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Yale Program on Financial Stability Lessons Learned

Lorie Logan

By Mercedes Cardona

Lorie Logan is executive vice president in the Markets Group of the Federal Reserve Bank of New York, the System Open Market Account (SOMA) manager pro tem for the Federal Open Market Committee (FOMC), and head of Market Operations, Monitoring, and Analysis (MOMA). Ms. Logan played a prominent role in the development and implementation of the Federal Reserve's crisis-fighting policies during 2007-09, including the expansion of the Federal Reserve's balance sheet and the creation of liquidity facilities to mitigate systemic risks to the financial system. This "Lessons Learned" is based on an interview with Ms. Logan.

Once the crisis has passed, the learning has to start and continue.

Logan talked about how the NY Fed's understanding and outreach to the financial markets has expanded both in size and in depth since the crisis. Before 2008, its activities in market analysis and monitoring had been very focused on the primary dealer community and the banks. Since the crisis, the regulators expanded their outreach and relationships across the financial sector to the buy-side and electronic trading firms:

From an operational perspective, we took some really important lessons in terms of how to be ready and positioned. During the crisis we developed a number of new liquidity operations and tools. We wanted to be able to have a system for maintaining the ones that were most important through normal times to have them here and ready, but also to have other tools that maybe weren't important in the implementation framework at the time but could be important under certain states of the world. So, we developed a full operational readiness framework for cataloging, for assessing which operations to have ready, and to maintain and to practice.

Out of that came a regime of small-value testing that we do on a regular basis of tools that may not be important today but could be important in the future. Just recently, we needed to conduct repo operations again, which we hadn't done in over a decade since the crisis. But we had been doing these small-value tests of them, and that was critically important in our ability to respond quickly in September.

Preparation is key to future readiness.

Logan stressed that having distilled lessons from the crisis, it is critical that organizations work to keep that knowledge fresh and to expand upon it. She particularly pointed to three key areas: operational readiness, experienced personnel, and active learning:

If I had to write a memo to myself, I would focus on at least three things. The first is around preparation and testing. Testing your operations, your infrastructure and your thinking. This really comes from lessons I took from the crisis that formed the basis of our operational readiness framework, our small-value testing process and lessons I've learned from the Applied Critical Thinking Team that Meg [McConnell] has developed. Doing regular tabletop exercises to stimulate your thinking about scenarios and getting comfortable making judgements with imperfect information along the way. So, preparation and spending a good amount of your time preparing for what could happen, as opposed to what you're working on today.

Another critical area that Logan cited was developing the right sort of experienced personnel:

The second is really about people. My experience from the crisis is the sense to be surrounded with an experienced, diverse, well-rounded team. It's really important to be around people who can come at a problem in different ways and who bring different viewpoints to the table. And that's really important: to have a team that will challenge thinking, who aren't afraid to bring up points and views that are different. This diversity of thought is just absolutely essential.

Lastly, Logan pointed to a less concrete, but still vital, element that recognizes the essential nature of crises. They are unique, unpredictable, and require that fast-paced decisions be made with limited information. She stressed "active learning" as key to the ability to perform under extreme pressure and uncertain circumstances. She expounded on these ideas this way:

And lastly, just a core principle of humility [is necessary]. You have to be humble about what you know and what you don't know; to be curious about things you think you know about and things you don't know about. And be flexible to make decisions and knowing that you're making decisions most of the time with imperfect information. Having that humility and that curiosity will allow you to adjust in real time as more information comes in.

A crisis will impact the organization in unexpected ways.

Logan also talked about how the crisis impacted the Fed beyond its crisis fighting infrastructure. "There's been a real and permanent shift in thinking about transparency and

accountability,” said Logan. “Transparency’s vitally important and is a key component of the way we think about the work that we do.” She continued:

The market analysis and monitoring that we do has certainly changed. It was very focused on the primary dealer community and the banks and the dealers that we directly dealt with before the crisis, and since the crisis, we’ve really expanded our outreach and our relationship across the financial sector to the buy-side to electronic trading firms. Our whole understanding and outreach of the financial markets has expanded both in size and in depth.

Logan believes that this cultural shift can be seen in all major areas of the Federal Reserve. She especially notes the shift in transparency citing the quarterly press conferences conducted by the Chairman, the summaries of economic projections that the Fed now issues, the stress-tests disclosures, and transaction-level data as examples of information sharing that serve to make the Fed less opaque.

While acknowledging that some of these changes have come about because of statutory mandate, Logan credits the measures with not only changing the way the markets and public view the Fed but also with leading to important internal changes, such as enhanced cross-departmental communication. She commented:

On the monetary policy implementation side, where I have responsibility, there’s a lot more interaction between supervision and markets and understanding liquidity that was developed during the crisis and has been maintained. Those are just a few examples of ways that collaboration and communication have changed.

Another valuable development has been enhanced communications across agencies through bodies such as the Financial Stability Oversight Council and informally, Logan said,

From where I sit, [the Financial Stability Oversight Council] has been a really important development and has generated a lot more cross-agency communication even at the staff level but also in joint work that emanates from those relationships and from the committee itself.

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