

Automating the monitoring of market, liquidity, and sustainability risk

Client: A Luxembourg-regulated Super ManCo, providing collective management and ancillary services to Luxembourg UCITS, UCIs, and white label structures.

Solution: Revolution

Firm: Luxembourg ManCo/AIFM Super ManCo Asset Manager

AUM: €50 bn

With Revolution, market, liquidity, and sustainability risk monitoring has been automated through ready-to-use and custom risk dashboards. Stakeholders now download risk reports on-demand.

The Challenge

Risk managers were spending too much time wrestling with data and not enough on analyzing portfolios. The situation was only heightened by increasing regulation. To meet the firm's standards of client service, and in particular, to address rising ESG demands, operational efficiency needed to vault to a new level.

The Solution

Revolution Risk provided Manco with fast and flexible risk reporting and monitoring, enabling their Senior Risk Manager to demonstrate his ability to manage risk across multiple asset classes. This award-winning solution covers hundreds of pricing functions ranging from plain vanilla instruments to exotic derivatives.

The Result

Every morning, the monitoring team requires only a handful of preparatory minutes before starting risk analysis. Data flow and risk coverage automation have been pushed to the maximum.

The monitoring of market risk, liquidity risk and sustainability risk has been automated and enhanced within an integrated scalable framework that is compliant with current regulatory requirements and ready to adapt to new.

The Challenge

Risk managers were constantly distracted from analytical work by the burdensome tasks of importing and reconciling data, or ensuring the coverage of multiple portfolios, particularly at the start of day. The situation was only heightened by increasing regulation.

Meeting new regulatory demands and integrating the ESG requirements were both increasing resource drains. Analysis was burdened by data issues, and client service suffered.

Operational efficiency needed to reach a new level, attainable only through a scalable and more efficient risk platform.

The Solution

The Revolution and client teams worked together closely to ensure that Confluence had all the data necessary to fully automate portfolio monitoring.

Rapid response to support tickets turned out to be key to project success; typically, Confluence responded to tickets within the hour. Even highly difficult problems were usually solved within the day, sometimes via creative alternatives to ensure daily processing was not affected.

"Confluence's product specialists are remarkably open to questioning and ready to get constructive to solve any issue. We never hesitated to draw them into problem-solving meets."

The Result

Simplified operations; expedited start-up

At the close of day, when the fund administrator has finished its NAV production, an extraction of all portfolios is sent to Revolution via sFTP. Next morning, the firm's chosen risk indicators for daily monitoring are ready. Previous turnaround times were restrictive to effective market, liquidity and sustainability risk management. The risk manager now only needs to:

- Check import logs
- Check coverage of assets held to be sure that all have been integrated and are part of the risk calculation – key to VaR and other calculations.

At close of day an extraction of all portfolios are FTPed to Revolution. All daily monitoring risk indicators are ready the next morning.

Improved analysis of market risk

Market risk analysis is significantly more accessible and goes deeper, including:

- Ability to calculate leverage under the commitment approach and apply netting or hedging directly. This automatically does away with lengthy reprocessing outside the platform.
- Historical VaR simulation model, as well as an Exponentially Weighted Moving Average VaR.

- Back testing dashboard to allow monitoring of potential overshooting on a day-to-day basis. Using the Rev-I reporting tool, reporting that allows for a deep statistical analysis of back testing results (e.g. Christoffersen, Kupiec).
- Risk dashboards for deep analysis of all key risk indicators such as the VaR, via prove-out reports that give full calculation transparency.
- Confluence asked PWC Luxembourg to audit its VaR model. This will be a benefit to ManCos in asking for an independent audit review: part of the audit will be already available, with auditing required only for implementation and the manner in which the Revolution VaR model is used.

Calculating leverage under the commitment approach, in particular applying netting or hedging directly and automatically, was a decisive feature.

Liquidity Risk

A custom liquidity testing framework simplifies compliance: passive-side liquidity risk is now based on real historical data:

- For the asset side, Revolution provides time-to-liquidate on multi-assets, based mainly on volume for equities and bid-ask spreads for fixed income.
- More remarkable are the gains in analyzing the passive side. With transactions and investors positions imported automatically, the client now assesses liquidity based on real historical data. Redemption coverage ratios are calculated across different time horizons, with Revolution calculating a liquidity VaR as well as a shortfall based on transactions, the most common regulator request.
- The firm has created their own robust liquidity stress testing framework – making them more efficient and confident in complying with regulations.
- As above, Confluence has asked PWC Luxembourg to audit its VaR model, again a benefit to ManCos in asking for an independent audit review.

With transactions and investors positions imported automatically, liquidity is assessed based on real historical data.

ESG Risk

When SFDR came into force in 2021, requiring elevated sustainability risk capabilities, the stumbling block for this Super ManCo was their delegation to a range of asset managers, each with their own processes and vendors.

The client now has a dedicated ESG module powered by its own ESG data across either ECPI (Confluence' proprietary ESG ratings) or external data vendors who can move the data directly in Revolution. The firm independently determines controls, while retaining the flexibility to integrate data from a range of vendors and monitor over a range of managers.

ESG monitoring is no longer burdensome; built-in monitoring and reports include the main pillars of the firm's sustainability risk framework.

