Managing risk across the enterprise

You need 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. You need a real-time system that ensures your requirements for global control and monitoring are fully met.

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 – the maintenance and reconciliation of which can become a risk in itself. Maintaining and monitoring essential credit and market risk data in one place is a major challenge facing financial institutions.

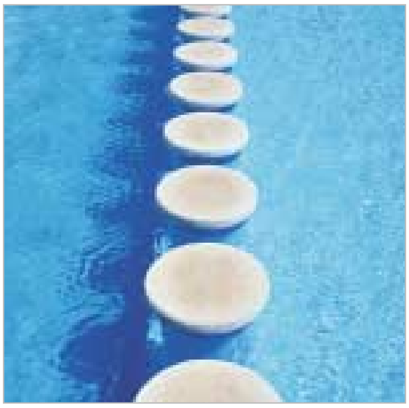
The importance of effective credit risk management is reinforced by the ever fluctuating global credit cycles and the impending updates to credit risk methodologies in the new Basel II regulations. While these are currently planned for 2006, work needs to start now in order to enable a transition to compliance in a cost effective, secure and orderly manner.

The most important element of advanced market and credit risk management is data collection and consolidation from both the trading and banking books. This is a fundamental requirement of Basel II and a key strength of Reuters risk and trade management solutions.

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

We work closely with our customers to drive and define risk management techniques around real-time and global trade management, counterparty, currency and settlement limits, and exposure management.

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 risk and trade 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.



"We chose systems that will allow us to upgrade significantly the level of service we offer customers. Reuters risk and trade management solutions give us the tools to develop our business and to increase revenue from the trading room."

Ilan Raviv, Head of Global Trading, Israel Discount Bank

The Reuters Solution

Enterprise-wide global risk management

Reuters provides highly flexible and configurable solutions for enterprise-wide risk that deliver comprehensive tools for the management of complex global market risk, credit risk and credit limits management.

Our global risk capability comprises Reuters Kondor Global Limits and Kondor Value at Risk, which can be used together or separately. Both modules share all the static and position data that is used for market risk analysis and credit limit evaluation and 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 Kondor Global Limits and Kondor Value at Risk form an integral part of Reuters risk and trade management solutions, they are also stand-alone systems that are middleware and system independent and can be integrated successfully with any third-party or existing system.

Kondor Global Limits

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

Key Features:

Real-time intraday limits monitoring. Kondor Global Limits controls exposures via monitoring blotters that cover counterparties, issuers, industries, countries and settlement risks. Aggregated limit usage can be measured at any level and traders are able to check limits in real-time and request authorisation for a deal before it is executed. Simulation functions allow you to examine the effects of potential deals before they are executed and messages, updates and warnings of potential limit violations are sent in real-time.

Consistent counterparty data maintenance. Kondor Global Limits ensures the consistency and integrity of counterparty data across multiple front-office applications.

Credit risk measurement. Kondor Global Limits can automatically calculate credit limits based on any combination of product, tenor and currency, or user information including instrument, industry and credit rating risk factor weightings. Kondor Global Limits supports several advanced credit equivalent amount calculations and credit mitigation techniques including netting, guarantees and collateral.

Reporting and revaluation. Kondor Global Limits performs a mark-to-market revaluation of all open deals at the end of each day and updates limits accordingly. It offers consistency of modelling across the enterprise and can also synchronise limits data across different time zones. The flexible reporting module produces the following reports: excess, standard limits, simulation, country exposure and risk profile to maturity – all of which can be accessed via a web browser.

Kondor Value at Risk

Reuters Kondor Value at Risk delivers high-end analysis for both market and credit risk. It integrates seamlessly with your existing position keeping systems and enables users to produce consolidated enterprise-wide risk information on all activities.

Kondor Value at Risk supports a comprehensive range of risk analysis methodologies and drill-down capabilities that 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. Kondor Value at Risk supports a host of market and credit risk measurement 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.

Comprehensive pricing and analytics. Kondor Value at Risk includes a standard library of over 80 pricing functions, satisfying the needs of most users. The library includes exotic models options and other complex derivatives and new models can be easily added into the system via a fully documented user interface. The system's sophisticated Monte Carlo engine enables you to specify 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. Kondor Value at Risk allows you to back-test your 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. You can select, aggregate and report on data using sophisticated drill-down filters, enabling risks to be tracked back to their initial source by individual deal or portfolio.

Global strength

Reuters has more than 350 specialist risk consultants and provides local sales, implementation and maintenance support in more than 60 countries. We are proven integration experts and our consultants are experienced in ensuring 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 centers, we deliver knowledgeable, hassle free and comprehensive technical support and our global network ensures that response is fast and efficient.

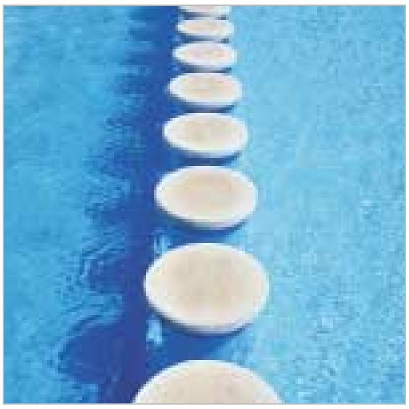
Continuous innovation

Reuters is committed to providing the reliable, accurate and practical functionality that its customers' require. We have a clear roadmap for all our risk and trade management products. We aim to expand our portfolio of market, credit and settlement risk solutions to other types of risk and more asset classes, particularly structured products and complex derivatives, following recent market trends.

We are working closely with our customers to identify future requirements and further areas of functionality to ensure that Reuters risk and trade management solutions support you at every step of the trade.

"Reuters Kondor Global Limits gives us the global view on credit risk that we see as an essential part of an effective risk management system. This global view enables us to comply with external regulations and offers the robust, comprehensive internal risk management functionality that we require."

Antonio Gamez, Head of Control and IT Credit Risk, Santander Central Hispano



Reuters: with you every step of the trade

For more information on Reuters risk and trade management solutions visit www.reuters.com/risk or email risk@reuters.com

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