

Provider Profile

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## An ever-changing environment

Jordan Hu, founder & ceo, and David Sawyer, chief marketing officer, at RiskVal answer SCI's questions

### How and when did you/your firm become involved in the structured credit market?

**JH:** RiskVal first became involved in the structured credit market around 2005. Many of our fixed income clients expressed interest for a fully integrated structured credit solution, similar to our RVFI (RiskVal Fixed Income) ASP platform.

This motivated us to expand our business model to cover structured credit products. In 2006 we had our first commercial engagement with one of the institutional banks.

We understand that structured credit products are complex instruments from both a valuation and a market data perspective. Therefore, in the early stage of product development, we formed a partnership with NumeriX to ensure we can leverage NumeriX's award-winning analytics library for product valuation.

We also joined Markit's Alliance Partner programme to ensure that we get the first look at any upcoming changes or events in credit data. These business alignments laid a solid foundation for RiskVal to build up a fully integrated front-to-back structured credit ASP/SaaS solution, RVCredit.

In 2007 we had an opportunity to service the structured credit trading operation at one of the world's largest prop desks with RVCredit. The new platform offers streamlined front office, middle office and back office STP-ready services. The successful deployment of RVCredit



marks the readiness of RiskVal's structured credit service.

### How has your service/offering developed since then?

**DS:** The RiskVal key to success is to maintain the spirit of a dedicated world class trading desk development team. This means nimble, new technology, harnessed to intellectual feedback from the top minds in structured credit trading. And that adds up to a constant stream of new features.

**JH:** Being a financial software service provider, we constantly review our products and services to ensure that what we offer matches market demands and trends. 2007 and 2008 have been very challenging years for structured credit service providers. We have never experienced so many names defaulting in such a short period of time in such an extremely distressed market.

Here are some sample new features/enhancements to RVCredit:

- Risk management in RVCredit has been greatly enhanced to provide a full range of single name risks, correlation risks, index



Jordan Hu and David Sawyer

basis risks and scenario risks.

- Corporate events management has been a very successful feature. It provides functions to handle default events, such as:

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- - Credit
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- pre-settlement defaulted name management
- settlement date cashflow management and reporting for all affected positions
- notional adjustments for index and tranches.

In 2008 this feature was one of the most useful management tools due to the number of names that defaulted.

• Event of default (EOD) mark-to-market and P/L attribution. RVCredit's distributed infrastructure enables traders and the middle office to conduct the EOD mark-to-market process concurrently. RVCredit offers P/L attributions to compare daily 'estimates' versus 'full valuation' P/L. Attribution reporting provides a check-and-balance of the mark-to-market process. Attributions also offer a great degree of transparency in portfolio valuation.

#### **Which market constituent is your main client base? Do you focus on a broad range of asset classes or only one?**

**JH:** For RiskVal's structured credit solution, we target the buy-side active portfolio managers as our main client base, including hedge funds, banks' prop desks and insurance companies. We currently cover single name CDS, LCDS, loans, credit indexes, tranche CDOs, bespokes, corporate bonds and most liquid fixed income instruments such as interest rate swaps, treasury bonds and bond futures. We are working with Markit to integrate CMBS and ABS cashflow data, so that we can cover CMBX and ABX in the near future.

#### **How do you differentiate yourself from your competitors?**

**DS:** That's a great question, and one we discuss often. We focus on the front office desks as we love to work directly with front-line traders.

Most of our competition comes from internally developed spreadsheets, sometimes using third-party models, but spreadsheets present traders with maintenance and development headaches. Vendor systems that have integrated portfolio abilities tend to be focused much more in the middle and back office.

A few firms and a very few vendors offer large, in-house developed trading systems, but the cost of these runs literally into millions.

#### **Which challenges/opportunities does the current financial environment bring to your business and how do you intend to manage them?**

**JH:** Obviously, the current market turmoil is bringing many challenges to our clients. The first example was the traditional Copula model, used to fit the base correlation for tranche CDOs, no longer working properly.

The industry has been searching for an enhanced Copula model with stochastic recovery. This feature has been working in RVCredit since Q408.

In addition, the recent credit crunch raised concerns about individual firms' EOD portfolio valuation. Both regulators and investors are looking for third-party portfolio valuation services to improve valuation transparency. With RV Credit as a fully integrated ASP solution, we are offering just that service as a value-add to the industry.

#### **What major developments do you need/expect from the market in the future?**

**JH:** Clearly, the increased issuance of government agencies is going to contribute to a very active marketplace going forward, and we see some of our clients gearing up for this. More importantly, the update in regulations around CDS will create new needs for our clients. We are already working with partners to help with the new standard CDS contract with the 100/500 coupon shift.

We are also, along with the rest of the industry, expecting a stronger regulatory environment. This is leading to an increased demand for real-time portfolio valuations.

Since our portfolio valuations were created to answer intense front office real-time questions, and since we already perform EOD calculations for first-tier banks, we find that the oncoming regulatory requirements match up well with our existing capabilities. Of course, we will always keep pace with whatever new twists are required by the ever-changing environment.

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[back to top](#)

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