

# Reuters Trade and Risk Management Solutions

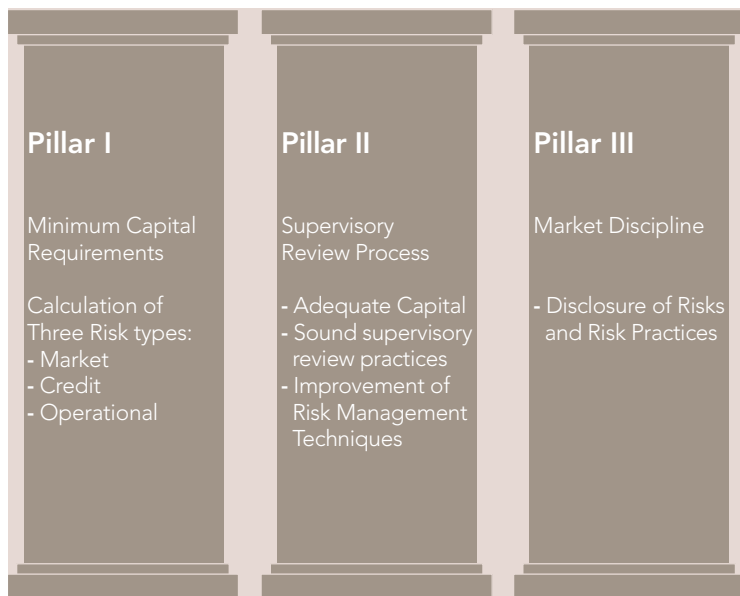
## Reuters Kondor Global Risk – Basel II Reporting and Limit Solution

The Basel Committee on Banking Supervision has been working for several years to develop a new regulatory capital framework which recognises the increasing complexity of effective risk management. Through a three pillar approach, the new Basel framework responds to dynamic new developments in financial products, the evolution of management practices and advances in risk measurement.

For Basel II, Reuters Kondor Global Risk addresses the most critical regulatory demands in calculating and reporting capital adequacy for credit risk, including the requirements under the three pillars.

Trading in financial securities inevitably carries a variety of risks. Accepting that these risks exist, pre-empting them, responding to and mitigating them immediately, is a goal of every financial institution – and the ultimate objective of the Basel II Accord.

Reuters Kondor Global Risk consolidates credit limit information and manages the data in real-time across all instrument types. It enables credit and risk managers to control and monitor credit exposures, so that limits can be used efficiently across the enterprise. The latest release (version 3.0) provides a robust infrastructure for Basel II compliance and has been specifically designed to meet the demands laid out in the revised framework issued by the Basel Committee on Banking Supervision in June 2004.



Basel II Capital Accord

### Pillar I

In response to pillar I requirements, Reuters Kondor Global Risk calculates capital adequacy for exposure to credit risk. It covers the different methodologies for determining capital requirements, provided by the Basel Committee: the standard approach, the foundation IRB (internal ratings-based) approach and the advanced IRB approach.

Reuters Kondor Global Risk also implements the full methodologies for credit risk mitigation techniques such as eligible collateral, on-balance sheet netting agreements, guarantees and credit derivatives.

- Within the standard approach, Kondor Global Risk uses external ratings provided by international rating agencies in determining the risk weights and the capital charge for credit risk. The application can handle both the simple and the comprehensive approaches. Users will be able to adjust the value of collateral using 'haircuts' to account for fluctuations in future markets.

- Within the IRB approach Reuters Kondor Global Risk meets the demand for calculating the capital charge – including the estimation and calculation of the risk parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD). These are implemented in the risk weight formula for both the foundation and the advanced IRB approach

### Pillar II

In response to pillar II, Reuters Kondor Global Risk facilitates the testing of capital adequacy and risk parameters through stress and back tests supported by a standard set of reports.

### Pillar III

The minimum capital requirements (Pillar I) and the supervisory review process (Pillar II) are reinforced by transparency requirements (Pillar III). Reuters Kondor Global Risk provides the additional information required for disclosure of credit risk under Pillar III.

### The implementation of Basel II formulae

In order to simplify implementation and to assist compliance, all Basel II formulae are predefined – and flexibility is ensured so users can define their own calculation methods.

### A tool to evaluate the probability of default

By grouping customers (counterparties) in annual 'buckets', users can process this data to take into account rating migration, defaults, new and 'drop out' borrowers. As rating histories retrieve all ratings at any specific date, pools will also be stored on an annual basis for predicting on-going rating migration.

### Reporting

The regulatory capital report displays the regulatory capital charge for each exposure. Results can be analysed across many dimensions – for example by customers (counterparties), instruments, asset class etc.

The regulatory capital report also highlights the impact of credit mitigation on exposure and capital charges.

### Capital Limits: limits on the calculation of capital requirements

By using capital management as a critical success factor in managing operational activities, banks are able to leverage resources to maximum effect. Capital limits in Reuters Kondor Global Risk enable proactive control over the levels of capital consumption, ensuring the ability to track and manage these limits and take corrective action when necessary.

Reuters Kondor Global Risk has been designed to provide the strong risk management analytics, processes and disclosure that are required through Basel II and so provides a valuable platform to assist with compliance.

### Reuters Kondor suite of trade and risk management solutions

Building on more than 20 years experience in the risk industry, the Kondor suite is a highly sophisticated, modular solution designed to provide a best fit with your business requirements. Used by more than 50% of the world's top 25 banks, more than 14,000 users rely on Reuters Kondor trade and risk management solutions 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

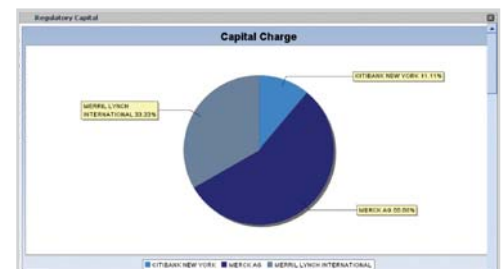
the back office, including messaging and the generation of accounting entries.

**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](http://www.reuters.com/risk)

Capital Charge per customer



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