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## Guilty Bankers Should Be Counting Rocks on a Prison Beach, Says Jurshevski

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**Alex Jurshevski wasn't even supposed to appear on the over-the-counter (OTC) and central clearing panel at the Toronto Financial Information Summit. It was only because of flooding in the city that the founder of Recovery Partners, a consultancy, was asked to step in for a speaker who couldn't get into downtown. No one can say that he didn't make the most of his opportunity.**

Jurshevski used his open mic to go on one of the all-time great rants. Boisterous, contrarian, funny, it jumped between topics, admonitions, and anecdotes while still managing to make sense. One thing it barely touched on was OTC derivatives and central clearing, expect to imply that the whole discussion was pointless. A giggling audience wasn't complaining.

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It all began when Jorge Cruz Lopez, a senior analyst in the financial markets department at the Bank of Canada, praised the amount of quality assets Canada has ready for collateralization.

"Canada is a relatively safe market. It's like the Shire," agreed Jurshevski, warming up. "Unfortunately we're living in Middle Earth and Mordor is just over that set of mountains. I've worked in financial institutions for a long time. You're dealing with people all over the map. You're dealing with all kinds of complexities that don't necessarily get captured in the regulatory net and don't necessarily provide material information to the regulatory process in time for it to have an impact. We could be fine here

but that doesn't stop the world from going up in flames around us. That still means our financial institutions are going to get dinged because they have exposure to everybody,"

## **Human Error**

"You can't know everything. There's no omniscient system," he continued. "It's an epistemological problem that unfortunately has no solution. We can talk about it but it ain't going to happen. You can't get information into systems in a timely enough fashion for those systems to tell you what it all means. There's human error. When I was in the derivatives business we used to budget \$3 million a month for pricing errors. A complex structure gets screwed up, you go to lunch, come back, and the readout tells you you're down five million bucks. You can't go back to the client and ask for the money back. These things happen. Mistakes happen. You book things incorrectly. So your risk system says you've got this exposure, the hedgie goes in, puts some bonds on, and next thing you find out that someone entered that ticket in the system the wrong way. You're underlying position is actually going the same way, and you're offside \$75 million. We've had that happen, where the underlying position and the hedge lose money at the same rate. It's a perfect negative hedge — it's going in the same direction as the original position and you blow up!"

"You can't solve all problems with regulation and models. You've got to have good management, you've got to have integrity in the process, you've got to have executives setting the example. In the last crisis, all of that was missing. We had thieves and robbers, and they got away with it. These things were allowed to happen underneath the regulators. And a lot of these people are in the same jobs! Look at Jon Corzine. He's walking the streets! He misappropriated one.point.six.billion of customer funds. But oh, he's untouchable. When I was advising the government of Iceland three years ago, one of the guys with me was William Black, who was the top regulator for the Federal Home Loan Bank Board when the federal savings and loan crisis happened. He told me that he personally oversaw 5,500 prosecutions of bank executives. They went to jail. Nobody's gone to jail (since then). That's part of the problem we have. Let's not fool ourselves about clearinghouses and regulation being able to solve these problems. They're patches. This is just pabulum for the masses. Until we solve the fundamental problems that are wrought in some of these organizations, of lack of accountability, we are not going to make ourselves safer."

## **Island Holiday**

His diatribe clearly surprised his fellow panelists. Aaron Unterman, legal counsel in the derivatives branch at the Ontario Securities Commission, leaned over and asked if Jurshevski, a former investment banker, was really advocating harsher penalties for executives accused of mismanagement.

"Absolutely," boomed Jurshevski. "Send them to an island and tell them to count the rocks on the beach! "