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Lehman, the financial crash and the making of history

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As the 2007-2008 financial crisis set in, and the banking system teetered, Mervyn King reminded staff to keep records of discussions and decisions. In 2009, Lord King spoke of consulting the Bank's historic papers and described archives at a time of panic as "the one place where you may learn something about how to deal with it".

But when historians come to write about the financial collapse, will the records be there to tell its story?

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As the crisis nears its 10th anniversary – 10 years being the period for which companies typically retain records for legal purposes – some researchers worry that banks may destroy information that could shed light on its causes and how the effects spread. Valuable information might include records of loans and trades and internal audit and risk management reports.

Archivists typically select around 5 per cent of organisational records, such as board minutes, public statements and strategy papers, for long-term preservation, according to Vicki Lemieux, an associate professor in archival studies at the University of British Columbia. But, given the repercussions and public importance of the crisis, she says: "The decision on what records are retained shouldn't be a technocratic function undertaken by archivists alone, without some wider social consultation."

It is not just academics who want to preserve the records. The European Association for Banking and Financial History, a network of financial institutions, hopes to persuade bank boards to preserve historically significant records. "The first step is to ensure the important parts of the archive are kept. But, in due time [after closure periods of perhaps 30-50 years] we hope the banks will make them accessible to researchers," says Ines van Dijk, a document specialist at the Dutch central bank, who sits on an EABH committee looking at legislation affecting finance archives.

Bank failure is a threat to preserving records. Banks are not obliged to maintain archives acquired through takeovers, although some do, while archives orphaned by outright bankruptcies are even more at risk of destruction.

In the UK, the fate of trading data and records locked down on Lehman's London-controlled systems on September 15 2008 by PwC, administrator of Lehman Brothers International Europe, hangs in the balance.

Tony Lomas, PwC's lead administrator of LBIE, says "a famous educational institution" has asked to take custody of the data, once everything has been wound up. He has yet to decide whether to grant the request or instruct that at that time – possibly around 2020 – the data be stored for another six years, which is standard practice after complex administrations, and then be destroyed.



Entrusting data from failed banks to third parties may be "fraught with some difficulty," especially because of confidentiality issues, Mr Lomas says: "As a professional services firm, we're very [careful] to comply with data protection law."

However, transparency advocates, such as Gudrun Johnsen, an assistant professor of finance at the University of Iceland, who worked on the official investigation into the Icelandic banking collapse, say substituting clients' names with unique identification numbers would overcome the problem.

"Allowing researchers access to the operational data of failed banks or banks that received taxpayer-funded bailouts, could help regulators develop better methodologies for spotting vulnerabilities in the banking system such as risky lending patterns," she says.

In the US, Barclays, which acquired the US operations of Lehman Brothers, owns operational data from its collapse; other corporate records belong to the Lehman estate, the rump of Lehman that is being wound down in the US post bankruptcy, or sit with Harvard Business School, which holds much of Lehman's historic archive.

Happenstance plays a role in how events are remembered. Researching the 1914 banking crisis for his book, *Saving the City*, historian Richard Roberts encountered holes in the official record. But the chance survival of the diary of Basil Blackett, a largely forgotten Treasury official, partly compensated with his "ringside view", says Prof Roberts. "Every night, he'd scrawl, in pencil, in a school notebook what he'd done that day and who said what to whom."

Email correspondence may be today's version of scribbled diaries. Hugo Bänziger, managing partner at the Swiss bank Lombard Odier, and chairman of EABH'S board of management, observes that disaster recovery systems capture every email and draft produced on employees' PCs.

This raises the possibility that data might survive indefinitely – the storage costs are minimal – potentially creating a historical gold mine. Whether historians will get to see the contents, however, is uncertain. "The directors of a company [will] decide whether to make the data available," Mr Bänziger says.

Technology poses further challenges. Whereas yellowing manuscripts merely require careful handling, digital records need periodic software updates to remain accessible, which is a cost.

At some institutions, such as BNP Paribas, HSBC and Barclays, archivists run oral history programmes to capture executives' reflections on events. At HSBC, Prof Roberts and fellow historian David Kynaston interviewed the ex-chairman and current and former chief executive, among others, for a corporate history including the crisis period.

Christopher Kobrak, a finance professor at business school ESCP Europe, cautions that oral testimony, while useful, may be affected by fading memory and personal angles, for instance.

But occasionally, a conversation yields gold dust. Harold James, professor of international affairs at Princeton University, says that when he was researching the birth of the European Monetary Union, an Italian economist mentioned that he participated in exploratory discussions with the head of the Bundesbank in the early 1980s. The remark, which challenged the prevailing view that the drive for EMU originated in German reunification in 1990, prompted Prof James to hunt successfully for documentation. "The conversation really helped me."

While financial crises will recur, advocates of learning from history argue that if bankers studied past calamities, they might spot the warning signs and be less susceptible to the "this time is different" fallacy, highlighted by economists Carmen Reinhart and Kenneth Rogoff. Likewise, policy makers would have precedents to help frame responses.

All of which may argue for preserving good records. As Ms Lemieux puts it: "Financial records are foundational". Once gone, they are gone for good.

Further reading: Pitfalls in archives

Corporate agendas. Business archives are designed with business needs, rather than historical understanding, in mind, and their contents may reflect this.

- **Ad hoc decisions.** In a crisis, decisions normally made in minuted meetings are often made on the hoof, and therefore bypass archives altogether.
- **Closure periods.** Internal records, such as board minutes, correspondence and detailed accounting data, may be closed to the public for many decades, or even permanently. Typical embargoes run from 30 years for official papers to 100 years for records mentioning clients.
- **Orphan archives.** Banks are not obliged to maintain archives acquired through mergers or takeovers. Archives orphaned by bankruptcies may disappear.
- **Digital dilemmas.** Digital records must be migrated to up-to-date software to remain accessible. Historians trawling terabytes of data will need powerful search tools and skill to sort the wheat from the chaff.

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