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Profile

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Regulation is making life difficult for bank commodity desks, but Catherine Flax, BNP Paribas' head of commodity derivatives for the Americas, is keeping a cool head. By Mark Pengelly

CATHERINE FLAX

Catherine Flax joined BNP Paribas to become head of commodity derivatives for the Americas in November 2013, and so far, she appears to be enjoying the role. The French bank's commodities business is well positioned for the current era of heightened regulatory scrutiny, she believes, in contrast with some of its rivals.

"One of the things I found particularly appealing about joining BNP Paribas is that we didn't have to change the model – it was never a trading house," says Flax, who is based in New York. "So we were able to build on that platform in a very straightforward way."

For many bank commodity desks, the past few years have been an unwelcome upheaval, partly due to tougher laws such as the US Dodd-Frank Act and restrictions on proprietary trading under the Volcker rule. But Flax views these developments with equanimity. "A lot of people lament the bygone days when, in a bank, you could really 'trade big'," she says. "To me, that's never been the appropriate role for banks. One of the positive by-products of the regulatory environment is that that's all cleared up now."

The daughter of a school-teacher and a pizza shop owner, Flax grew up in Newton, Massachusetts. While she was studying for her undergraduate degree at Texas A&M University, she listened to a talk by the chief economist of US oil firm Texaco. That stirred an early passion – not for energy, but for economics. "It was so interesting that I decided to change my major," she says.

After gaining a master's degree in economics from Brown University in 1987, Flax enjoyed a varied early career that included teaching, consulting, working for a municipal treasury and at the US Federal Home Loan Bank Board. She even had a brief stint as a talk show host at a local radio station. "For me, the most fun thing was that it was a call-in show," explains Flax. "I didn't know it at the time, but it ended up being great preparation for the kind of spontaneous questions you might get from a client or from others in the business."

Flax's move into energy came in 1995, when she decided to take a job in structuring for Oklahoma-based oil and gas firm Williams. "I had a lot of good general economics and finance knowledge, but I wasn't getting deeply into one sector, so I was keen to specialise," she says. "Being in Oklahoma, oil and gas was an obvious fit."

Initially, Flax focused on valuing embedded derivatives in the company's physical oil and gas contracts. But soon after she took the job, US electricity market deregulation took off and she became heavily involved in Williams's push into power. That specialism continued when she left in 1998 for Morgan Stanley, where she managed North American power origination from New York.

Flax says her fondness for power continues to this day. BNP Paribas is one of a handful of banks that remain committed to US power markets, with a presence in various northeastern markets and the area served by the Electric Reliability Council of Texas. "We are quite convinced that there is a real opportunity in power – as with oil and gas – and that our clients need us to be as present and committed," she says.

Following a year in power and gas origination at Swiss bank UBS, Flax went to JP Morgan in 2005. She stayed at the US bank until her move to BNP Paribas and held a variety of senior roles, including global head of the commodity finance business and chief executive of global commodities for Europe, the Middle East and Africa. Notably, her time at the bank coincided with a series of bumper acquisitions presided over by JP Morgan's then-head of global commodities Blythe Masters, including Bear Stearns and RBS Sempra Commodities.

The integration of Bear Stearns, which took place amid the investment bank's near-collapse in March 2008, is a particularly memorable moment for Flax. She pays tribute to Masters, who she says did "a fantastic job" of reassuring Bear's nervous employees and bringing the two businesses together. "It was extremely exciting, because you really had the sense while you were going through it that this was a historical moment," she remembers.

JP Morgan's growth spurt came to an abrupt end in July 2013, when it announced it was exploring "strategic alternatives" for its physical commodities business. Masters was revealed to be leaving the bank in April 2014, and in October that year it sold off $800 million of assets to Switzerland-based trading house Mercuria. Other banks have cut further in response to capital and regulatory pressure, with some leaving commodities altogether.

For firms seeking to manage their commodity risk, the moves have restricted the range of dealer counterparties they can choose from – an outcome Flax thinks is regrettable. At the same time, plenty of worthy bank and non-bank competitors remain in the industry, she says.

The challenge for bank commodity desks is to work within the rules and serve clients as best they can. "I'm not one to lament change – if it's not one constraint, it's another," she says. "There's always going to be something: it's the human condition. Today we have Volcker and Dodd-Frank. We've had other things before and we'll have new things in the future." ■