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**Asian banks in OTC  
derivatives  
reconciliation drive**



Steady take-up of over-the-counter derivatives reconciliation services expected, especially in Japan

# Asian banks in OTC derivatives reconciliation following Isda initiative

Asian banks are starting to adopt over-the-counter derivatives reconciliation systems, following efforts started back in January by the International Swaps and Derivatives Association to create an 'Asia-Pacific portfolio reconciliation memorandum of understanding'. This saw regional banks pilot reconciliation in an agreement with their international counterparts.

The agreement saw a number of financial institutions with a relationship greater than a 1,000-trade threshold agreeing to reconcile on a weekly basis during a 12-week period, in jurisdictions such as Singapore and Japan initially, but later expanded to others such as Australia and Taiwan. The objective was to encourage wider participation in Asia and saw some local banks trialling third-party reconciliation systems, which are now starting to gain traction in the region, as they have in Europe and the US.

Asian regional and domestic financial institutions face a number of constraints that have made portfolio reconciliation slower to get off the ground. Besides IT budget issues, there is the need to garner front-office support and identify operations staff with the time and capacity to perform the reconciliation.

TriOptima has started to see take-up of its resolution system, TriResolve, in Asia – signing up DBS in August, which participated in the Isda-led pilot programme. Peter Weibel, Singapore-based chief executive of TriOptima for Asia-Pacific, says several banks are testing the TriResolve platform and estimates the Asia-Pacific region could have

about a dozen full users by the end of the year, with more in the pipeline, although he declined to give names of potential contracts. In addition to DBS, in the past two months TriOptima has picked up two banks in Japan and one in Australia.

"There are other banks who are piloting – quite a few that are in testing mode, and we are hopeful that, in the next two to three months, gradually those banks will join TriResolve," says Weibel. "The difference between Europe, New York and Asia, is that in Europe and the US the issue of frequent reconciling was picked up two to three years earlier, but now in Asia it is really happening."

Weibel expects a steady take-up, especially in Japan, where there are a good number of banks interested in the service, some of which are now testing. "Previously banks in Asia-Pacific would typically reconcile in a reactive manner, mostly driven by collateral disputes," he adds. "They would exchange Excel files via email, which could be seen as a security risk in itself – now it is understood by many banks that they should reconcile more frequently."

Asian banks are more aware of the need for reconciliation simply because of the greater awareness of counterparty risk that came with the recent crisis. But one staff member responsible for the rollout of TriOptima at DBS in Singapore says the encouragement to adopt reconciliation systems is coming from international banks, which are now obliged to report on reconciliation to their regulators. Therefore, the international banks want local banks to also use



**Peter Weibel, TriOptima**

reconciliation systems. Moreover, the impetus is to use the same system as the international banks, with Asian bankers saying TriOptima is the most common, though others are used.

"It is important for DBS to execute bilateral trade reconciliation with our global counterparts effectively regardless of their time zone," says Sandra Stonham, managing director of technology and operations at DBS Bank in Singapore. "Since adopting the service, we have been able to reduce reconciliation run times by up to 85%."

DBS explored alternative platforms by other providers, but it found it was most effective to use TriOptima, which most of the Singapore bank's international counterparties also use. DBS had also previously developed its own in-house reconciliation system but found it did not give the hoped-for results.

Weibel says efforts by international banks, which have been active in trying to bring regional participants onto the TriResolve platform, have helped his busi-

ness. But the influence of regulators is also playing its part. "Any regulatory developments in the US and Europe are closely watched in other parts of the world or are discussed in the OTC Derivative Regulators Forum," says Weibel. "Electronic platform solutions, be it for confirmations or portfolio reconciliations, are encouraged and financial institutions increasingly understand this is the right thing to do."

Reconciling is important, particularly in a post-Lehman Brothers world, because it allows a bank to ensure its relationships at any time are adequately collateralised. This is only possible with frequent reconciliation and dispute resolution. "If a bank is really serious about reconciling and they really should all be, because no-one can be sure what the credit worthiness of their counterparty really is, they need to know that they're not over- or under-collateralised," says Weibel.

TriResolve is a web-based network community service that allows firms to manage operational and credit risk in OTC derivatives portfolios, including proactive portfolio reconciliation of OTC derivatives, dispute prevention and resolution, margin call management and real-time management information reporting. More than four million trades are reconciled daily using the service, which handles approximately 75% of all non-cleared OTC derivatives transactions.

In addition to all types of credit derivatives, TriResolve participants submit their foreign exchange, equity, commodity, energy, interest rate and structured derivatives trades to the service for reconciliation. **HT**



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