

Risk Event: Risk Management in Private Banking

On 13 September, COMIT Gruppe is hosting an event about Risk Management in Private Banking.

Is Risk Management increasingly becoming an issue in Private Banking? If so, what are the critical client segments and what functions and tools do they need?

COMIT Gruppe presents its view and demonstrates its answer to Private Banks. This is followed by an open discussion.

Similar events may be held in the future, always geared to a focused audience and topic in order to allow free exchange of ideas and experiences.

Downsizing Trading Systems Shrinking Investment Banking

Investment banking is shrinking worldwide. According to a recent survey (Tages-Anzeiger, 15 August 2001), about 25'400 or 5% of all jobs in the top 15 investment banks have been lost since the beginning of this year.

In such times, cost cutting quickly becomes a topic. Trading is particularly affected, since in bear markets costs may rapidly exceed income.

The pressure may be even higher in private banking, where trading is not a pillar of the institution. Major Swiss private banks have already reduced trading staff and activities.

Effect on smaller Trading Units

While large organizations may cut costs by reducing the number of traders, this is often less effective for smaller institutions. They have a couple of strategic alternatives:

1. Focus their participation in the markets to the most profitable segments.
2. Reduce the headcount across segments, sharing staff between desks.
3. Close down trading altogether, and use another institution's execution services.

Private banks are often reluctant to close down trading, because they perceive a negative impact on reputation, know-how, and ultimately service and satisfaction of their target clientele.

Infrastructure Overkill

Focusing on a segment, or reducing headcount across desks frequently poses problems of oversized, yet inadequate infrastructure:

- The trading and risk systems may be too big for the remaining activity
- The systems may not be ready to handle the more complex, more risky, and more profitable areas, such as creation and management of structured products.
- Multiple segments are handled by a combination of systems, each one too big for the remaining reduced load, but nevertheless unable to provide a consistent, overall picture.
- Multiple systems require a bigger integration effort, adding complexity and maintenance overhead.

Downsized Trading Systems

What is required are low-cost systems geared to a broad range of trading activities. A system must be able to cover all needs of the front and mid office, and interface to a banking or accounting system.

September 2001

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COMIT Financial Systems AG
Pflanzschulstrasse 7
CH-8004 Zürich
Tel. +41 1 298 9200
www.comit.ch
quantax@comit.ch

Quantax Solution

This is where Quantax Professional fits, and may indeed be the better solution than a much more expensive system.

With its wide coverage of instruments and coherent treatment of their risk factors, it can provide the overall view over trading activities and the involved risks, while allowing drill down to the individual transaction.

With the powerful *Composed Instrument* facility, baskets and structured products can be built easily using any combination of instruments.

Positioning versus big systems

While Quantax Professional certainly does not cater for all of the detailed and often very specific functionality and trader gadgets of its bigger cousins (such as systems from SunGard, FrontCapital, and Reuters), it aims to provide the essential elements, with a range of characteristics designed to reduce the often neglected **Total Cost of Ownership**:

- A few, uniform concepts of interaction – in contrast, “big” systems may have more than 500 screens
- Lean architecture, without a com-

plex middleware geared to real-time valuation for a hundred users.

- Thin HTML client running on all machines, reducing client rollout costs to virtually zero.
- Virtually no system administration (no Unix servers or DBMS required)

However, the architecture of Quantax allows easy and efficient adaptation to particular needs. A specialized report, for example, can be implemented rather quickly.

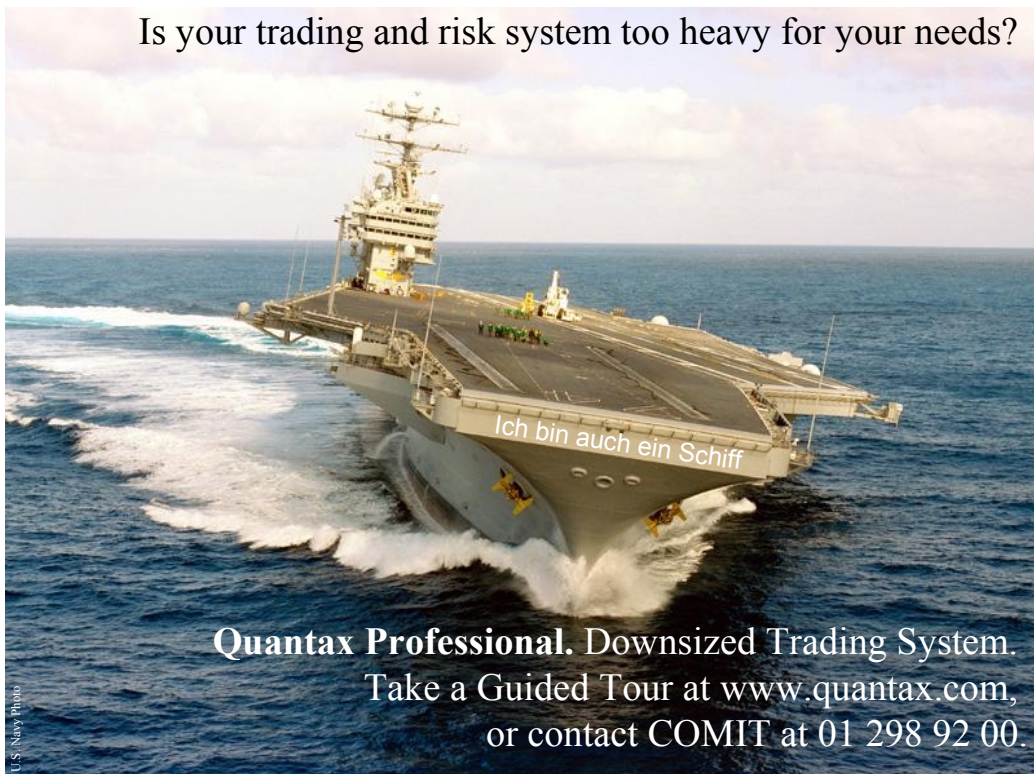
Quantax Professional Release 3.02

New Instruments and Transaction Features

Floating Rate Bonds

The bond coverage has been extended to allow the definition of floating rate bonds / FRN. A bond can be defined either as a fixed coupon bond, as before (default) or as a floater. For floaters, the interest period schedule will be created with all initial fixing rates = 0. Fixing rates can then be edited as re-

Is your trading and risk system too heavy for your needs?



Quantax Professional. Downsized Trading System.
Take a Guided Tour at www.quantax.com,
or contact COMIT at 01 298 92 00.

U.S. Navy Photo

quired (analogous to IRS fixing). The theoretical value and risk calculations are based on the fixed periods of the bond.

Repo / Reverse Repo

A new transaction type RepoTrx with variants Repo (Repurchase Agreement) and Reverse-Repo is introduced. Repos are very similar to loan (liability) transactions; reverse repos are similar to deposit (asset) transactions. The difference is that repos have an underlying collateral security or basket associated with the cash structure. The collateral can be a single bond or any composite asset.

Cap / Floor Interest Rate Option

Interest rate caps and floors are introduced as a new transaction type Cap-FloorTrx. A CapFloorTrx generates a series of *caplet* or *floorlet* option asset flows, which can be exercised individually. When all caplets / floorlets are exercised, the transaction will be marked as exercised.

Flexible Interest Date Schedules (Loan / Bond / IRS)

More sophisticated interest / payment date schedules are now available, as required in the definition of Loans, Bonds and IRS. They include rolling date and rolling convention.

For IRS transactions, the interest schedule parameters and the day count convention can now be specified separately for each leg.

Interest Rate Swap (IRS) Unwind

The IRS deal capture and import functions have been extended to allow IRS Unwind events to be processed.

The result of an unwind event will be a modified IRS with new end date = unwind date, corresponding interest cash flows recalculated accordingly and with a fee cash flow attached for value date = unwind settlement date. Unwound swap transactions will appear as orange blotter lines.

Payment Schedules

The current payment cash flow for Loans / IRS / Repos or Call Accounts list can be viewed by clicking on the *cash flows* link in the deal capture screen. The payment schedule will also be printed on the deal tickets.

The Deal ticket also includes the rate fixing event data where applicable.

New Valuation and Risk Analysis Functions

VaR Improvements for In-currencies

A number of changes to support Euro and in-currencies (legacy currencies): Euroland equities use the country of issuer instead of non-existent risk factor EUR.SE. Other in-currency RFs are booked to Euro. Tenors missing in the RiskMetrics datasets are now handled gracefully. Volatilities are calculated and correlations are carried forward.

VaR Risk Factor displayed in VaR for Equities and Commodities

The VaR report has been extended to show the assigned RiskMetrics risk factor for commodities (base metal, precious metal code (GLD, PTN etc.)), and equities.

New categories for PFV Analysis and P&L Analysis

The PFV Analysis and P&L Analysis functions have been extended by a new broad asset category aggregation level - like 'cash', 'fixed income', 'equities' etc. Asset categories are sets of products.

Additional categories Country (domicile of issuer or counterparty) and Sector (industry sector of issuer or counterparty) can now be selected for the Pivot table reports.

New Filter Criteria in PFV and P&L Analysis

The PFV and P&L Analysis filter functions have been extended to allow selective reporting of:



- PV Only
- Cash Only
- any (PV and Cash = NPV, as before, default)

Note that PV could be used to create traditional asset allocation reports.

Risk Analysis Pivot Report

A new flexible risk analysis and reporting function allows the dynamic creation of delta / gamma / vega pivot table reports similar to the PFV Analysis reports. The user can easily create ad hoc reports to dice and slice through the risk details by book, currency, counterparty, product, etc and optionally store them as public or private risk reports.

It allows analyzing the risk components (sensitivities) of a portfolio by means of a flexible Pivot table wizard. A Pivot table is a two dimensional matrix with totals and subtotals of chosen values like 'Delta in Reporting Ccy' or 'Vega in Ccy' by any combination of row and column keys, e.g., by product, commodity book, counterparty, etc.

Up to two of the following values to be calculated as totals: Delta, Gamma, Vega, each absolute or signed, and each in reporting or original currency.

This enables the user to generate a wide variety of sensitivity reports on

the fly, such as:

- Interest PVBP (delta of risk factor type .R) in USD by date and currency
- Delta/Vega ladders by commodity in original and reference currency
- etc.

Each Risk report can easily be charted. Charts will automatically use the detail values of the first value variable specified in the Pivot table definition.

Number of Transactions displayed

The number of transactions in the portfolio is now shown whenever the dynamic portfolio is used.

New integration features

Extended Static Data Export / Import

The load / unload static data function in the Utilities menu allows now to export / import rating and business calendar objects as well.

Standard Static Data

A set of sample static and instrument reference data export files are provided. These files can be used to import selected sets of static data using the load static function.

Task automation

Full automation of date and time driven tasks, e.g., for periodic rate import, automatic end of day revaluation etc. is now available with the new Task-Scheduler. Requests are executed at times specified in a schedule and the output is directed to files and / or e-mail addresses as defined in the schedule details. Any Quantax function accessible via URL can be automated.

Optimization

Some technical optimizations, such as caching, have been implemented to improve speed and throughput.

Portfolio Risk Analysis Wed, 22 Aug 2001 15:27:58 GMT+2

assetcategory	ccy	book								
Delta in CHF		A2207	A2223	A3338	A3353	A4408	A4500	A5508	total	
cash	CHF	0	0	0	0	0	0	0	0	0
cash	total	0	0	0	0	0	0	0	0	0
equities	AUD	0	0	0	88,857	0	0	0	88,857	
equities	CHF	0	0	0	131	0	0	0	131	
equities	DKK	0	0	0	33,512	0	0	0	33,512	
equities	EUR	-560,873	-94,940	-367,687	-2,001,358	-228,088	0	-7,193	-3,260,138	
equities	GBP	0	0	0	586,416	0	0	0	586,416	
equities	HKD	0	0	0	28,241	0	0	0	28,241	
equities	JPY	0	0	0	240,109	0	0	0	240,109	
equities	USD	0	-163,241	0	1,187,723	0	414	0	1,024,896	
equities	total	-560,873	-258,181	-367,687	163,631	-228,088	414	-7,193	-1,257,977	
fixed income	CAD	0	-393	0	0	0	0	0	-393	
fixed income	EUR	-155,743	0	-9,473	0	-61,400	-60	0	-226,676	
fixed income	GBP	0	0	-1,442	0	0	0	0	-1,442	
fixed income	JPY	0	0	-4,275	0	0	0	0	-4,275	
fixed income	USD	0	-13,851	-7,890	0	0	0	0	-21,740	
fixed income	total	-155,743	-14,243	-23,080	0	-61,400	-60	0	-254,526	
options	USD	0	0	0	1,343	0	0	0	1,343	
options	total	0	0	0	1,343	0	0	0	1,343	
total	total	-716,616	-272,424	-390,767	164,974	289,488	355	-7,193	-1,511,160	