COMMENT AND PERSONAL OPINION

STP STRAIGHT THROUGH PROCESSING

Having recently participated in a conference on spreadsheet risk, it is encouraging to see how seriously the subject is being taken, says **Yusuf Jafry**, founder and chief technical officer at Risk Integrated.

The central issue of spreadsheet risk is the danger posed by the prolific use of unregulated spreadsheets in mission-critical applications throughout organisations, financial and otherwise.

A striking example of this type of risk concerns the use of a spreadsheet developed by an anaesthetist for use in determining the dosage of anaesthetics delivered to children. The problem was that the spreadsheets had errors, miscalculating the dosage by factors of 10. Worse still, the spreadsheet was distributed by its author, freely on the internet to any interested anaesthetist.

By their very nature, spreadsheets are very easy to create, without any specialist programming knowledge. That is the core of the problem. Spreadsheets written by non-programmers (and even by non-specialists) are used everywhere, not least in financial applications.

Until recently, banking regulators and IT departments simply passed the buck. They took the view that spreadsheets were mere temporary prototypes, dreamt up by the business units, useful for analysts to play with, but with no place in the enterprise computing infrastructure. Obviously the pesky spreadsheet would be discarded, just as soon as the "proper system" was rolled out.

But what if the proper system never comes into being? For understandable reasons there is a creeping increase in the use of spreadsheets in banks, where there is no parallel plan to build a proper system. For example, the new Basel II regulatory framework encourages banks to build complex internal credit risk models in order to reduce their regulatory capital requirements (and hence improve their bottom line).

These models are complex, detailed, deal specific, and require specialist business knowledge, for example, from seasoned practitioners devising complex structures for commercial real estate and project finance deals. Hence, the models are invariably written in Excel, and cannot be transcribed to, for example, C++ without a near-complete loss of flexibility and business agility.

The good news from the European Spreadsheet Risk Interest Group is that the software technology firms are responding to the needs of the spreadsheet users. My own firm's Enterprise Spreadsheet Platform (ESP) attacks the problem head-on, by providing a server-based framework for managing and running spreadsheets in a fully controlled and robust environment. Other firms provide auditing, tracking, and testing tools, all designed for mitigating various aspects of the risk of using spreadsheets.

The regulators are also responding positively. A senior technology reviewer from the UK Financial Services Authority (FSA) now recognises the role of spreadsheets in banks' strategic planning—now what was that about the proper system? With appropriate management and infrastructure, spreadsheets are here to stay, and that is a good thing. ■

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