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A PROACTIVE APPROACH

In the midst of volatile markets, bankruptcies and takeovers, it's vital to establish quickly and accurately where counterparty credit exposure lies. Proactive portfolio reconciliation is essential, and this is where TriOptima's triResolve service comes in, says **Susan Hinko**

During turbulent times in the markets, credit officers usually turn to the collateral department for an up-to-date assessment of where there is the greatest vulnerability to counterparty credit exposure. While many departments calculate these exposures in their OTC derivatives portfolios, a firm's collateral department is the one place where all trading systems funnel their information so the firm can protect itself by calculating exposures and making collateral calls. Before the current exposure can be calculated, the trade populations must be reconciled, and in times of stress, it is impossible to act swiftly if the reconciliation process is still reactive rather than proactive. Industry groups such as the Collateral Framework Group* and the International Swaps and Derivatives Association recognise that proactive portfolio reconciliation is the new standard for effective exposure management. Furthermore, regulators are now requiring it.

Since its introduction in 2006, triResolve, TriOptima's portfolio reconciliation service, has grown significantly. By September 2008, 9.3 million trades were being regularly reconciled in 1,000 bilateral relationships; most on a weekly basis, some daily, some monthly. This represents more than 50% of all collateralised OTC derivative transactions globally.



Susan Hinko

Proactive vs reactive reconciliation

Until triResolve was introduced, trade populations were typically reconciled by exchanging spreadsheets. However, as interdealer portfolios grew into the tens of thousands of trades and the number of collateralised relationships with all kinds of trading partners proliferated, portfolio reconciliations were reactive, dispute-driven activities with understaffed firms overwhelmed with work.

Trying to reconcile the large portfolios that are now typical in the market can take a lot of time, and the market can move before a resolution is achieved. In times of market turbulence, it is almost impossible to nail down a

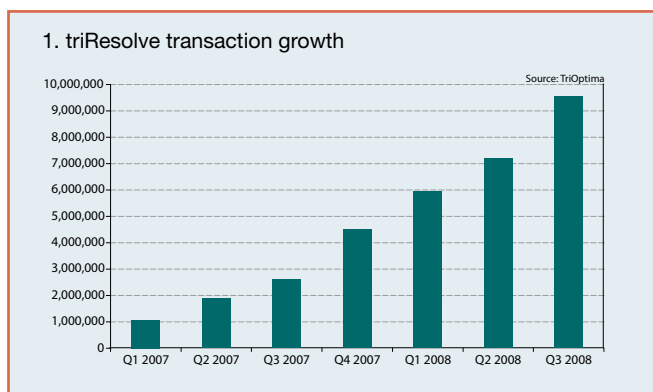
reconciliation before events have changed the situation.

In periods of instability it is even more important to use a proactive reconciliation process. Rather than waiting for something to trigger a collateral call, firms should ensure the portfolios are reconciled so dramatic changes in mark-to-market exposures can be identified quickly. As the recently published Isda Portfolio Reconciliation in Practice Paper states: "...recent market events have shown the value of systematic portfolio reconciliation as a fundamental information resource for firms."

The triResolve revolution

Using the triResolve service, clients submit data on their bilateral relationships monthly, weekly or even daily, and receive the results within a few hours. The data is submitted for all OTC derivative transactions between counterparties, including credit derivatives, interest rate products, equity derivatives, foreign exchange and commodities, as well as structured transactions and hybrids. triResolve only requires 10 key fields as a minimum for reconciliation, but clients can submit many more fields if they wish.

Most importantly, the data can be submitted in any format the user chooses. TriOptima client service managers will map the client data into a normalised triResolve format, standardising it so reconciliation is easier to perform. After the initial mapping is done, the client continues to submit data in its own format, frequently taking the data directly from the collateral management system.



Community benefits

The unique concept behind triResolve is the network community approach to proactive, regular portfolio reconciliation. The service is web-based and interactive, requiring no programming or software installation. It extends the reach of a firm's internal processes by involving its counterparties, providing immediate access to critical counterparty information and a forum for resolving issues with counterparties online.

triResolve replaces email, the current standard communication tool, with instant access to a single secure data-entry point with a fully automated upload process. Trade discrepancies are resolved on the triResolve website through direct, online communication with the counterparty by commenting either at the trade level or relationship level. Scanned confirmations can be attached to a comment allowing easy resolution of differences.

Users can reconcile with their counterparties as often as they want, either on a scheduled or an *ad hoc* basis. The trade information is retained in the triResolve database from one reconciliation to the next so users can quickly and easily identify trade discrepancies as they arise.

triResolve's unique report generation capability lets each firm produce reports tailored to different management levels in the organisation. Senior front-office and credit managers can have access to reports of the largest mark-to-market exposures by counterparty or transaction type, or age of dispute. Operations, trade control and collateral personnel can perform a drill-down analysis at any level of the counterparty relationship or the product portfolio to determine root causes of breaks.

With regular reconciliation, even as portfolios grow between counterparties, the number of hours spent researching differences decreases dramatically and auto-match levels reach 98–99%. The graph (above right) demonstrates one user's experience over just four consecutive reconciliations and offers a compelling illustration of the benefits of being proactive. It shows the reduction in hours spent in reconciling the portfolio over three months and the change in auto-match rates even as the bilateral portfolio grew between the counterparties.

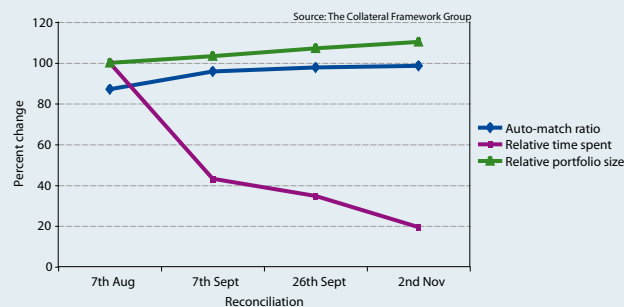
triResolve's matching algorithm helps solve the challenges of reconciliation by proposing matches for splits and structured trades that users can approve online as well. Once a match is recorded in the triResolve database, it remains as a persistent match until affected by expiration or a market event.

Meeting the OMG commitment to the NY Fed

In the July 31 Operations Management Group (OMG) letter to the NY Fed signed by 17 major dealers, Isda, the Managed Funds Association and Sifma's Asset Management Group, the industry committed to Best Practices for Collateralised Portfolio Reconciliation. The implementation deadline is December 31.

These best practices require firms to perform weekly reconciliations of bilateral portfolios with 5,000 or more trades. They also require firms to have sufficient infrastructure to perform the reconciliations, find the differences and investigate and resolve those differences in a reasonable time frame.

2. Benefits of proactive portfolio reconciliations



Since most of the signers are already triResolve users, they were confident they could meet that standard as well as other standards relating to the review of mark-to-market differences and the maintenance of statistical information regarding match rates.

A triResolve user with the appropriate organisational infrastructure including a team of collateral professionals that can analyse and act on the information that triResolve provides is far down the path to meeting the goals set by the industry and expected by the regulators. And triResolve users are in the best position to meet any new standard that emerges, such as daily reconciliation.

The critical role of regular, proactive reconciliation was highlighted during the turbulence of the Bear Stearns crisis, and again in the recent events around Lehman's filing for bankruptcy. triResolve users already had their portfolios in shape, and were just focusing on mark-to-market exposures as market conditions changed. Senior management received detailed, informative reports in a timely manner; and the collateral departments were able to ensure the financial integrity of their portfolios.

With the valuable input and collaboration of its users, triResolve continues to evolve to meet the needs of all its subscribers: sell side, buy side, large and small, wherever they are located. Reconciling over 50% of all collateralised OTC derivatives trades in September 2008 and growing with each passing month, triResolve is a service that has made a difference not only to collateral professionals but to credit risk managers, trading managers, and operations groups around the world. ☺

Susan Hinko is global head of industry relations at TriOptima

** Members of the Collateral Framework Group include ABN Amro, Barclays, Bank of America, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan, Merrill Lynch, Morgan Stanley, Royal Bank of Scotland and UBS*

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A network community for **controlling risk** in OTC derivatives

Join global dealers, regional banks and buy-side firms in reconciling your portfolios with the market leader **triResolve** from TriOptima. More than 50% of all outstanding OTC derivatives globally are reconciled regularly on **triResolve**.

triResolve provides a network community where you can resolve issues efficiently, quickly and easily. With proactive, regular reconciliation – monthly, weekly or even daily – you get a clear understanding of your counterparty exposures and can focus on the exceptions to minimise your risk.

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