

Structured REPRINTED FROM products

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Thriving on turbulence

Innovation has evolved at a breath-taking pace in Asia-Pacific during the past 12 months. It is becoming ever more crucial to investment banks' ongoing success; macro turbulence continues to impact yield and volatility, while the region's markets open up even further creating new opportunities. The liberalisation of mainland China's capital markets – in the form of the Shanghai/Hong Kong Stock Connect channel and the relaxation of onshore restrictions on structured derivatives – offered firms fresh opportunities to stand out from the crowd.

Speed and efficiency are two qualities that are highly valued by clients in this fast-moving environment, and they were identified as differentiators in several of this year's awards categories. Societe Generale's foresight, when it came to changing attitudes in Taiwan in relation to investments denominated in foreign currencies, allowed it to steal a march on the competition in the Formosa Bond market – clinching this year's deal of the year award in the process.

Elsewhere, HSBC's intimate knowledge of regulation in mainland China put it in pole position to capitalise on the State Administration of Foreign Exchange's decision last July to permit onshore corporates to transact structured derivative products. The bank doubled its client roster in the month following the rule change and streaked ahead of the competition in transaction volumes – earning it the *Structured Products* foreign exchange prize.

This year Asian issuers also had to contend with severe turbulence on two of the region's leading bourses: the Hang Seng Index (HSI) and Hang Seng China Enterprises Index (HSCEI). On July 6 the HSI plummeted 1,200 points and its associated volatility index, the VHSI, spiked more than 30%, as a four-month bull run on Chinese equities came to a spectacular end. The HSCEI dipped by 3% the same day, and both indexes suffered further falls on July 8. During these fraught few days banks' liquidity came under severe pressure and placed a spotlight on different firms' internal risk recycling capabilities.

In such conditions size matters, and HSBC turned up trumps, having proven itself able to screen prices for popular flow equity derivatives, such as warrants and callable bull/bear contracts even at the depths of the market crisis. This was one key factor in the decision to award the firm 2015's Asia house of the year award.

Mastery of the fundamentals of individual country markets continues to be as important to banks' successes as their ability to adapt to changing regulation and trading conditions. In South Korea, the appetite for autocallable products referencing equity indexes from retail investors is growing dramatically, putting banks with a disciplined flow business in a position to thrive. In Japan, the banks that come out on top are those willing to develop inventive plays on the ubiquitous variable annuity and uridashi product classes. Meanwhile, Taiwan has seen those issuers with strong target redemption forward franchises rewarded. These maxims are well reflected in the distribution of the individual country awards.

Nevertheless, currency movements and interest rates will provide the framework within which products are developed, and volatility or uncertainty in either will test the mettle of innovators for the coming 12 months.

Congratulations to the winners and the best of luck to all firms submitting entries for the 2016 awards – nominations open in March. **SP**



Technology vendor of the year

Numerix

Achieving efficiency in a heterogeneous market is a challenge; the different regulatory frameworks and diverse business strategies found in Asia are hard to service without replicating their complexity. New York-based Numerix's perceived success stems not only from its client base but also from its partnership with one of the region's promising new multi-issuer platforms.

The firm has strived for efficiency through investment in a high-performance platform that can process enormous numbers of calculations in parallel, which allows it to react rapidly to a wide range of customer demands. Beyond technology, Numerix's approach to tackling the dynamic and diverse structured products market in Asia relies on engagement with clients to resolve specific challenges.

Erdem Özgül, managing director for south Asia at Numerix, says: "One-size-fits-all solutions don't work in Asia, which is fragmented in terms of racial, religious, language, economic, political and social environments. Instead, we have invested in packaging our analytics and delivering them as efficient end-user solutions. By taking the time to understand our clients' business and applying our 20 years of experience in capital markets, we are able to architect bespoke solutions for them."

Numerix first entered structured products markets with its cross-asset pricing analytics, which were typically delivered as add-ins to spreadsheets or front-office systems, whether in-house or third-party. Evolutionary pressure helped to shape the firm's offering, stemming from the requirements of demanding clients against the backdrop of post-crisis regulatory change.

The firm has integrated its models and methods into its flexible CrossAsset platform, supported by CrossAsset Server – a grid computing-based environment for scalable high performance. This has enabled the company to offer complete analytics packages that can either be tailored to address specific business issues or bolted onto an organisation's technology infrastructure as a centralised analytics engine.

"With the CrossAsset analytics platform and CrossAsset Server, we have evolved from being just a tools company to being a tools and solutions company," says Steven O'Hanlon, chief executive of Numerix.

Clients in Asia have played a critical role in working with the firm to define the requirements and to guide development of its technology towards this transformation.

Taiwan's Cathay United Bank wanted to streamline the services provided by its treasury marketing unit to its corporate clients in order to



Steven O'Hanlon, Numerix

manage their forex exposure, and to become more proactive in the strategies it could offer them. To help achieve this, the bank implemented Numerix Treasurer, a packaging of the vendor's analytics tailored for treasury marketing units. The platform automatically generates mark-to-market valuations and risk sensitivities when trade details are booked, enabling sales teams to conduct portfolio scenario analysis for clients and immediately provide customised suggestions for trade strategies. Numerix Treasurer is also providing a basis for the bank to develop its activities as a product issuer.

In Australia, New South Wales Treasury Corporation required a platform to support its activities as a provider of debt, funds management and financial risk management to its

public sector clients. Numerix tailored its CrossAsset platform to implement the business logic for the central financing agency's debt portfolios, which include a number of custom instruments. The solution also provides debt optimisation and risk management functions, such as risk attribution, measurement and quantification of client portfolio versus benchmark portfolio risk, and the reporting of projected debt interest costs.

In Singapore, DBS Bank has customised the CrossAsset platform to create the Investment Products Distribution System (IPDS), which provides the bank with a system for automatically responding to electronic enquiries on equity-linked notes and other structures. Numerix's ongoing relationship with DBS has made it a key partner in a new consortium developing a potentially mould-breaking multi-issuer platform. DBS is currently working with a consortium comprising investment product and platform provider Leonteq and banking technology vendor Avaloq, both based in Switzerland, along with Numerix, to expand IPDS into a multi-function, multi-issuer platform.

Focused initially on Asia-Pacific, the platform will provide web-based access to DBS and Leonteq structured products in the first instance, with an intention to extend to other selected product issuers later. The underlying Numerix engine is providing real-time multi-user structuring and pricing, as well as automated response to pricing enquiries and order management workflow. Avaloq will support the straight-through-processing of trades.

"We are very excited to be part of one of the most significant partnerships in the financial services industry in many years. This collaboration not only demonstrates what can be accomplished by leveraging best-of-breed technologies, but will be a linchpin in the transformation of the structured products market," says O'Hanlon. **SP**