SUNGARD RISK AND SECURITIES FINANCE

Cross-Asset Trading, Risk Management and Operations Solutions

Market Perspective

The Convergence of Risk and Securities Finance

Market best-practice dictates that the senior management of a firm understand the risks being taken, with investors demanding to know that this is the case. One consequence of the recent large losses in the securities lending areas of financial corporations is a heightened awareness by senior management of the need for sound and comprehensive risk management to achieve this.

To date the risks inherent in securities lending and repo activities have been considered low: the trades are fully collateralised, with exposure monitored on a daily basis which helps to mitigate credit risk; the term of transactions tends to be short, which helps to control interest rate and spread risk. Recent market events however have demonstrated the importance of enhanced risk controls, particularly in the area of cash re-investment. A risk-averse institution may elect to re-invest cash collateral in T-bills or the money markets to generate a moderate but secure rate of return, whereas more aggressive institutions may choose other asset classes. It was this choice of alternative asset classes (in this case in subprime-linked assets) which led to rare cases of severe loss when the credit markets collapsed.

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While securities lending systems ensure that there is sufficient collateral cover, through the application of collateral margins, haircuts to the value of the underlying non-collateral securities, and daily margin calls, they concentrate on exposure management and may not incorporate the level of controls needed to fully manage all aspects of collateral risk. It is also likely that, in the case of re-investment of cash collateral, this may be tracked in another system as the cash from securities finance will only be one source of cash to be invested. The risks measured by a securities lending system will focus directly on the stock loans/repos and the associated collateral.

Recent events, however, illustrate the need for an institution to have a clear and comprehensive picture of their overall risk profile from all aspects of their business, in addition to managing risk within individual business silos. Such a picture is typically achieved by implementing a central enterprise risk management function. The job of this area is to gather all relevant trade and investment details from across the enterprise and aggregate these to form an all-inclusive view of the institution's risk profile. This allows senior management to better guide the risk appetite of the firm, whilst ensuring that unforeseen risk concentrations do not occur due to different parts of the organisation taking investment and trading decisions in isolation.

SunGard, through its Adaptiv business unit, is one of the leading providers of enterprise risk management solutions and software to the capital markets and investment banking sector. These systems are used to monitor counterparty credit risk, concentration risks and market risks arising from securities and derivatives trading activities in over 160 financial institutions around the world.

With the ongoing turmoil in the capital markets space the time to review risk management solutions has never been more timely.

For further information on SunGard's enterprise-wide risk management: securitiesfinance@sungard.com

About Adaptiv

SunGard's Adaptiv provides enterprise-wide credit and market risk management and operations solutions for financial services institutions. Adaptiv assists institutions of varying size and complexity to deploy technology to meet both internal and regulatory requirements for risk management and operational control. Adaptiv helps financial services institutions from the banking, hedge fund, asset management, insurance and corporate sectors with our deep understanding of risk management and operational processes.

Visit SunGard Adaptiv at: www.sungard.com/adaptiv.

About SunGard Securities Finance

Over 150 customers manage $11 trillion in securities financing on SunGard's solutions for equity finance and repo. Through our products; Loanet, Global One and Martini, we provide comprehensive trading and operations solutions with worldwide reach for equities and fixed income securities finance. SunGard has enhanced its suite of solutions for Securities Finance by the acquisition of Astec Analytics providing market data and analysis for the global securities lending industry.

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