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Risk Awards 2012

Risk management technology product of the year

Risk Awards 2012

Quantifi

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Survival lessons

Market participants have endured a 12-month period of dramatic upheaval. Despite the challenges they faced, some companies managed not just to survive but to thrive – and helped clients to do so, too. By Matt Cameron, Laurie Carver, Mauro Cesa, Clive Davidson, Ramya Jaidev, Peter Madigan, Mark Pengelly, Joe Rennison, Nick Sawyer, Michael Watt and Duncan Wood

As the US debt ceiling talks laboured towards their eleventh-hour agreement last year, market participants quietly began to prepare for what would have been a catastrophic event: the country's default. At JP Morgan, the bank's risk managers and senior business leaders found themselves planning for events that seemed unthinkable just a few months earlier. The bank discussed how it would handle benefits cards through which banks offer credit that is repaid by the US government, for example, and drew up a script for branch and call centre staff to use when government employees tried to cash pay cheques.

It was that kind of year – old certainties vanished and doomsday scenarios felt very plausible. When 2011 began, many of this year's award winners would have been surprised to learn of decisions they would later take, or challenges they would face.

Deutsche Bank, for example, worked on behalf of Postbank to reduce the group's combined eurozone exposure by €8.4 billion in the first six months of the year – €7 billion of which was Italian risk – and had to accelerate the de-risking as market sentiment became rapidly more gloomy.

At Barclays Capital, the US debt ceiling talks concluded shortly before the execution of a huge foreign exchange options trade for IT giant Hewlett-Packard – and the country's resulting downgrade meant the transaction went ahead in a period of intense uncertainty. The bank managed to keep the trade quiet, but it involved hedging with a variety of correlated currency pairs and initially accepting some risk mismatches.

Following Japan's tragic earthquake in March, JP Morgan's equity derivatives team weighed up the short gamma and short vega positions the bank was carrying and decided to reverse them – it managed to do so within 90 minutes of the Japanese markets reopening.

To remain upright – and open for business – dealers in every asset class had to be risk-focused, responsive and nimble last year. And those qualities mark out other award-winners, too – Allen & Overy, for example, which advised the International Swaps and Derivatives Association's credit default swap (CDS) determinations committee on the fast-changing situation in Greece; or LCH.Clearnet, which tried to expand its global interest rate swap clearing business during a period when regulation was in flux.

Our winners were not the only firms to display these traits, which made it difficult to decide many of the categories – pitching institutions put their best foot forward and often had strong stories to tell. That was particularly true in one of this year's new categories, the award for over-the-counter client clearing – a new business, and one already characterised by fierce competition.

Feedback from clients was a key factor in many decisions, but the *Risk* editorial team also received demonstrations of risk systems, and was provided with internal profit and loss numbers – as well as risk and balance sheet metrics – for some businesses. Without this co-operation and generosity, the awards would not work.

The judging process lasted three months, from October to December last year. Banks were asked to submit information on their business in each of the asset class and product categories during 2011, and shortlisted companies underwent a series of face-to-face and telephone interviews. *Risk* then performed a lengthy due diligence process, contacting banks' clients to confirm that trades referenced in pitches took place and that customers were satisfied with the results.

In making the final decisions, a number of factors were considered, including (but not restricted to) risk management, liquidity provision, quality of service and engagement with regulatory issues. ■

The roll of honour

Derivatives house of the year
JP Morgan

Lifetime achievement award
Lance Uggla

Interest rate derivatives house of the year
Deutsche Bank

Currency derivatives house of the year
Barclays Capital

Equity derivatives house of the year
JP Morgan

Credit derivatives house of the year
Deutsche Bank

Commodity and energy derivatives house of the year
JP Morgan

Inflation derivatives house of the year
Royal Bank of Scotland

Structured products house of the year
BNP Paribas

Hedge fund derivatives house of the year
Deutsche Bank

OTC clearing service of the year
JP Morgan

OTC trading platform of the year
i-Swap

Bank risk manager of the year
JP Morgan

Credit portfolio manager of the year
JP Morgan

Deal of the year
Credit Suisse

Quants of the year
Jesper Andreasen and Brian Huge, Danske Bank

Hedge fund of the year
Brevan Howard Asset Management

Corporate risk manager of the year
Rolls-Royce

Sovereign risk manager of the year
Dutch State Treasury Agency

Insurance risk manager of the year
RSA

Exchange of the year
NYSE Liffe US

Clearing house of the year
LCH.Clearnet

Law firm of the year
Allen & Overy

Risk management technology product of the year
Quantifi

Risk Awards 2012

RISK MANAGEMENT TECHNOLOGY PRODUCT OF THE YEAR QUANTIFI

A host of tasks become magically simpler if their more demanding aspects are ignored. Cooking bouillabaisse is easy if it doesn't have to taste nice; bullfighting is less dangerous if the torero remains outside the ring; pricing derivatives is a breeze if counterparty risk, funding and collateral effects can be ignored. Unfortunately for derivatives market participants, the crisis has shown those effects are real and significant.

Over the past few years, pricing practices have changed dramatically, in particular to capture the credit value adjustment (CVA) that reflects the chance a counterparty will collapse while owing money on a trade, and to discount collateralised trades at an overnight indexed swap (OIS) rate determined by the currency of the collateral – a simple enough shift in theory, but one that has forced the industry to draw up a standardised collateral agreement in an attempt to remove some of the complexities involved (see pages 74–78).

With industry practice changing so rapidly, technology providers also have to be nimble when creating or updating pricing and risk management tools that reflect the new reality. Gone are the days when a bank could acquire front-office or risk management systems and allow a couple of years for implementation – the need for accurate pricing and valuation is urgent. Making matters worse, banks have also reined in their spending, so a primary criterion for new technology is cost-effectiveness.

New Jersey-based Quantifi scores highly on all the above, the firm's clients say. It was among the first technology suppliers to support OIS discounting, CVA – and the latter's more controversial twin, debit value adjustment (DVA). Founded in 2002, it cemented its reputation for accurate pricing with its initial credit pricing library in 2006, and has maintained the quality while branching out across other asset classes such as interest rates and foreign exchange. Its technology is relatively light and slots into a bank's infrastructure quickly. And, while a number of banks have implemented Quantifi Risk on an enterprise level, it also offers a cost-effective option for individual business units or smaller institutions.

"CVA, DVA and OIS discounting is the way the market trades nowadays. They permeate everything – not just interest rates, but also foreign exchange, credit and other products. Whether trades are collateralised or uncollateralised, it's the same story – what is your funding cost and what is your credit exposure? Whether you translate that into OIS discounting, CVA or funding value adjustment – it's all very much part of what you need to price on the desk today," says Rohan Douglas, Quantifi's New Jersey-based chief executive officer. As of December last year, the firm had more than 120 clients across the sell and buy sides.

One of those is the Stuttgart-based Landesbank Baden-Württemberg (LBBW), which went looking for a technology framework that would provide consistent valuations for its portfolio of credit products in 2007 – it says Quantifi was the only supplier that could meet its requirements. The bank licensed the software in early 2008 and was able to install it quickly on its front desk, although full integration with back-office systems and the addition of a high-performance computing grid took some months longer.

"In the specialised area of credit valuation, Quantifi had no real competitors at the time," says Jan-Alexander Posth, head of fund derivatives at LBBW. The bank has since extended its use of Quantifi across other business lines and to risk management. The most important benefits the technology has brought are accuracy of results, speed of calculation and an intuitive interface, says Posth.

Much smaller institutions have also turned to Quantifi for help, including San Francisco-based Varden Pacific – a hedge fund start-up focused on fixed income, particularly opportunities in corporate-backed structured credit. Launched in early 2011, the firm says it needed sophisticated pricing and risk analytics that would match those used at large banks, but from a system that did not require the support of a large bank's IT team. It chose Quantifi, and the implementation took just 18 hours over three days. The fund uses the system for pricing, booking trades, daily risk reports, what-if analysis, profit and loss calculations, historical analysis and tracking jump-to-default numbers.

"Dual curve pricing or OIS discounting is the way the market trades nowadays"

Rohan Douglas, Quantifi

"After using the software for the better part of a year, I can confirm their analytics are superb. And our risk system runs fluidly each night – just like it is supposed to," says Varden Pacific co-founder Shawn Stoval.

Finally, given the complexity and changeability of today's markets, institutions want more than just software products from their suppliers – they want ongoing guidance and support. Quantifi clients praise the company's balance of business and technological expertise. Overall, Stoval describes Quantifi's support as "top notch", while Posth of LBBW says it is "outstanding". ■