability of the COO function. Conversely, the existence of a Chief of Staff (CoS) function appeared limited in number. For those with a CoS, the combination has been effective where there is alignment of strategies, clear scope of mandate and avoidance of duplication. Some members believe the COO and CoS mandates are so similar in scope that duplication is inevitable. With the belief that the COO is recognised as an easy target for cost reduction exercises, how a business would view headcount on both a CoS and COO remains uncertain, but it is likely to draw attention.

When reviewing present functional ownership, there was a consensus that the COO owns strategy, 1st line controls, budgeting and regulatory change. Conversely, functions like fintech and innovation, front office technology and quantitative analytics appear to fall outside the COO's direct management. It was clear though that whilst the COO mandate does have a strong focus on operational risk, resilience plans and regulatory and supervisory obligations, unwanted events in these areas have the potential to reset the COO's mandate. Agility to react to these could be limited because in most instances, business management were heavily reliant on their existing permanent headcount with a below average contractor headcount spanning only 5-10% of the function.

The exact reasons for this operating model preference remain unclear, but looking forward, many believe that increasing regulatory oversight and SMCR will necessitate a change to a complete front to back COO owned model. Some are already pushing for this as the only way to ensure control of functions they are responsible to the regulator for. How this also impacts the contractor / permanent headcount ratio remains to be seen.

Managing Risk

The largest CCO model was COO-owned in a decentralised system but with a centralised CCO function owning policy-making and risk governance. A small minority were not operating with any CCO function at all but respondents who cited this had a correlation in their similar market size. It is also observed that the CCO is developing a mandate far beyond its original control mandate to be more forward-looking with the emphasis on having an external-facing lens to maximise their value to the business.

The output from the forums and survey continues the debate on who is best positioned to manage the overall risk function. Marginally this was identified to be the 1st Line, but noting the respondents were exclusively markets COOs/CCOs, the 2LoD participants were not given the opportunity to participate. Common themes for determining ownership included cultural absence from the 1st line or conversely, the fact 1LoD operate the controls on a daily basis and are better placed to manage risk. Some viewed this as a shared responsibility, but clearly problems exist when each function isn't clearly defined and coverage gaps emerge.

75% of the COO community believe non-financial risk has less mature processes. Contributing factors include the fact it is a newer risk class, the technology is not as evolved, it is not as trackable as it's a subjective risk and there is presently less spend on their on-risk systems. A number cited it was simply made a 2nd Line problem. The largest risks being related to cyber risk, vendor risk or regulatory risk. Over half believed creating a cross-industry set of benchmarks would reduce the ambiguity and subjectivity associated with measuring the risks. Similarly, the 1ST Line were again marginally viewed to be best placed to manage these risks, but that decision is far from unanimous.

What is clear is the COO community wants to continue to further define the 1st line controls mandate at future forums where the answer of ownership may become self-evident.

Geography

The roles offshored appeared uniform and include non-regulatory risk, certain operations functions, technology, onboarding functions and data functions - all located in India, Bangalore, Malaysia or Columbia. Only 60% of the community felt these migrations were successful and macro factors like outages have provided cause to consider what location are best for business continuity purposes in the future.

Nearshoring was seen by over half as a suitable alternative to managing some of the risk and there was agreement that the pandemic has prompted a revised view of the value of nearshoring versus offshoring. The majority citing that they would consider nearshoring equal or preferable to offshoring following the pandemic and the challenges it presented to offshored functions.

Change and Transformation

With a popular view that staff resource plans are driven by events, rather than yearly strategic planning, it is clear why change teams are so heavily reliant on a contractor workforce. Some respondents citing this was a problem they were looking to rebalance. With the unpredictability of reactive staffing, it is easy to see how this situation manifests itself as contractors are easier to mobilise to event-specific tasks/deliverables. There is also the added benefit of hiring in SMEs in given subject areas, although conduct and culture can be hard to manage in temporary contractors. Such hiring model appears contradictory to the market where clients often seek to retain talent with change experience, with most contractors informing us they too would take permanent employment and help prevent that intellectual capital from leaving the organisation if it was offered.

The use of a third-party consultancy mirrors the use of contractors, with a larger percentage being deployed on ad hoc projects than as part of a strategic component of the bank's workforce. There appears no key functional focus, with most functions having a high /medium priority for consultancy support across all areas.

The majority of respondents state change was delivered either directly by the product COOs or co-owned between a centralised change function and the product COO. Most appearing to operate with a Global Head of Markets change management, but few have a regional head to drive change management initiatives which is possibly because in many cases the COO would be an integral part in delivering on this book of work on a regional level.

Looking forward, it appears change functions will need to ensure they operate with a diverse talent pool as the large budget spends identified for the coming year are noted to be delivering further regulatory change, large transformational projects, limiting commercial spend, revenue generating efficiency, e-trading and large replatforming projects.

The future

The COO looks to be front and centre in the next five years. Macro factors including the effects of the pandemic, market change, technology and a changing regulatory landscape will see the markets COO central to those business-making decisions. Likewise, there is a belief the COO will also become closer aligned with 1LoD as a growing part of their book of work. In parallel, the CCO will be more business aligned, acting as an advisor to the business with the possible focus on reduction of 2nd Line and merging of the functions into a 1 A/B function. The reliance on clear, accurate, data is paramount and remains on of the largest business challenges to date.

Given the heavy headcount costs businesses are encountering, a reduction of expensive top end directors (and the intellectual capital they hold) appears inevitable to create a more streamlined operating model.

Organisational Construct and Regional Dynamics

Which of the following operating model best defines the office of the Markets COO and front office business management alignment at your bank?

FTB Integrated The COO reports directly to CEO/Head of Markets - sits in the business, is paid by the business and owns front office sales and trading business management, 1st Line controls and conduct, front office technology, middle office, and operations. **26%**

Business Integrated The COO Markets reports to CEO/Head of Markets - sits in the business, paid by the business; front office sales and trading business management, 1st Line controls and conduct. Namely does not own middle office and operations. GBM or CIB, except the COO Markets reports to a divisional GBM or CIB COO. **50%**

Segregated The COO has no direct ownership of the product COOs or in-line change or control.The COO is supported by a centralised control and conduct team. In such cases the product and regional COOs would have a dotted line to the global COO Markets. **12%**

Finance Integrated No Markets COO. Front office business management sits in finance and may be aligned to product control. Reports into the CIB or other divisional CFO. **12%**

78%

of global COOs are co-located with the global CEO

The COO's mandate defined by COOs:

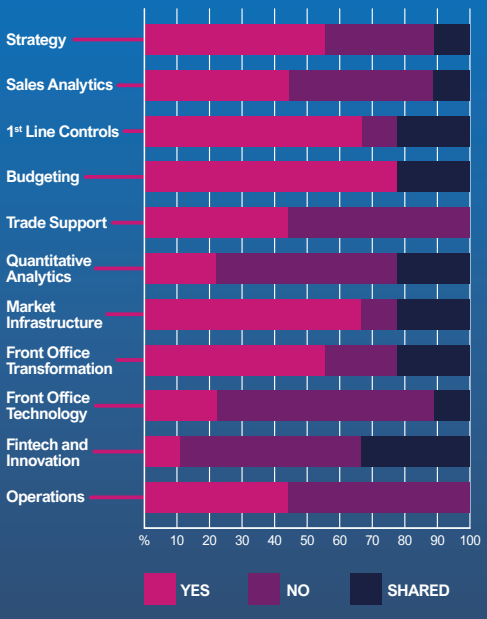
CONTROLS | OPERATING GLOBAL MARKETS BUSINESS CONDUCT | STRATEGY | SMCR REGULATION | STAFFING BUDGETING | PERFORMANCE COST AND CAPITAL - OPERATING FRAMEWORK NON - DIRECT REVENUE GENERATING | STRATEGIC ADVISOR | PROBLEM SOLVING BUSINESS ENABLEMENT TRANSFORMATION | DATA

33%

Only **33%** have an appointed Chief of Staff to the CEO who works behind the scenes to solve problems, mediate disputes, and deal with issues before they are brought to the CEO. They're a confidant and advisor to the CEO, acting as a sounding board for ideas.

Respondents made the following statements to the effectiveness, or ineffectiveness, of the CoS/COO relationship:

Does the COO directly manage and own the following:



The COO's mandate defined by CEOs:

OPERATION OF GM BUSINESS STRATEGY EXECUTION DRIVES EFFICIENCY | CLIENT EXPERIENCE | PERFORMANCE CONDUCT AND CONTROLS PROTECT BANK

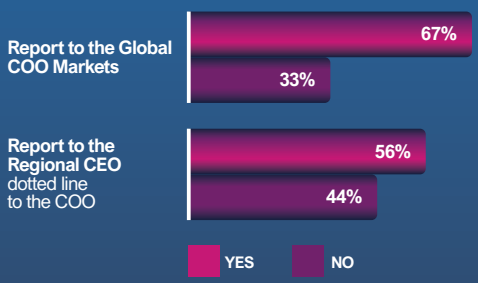
Respondents answered whether they had a local markets COO in each location:

67%
NO

The following proportion of respondents stated that their Markets Business was physically operating in this number of countries:

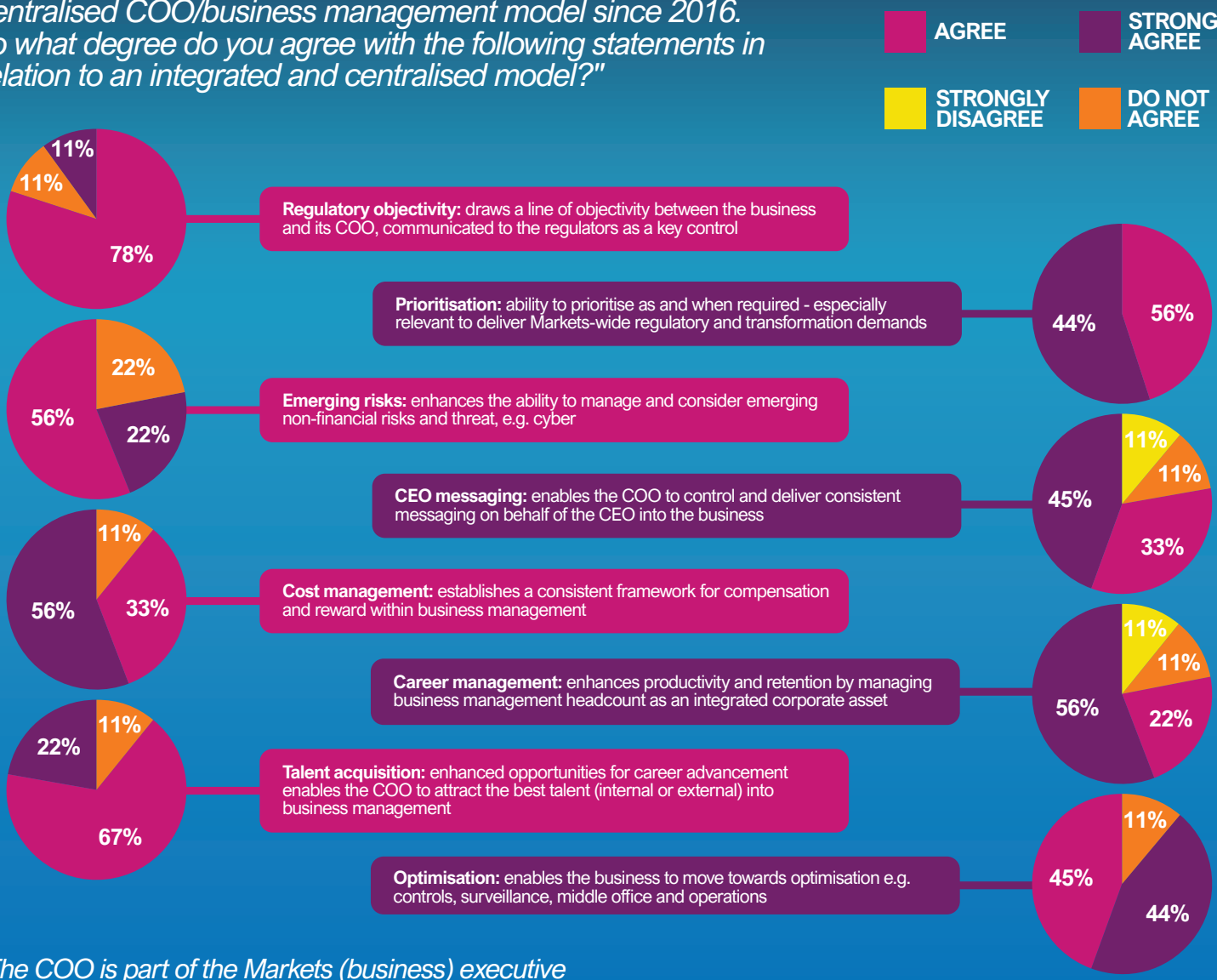
Under 5 Countries	6 - 20 Countries	40 + Countries
30%	43%	27%

The regional COO Markets:

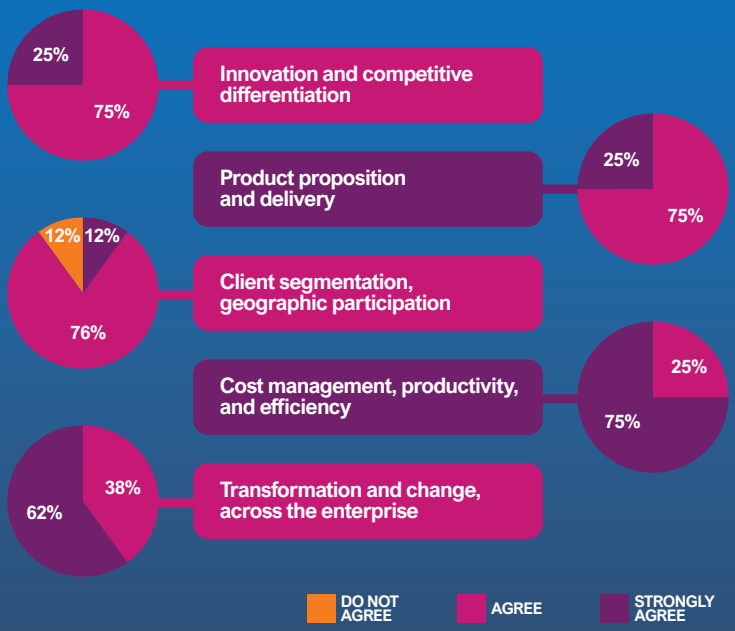


Segregated or Integrated COO Model: Key Assumptions

"A high percentage of Markets franchises have moved to a centralised COO/business management model since 2016. To what degree do you agree with the following statements in relation to an integrated and centralised model?"



"The COO is part of the Markets (business) executive team, and therefore has a key role in evaluating and implementing business strategies and initiatives." Including:



All respondents agreed, with **33%** strongly agreeing, that *"For the COO, creating alignment, wherever possible, to the business lines and with the key stakeholder groups of the C-suite, positively influences sustainability for the COO function – but it must be developed and embedded as a discipline across and down the function, not just by the COO"*

All respondents agreed, with **44%** strongly agreeing, that *"The COO has a wide-ranging set of responsibilities, it is key that there is a strong and consistent focus on operational risk, resilience plans, regulatory and supervisory obligations – Protect the business"*

13% of recipients disagree, with **50%** and **37%** agreeing and strongly agreeing respectively, that: *"Issues will materialise - an unwelcome event that arises because of slippage in these areas can have a long-lasting impact, both for the firm, and the function itself. It could well lead to a reset of the mandate"*

45% of recipients disagree, with **44%** and **11%** agreeing and strongly agreeing respectively, that: *"The COO function is an easy target for cost reduction which invariably does not appear to account for the unseen book of work managed on a daily basis by business management"*

Population Analysis

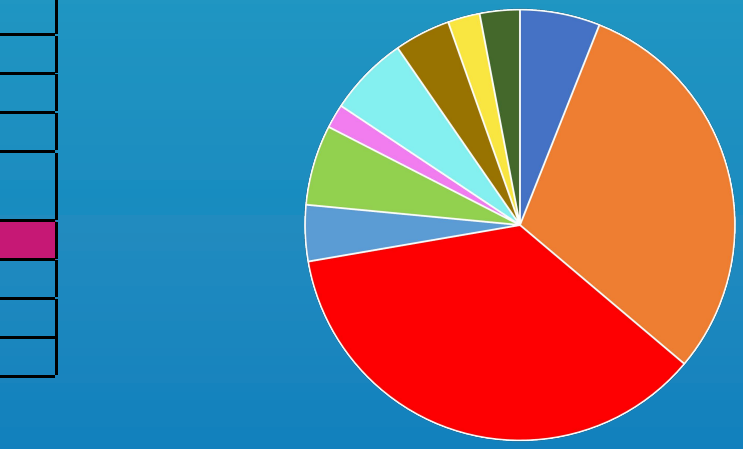
Headcount for the survey was defined as follows:

Front Office
CEO's Office
Trading
Sales
Sales Strategy and/or Analysis
Quantitative Analytics
Regulatory Management/Market Infrastructure
Research
Strategy
Product Business Management
1st Line Controls
Vendor Management
Resource Management (Balance sheet management, liquidity, stress testing)
Infrastructure
Operations/Trade Support
KYC and/or Market Data
Front Office Technology

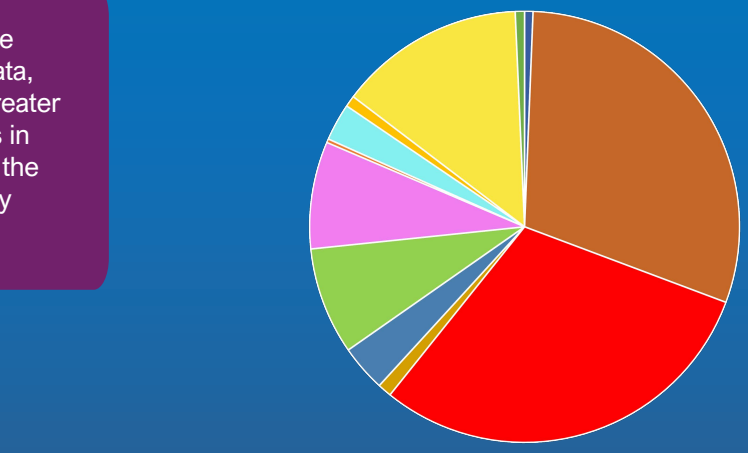
Bank A and Bank B below are taken as examples, a comparatively small and a medium sized enterprise. The statistics for front office revenue generating staff verses non-revenue generating staff are relatively consistent (Bank A 66%/34% and Bank B 70%/30%), although the overall survey data demonstrates a greater variance from the lowest variable of 26% (63%/37%) to the highest being 42% (71%/29%).

Front office / business management headcount

Bank A



Bank B

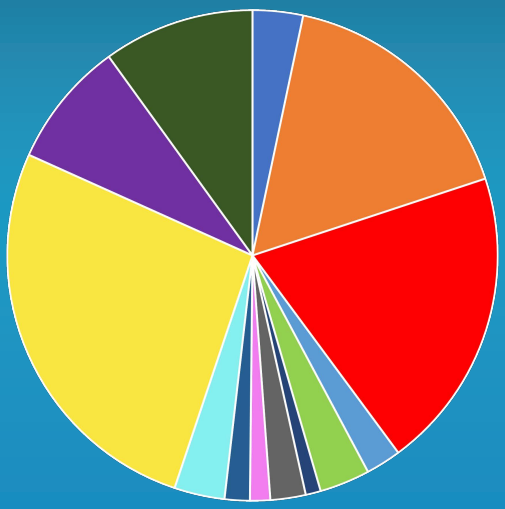


The variance changes when the headcount for the infrastructure is added, reflected in the over all data, where the greatest impact on this variance is a greater allocation of headcount in the mid to larger banks in supporting market data and KYC activities and in the allocation of change and/or front office technology headcount.

Population Analysis

Total front to back headcount

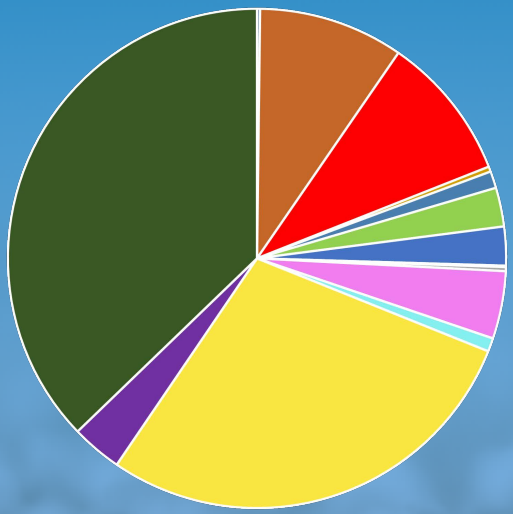
Bank A



	Bank A
Total front to bank head count	4580
Front Office Headcount	1430
Infrastructure	3150
Front Office: revenue v non-revenue	**66%** (860) v **34%** (540)
Front Office v Infrastructure	**32%** (1430) v **68%** (3150)

- CEO's Office
- Sales
- Quantitative Analytics
- Research
- Product Business Management
- Vendor Management
- Operations/Trade Support
- Front Office Technology
- Trading
- Sales Strategy and/or Analysis
- Regulatory Management/Market Infrastructure
- Strategy
- 1st Line Controls
- Resources (i.e. balance sheet management, liquidity, stress testing)
- KYC and/or Market Data

Bank B



	Bank B
Total front to bank head count	301
Front Office Headcount	156
Infrastructure	145
Front Office: revenue v non-revenue	**70%** (110) v **30%** (46)
Front Office v Infrastructure	**52%** (156) v **48%** (145)

- CEO's Office
- Sales
- Quantitative Analytics
- Research
- Product Business Management
- Vendor Management
- Operations/Trade Support
- Front Office Technology
- Trading
- Sales Strategy and/or Analysis
- Regulatory Management/Market Infrastructure
- Strategy
- 1st Line Controls
- Resources (i.e. balance sheet management, liquidity, stress testing)
- KYC and/or Market Data

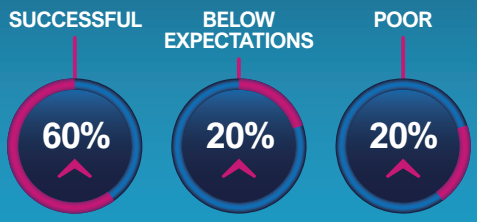
The following roles have been offshored:

SOME ONBOARDING FUNCTIONS
TECHNOLOGY | CONTROL EXECUTION ROLES | SALES ANALYTICS | COO | FRM | QUANTS NON-REG | OPS | TECH CONTROLS | SURVEILLANCE | TPG

The following roles have also been considered for future offshoring:

Operations
Trade Support
Technology
Reconciliations
Analytical
Data

Rating the experience of offshoring front office positions:

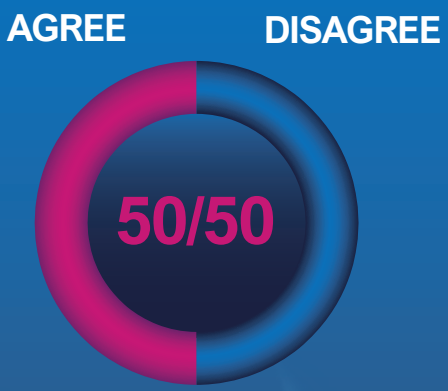


The following countries are used for offshoring:

The following country has also been considered for future offshoring:

40% of respondents say "nearshoring is not an evolving option equal to or preferential to offshoring," with the remaining 60% suggesting locations within the same time zone, but with a lower cost base.

The pandemic changed your view on the benefits of 'off' verses 'near' shoring:

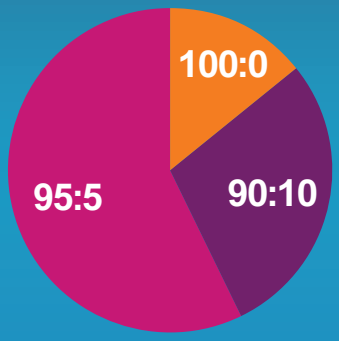


Contractor Workforce

Your contractor workforce is used:

- As a strategic component part of your staffing model — 43%
- By exception only — 57%

The following is your weighting between permanent and contractor headcount within business management:

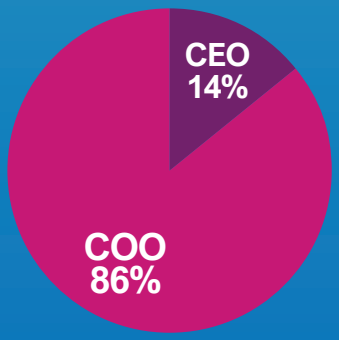


3rd party/consulting companies:

- A strategic component part of your staffing and/or change management model — 43%
- On an ad hoc/needs must basis — 57%

Non-Financial Risk

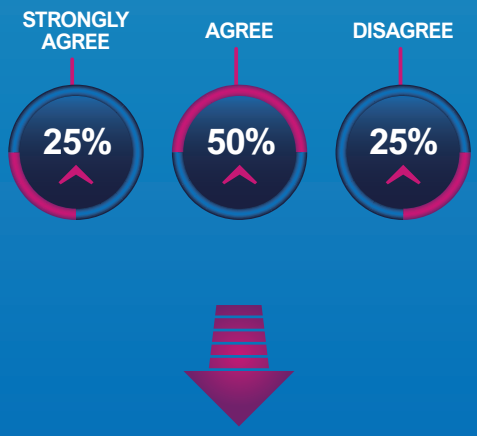
The 1st Line Controls officer (CCO) reports to:



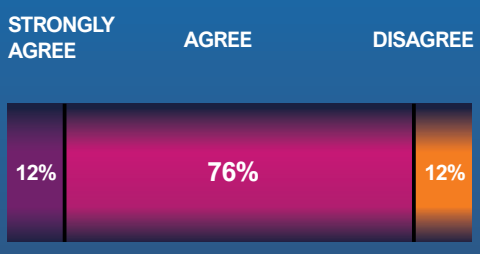
Which of the following operating models best defines the CCO function at your bank?

- Centralised control function (all control staff report into the CCO) — 26%
- Decentralised in-business control officers report into the business/product COO, with a centralised CCO function owning policy making, risk framework, governance etc — 50%
- Both models apply – however control activity is being centralised under the COO — 12%
- No CCO model — 12%

"The maturity of processes to manage non-financial risk are less developed than those to manage financial risk."



"Inconsistency in terminology within non-financial risk makes cross-industry benchmarking or developing a cross-industry approach very challenging."



75% of respondents *"believe developing a uniformed, industry wide vocabulary/taxonomy would benefit the banking industry."*

63% of respondents said they would *"be willing to participate in developing such a taxonomy."*

Those that agreed, or strongly agreed, stated so for the following reasons:

- Less maturity in this function
- Newer risk class, technology is not as evolved
- Not as trackable as it is a subjective risk
- Less spend on these systems
- Made a 2nd Line problem

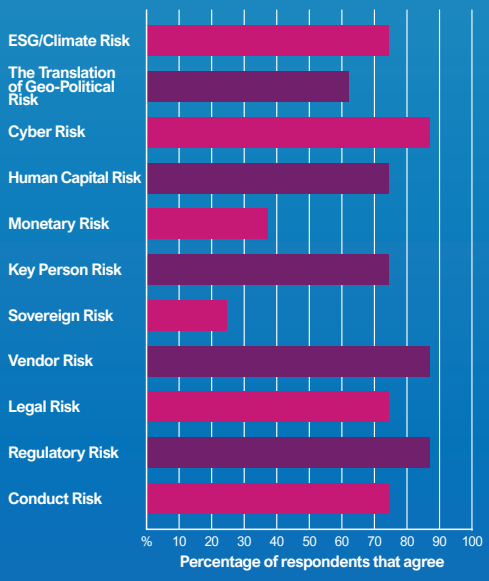
100% of respondents agree, with 13% strongly agreeing, that:

"The role of the CCO is evolving to include responsibilities well beyond its original control mandate and established responsibilities, with the pandemic highlighting the need to extend the CCO mandate from an inward looking, control and conduct risk focus, to a role that is external and forward looking with a broad non-financial risk lens. This evolution has been noted in the CCO narrative as strategic risk or threat management."

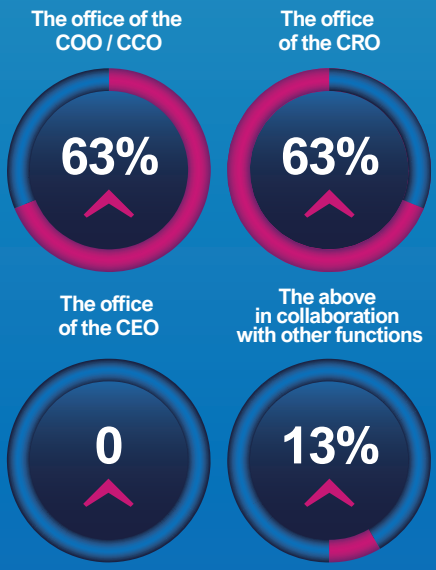
"The regulators (FCA/PRA/BOE) have all made statements regarding operational resilience, and in particular comments around severe but plausible events. There is a defined need to be able to identify, develop and put in place policies and procedures to mitigate, meet and manage events of a wide and potentially infinite scope."

"The FCA seeks to ensure the UK financial sector is operationally resilient to any operational disruptions that could cause wide-reaching harm to consumers and pose a risk to market integrity, threaten the viability of firms and cause instability in the financial system. This can be achieved in part by the broadening of the COO or CCO mandate to manage non-financial risks that could manifest themselves as a threat to the company and/or industry."

The following (non-financial risks) are consider to fall within the definition of threat management and/or strategic risk by respondents:

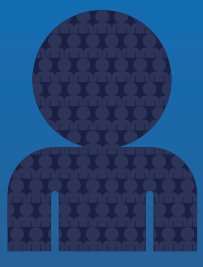


The following percentage of respondents viewed the collection, analysis and translation of such data as taking place in:



The data and the translation of this data shared is disseminated in the following ways:

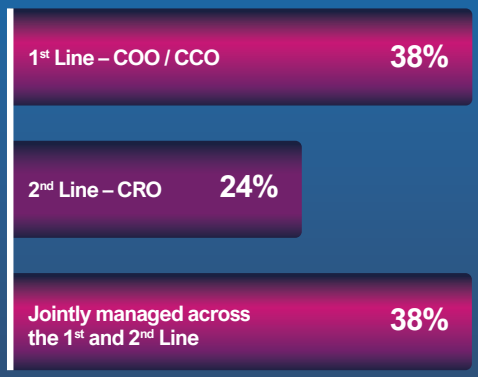
- **Risk function to disseminate across the organisation**
- **At various forums and committees**
  - Opco
  - Business conduct forum
  - Cost review forum
  - Exco
  - GM Manco
- **Quarterly reporting**
- **Poorly**
- **Via monthly leadership forums**
- **Risk committees**



88%

88% of respondents would like to participate in Armstrong Wolfe round table discussions to review the role of the 1st Line in managing emerging risks, aiming to define the expanding mandate (of the COO and/or CCO) and processes to support this renewed mandate.

The following are seen to be best placed to manage such risk:



In relation to your risk managing preferences, the following are the outlined reasons:

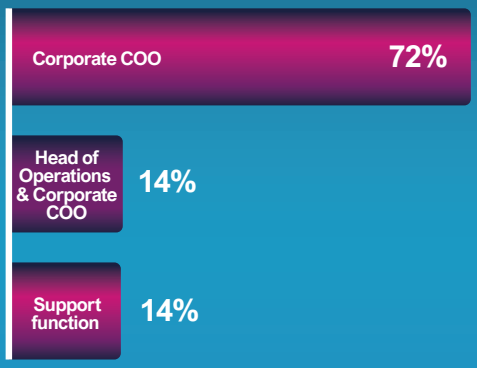
- **Most effective when 1st and 2nd Line work together**
- **All risks are ultimately owned by the business CEO**
- **1st Line operate the business and controls on a day to day basis**
- **It should be the 1st Line, but our 1st Line are culturally absent**
- **It has to be done jointly**

Operations

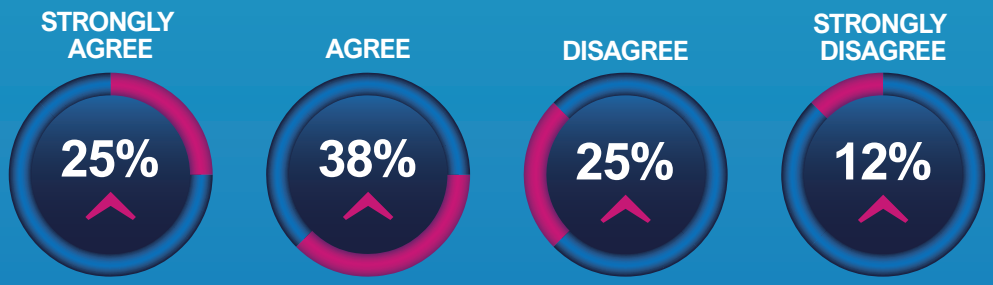
Trade Capture reports to:

Respondents were split equally between strongly agreeing and disagreeing that *"Regulated accountability for the end-to-end business (e.g. SMCR), makes the migration of Operations (from a centralised, group model) and the business case for it to be under the direct management of the Markets' COO (to ensure visibility and control for the accountable executive) an inevitable change in operating model."*

Who does core Operations report into?



"Emerging technologies and opportunities to deliver FTB business processes and drive business innovation, makes the migration of Operations (from a centralised, group model) to being under the direct management of the Markets' COO an inevitable change in the operating model."

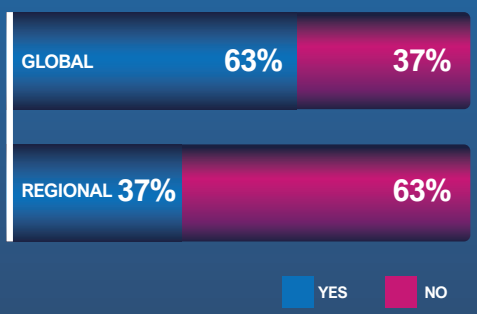


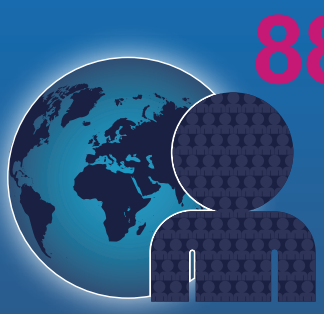
Change Management

How is the front office change management owned and delivered?

- **10%** Owned and delivered centrally
- **40%** Owned and delivered by a product COO
- **12%** Co-owned by the central change function and a product COO
- **38%** A project dependent combination of the above functions

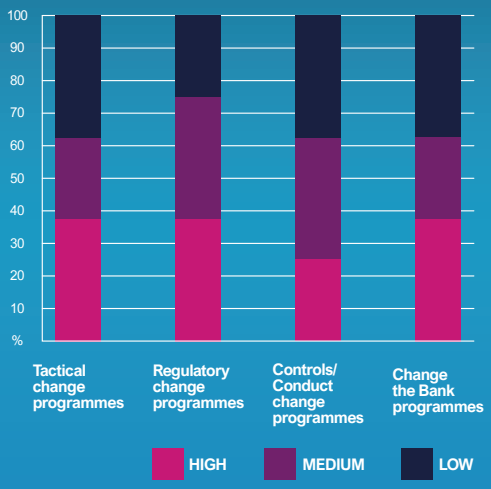
Do you have an appointed global and/or regional Heads of Markets change management?





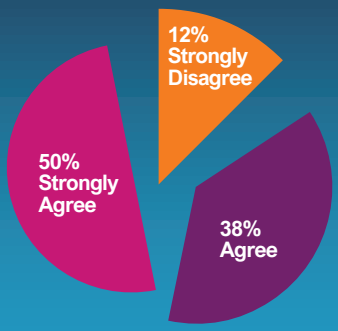
88% of respondents do not have *"an appointed global and/or regional heads of Markets change management at product level (e.g. fixed income, equities)?"*

The following is the reliance respondents have on 3rd party/consulting services within:



The following proportion of respondents stated that the percentage of their permanent workforce in change management was:

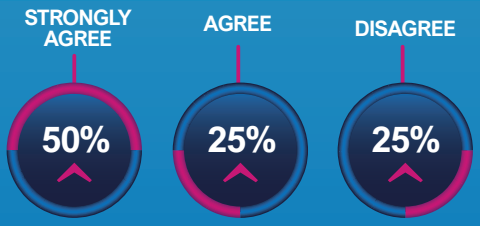
1/2 of respondents	40% - 49% permanent
1/4 of respondents	30% - 39% permanent
1/4 of respondents	10% - 19% permanent



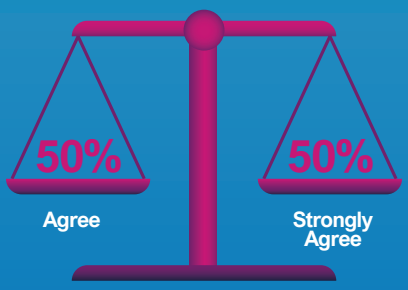
"Effective programs are driven from the Business and the COO, and feature clear standards, realistic objectives, agile project managers, reporting transparency and rapid risk escalation. Two further considerations are: Increasing end-to-end influence and/or ownership of processes is a key success criteria. Teams will either possess or have access to SME knowledge of local market nuances / regulations / systems"

The below are the budgetary priorities in 2021 – 2022 within change management:

TRANSFORMATION | REGULATION
MODERNISATION | EFFICIENCY
REVENUE GENERATING | RISK
IBOR | GROWTH | CONTROL
FINANCE AND LIQUIDITY
E-TRADING

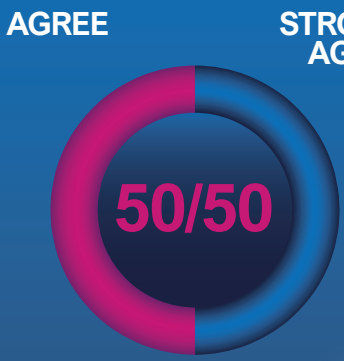


"There must be a forward-looking efficiency strategy to consider off/nearshoring optionality, to structurally lower costs and improve efficiency. This is not purely a task for Operations, and should be considered for all functions, including the 2nd line, where duplication and inefficiency is often evident"



"Best practice is evidenced where COOs have consciously invested to scale up and build out capability, embedded practices, and then right-sized teams – right sizing is often event driven, and not forward planned – be agile and lead on this."

"A robust Data Strategy is a must-have – preferably one that considers enterprise needs. Establishing a "golden source" or "single point of truth" in terms of raw data and reporting across the enterprise has many applications and efficiency benefits. It remains one of the single biggest challenges that firms are grappling with. But solving for it can create a behemoth, it need not be."



Future predictions of the roles of the COO/CCO and their focus

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The key challenges facing the COO and CCO communities in the next 12-24 months are:

- Continuing to address the growing book of work and regulatory challenges while right-sizing the team
- Embedding the strategic hybrid working model
- Delivering reg and prudential change (IBOR, CRR2, EMIR/CFTC refit, FRTB) in hybrid model
- Continuing to digitise
- Dealing with legacy IT and data challenges
- Continued market and regulatory changes
- Return to work operating model
- BofE/FCA resilience regulations (boiling the ocean)
- Acting in accordance with superiors expectations and the banks requirements

The role of the COO evolving in the next 3-5 years in the following ways:

- Landscape changes put the COO at the centre of the business decision making process with increasing accountability for delivery
- COOs to move into Heads of Markets roles as the attributes and requirements of the role evolve
- With increasing regulatory pressures, the role will evolve closer to 1st Line controls
- More automation of processes
- Focus leadership on direction and value add
- More power to Global COO
- Reduce senior directors

The role of the CCO will evolve in the next 3-5 years in the following ways:

- CCO will work seamlessly with COOs and business aligned compliance and operational risk
- In the 1st Line, business and desk heads will increasingly use CCOs as a valued partner to keep on top of supervisory requirements
- CCOs will bring valuable insight to their employer rather than focusing internally, as change happens in the banking industry
- Continue to be more and more of an advisor to the business
- Taking in more of the second line work as we reduce those functions
- Continue to be embedded into the culture of business F2B and drive control environment through automation
- Less emphasis as the 1LOD owns it, but in reality will see a move from 2LOD into 1LOD so will become more empowered

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