

SIMCORP SOLUTIONS

# REPORTING EXPOSURE IN A VOLATILE MARKET

The power of an IBOR

# A COMPLEX PICTURE OF EXPOSURE

We operate in a volatile political and economic environment. A market shifting event can happen at any time. How ready is your organization to extract exposure information from multiple systems, and can

you trust the information to make critical business decisions? In this report, we delve into post-crisis reality and your options for understanding and tackling your exposure.



## PICTURE THE SITUATION

Unexpectedly, a commercial airplane is shot down somewhere in Eastern Europe and an Investment Director is asked, “What is our exposure to that country and those surrounding it?” The data manager says he can probably provide an answer, based on a report run on the company’s existing data warehouse. He says it contains settled and reconciled data from the previous day.

After a discussion on what exposure to a country means - country of risk, country of origin, fund look-through and so forth, the Investment Director was unimpressed.

*“If I have a report based on reconciled data from yesterday, does that mean that non-settled positions are in it?”*

*“No, they are not.”*

So, the Investment Director, smart as she is, concludes that the exposure report she can receive, is actually based on data that might be four days old, as trades might take up to three days to settle.

Discontented, she keeps asking for more recent data. Together, they establish that it is available, but only through combining reconciled and settled positions amended by any outstanding settlements from the back office with amended outstanding trades from the front office.

In the end, it took three full days to gather the exposure information. The team then used the experience to kick off an internal discussion on how they could speed up the process in the future.

## THE TAKEAWAY

This story was fiction. However, it’s not too hard to imagine a comparable situation happening in the near future. Would your firm be able to calculate and report on exposure in under three days?

# THE GAP BETWEEN EXPECTATIONS AND REALITY

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A few years ago SimCorp conducted a survey of senior decision makers in the asset management industry. The survey results, published in “**Legacy Systems; The Elephant In the Room**” found that only a quarter of respondents were confident that their front office IT systems could automatically integrate data from external sources and **that 48% spent more than 15% of resources on manual processes in the front office.**

The number was surprising, so we dug deeper. Recently, we conducted a poll about reporting exposure. While the sample size was small, the statements provided a strong indication of industry sentiment.

**All respondents expected a significant market shifting event to occur in the next 12 months.** And if an event occurred, a third of respondents stated that accurate exposure reports would be expected within an hour.

However, when asked about the reality of meeting this timeframe, none of the respondents thought that reports could be delivered within the hour, citing that they could probably deliver reports between **three hours and one full day.**

Even more disturbing is that none of the respondents believed reports created in this time frame would be correct, rating accuracy at three or below in a scale of 1-5.

## HOW TO CLOSE THE GAP

The picture doesn't need to be so bleak. The truth is that most institutions can avoid a lot of the delay by creating and using an Investment Book of Record (IBOR). If you have already invested in a proper, integrated IBOR you have taken a major step forward. A real-time IBOR is the goal for many institutions in the investment management sector. An IBOR is so critical to calculating exposure because it clearly indicates trades that are:

- 1) Reconciled
- 2) Settled
- 3) Confirmed
- 4) Traded

Positions and trades in a real-time IBOR help risk and investment managers understand their exposure and positions as they are. By making sure the various stages from trade to position are identifiable, risk managers can choose what they want to include. Also by making sure the IBOR is updated the moment something changes in either the front office or back office, they can make the right decisions when they want to make them.

If exposure calculation is a concern and you have not yet invested in an IBOR, ease of implementation and the benefits of doing so will vary according to your infrastructure set-up.



# DIFFERENT WAYS TO GAIN AN IBOR

There are several potential solutions which can be assessed for your situation.

## 1) BEST OF BREED

A best of breed architecture typically mixes front office solutions, middle office and accounting functionality and a performance and risk management solution from different vendors. This is a setup that is often seen with multi asset managers, especially those who either have legacy systems that might be hard to migrate from or require very specific capabilities from their front office tooling.

With this architecture, the exposure information can be gathered, but to do so requires robust messaging systems and inter-system reconciliation to state with any confidence that the information is correct. Even though, most would be working with positions that have been refreshed overnight.

## 2) FULLY-INTEGRATED SOLUTION

A truly integrated system, i.e. a system that is built as a sole platform and not plugged together provides all the functionality required and does so using the same data across the platform, meaning reconciliation and messaging between systems is not required.

Using such an architecture brings you as close as possible to “live” data and pricing, quicker as it is to record and display information.

## 3) CORE + ADD ON

While a fully-integrated solution might be the goal that you’re moving toward, it’s likely that currently, there are “add-ons” to a core platform, in a landscape that has been built to deliver elements that the core system cannot.

With this architecture, like the others, exposure can be calculated and reported, but again, like best of breed, it is created operationally, and therefore increases cost and risk.

Using an integrated investment solution and using not only middle and back office functionality, but also the front office modules would have made answering the question even easier. Reporting on real time position and trade status for data that is already in the system is something an investment or risk manager can do themselves without engaging data managers, financial control, risk management or compliance and so forth.

Most of these solutions bring the same benefits, but where more than one system is used, they incur a significantly higher level of complexity, associated maintenance and cost. Furthermore, often when a best of breed solution is chosen, much of the functionality being paid for is not eventually required as organizations are increasingly driven by standardization and efficiency.

# NOT ALL IBORS ARE CREATED EQUAL

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An IBOR typically provides an overview of settled trades and positions, as at close of business the previous working day. This information is of crucial importance to your front office, dealing as they are with ever-increasing amounts of data, a multitude of asset classes and diverse geographic regions. Providing a consistent daily view of this information is vital for their day's trading, strategic decisions and so forth. Without an IBOR tied to your core platform, your front office is likely wasting too much time either reconciling or integrating data from disparate sources in their start of day processes, which means competitors with an IBOR are already one step ahead of you.

The more platforms or trading systems that are used, the more complex this issue and task becomes. An IBOR that isn't the foundation of a solution's architecture is merely a depository for data from elsewhere, and likely another item on a list of inter-system reconciliations that need to be performed before it can be relied upon - which brings with it operational risk and potential error.

Asset Managers who trade multiple asset types, often have more than one trading system. Multiple trading systems are also found where a merger or acquisition has occurred in the corporation's history. In these cases, a complete, up-to-date and accurate IBOR is a beast to create and maintain.



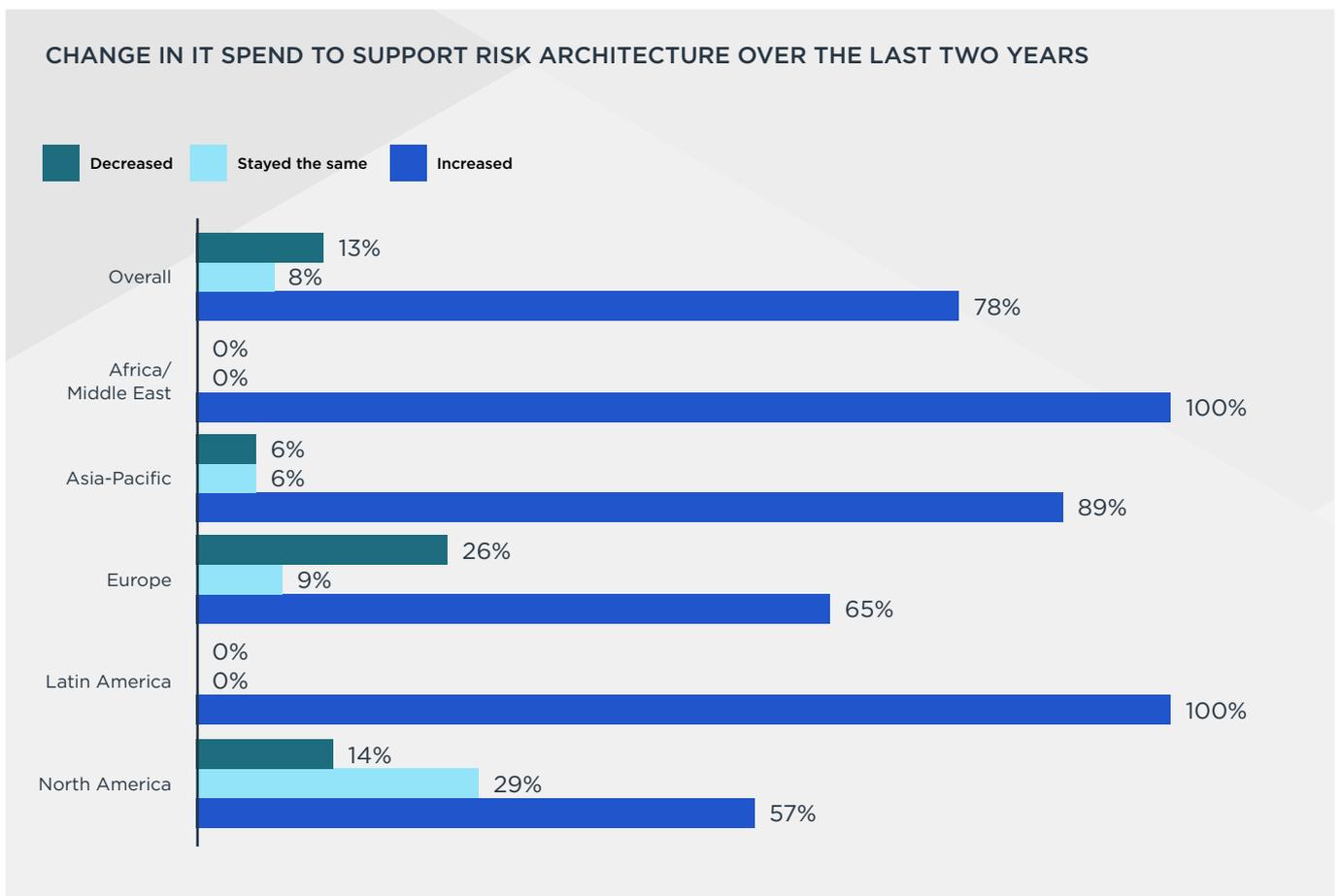
# THE ROLE OF DATA IN RISK MANAGEMENT

The management of data is the crux of the matter. How it is sourced, refined and stored for future access will determine the success of not only exposure calculation and reporting, but all other reports, interfaces and calculations. Yet, the storage of such data is one of the biggest problems we face.

In a crisis, being able to assess your situation confidently is an enviable position to be in. Projects to im-

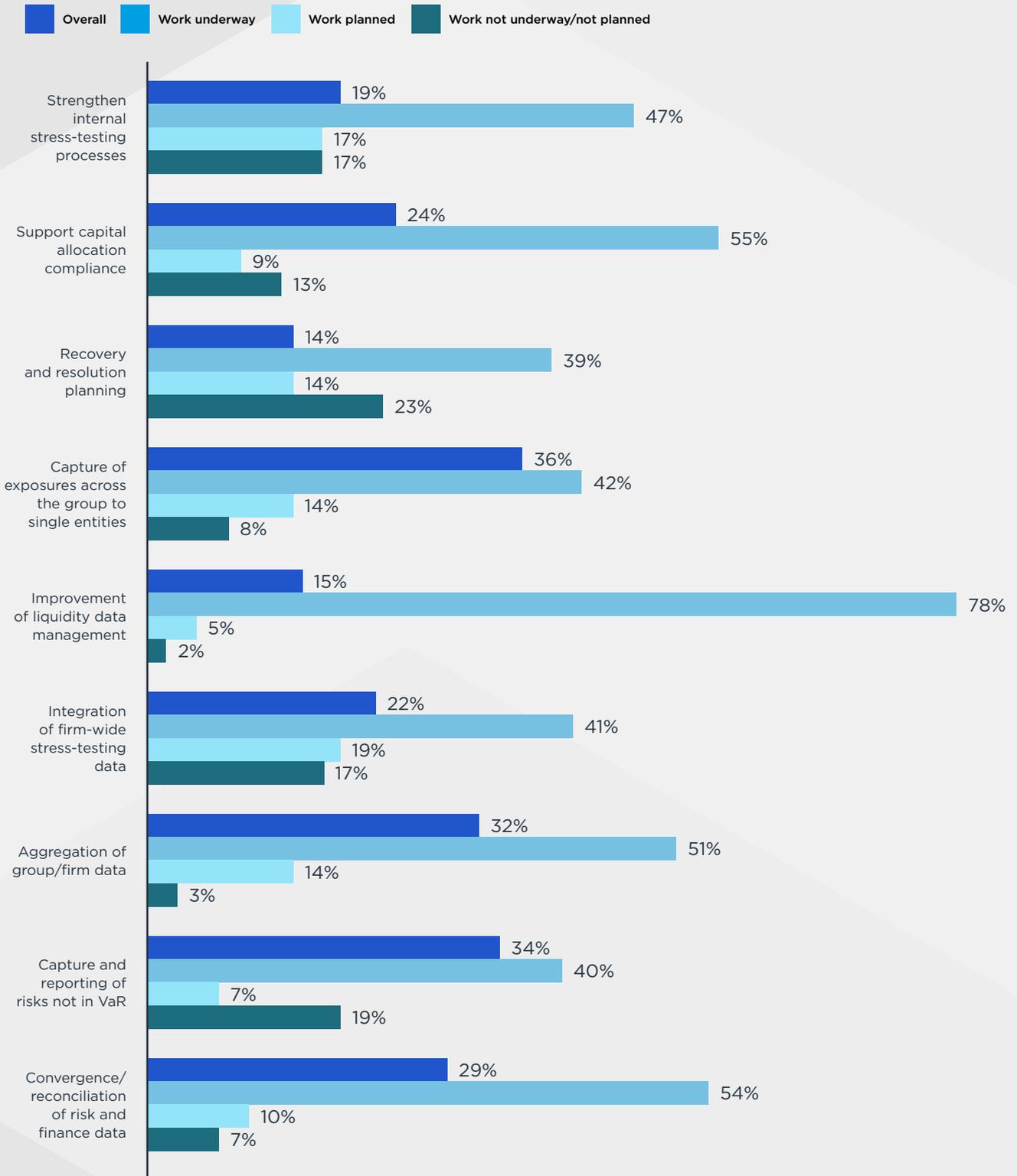
prove aggregation capability, accuracy of information and quality of information are underway everywhere. Lessons learnt during the financial crisis are forcing decision makers to defend themselves for the future.

More than ever before, the management of risk is a vital part of that defence. Your IT infrastructure needs to support that process and give you confidence in its results.



Source: EY "Remaking Financial Services"

### ONGOING IT PROJECTS TO SUPPORT RISK MANAGEMENT



Source: EY "Remaking Financial Services"

# AN IBOR HELPS SOLVE DATA CHALLENGES AT ALL LEVELS OF YOUR ORGANIZATION

Depending on your role within the company, you can have different data challenges. Find your business function below to see if your company would benefit from an IBOR.

## PORTFOLIO MANAGEMENT

### **Do you make investment decisions based on incomplete and outdated positions and cash data?**

Optimizing your investment processes depends on having access to the best possible data. Today, lack of real-time data may be limiting your investment performance.

Currently, most systems provide start-of-day data, which is restricted by the time-consuming manual updates and synchronizations needed to determine positions and exposure. Not only that, but start-of-day fails to provide an accurate overview of positions throughout the day.

### **Improve investment decision making with real-time positions data**

With an investment book of record you can access accurate, real-time data that is updated continuously for market and investment events. This will allow you to make more informed investment decisions and reduce the time you spend on managing imperfect data. As a result, you will be able to spend more time managing your portfolio and less time managing your data.

## COMPLIANCE, RISK AND PERFORMANCE

### **Are you confident in your positions data at all times?**

Increased regulatory demands make it more important than ever to know your exposure throughout the day.

Transparency is crucial, but traditional systems fail to deliver positions in a timely manner and rarely include adjustments from events such as corporate actions and cash flows. This leads to unnecessary risks, imprecise forecasts and prevents immediate interventions when needed.

### **The reliable way to spend more time analyzing and less time managing data**

An integrated, real-time system can provide accurate, complete and high-quality data to significantly improve risk processes. A reliable platform such as an investment book of record gives you access to better data whenever you need it. It will also enable you to deliver reports faster and ensure you have more time to spend on analysis.

## ACCOUNTING AND OPERATIONS MANAGEMENT

### **Is outdated data affecting your investment processing?**

Having to combine data from a multitude of sources can prove challenging. This complexity increases further if your firm operates in overlapping time zones, making it difficult to provide optimal real-time data. The result is time-consuming communication between front office and asset servicing functions, as well as avoidable error-prone manual workarounds.

All this could be avoided with real-time, high-quality data that provides updates and relevant reporting across your organization around the globe.

### **Ad hoc reporting updates whenever and wherever you need them**

Ensuring you have real-time, high-quality data to generate ad hoc reporting updates will enable you to provide higher service levels globally and optimize your time. All this is possible with an investment book of record.

## IT AND DATA MANAGEMENT

### **Are you spending your time managing fragmented data from multiple sources?**

These solutions are associated with high risks and reduce the possibilities to scale IT support. On top of this, data demands continue whether due to product launches or regulatory changes. Dedicated platforms for each activity often result in fragmentation, which further increases complexity.

### **Meet positions data demands with one integrated platform**

What you need is a platform capable of providing accurate, complete and timely data from one integrated platform. That's exactly what you will experience with an investment book of record.

## C-LEVEL

### **Does your firm really have a global view of your positions and regulatory compliance?**

Today, firms must function as unified organizations with a single view of operations and be able to react to market changes quickly. The key to realizing this is real-time cash and positions data.

### **Track your firm's performance in real-time**

An investment book of record is the most reliable way to optimize your investment decisions and establish a cross-firm overview of positions and exposure, thus enabling you to track your firm's performance in real-time.

# CONCLUSION

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Current regulation demands an up-to-date IBOR. Where your system environment warrants it, we propose to invest in capability that can provide accurate exposure reporting.

It will benefit risk management and your front of-office because market shifting events can be responded to with quick and informed investment decisions.

LEARN MORE ABOUT  
THE BENEFITS OF AN IBOR



## ABOUT SIMCORP

SimCorp provides integrated, best-in-class investment management solutions to the world's leading asset managers, fund managers, asset servicers, pension and insurance funds, wealth managers and sovereign wealth funds. Whether deployed on premise or as an ASP solution, its core system, SimCorp Dimension, supports the entire investment value chain and range of instruments, all based on a market-leading IBOR. SimCorp invests more than 20% of its annual revenue in R&D, helping clients develop their business and stay ahead of ever-changing industry demands. Listed on NASDAQ Copenhagen, SimCorp is a global company, regionally covering all of Europe, North America, and Asia Pacific.

For more information, please visit [www.simcorp.com](http://www.simcorp.com).

## ONE SYSTEM FOR A COMPLEX WORLD



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