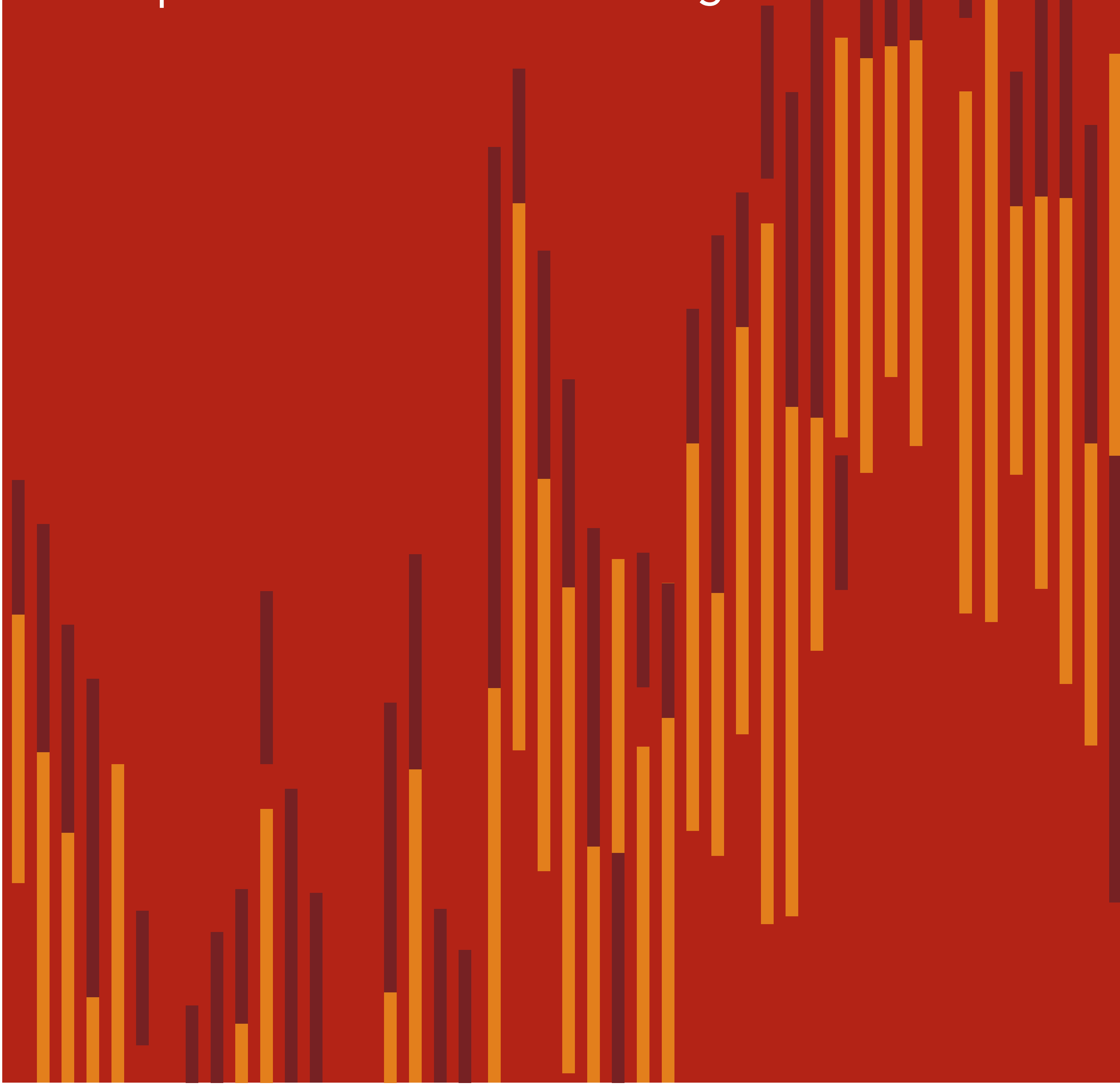
Reuters Trade and Risk Management Solutions

Enterprise Wide Global Risk Management



The need for better credit management is growing all the time. To identify and explain your major sources of risk – and the market factors behind them – you need credit and limit information that is timely and consistent. And you need a real-time system that meets your needs for global control and monitoring.

Increases in cross-border trading, credit defaults, bankruptcies and globalisation have made effective credit management much more demanding and complex. Credit exposures are often managed by a collection of systems built over the years – maintaining and reconciling these systems can become a risk in itself. Managing and monitoring essential credit and market risk data in one place is a major challenge facing financial institutions.

The importance of effective credit risk management is reinforced by fluctuating global credit cycles and updates to credit risk methodologies in the new Basel II regulations. While these are currently planned for 2006-2007, work needs to start now to enable a transition to compliance in a cost effective, secure and orderly manner. A key requirement of Basel II is effective data collection and consolidation of the trading and banking books – this is one of the strengths of Reuters trade and risk management solutions.

Banks are demanding increasingly sophisticated enterprise-wide risk management solutions to provide for the effective management of capital, the integration of credit limits and advanced credit risk portfolio analysis. Any comprehensive risk management solution must provide a consolidation of risks with global limit management, robust capital calculation and the calculation of potential future exposures (PFE).

Reuters has more than 20 years' experience in successfully helping customers to manage and control their risk and an even longer track record in managing the trade process. Thanks to our long history and a strong global network of risk specialists, we have unrivalled practical experience of risk management and related exposures facing organisations at every step of the trade.

In the past decade, Reuters has built on its original strength in front-office risk management and position keeping. We now have a full range of solutions that address trade and risk management from front office to back, with advanced middle-office functionality that enables organisations to reach into other systems in real time, monitor and take action at any stage in the trade cycle.

The Reuters solution for enterprise-wide global risk management

Reuters provides highly flexible and configurable solutions for enterprise-wide risk that provide tools for managing complex global market risk, credit risk and credit limits.

Our global risk capability comprises Reuters Kondor Global Risk and Reuters Kondor Value at Risk. Both modules share all the static and position data that is used for market risk analysis and credit limit evaluation. They can import and export information to any other system, providing efficiency gains through improved automation. They are suitable for single or multi-site installations and allow for trading in many time zones, across any geographical scale.

While Reuters Kondor Global Risk and Reuters Kondor Value at Risk form an integral part of Reuters trade and risk management solutions, they are also stand-alone systems that are middleware and system independent and can be integrated successfully with any third-party or in-house system.

“Reuters Kondor Global Risk gives us a comprehensive and consolidated view of credit risk enabling us to comply with external regulations whilst supporting the robust, reliable internal risk management system we require”
Matis Tomiste, Financial Markets Area Manager, Hansabank.

Reuters Kondor Global Risk

Reuters Kondor Global Risk consolidates credit limit information and manages the data in real-time across all instrument types. It provides credit and risk managers with the ability to monitor credit exposures, enabling efficient limit utilisation across the enterprise. Its scaleable architecture makes it suitable for single-site and global institutions alike.

Key features:

A complete limit management framework leveraging workflow capabilities for excess management and double validation of static data.

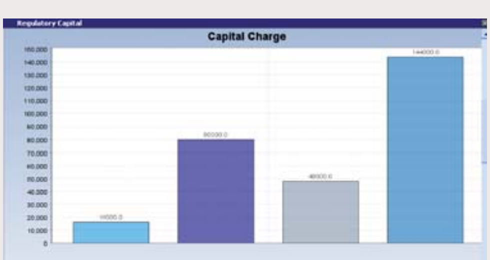
A module to calculate Basel II compliant capital requirements for credit risk across both trading and the banking books. Reuters Kondor Global Risk helps clients become Basel II compliant in the credit risk area by addressing the need to calculate and report credit-risk weighted assets and risk parameters (exposure at default, probability of default, loss given default) against the three proposed methodologies: standardised, foundation internal rating-based, and advanced internal rating based. Reuters Kondor Global Risk achieves this by applying a common framework to monitor and consolidate trading and banking book transactions.

A risk engine for potential future exposure (PFE) analysis based on Monte-Carlo simulation. This is needed to assess credit risk for instruments that are particularly sensitive to market moves, such as complex derivatives and structured products. Traditional add-ons (nominal amount adjusted by an instrument risk factor) are too static for these instruments.

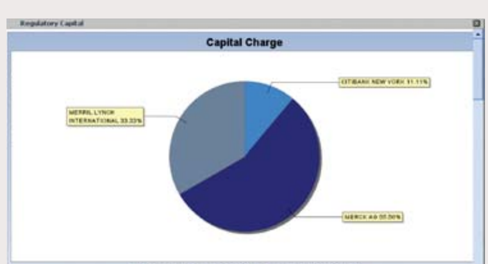
A web-based graphical interface for better navigation and graphical views with various default user views giving access to different parts of the application.

A language and platform-independent technical architecture with a communication server and report builder – using web services to integrate better with other information systems.

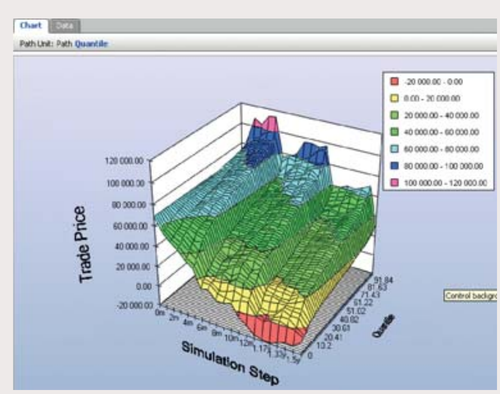
Capital Charge per customer



Capital Charge per customer



Detail of prices per time nodes and Monte Carlo paths



> **"Reuters Kondor Global Risk gives us the global view on credit risk that we see as an essential part of an effective risk management system."**
> Antonio Gamez, Head of Control and IT Credit Risk, Santander Central Hispano

Reuters Kondor Value at Risk

Reuters Kondor Value at Risk delivers high-end analysis for both market and credit risk. It integrates seamlessly with existing position-keeping systems and enables users to produce consolidated enterprise-wide risk information on all activities. The system supports a comprehensive range of risk analysis methodologies. Drill-down capabilities enable you to identify and attribute risk to its original sources. Risks can be analysed in terms of market factors such as interest rates, equity prices, currencies and volatility and reports distributed anywhere in the organisation via a corporate intranet.

Key features:

Multiple risk methodologies including market and credit value at risk, Monte Carlo simulation, historical simulation, volatility-scaled historical simulation, scenario analysis, credit exposures and generalised covariance methodologies. It includes full scenario analysis functionality, available either interactively or as overnight reports. This provides an economic capital calculation which can then be compared to regulatory capital as calculated by Reuters Kondor Global Risk.

Comprehensive pricing and analytics including a standard library of over 80 pricing functions including exotic model options and other complex derivatives. New models can easily be added to the system via a fully documented user interface. The system's sophisticated Monte Carlo engine allows for the specification of arbitrary rate distribution assumptions while ensuring their internal consistency. There are also a variety of analytics that facilitate curve creation, volatility generation and rate-outlier filtering. A flexible benchmarking module allows the assignment of specific benchmarks to each cell in a risk grid.

Back-testing of models on a mark-to-model or a mark-to-market basis – this validation of risk assumptions is a key regulatory requirement.

Drill-down capability allowing for the selection, aggregation and reporting on data using sophisticated drill-down filters – enabling risks to be tracked back to their original source.

Global strength

Reuters has more than 700 risk specialists who provide local sales, implementation and maintenance support in more than 60 countries. We are proven integration experts and our consultants are experienced in ensuring that the maximum benefit can be extracted from an installation through effective integration with other systems.

We ensure that every customer deployment is managed effectively from start to finish, providing ongoing maintenance and support throughout the process and making full use of our strong local presence to facilitate project management on a global scale.

Reuters understands the nuances of local business and how different markets operate. From emerging markets to the world's largest financial centres, we deliver knowledgeable, hassle-free and comprehensive technical support and our global network ensures that response is fast and efficient.

Continuous innovation

Reuters is committed to providing relevant, reliable, accurate and practical functionality. We have a clear roadmap for all our trade and risk management products. We are working closely with our customers to identify future requirements and further improvements to functionality to ensure that Reuters trade and risk management solutions support you at every step of the trade.

Reuters: with you at every step of the trade

The Reuters Kondor suite of trade and risk management solutions addresses the core risk issues and is designed to meet the requirements of traders, heads of desk, risk and operations managers. It covers two areas:

Desk-level technology, providing real-time pricing, position keeping, trade processing and reporting features – from the front into the back office, including messaging and the generation of accounting entries.

Enterprise-wide risk management, supporting the analysis of credit and market risk exposures at the group or firm-wide level.

Reuters modular system is flexible and integrated, offering increased efficiency, control and automation. All of Reuters trade and risk management products can be used independently or fully integrated with each other or third party systems – to provide tailored functionality at every step of the trade.

For more information visit
www.reuters.com/risk

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