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# Clearing the Securities Industry's Paper-Work Backlog

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AS POINTED OUT by the previous panelists, there are certainly avenues for individual member firms and for the securities industry as a whole to follow in correcting the errors and paper-work backlog presently existing in the business; and what is just as important, there are things that can be done to provide a means for avoiding similar errors and paper-work backlogs in the future.

You have observed, I am sure, from the previous panelists' comments, that almost all the suggested corrective action will take time—a year, two years, possibly three to five years.

The ultimate answer, we all recognize, is to reduce the large amount of paper handling required on a daily basis under present industry procedures. Such reduction, we know, must originate with the securities industry as a whole; it cannot start with any individual member firm or securities exchange. A co-operative effort such as the previous panelist has just described is certainly a step in the right direction. Perhaps, in the not too distant future, a "certificateless industry," or perhaps a single securities clearing house with a comprehensive "Central Certificate Service," will be realized and much of the paper work will be eliminated. For at least the next several years, however, member firms must continue to handle the large volume of paper required under present industry procedures.

As a CPA servicing many firms in the industry, I have had the interesting opportunity to observe how many firms successfully cope with high volumes, while others experience significant difficulties. On the basis of these observations I should like to explore with you for the next few minutes a possible change in emphasis by top management, which I believe will assist in alleviating back-office difficulties.

## THE EMERGING PROBLEM

Let us first take a look at what happens in a firm when the volume of securities transactions increases, bringing with it substantial increases in paper work.

Clerks having very monotonous paper-handling tasks, who ordinarily work until 5, 6, or 7 P.M., must work until 8 or 9 P.M. to complete their daily work. If volume continues upward it may cause clerks to work until 10 or 11, or possibly even until midnight.

Further, if volume continues at high levels for extended periods of time, the clerical force experiences family pressures and weariness, and they decide to make unusual efforts to complete their work earlier.

Efforts to finish earlier lead either to working faster or to eliminating certain procedures not considered by the clerks to be absolutely necessary. This is the point at which the difficulties begin. Working faster leads to greater numbers of errors, and the procedures not considered to be absolutely necessary are generally control procedures, such as a second clerk's checking the work of the originating clerk. At 9, 10, or 11 P.M. it is quite easy to rationalize about why a double check is not necessary. So, greater numbers of errors are being committed at a time when control procedures to detect errors are being omitted, resulting in the errors remaining undetected for extended periods of time.

Of course, a possible answer, other than working faster or eliminating control procedures, is to employ more clerks, but this has its problems, too. The clerks or department heads who are struggling to complete their work early believe they do not have a minute to spare to train a new clerk. If new clerks are employed they do require training, of course, and the careful observation of the more experienced personnel. Therefore, requests by department heads for additional help are not forthcoming, and they continue to do the work with the existing staff and fall further behind each day.

### NECESSITY FOR ACTION

The difficulties now begin to compound fast, and the number of uncorrected errors increases rapidly. Management now becomes aware that the dollar value of uncorrected errors is large. Action must be taken. The action: The more experienced clerks or supervisors are assigned the additional responsibility of clearing up the "old differences" on a fixed time schedule. This requires time-consuming research, and they attempt to do this while continuing to supervise the processing of the large volume of current daily paper work. This completely frustrates their efforts to leave at reasonable hours; so, to alleviate family pres-

tures, many decide to change jobs. The reasons for change are said to be more money, shorter hours, or both.

The loss of experienced clerks makes a bad situation worse, the understaffed situation becomes more acute, and management recognizes that they must stop this cycle. Oftentimes, management decides that new clerical procedures are required, when in fact the procedures are adequate, but are not being followed. To an outside observer it appears there is inadequate competent supervision to determine the size of clerical force necessary to accomplish certain operations and to ensure that the clerical force properly carries out their designated procedures in an organized manner.

### **A POSSIBLE SOLUTION**

I believe these occurrences demonstrate how easy it is for back-office problems to grow. Let's explore a possible solution, which I defined earlier as a change in emphasis by top management.

First, as you know, most firms presently do an outstanding job of recruiting sales- and production-oriented talent, but few recruit operations and accounting talent with the same enthusiasm. As you can see from the situation outlined, operations managers and supervisors must be talented and trained in management techniques, and they must be competent in managing large numbers of clerical employees. They must keep the clerical force inspired. I believe it is obvious that a person who learned exactly how the paper and stock certificates are to be moved, through long experience as a clerk, is not necessarily competent as a manager or supervisor. I suggest that personnel departments of the firms visit the college campuses and recruit operations and accounting talent with the same enthusiasm they exercise in recruiting sales talent.

Secondly, new clerks and supervisors must be trained by persons other than those having the responsibility for day-to-day operations. Those responsible for daily operations just do not have the time or, for that matter, the talent to train new clerks. I suggest that formalized training programs, similar in depth to the present sales-training programs, are required.

And, finally, management must accept that what may have previously been considered an overstaffed and possibly even uneconomical condition may be the right answer for back-office departments. A sound

back office must have adequate competent supervision to make sure there is an adequate number of clerks, working reasonable hours under reasonable working conditions. This is where control of clerical turnover must begin, and turnover must be controlled before an adequate depth of clerical experience can be attained. Clerks must be properly supervised to ensure that no necessary procedures are being omitted. It is well recognized that the securities industry is a very volatile one, with volumes difficult to project, but it must also be recognized that once the volume sets in and the cycle previously described begins, it may well be too late for prompt corrective action. Many firms, I believe, have realized over the past few years that overstaffing may be less costly than correcting large numbers of clerical errors.

