

Morgan Stanley hires MD to revamp risk strategy

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22 Feb 2008

Morgan Stanley has hired a managing director in a new position to provide strategic oversight for risk following its first-ever loss in the fourth quarter last year.

Kenneth deRegt will work mainly with the chief financial officer Colm Kelleher to provide oversight of the firm's risk profile. He will also work closely with co-presidents Walid Chammah and James Gorman on the firm's balance sheet and with senior management on strategy and internal controls.

deRegt, who starts Feb. 25, will report to chairman and chief executive John Mack and sit on the company's management committee. Mack said: "Ken will be a valuable addition to our senior management team as we look to navigate challenging market conditions and bolster the firm's risk management function."

deRegt worked for Morgan Stanley for 20 years, and his tenure culminated in the role of head of the fixed income division in 1997. He worked as a managing director for investment management firm Aetos Capital before he rejoined the firm.

Morgan Stanley has toughened its stance on risk management since the autumn when it disclosed \$10bn (€6.74) in writedowns stemming from its investment in US sub-prime and mortgage-related assets. Zoe Cruz resigned as co-president and left the bank at the end of November, while Jonathan Chenevix-Trench, chief operating officer followed a week later. Both were fixed-income specialists with 48 years of service between them.

Subsequently, the firm suffered a loss of \$3.6bn in the fourth quarter. Mack apologized for the loss in a conference call reviewing the results in December and said the company would take aggressive action to address the issue.

He said further: "The results are embarrassing for me and the firm. They were down to an error in judgment on one desk in fixed income and our failure to manage risk."

Mack said the bank had taken aggressive action and would restructure the fixed income proprietary trading desk.

This week Tom Daula, the chief risk officer, announced that he will be leaving Morgan Stanley as it continues its efforts to address its risk management strategy. Daula said that he would resign once a replacement is found and a smooth transition can be worked out, according to a company spokeswoman.

Steven Minsky, the chief executive of LogicManager, an enterprise risk management software and consultancy business, applauded the move by Morgan Stanley to hire a risk overseer that would work directly with the chief financial officer in a centralized role. He said banks needed to do more to improve risk management.

He said: "Banks have been notoriously bad at managing risk. They tend to segment risk into silos."