



Counterparty Risk

SWIFT and risk management

“ Who to trust ? How to manage?”

SIBOS 2009 – Hong Kong

Overview

“Counterparty risk refers to the risk of default of one party in a particular transaction.”

- Generally known also as “default risk”
- Largely stems from the creditworthiness of an institution (i.e. Banks, broker dealers and nonbanking institutions)
- From a *systematic risk* perspective, it is the risk to others in the global system if a large financial institutions goes under (i.e. bankruptcy or some form of organized resolution)



What's another year?

Change of landscape since Sept 2008



SIBOS 2008



SIBOS 2009

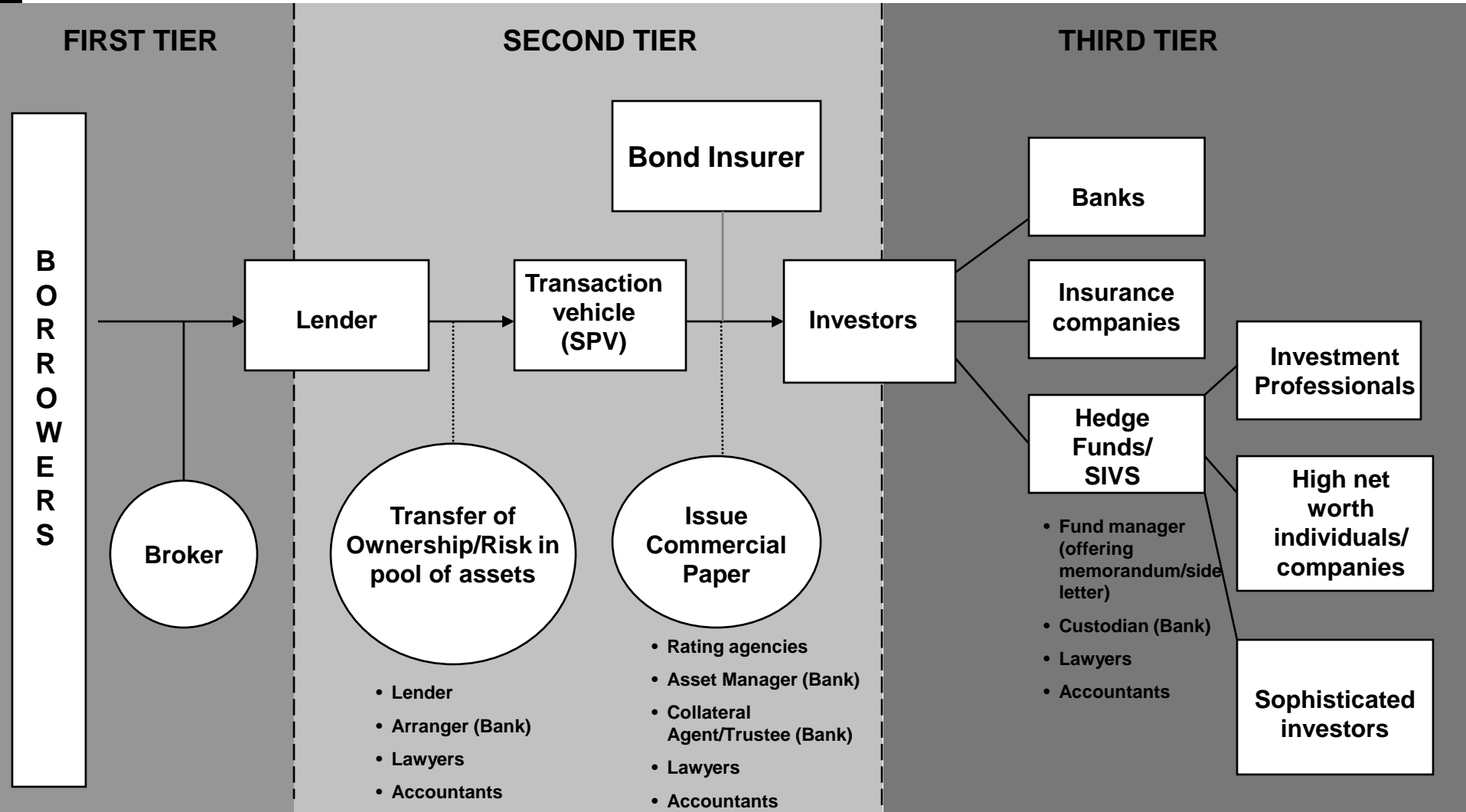
What's another year?

Change of financial landscape since Sept 2008 (*)



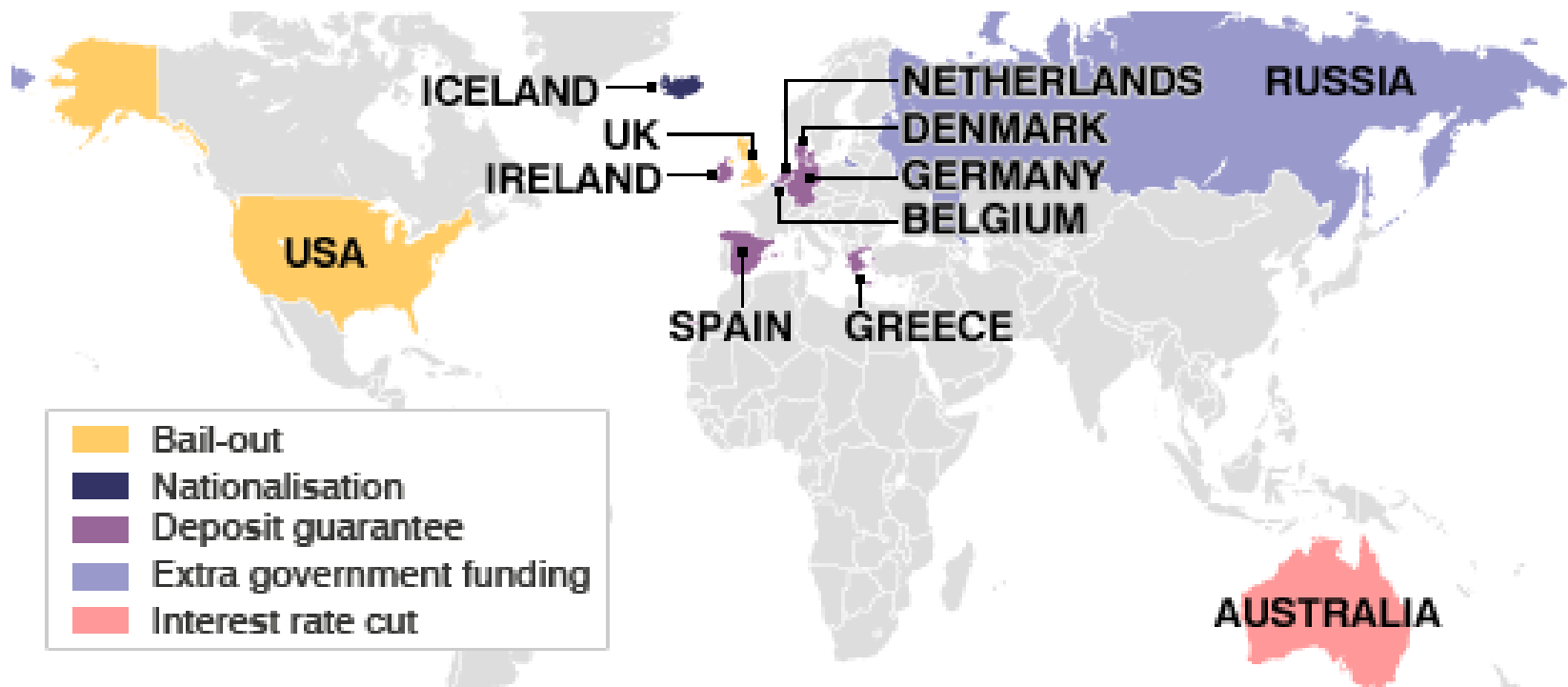
* www.bbc.co.uk

The domino of the sub-prime crisis



Global action on credit crisis (*)

GLOBAL ACTION



Counterparty Risk Management Challenges

- Exposure Management
 - Accurate and timely measurement of exposure on the underlying structured transaction portfolios
- Risk mitigation
 - Management of upfront payments for risk transactions, monitoring of counterparty ratings, treating of collateral consistently with supporting legal agreements...



Counterparty risk management challenges

How SWIFT can help

- *Counterparty Risk Clearing*

- Extend usage of Accord matching service
 - Matching status is an additional indicator that the trade is agreed, so protecting against the risk that the client could deny the trade.
 - Future evolution to integrate CCP-link will bring massive savings and risk reduction

- *Collateral Management*

- New Margin and Dispute Management Application
 - Common collateral standards to resolve margin and valuation disputes
 - Timely information exchange between collateral teams, trading desks and counterparties

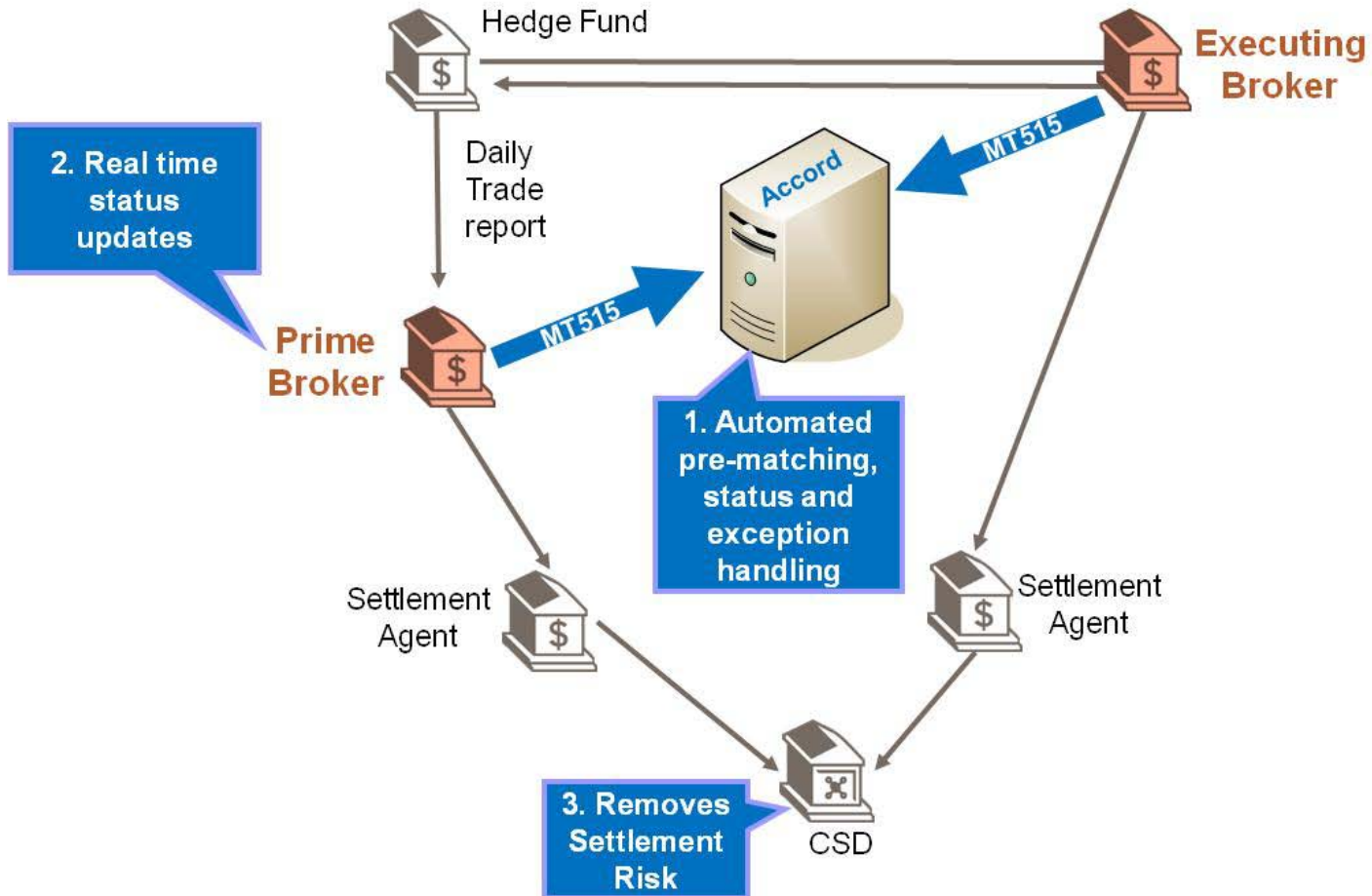


ACCORD for Securities



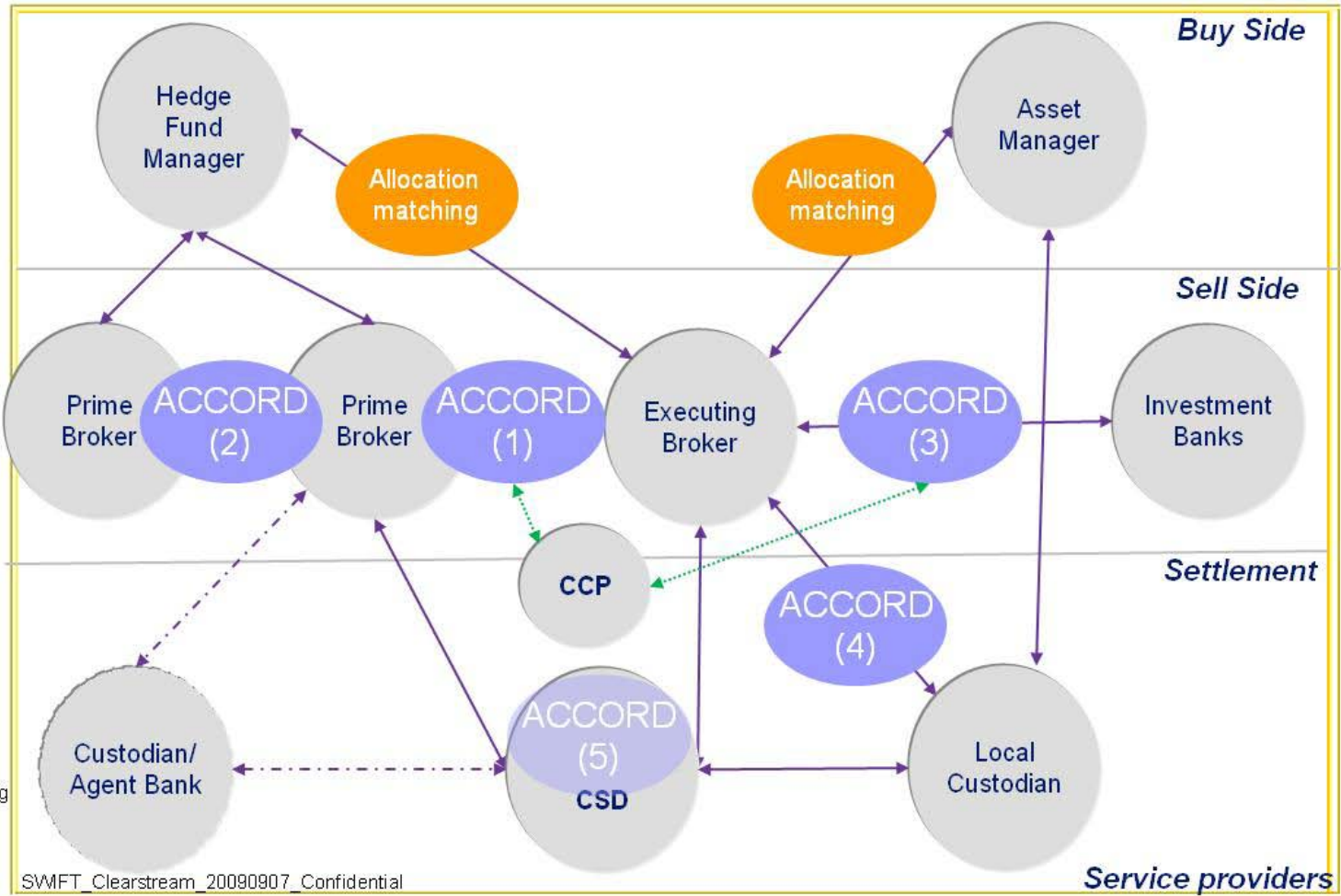
ACCORD for Securities

Broker to broker matching



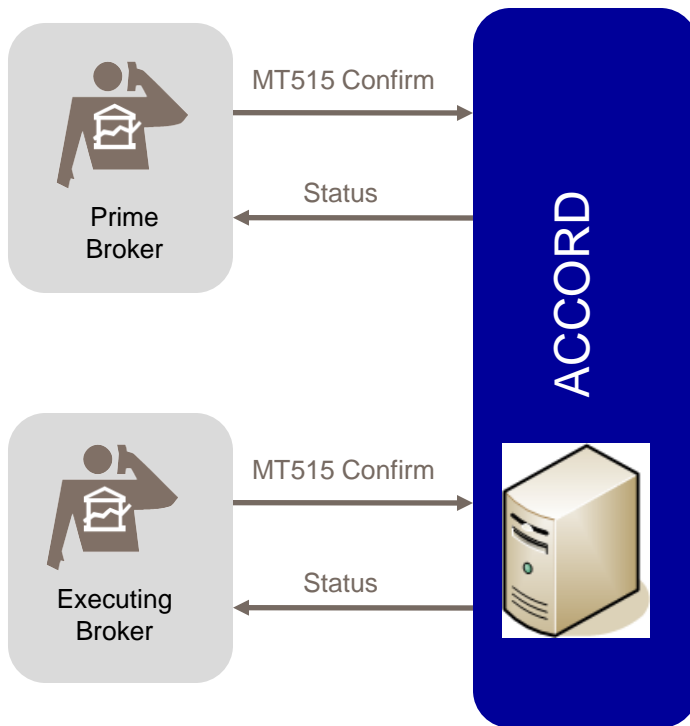
Accord for Securities

Participants positioning



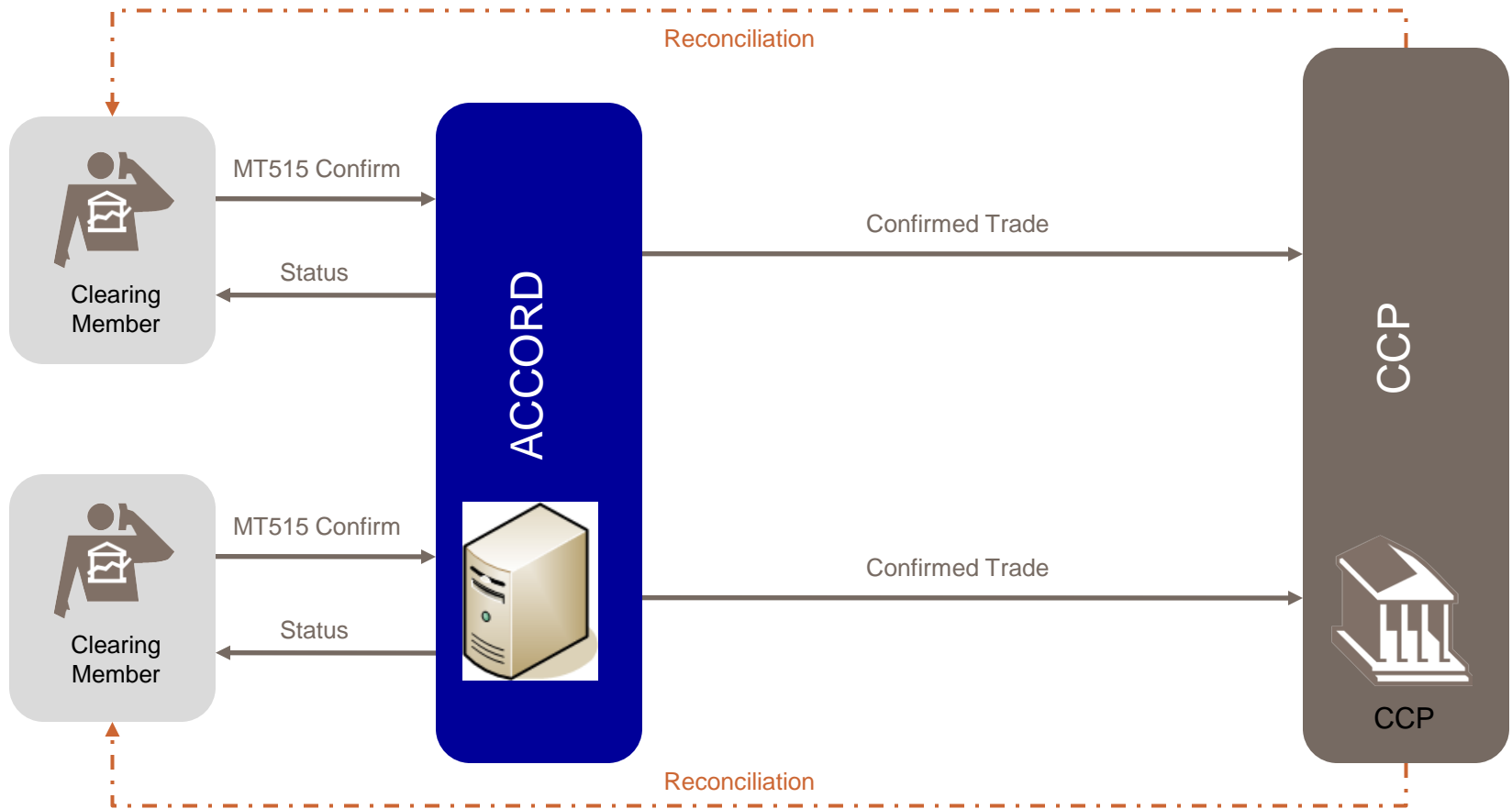
ACCORD for Securities

Current service



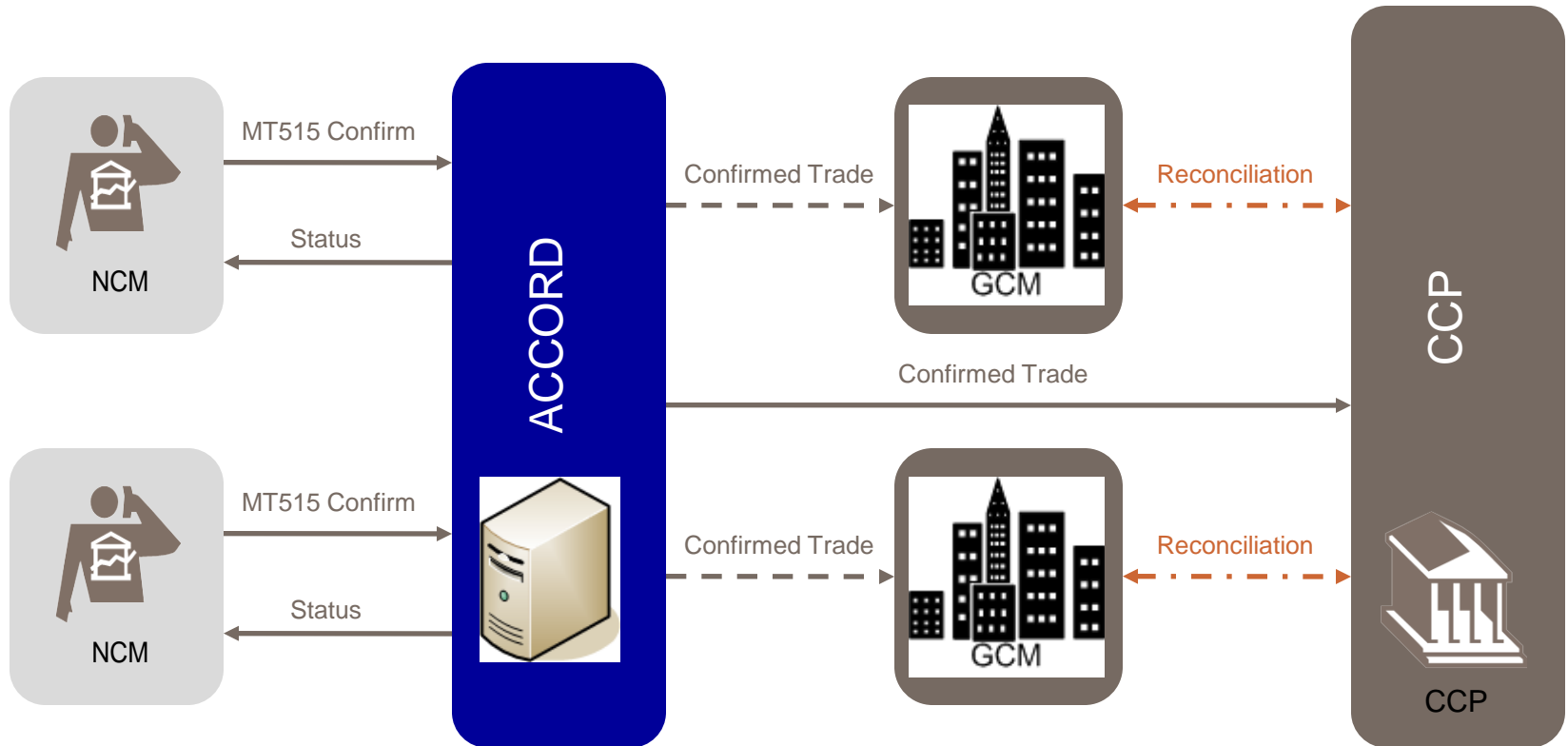
ACCORD for Securities

Potential tactical next steps (ICM)

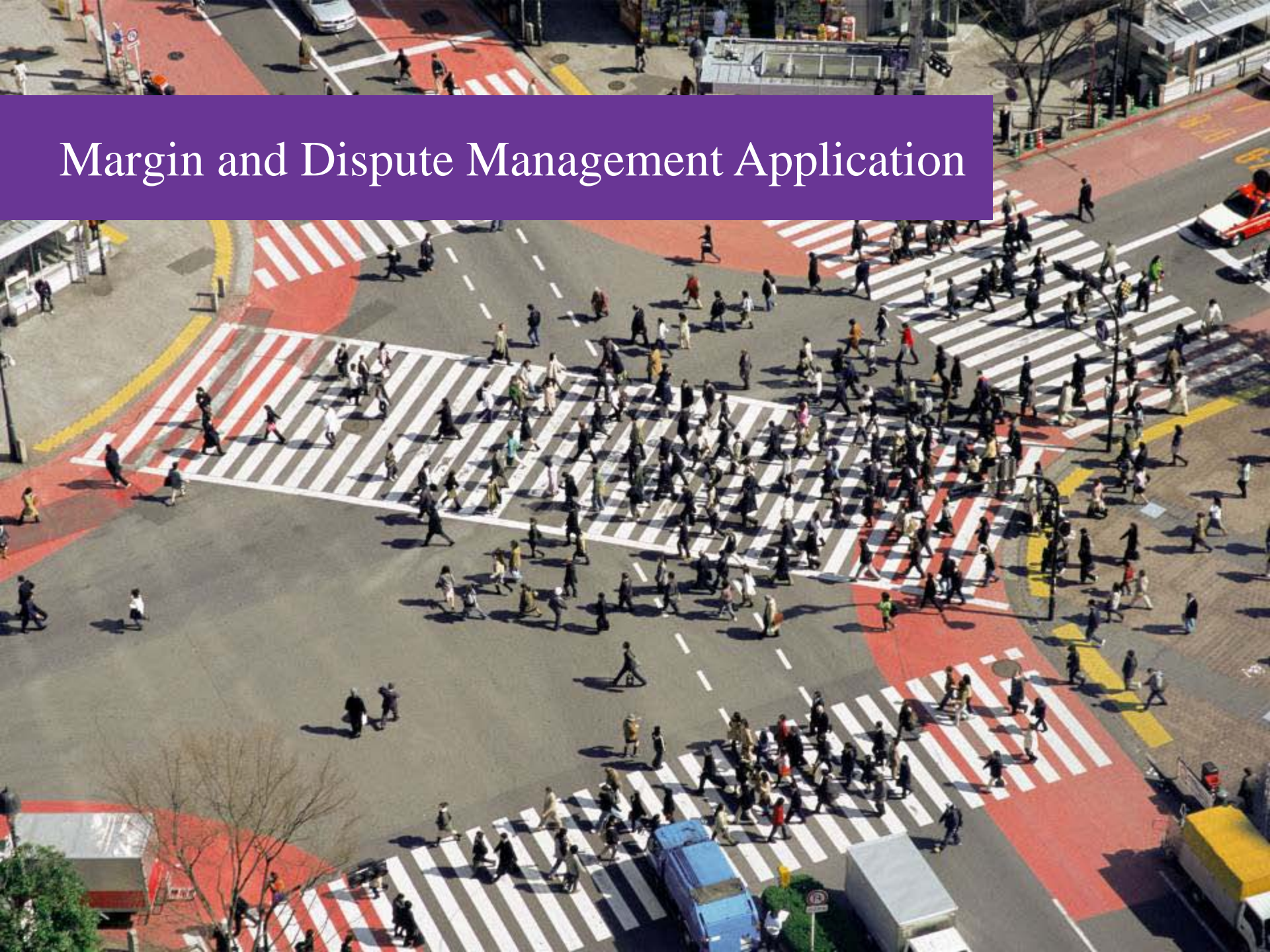


ACCORD for Securities

Potential tactical next steps (NCM/GCM)



Margin and Dispute Management Application



Recent market commitments

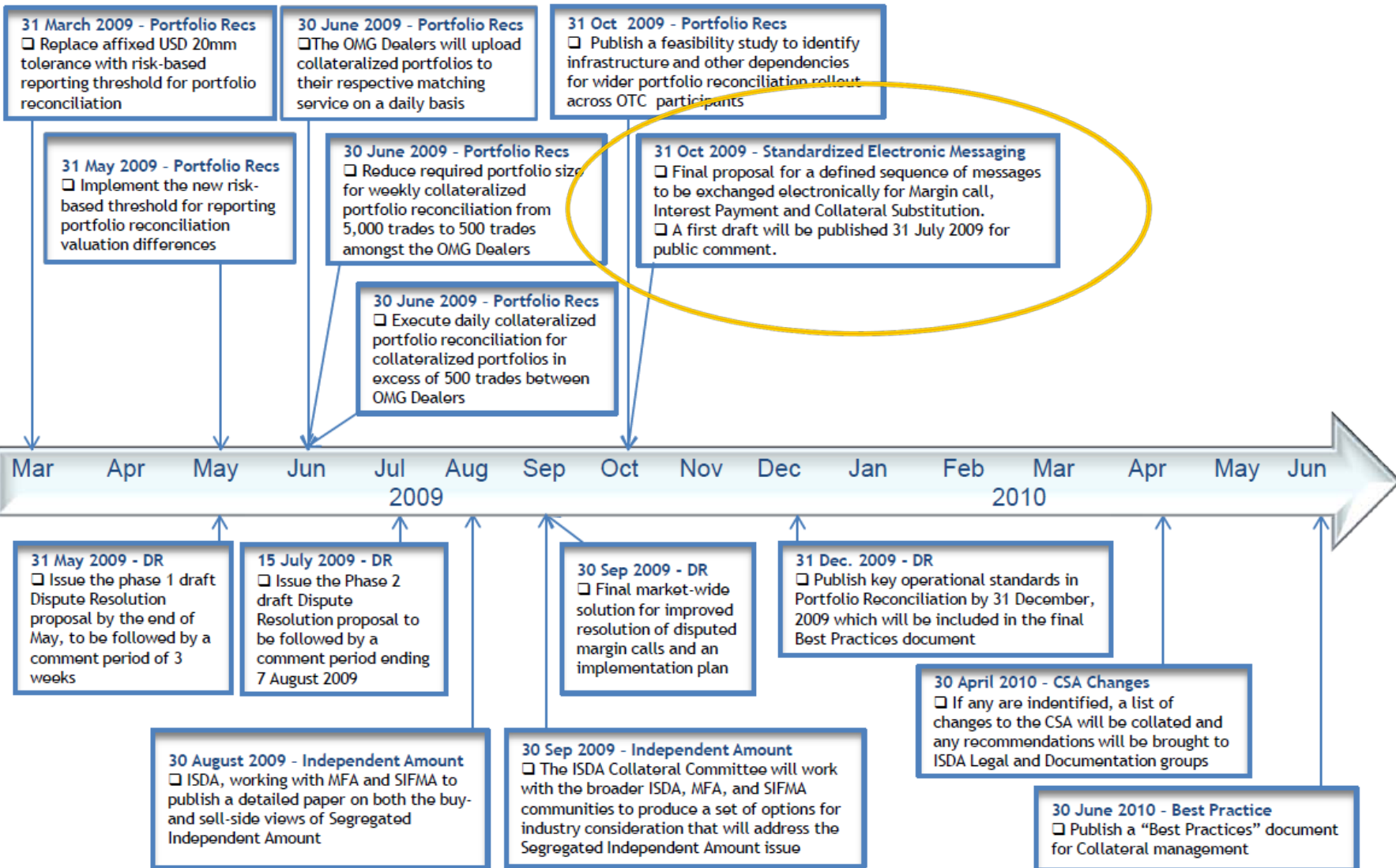
- ISDA letter to FED (*), dealers and buy-side institutions have committed to reduce systemic risk in OTC markets and increase transparency through
 - Reporting of trades in centralized repositories
 - Engage with CCPs to broaden the range of cleared products and participants
 - Buy-side access to CDS clearing
 - **Collateral management : Roadmap**
 - Industry governance reflecting both sell - and buy-side
 - Operational improvements on confirmations

* ISDA letter to Federal Reserve Bank of New York on June 2, 2009



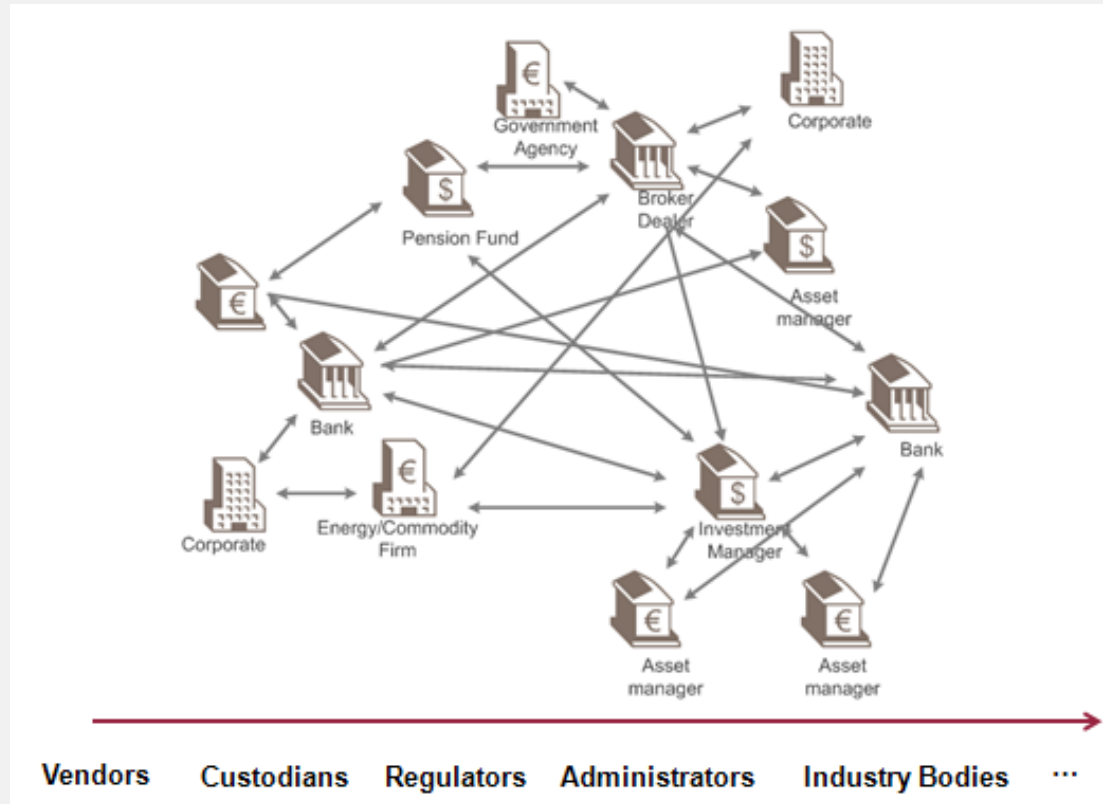
ISDA Roadmap for Collateral Management

Collateral



* All work undertaken by the ISDA Collateral Committee

Current state of collateral management space



- multiple number of non-standardized bilateral communications based on e-mail, phone and fax
- exponentially increasing trading and margin call volumes
- lack of market practice
- pressure on cost reduction on operations
- discrepancy in technological aptitude of market participants

SWIFT leveraging core competencies

- Messaging :

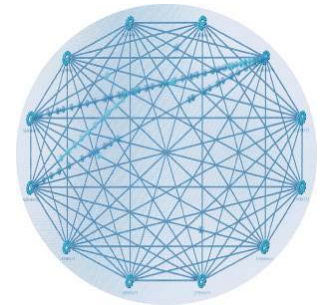
Alignment of CM communication message requirements from different segments and business lines as Clearing, CCBM2...



- Connectivity /Infrastructure :

Positioning of SWIFT as a major market infrastructure linking client segments with vendor solutions

Facilitate the vendor accessibility for medium and smaller clients



- Vendor space :

Leveraging CM vendor solutions' strengths with SWIFT infrastructure for a complete STP processing from margin negotiation to collateral settlement

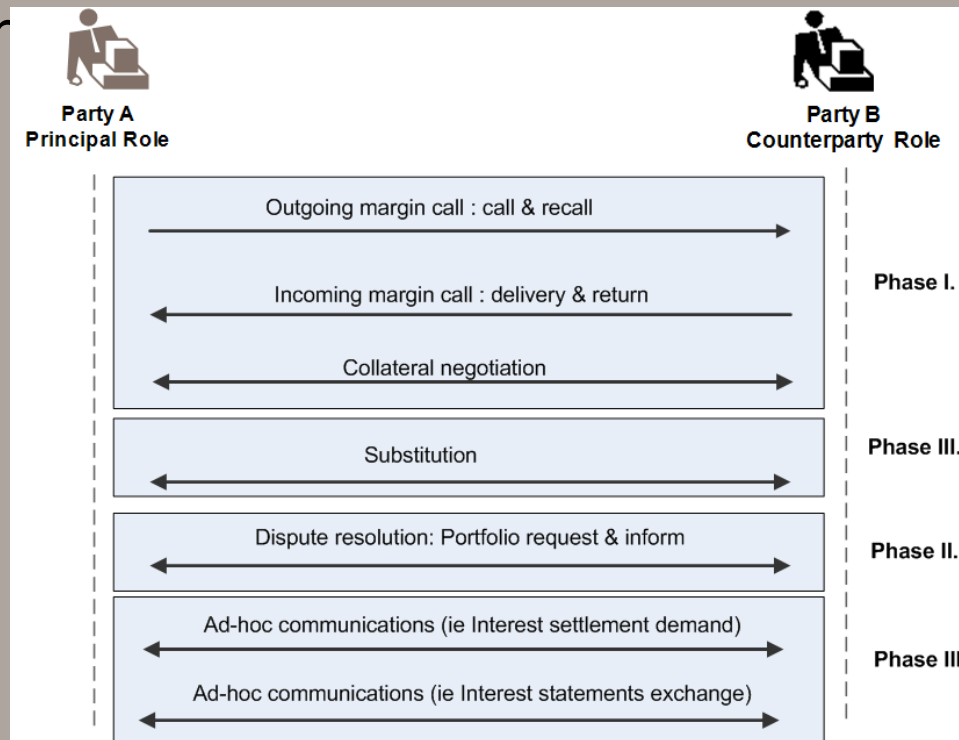


Margin and dispute management

“Risk related workflow is too important to be proprietary”



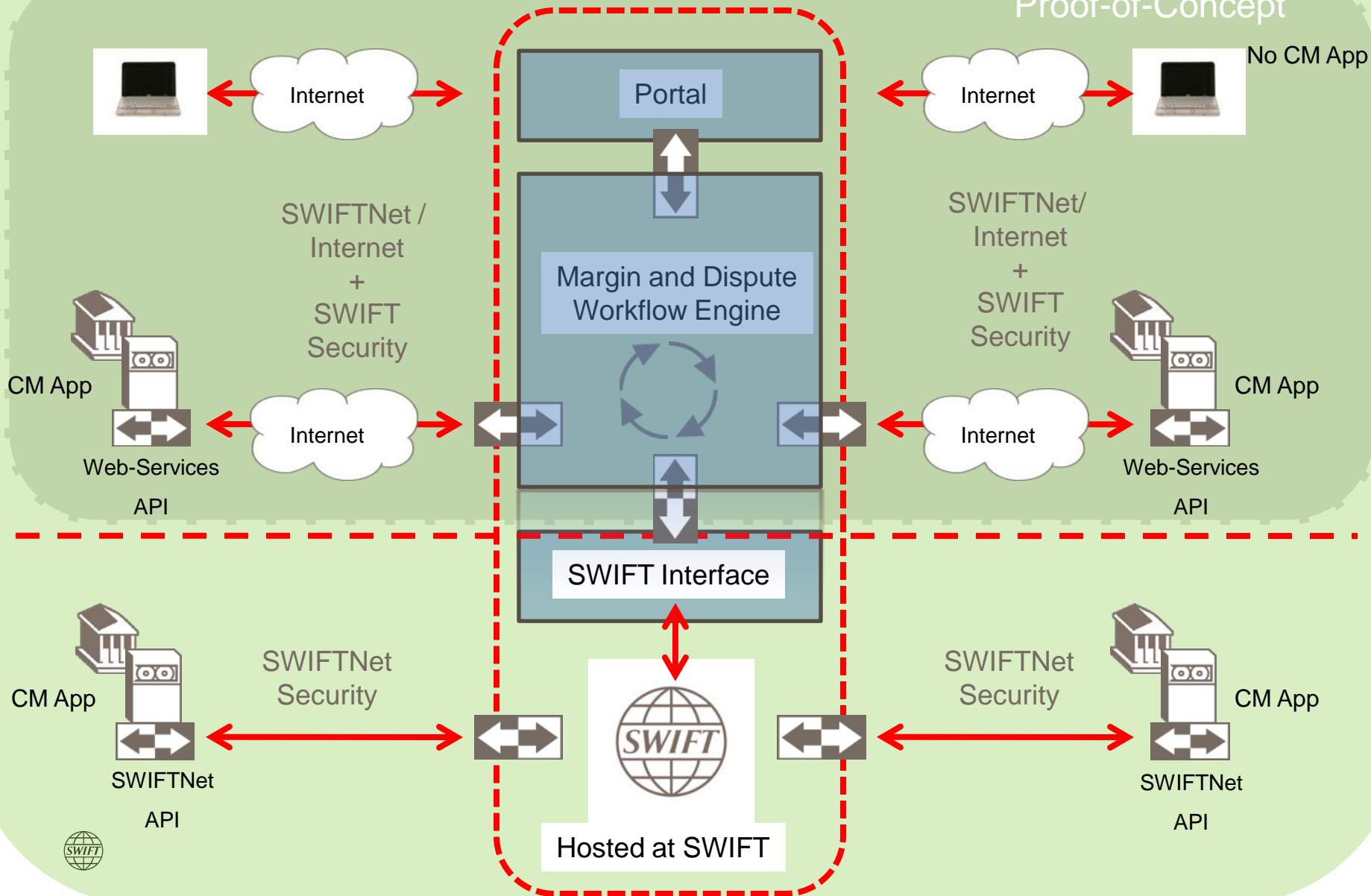
Central Margin and Dispute Management application



Proposed solution overview

End-Game

Proof-of-Concept



Proposed solution details

- Real-time view of all active margin calls and their status
- Portal: Access via browser and Internet
 - Entry and management screens for margin calls
 - Cross Counterparty view on exposure, collateral and performance
 - Initial product focus on OTC followed by SL/SB, Repo and Triparty
- API's: for integration
- Easy to on-board, install, use, integrate



Q&A

