



Quantax® News

Quantax at the Finance Forum

The Finance Forum (www.finance-forum.com/) is the leading event for the financial sector in Switzerland. Its 11th edition takes place on 6 and 7 November 2001 at the Kongresshaus in Zurich.

COMIT Gruppe presents the following topics at booth 54, in the main Kongressaal:

- Customer Facing Solutions
- Integrated Banking Solutions
- Technologies
- Quantax
- SWORD

A preview of version 3.5 of **Quantax Professional** is available for demonstration. The developers of Quantax will be glad to discuss your requirements.

Richard Pike, Director, COMIT Gruppe Ireland, will give a talk on *Relevance and Impact of Risk Management in Private Banking and Asset Management* in the *Banking Today* series (6 November 14:10-14:30, free of charge). Please find below a synopsis of his speech.

The relevance of risk management in private banking and asset manage- ment

by Richard Pike, COMIT Gruppe, Dublin

In the past year there has been a large change in the investor community regarding their requirements from fund managers. While fund managers' brochures are laden with claims for past

performance, the clients asks now about risk management and how the managers are going to prevent losing their clients' money. It is no longer enough to say that you beat the benchmark every year for ten years; clients must be shown how much risk was taken and how you intend to report their risk profile to them.

A recent survey within a large European institutional investment management firm showed that throughout the Requests for Proposal in 2001, the two top requirements were reporting and risk management (performance was number five). This company, and many of their peers, has to grasp and understand risk management techniques in order to win business and keep customers.

Investment managers across Europe are being asked to move away from their previous reliance on the reward side of the risk/reward ratio and to focus on risk. Within current investment management practices the performance and reward area is well catered for in terms of mathematical models, IT systems and processes, but risk techniques are grossly underdeveloped. Many asset managers simply classify risk as high, medium or low and leave their clients to decide what these terms mean.

So, if investment management is being pushed to embrace risk management, what does it need?

Understanding

Asset managers need to make themselves aware of the types of risk and the methods used to evaluate and manage these risks. Market Risk, Credit Risk and Operational Risk need to be understood and their general effects on portfolio values grasped. The main issues and models surrounding these risk types need to be reviewed (e.g., Value at Risk, netting, key performance indicators) and the current market practice considered. Luckily for asset managers, the banking fraternity has done a considerable amount of spadework in this area and conferences and papers abound on these subjects.

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

Risk Advice Services

Frameworks

For each area of business an asset manager will need to understand what risks exist, how can they be reported upon and how are they to be managed. Off the shelf frameworks can be purchased that can be tailored to suit any business and will give any company an excellent start regarding the mapping of their risks. It is vital that this “Risk Map” is clearly understood and backed by the board as it represents the entire company’s approach to risk management.

Mathematical models

There are countless mathematical models available for the management of the various types of risk. The most important things to remember when choosing such a model is that it must incorporate all product types and business cases in use in an organization. More confusion and bad risk management has taken place from inconsistent modeling than any other source. Work done by the banking community has left us with a number of good generic models and there is no point in re-inventing the wheel in this regard.

Systems

Any risk management process will require systems to capture, calculate and report on risk. The banking system vendors have completed a great deal of this work, and a number of IT solutions will provide support for risk measurement, management and reporting. Quantax has been developed with the asset management arena in mind and covers all products routinely used by asset managers and utilizes standard risk models and techniques. Again, one system must support all the instruments and techniques across the organization. Multiple systems will greatly increase costs and workload and seriously hamper the quality of the results.

Processes & Structures

Surrounding these systems and mathematical models, procedures and structures are required to bring life to the risk management techniques and en-

sure that they are enforced. These processes need to be created internally and will differ from organization to organization; however, in most cases they result in the creation of a risk management unit with specific responsibility for measurement, reporting and management. This unit usually reports separately from trading or back office and operates somewhat similarly to internal audit.

If investment managers implement those things, what will their institution look like in the future?

Asset managers will be in a position to offer their clients full risk management services. These may be as simple as risk reports or as complex as online scenario analysis backed up by risk consultancy. The most basic services will be utilized to help win business and maintain customer relationships while the more involved may be charged for on a fee basis and provide extra income for the manager.

The internal staff will be aware of the effect of risk on their performance and will therefore take decisions with a better understanding of their full consequences. What would have previously been seen as back office work (risk measurement and reporting) may now be a customer facing operation with the attendant interest and revenue responsibility.

Customers will be able to choose the level of risk required in their portfolio and they will understand this risk in terms of possible monetary loss (e.g., may lose 10% of portfolio value if USD rates fall more than 1% next year). This will not only empower the customer but will allow the manager to add value by offering risk management services and products.

It is COMIT Gruppe’s view that asset managers will have to embrace risk management in order to compete successfully in the next three to five years in Europe. While this is a threat it may also be taken as an opportunity to generate fee based income and a deeper customer relationship.

Quantax Professional Release 3.5

Functionality

Floating loans and deposits

The Loan/Deposit deal capture function has been extended to allow capturing of floating loans and deposits in addition to fixed rate loans. All aspects of interest schedule construction as known from IRS transactions are now available for loans and deposits as well.

ToDo Blotter enhancements

The cash sub-list of the ToDo Blotter will now show FX transactions that have only been swapped partially (not the whole quantity) and money market transactions which have only partially been rolled over. In earlier versions the transactions which had been extended were not shown.

This guarantees that all transactions are shown as long as there is a chance that some action is needed.

Static Data Changes

The following static data items now form hierarchies: countries, sectors, counterparties, books, and ratings. Each static data item can be part of a group; groups can be arbitrarily nested.

Sample static data import files are delivered with hierarchies for countries, sectors, and ratings.

Charting

All Pivot tables generated in PFV Analysis, Risk Analysis, P&L Analysis and corresponding report functions now present two charting options: *Chart table* and *Chart totals*. As before, the Chart table option will generate a bar chart with table details. The new Chart totals option generates a **3D pie chart** with the grand total row values (last row) of the Pivot table.

Yield charts now include the 20 and 30 year terms.

Sensitivity bucketing

Calculated sensitivities falling between two grid points are now mapped to their neighboring grid point; whereas previously the whole sensitivity was mapped to the following grid point.

Valuation Failures

Failed valuations now cause detailed error messages, pointing to the asset and required risk factors.

Portfolio @ a Glance

A preview version of the new *Portfolio @ a Glance* display is included. It is designed to show, on one screen, the most important figures for an investor. Emphasis is on performance, risk with volatilities, and profit and loss calculations, all using historical revaluations of the current portfolio. Aggregation makes use of static data hierarchies, and is very flexible.

In this release, the *Portfolio @ a Glance* functionality is not yet officially supported.

Environment and User Interface

New organization of Zope site

The Quantax software is now installed at the root level of the Zope site. This makes configuration and upgrades easier, and shortens the URL paths.

New Security Concept

Version 3.5 now makes full use of the Zope security features. Users may now be assigned one or more of the roles *administrator*, *dealer*, and *controller*. The roles define which functions an authenticated user is authorized to use. They are defined as follows:

- **Dealer** may use all functions of the pricing, positions, deal capture, and rates menus. Static and reference data objects can be viewed but not stored – except reports. The dealer cannot access utilities.
- **Controller** may use all the functions of the pricing, positions and rates menus. In addition, deal details can

be viewed, but deals cannot be stored. Static and reference data objects can be viewed but not stored – except reports. Utilities cannot be accessed by the controller.

- **Administrator** may use all the functions of the static data and utilities menu – except export blotters. The idea is to restrict the administrator to non-deal information.

Look & Feel, Styles

The look of the navigation has been improved, and is now more customizable due to use of CSS styles in reports and entry forms.

Interfaces

New Rates Import Interfaces

The new, configurable rates import interface can now import any rate and yield curve from Excel and ASCII files. Sample files are included in the distribution. Excel can in turn be linked to data feeds such as Reuters. Excel is accessed through the Windows COM infrastructure on the Quantax server.

The import utilities accessing public Web sites have been updated and brought into the common framework. They can now be individually selected in the configuration.

Interface Framework

A new framework has been put into place for interfaces. It is first used for Rate Import, but will be used in future releases for any kind of server interface to an external system.

ODBC data warehouse changes

A new attribute 'ispread' represents the index spread of floating rate transactions or transaction legs.

Technical Changes

- All names visible to users have been changed from RiskWeb to Quantax.
- Performance has been improved by making better use of the caching facilities of the ZOPE database. The new Utilities>DB Size function details database usage and allows compacting all databases and caches.

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 Gruppe at 01 298 92 00.