



Assessing your Risk

PRESENTED BY: Dale Connock



One of the biggest words in our industry...



An industry of BIG numbers...

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#	Nominal Amount Lost	USD FX Rate at time of loss ^[1]	USD Equivalent at time of loss	USD Inflation to 2007 ^[2]	Real Amount Lost	Country	Company	Source of Loss	Year	Person(s) associated with incident
1	USD 9 bn	1	USD 9 bn	-3.7%	USD 8.67 bn	 United States	Morgan Stanley ^[3]	Credit Default Swaps	2008	Howie Hubler
2	EUR 4.9 bn	1.473	USD 7.22 bn	-3.7%	USD 6.95 bn	 France	Société Générale ^[4]	European Index Futures	2008	Jérôme Kerviel
3	USD 6.5 bn	1	USD 6.50 bn	2.8%	USD 6.69 bn	 United States	Amaranth Advisors ^[5]	Gas Futures	2006	Brian Hunter
4	USD 4.6 bn	1	USD 4.6 bn	27.2%	USD 5.85 bn	 United States	Long Term Capital Management ^[6]	Interest Rate and Equity Derivatives	1998	John Meriwether
5	USD 5.80 bn	1	USD 5.80 bn	-7.0%	USD 5.80 bn	 United Kingdom	JPMorgan Chase ^[7]	Credit default swaps	2012	Bruno Iksil
6	JPY 285 bn	108.78	USD 2.62 bn	32.1%	USD 3.46 bn	 Japan	Sumitomo Corporation ^[8]	Copper Futures	1996	Yasuo Hamanaka
7	BRL 4.62 bn	1.833	USD 2.52 bn	-3.7%	USD 2.43 bn	 Brazil	Aracruz ^{[9][10]}	FX Options	2008	Isac Zagury, Rafael Sotero
8	USD 1.7 bn ^[11]	1	USD 1.7 bn	39.9%	USD 2.38 bn	 United States	Orange County ^[12]	Leveraged bond investments	1994	Robert Citron
9	DEM 2.63 bn	1.655	USD 1.59 bn	43.5%	USD 2.28 bn	 Germany	Metallgesellschaft ^[13]	Oil Futures	1993	Heinz Schimmelbusch ^[14]
10	JPY 166 bn	111.08	USD 1.49 bn	43.5%	USD 2.14 bn	 Japan	Showa Shell Sekiyu ^{[15][16]}	FX Forwards	1993	
11	JPY 1536 bn	102.18	USD 1.50 bn	39.9%	USD 2.09 bn	 Japan	Kashima Oil ^[16]	FX Forwards	1994	
12	USD 2 bn	1	USD 2 bn	-8.5%	USD 1.83 bn	 United Kingdom	UBS ^[17]	Equities ETF and Delta 1	2011	Kweku Adoboli
13	HKD 14.7 bn	7.786	USD 1.89 bn	-3.7%	USD 1.82 bn	 China	CITIC Pacific ^[18]	Foreign Exchange Trading	2008	Frances Yung
14	GBP 827 mn	1.579	USD 1.31 bn	36.1%	USD 1.78 bn	 Singapore	Barings Bank ^[19]	Nikkei Futures	1995	Nick Leeson

What we do about it...

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CPSS IOSCO Principles

- Principle 3 : Framework for effective Risk Management
- Principle 4 : Credit Risk
- Principle 7 : Liquidity Risk
- Principle 13 : Default
- Principle 15 : General Business Risk
- Principle 16 : Custody Risk
- Principle 17 : Operational Risk

and EVERY other Principle!

Thomas Murray

Asset Commitment

Liquidity

Counterparty

Financial

Operational

Asset Servicing

And why ...

Financial market infrastructures (FMIs) that facilitate the clearing, settlement, and recording of monetary and other financial transactions can strengthen the markets they serve and play a critical role in fostering financial stability. However, if not properly managed, they can pose significant risks to the financial system and be a potential source of contagion, particularly in periods of market stress.

Although FMIs performed well during the recent financial crisis, events highlighted important lessons for effective risk management.

Extracts from the PFMI



How...

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Key consideration 1: An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

Key consideration 2: An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

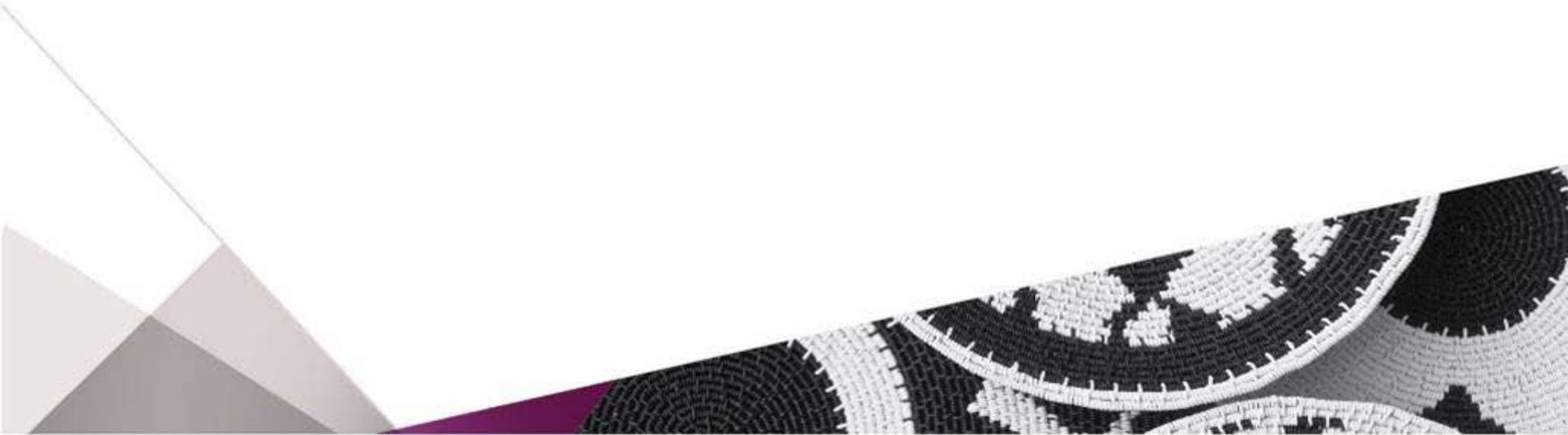
Key consideration 3: An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.

Key consideration 4: An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

Another way of looking at it...

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- Consider “Risk cascades” not just individual risks
- Think through your risks
- Understand your (and others) likely responses
- Stress testing
- Address the implications - not just the map
- Be aware of limitations



THANK YOU

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