

Compliance (W5)

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PURPOSE

This document is to illustrate the setup of compliance rules in CS Lucas system.

WHY IS THIS IMPORTANT?

To enable the system to perform pre-trade compliance check based on rules that user has defined to track risk exposure.

TYPE OF RULES

In this guide, we will set up different risk profiles, tagging and rules to track compliance to the following risks.

1. Limit exposure to counterparty group
2. Limit exposure to risk country
3. Limit exposure by counterparty credit rating
4. Limit money market maturity tenor by counterparty type

User may change the risk profile in the above examples to create other rules. For example, Rule 2 can be changed to risk currency by changing the risk profile from country to currency.

RULE 1

Example: Amount invested in BMW Group must be less than GBP30M.

1.1 Set up Risk Profile

From Set Up > Risk > Risk Profile.

For New Risk Profile, select "Choice".

Risk Profile Maintenance

New Risk Profile Choice ▼

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Group</u>	Choice Subset
<u>Group</u>	Choice Subset
<u>Grouped by Ctpy.</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</u>	Choice
<u>Issuer Group</u>	Choice
<u>MM Counterparty</u>	Choice
<u>Maturity Ladder</u>	Choice
<u>Per Security</u>	Choice
<u>Per Security Group</u>	Choice
<u>Per Transaction</u>	Choice
<u>Risk Profile</u>	Choice
<u>S&P Rating</u>	Ranking
<u>Sector</u>	Choice
<u>Singapore GLC</u>	Tagged Item

Description

Selection/Choice

+

No records found.

In the Description Field, enter "Counterparty Group".

Click on the + sign.

Enter selection choices for Counterparty Group risk profile. In this example, "BMW Group".

Risk Profile Maintenance

Save

New Risk Profile Choice

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Group</u>	Choice Subset
<u>Group</u>	Choice Subset
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</u>	Choice
<u>Issuer Group</u>	Choice
<u>MM Counterparty</u>	Choice
<u>Maturity Ladder</u>	Choice
<u>Per Security</u>	Choice
<u>Per Security Group</u>	Choice
<u>Per Transaction</u>	Choice
<u>Risk Profile</u>	Choice
<u>S&P Rating</u>	Ranking
<u>Sector</u>	Choice
<u>Singapore GLC</u>	Tagged Item

Description

Counterparty Group

Duplicate

Selection/Choice

+

BMW Group

Click Save.

1.2 Tag Security

From Set Up > Static > Securities.

Select the Security Type and click Refresh to view list of securities.

Drill down on the security. In this example, BMW 3.5% 5/20.

Click on Risk Profile.

Select Counterparty Group.

Security Risk Profile

Security BMW 3.5% 5/20

← Import

Risk Profile	Setting
<u>Asset Class</u>	
<u>Counterparty Group</u>	
<u>Group</u>	
<u>Group</u>	
<u>Grouped by Ctpy</u>	
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	
<u>Grouped by Risk Profile</u>	
<u>Issuer Group</u>	
<u>MM Counterparty</u>	
<u>Maturity Ladder</u>	
<u>Per Security</u>	
<u>Per Security Group</u>	
<u>Per Transaction</u>	
<u>Risk Profile</u>	
<u>S&P Rating</u>	
<u>Sector</u>	
<u>Singapore GLC</u>	

Update

Counterparty Group BMW Group ▼

Choose the desired counterparty group from the Counterparty Group drop down list. In this example, BMW Group is selected.

Click Update.

Security Risk Profile

Security BMW 3.5% 5/20

← Import

Risk Profile	Setting
<u>Asset Class</u>	
<u>Counterparty Group</u>	BMW Group
<u>Group</u>	

1.3 Set up Compliance Rule

From Set Up > Risk > Compliance.

Click New.

Enter the following details as shown below for Shortname*, Description* and Alert Type*.

Compliance Rules

Shortname*	Rule 1
Description*	Amount Invested in BMW Group < GBP30M
Alert Type*	Warning
Portfolio Group	
Risk Dimension	
Rule Type*	Grouped by Ctpy

Select Rule Type* as Grouped by Ctpy.

Select Counterparty Group for Risk Profile*. The system will require additional selection for choice of this counterparty group.

Risk Profile*	Counterparty Group	
---------------	--------------------	--

Select BMW Group.

For the limit set as below.

Limit

Limit Type*	Absolute
Min/Max	Max
Ccy	GBP
Limit*	30000000

The completed values are as shown below.

Compliance Rules

←

Save

Shortname*

Rule 1

Description*

Amount Invested in BMW Group < GBP30M

Alert Type*

Warning

Portfolio Group

Risk Dimension

Rule Type*

Grouped by Ctpy

Risk Profile*

Counterparty Group

BMW Group

Limit

Limit Type*

Absolute

Min/Max

Max

Ccy

GBP

Limit*

30,000,000.000000

RULE 2

Example: Amount invested in Netherland must be less than GBP35M.

2.1 Set up Risk Profile

From Set Up > Risk > Risk Profile.

For New Risk Profile, select "Choice".

Risk Profile Maintenance

New Risk Profile Choice

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Counterparty Group</u>	Choice
<u>Group</u>	Choice Subset
<u>Group</u>	Choice Subset
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</u>	Choice
<u>Issuer Group</u>	Choice
<u>MM Counterparty</u>	Choice
<u>Maturity Ladder</u>	Choice
<u>Per Security</u>	Choice
<u>Per Security Group</u>	Choice
<u>Per Transaction</u>	Choice
<u>Risk Profile</u>	Choice
<u>S&P Rating</u>	Ranking
<u>Sector</u>	Choice
<u>Singapore GLC</u>	Tagged Item

Description

Selection/Choice

+

No records found.

In the Description Field, enter "Country Risk".

Click on the + sign.

Enter selection choices for Country Risk profile. In this example, "Netherland".

Risk Profile Maintenance

Save

New Risk Profile Choice

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Counterparty Group</u>	Choice
<u>Group</u>	Choice Subset
<u>Group</u>	Choice Subset
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</u>	Choice
<u>Issuer Group</u>	Choice
<u>MM Counterparty</u>	Choice
<u>Maturity Ladder</u>	Choice
<u>Per Security</u>	Choice
<u>Per Security Group</u>	Choice
<u>Per Transaction</u>	Choice
<u>Risk Profile</u>	Choice
<u>S&P Rating</u>	Ranking
<u>Sector</u>	Choice
<u>Singapore GLC</u>	Tagged Item

Description Country Risk Duplicate

Selection/Choice +

Netherland

Click Save.

2.2 Tag Security

From Set Up > Static > Securities.

Select the Security Type and click Refresh to view list of securities.

Drill down on the security. In this example, Philips 3% 2/18.

Click on Risk Profile.

Select Country Risk.

Security Risk Profile

Security
Philips 3% 2/18

←
Import

Risk Profile	Setting
<u>Asset Class</u>	
<u>Counterparty Group</u>	
<u>Country Risk</u>	
<u>Group</u>	
<u>Group</u>	
<u>Grouped by Ctpy</u>	
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	
<u>Grouped by Risk Profile</u>	
<u>Issuer Group</u>	
<u>MM Counterparty</u>	
<u>Maturity Ladder</u>	
<u>Per Security</u>	
<u>Per Security Group</u>	
<u>Per Transaction</u>	
<u>Risk Profile</u>	
<u>S&P Rating</u>	
<u>Sector</u>	
<u>Singapore GLC</u>	

Update

Country Risk

Nederland
▼

Choose the desired country from the Country Risk drop down list. In this example, Netherland is selected.

Click Update.

Security Risk Profile

Security
Philips 3% 2/18

←
Import

Risk Profile	Setting
<u>Asset Class</u>	
<u>Counterparty Group</u>	
<u>Country Risk</u>	Netherland
<u>Group</u>	

2.3 Set up Compliance Rule

From Set Up > Risk > Compliance.

Click New.

Enter the following details as shown below for Shortname*, Description* and Alert Type*.

Compliance Rules

←

Save

Shortname*

Rule 2

Description*

Amount invested in Netherlands must be less than GBP35M

Alert Type*

Warning

▼

Portfolio Group

▼

Risk Dimension

Rule Type*

Risk Profile

▼

Select Rule Type* as Risk Profile.

Select Counterparty Risk for Risk Profile*. The system will require additional selection for choice of this Counterparty Risk.

Risk Profile*

Country Risk

▼

Netherland

▼

Select Netherland.

For the limit set as below.

Limit

Limit Type*

Absolute

▼

Min/Max

Max

▼

Ccy

GBP

▼

Limit*

35000000

The completed values are as shown below.

Compliance Rules

←

Save

Shortname*

Rule 2

Description*

Amount invested in Netherlands must be less than GBP35M

Alert Type*

Warning

Portfolio Group

Risk Dimension

Rule Type*

Risk Profile

Risk Profile*

Country Risk

Nederland

Limit

Limit Type*

Absolute

Min/Max

Max

Ccy

GBP

Limit*

35000000

RULE 3

Example: Amount invested with rating EEE are disallowed.

3.1 Set up Risk Profile

From Set Up > Risk > Risk Profile.

For New Risk Profile, select “Ranking”.

Risk Profile Maintenance

New Risk Profile Ranking ▼

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Counterparty Group</u>	Choice
<u>Country Risk</u>	Choice
<u>Group</u>	Choice Subset
<u>Group</u>	Choice Subset
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</u>	Choice
<u>Issuer Group</u>	Choice
<u>MM Counterparty</u>	Choice
<u>Maturity Ladder</u>	Choice
<u>Per Security</u>	Choice
<u>Per Security Group</u>	Choice
<u>Per Transaction</u>	Choice
<u>Risk Profile</u>	Choice
<u>S&P Rating</u>	Ranking
<u>Sector</u>	Choice
<u>Singapore GLC</u>	Tagged Item

Description

Selection/Choice	+
No records found.	

In the Description Field, enter "Credit Rating".

Click on the + sign.

Enter selection choices for Credit Rating profile.

Risk Profile Maintenance

New Risk Profile Ranking

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Counterparty Group</u>	Choice
<u>Country Risk</u>	Choice
<u>Group</u>	Choice Subset
<u>Group</u>	Choice Subset
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</u>	Choice
<u>Issuer Group</u>	Choice
<u>MM Counterparty</u>	Choice
<u>Maturity Ladder</u>	Choice
<u>Per Security</u>	Choice
<u>Per Security Group</u>	Choice
<u>Per Transaction</u>	Choice
<u>Risk Profile</u>	Choice
<u>S&P Rating</u>	Ranking
<u>Sector</u>	Choice
<u>Singapore GLC</u>	Tagged Item

Description

Credit Rating

Selection/Choice	
AAA	▲ ▼
BBB	▲ ▼
CCC	▲ ▼
DDD	▲ ▼
EEE	▲ ▼

Click Save.

3.2 Tag Security

From Set Up > Static > Securities.

Select the Security Type and click Refresh to view list of securities.

Drill down on the security. In this example, Bloggs plc 5.5% 9/23.

Click on Risk Profile.

Select Credit Rating.

Security Risk Profile

Security Bloggs plc 5.5% 9/23

← Import

Risk Profile	Setting
<u>Asset Class</u>	
<u>Counterparty Group</u>	
<u>Country Risk</u>	
<u>Credit Rating</u>	
<u>Group</u>	
<u>Group</u>	
<u>Grouped by Ctpy</u>	
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	
<u>Grouped by Risk Profile</u>	
<u>Issuer Group</u>	
<u>MM Counterparty</u>	
<u>Maturity Ladder</u>	
<u>Per Security</u>	
<u>Per Security Group</u>	
<u>Per Transaction</u>	
<u>Risk Profile</u>	
<u>S&P Rating</u>	
<u>Sector</u>	
<u>Singapore GLC</u>	

Update

Credit Rating EEE

Choose the credit rating from the Credit Rating drop down list. In this example, EEE is selected.

Click Update.

Security Risk Profile

Security Bloggs plc 5.5% 9/23

← Import

Risk Profile	Setting
<u>Asset Class</u>	
<u>Counterparty Group</u>	
<u>Country Risk</u>	
<u>Credit Rating</u>	EEE

3.3 Set up Compliance Rule

From Set Up > Risk > Compliance.

Click New.

Enter the following details as shown below for Shortname*, Description* and Alert Type*.

Compliance Rules

←

Save

Shortname*

Rule 3

Description*

Amount invested with rating
EEE are disallowed

Alert Type*

Warning

▼

Portfolio Group

▼

Risk Dimension

Rule Type*

Risk Profile

▼

Select Rule Type* as Risk Profile.

Select Credit Rating for Risk Profile*. The system will require additional selection for range of credit ratings.

Risk Profile*

Credit Rating

▼

EEE

▼

EEE

▼

From*

To*

Select EEE for credit rating From* and To*.

For the limit set as below.

Limit

Limit Type*

Absolute

▼

Min/Max

Max

▼

Ccy

▼

Limit*

0

The completed values are as shown below.

Compliance Rules

Shortname*

Description*

Alert Type* ▼

Portfolio Group ▼

Risk Dimension

Rule Type* ▼

Risk Profile* ▼ ▼ ▼

From* To*

Limit

Limit Type* ▼

Min/Max ▼

Ccy ▼

Limit*

RULE 4

Example: Amount invested for longer than 364 days must be less than GBP5M.

4.1 Set up Risk Profile

From Set Up > Risk > Risk Profile.

For New Risk Profile, select “Choice”.

Risk Profile Maintenance

Save

New Risk Profile Choice

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Counterparty Group</u>	Choice
<u>Country Risk</u>	Choice
<u>Credit Rating</u>	Ranking
<u>Group</u>	Choice Subset
<u>Group</u>	Choice Subset
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</u>	Choice
<u>Issuer Group</u>	Choice
<u>MM Counterparty</u>	Choice
<u>Maturity Ladder</u>	Choice
<u>Per Security</u>	Choice
<u>Per Security Group</u>	Choice
<u>Per Transaction</u>	Choice
<u>Risk Profile</u>	Choice
<u>S&P Rating</u>	Ranking
<u>Sector</u>	Choice
<u>Singapore GLC</u>	Tagged Item

Description

Duplicate

Selection/Choice +

No records found.

In the Description Field, enter “MM Counterparty”.

Click on the + sign.

Enter selection choices for MM Counterparty risk profile. In this example, “Local Bank” and “Foreign Bank”.

Risk Profile Maintenance

Save

New Risk Profile

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Counterparty Group</u>	Choice
<u>Country Risk</u>	Choice
<u>Credit Rating</u>	Ranking
<u>Group</u>	Choice Subset
<u>Group</u>	Choice Subset
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</u>	Choice
<u>Issuer Group</u>	Choice
<u>MM Counterparty</u>	Choice
<u>Maturity Ladder</u>	Choice
<u>Per Security</u>	Choice
<u>Per Security Group</u>	Choice
<u>Per Transaction</u>	Choice
<u>Risk Profile</u>	Choice
<u>S&P Rating</u>	Ranking
<u>Sector</u>	Choice
<u>Singapore GLC</u>	Tagged Item

Description

MM Counterparty

Duplicate

Selection/Choice

+

Foreign Bank

Local Bank

Click Save.

4.2 Tag Counterparty

From Set Up > Static > Counterparty.

Select a bank. In this example, BARC-LN.

Click on Risk Profile.

Select MM Counterparty.

Counterparty Risk Profile

Counterparty BARC-LN

←
Import

Risk Profile	Setting
<u>Asset Class</u>	
<u>Counterparty Group</u>	
<u>Country Risk</u>	
<u>Credit Rating</u>	
<u>Group</u>	
<u>Group</u>	
<u>Grouped by Ctpy</u>	
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	
<u>Grouped by Risk Profile</u>	
<u>Issuer Group</u>	
<u>MM Counterparty</u>	
<u>Maturity Ladder</u>	
<u>Per Security</u>	
<u>Per Security Group</u>	
<u>Per Transaction</u>	
<u>Risk Profile</u>	
<u>S&P Rating</u>	
<u>Sector</u>	
<u>Singapore GLC</u>	

Update

MM Counterparty

Local Bank

Choose the desired MM counterparty type. In this example, Local Bank is selected.

Click Update.

Counterparty Risk Profile

Counterparty BARC-LN

←
Import

Risk Profile	Setting
<u>Asset Class</u>	
<u>Counterparty Group</u>	
<u>Country Risk</u>	
<u>Credit Rating</u>	
<u>Group</u>	
<u>Group</u>	
<u>Grouped by Ctpy</u>	
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	
<u>Grouped by Risk Profile</u>	
<u>Issuer Group</u>	
<u>MM Counterparty</u>	Local Bank

4.3 Set up Compliance Rule

From Set Up > Risk > Compliance.

Click New.

Enter the following details as shown below for Shortname*, Description* and Alert Type*.



The screenshot shows a form titled "Compliance Rules". At the top left, there is a back arrow button and a "Save" button. The form contains the following fields:

- Shortname***: A text input field containing "Rule 4".
- Description***: A text input field containing "Amount invested > 364 days < GBP5M".
- Alert Type***: A dropdown menu with "Warning" selected.
- Portfolio Group**: A dropdown menu that is currently empty.
- Risk Dimension**: A label positioned between the "Portfolio Group" and "Rule Type*" fields.
- Rule Type***: A dropdown menu with "Maturity Ladder" selected.

Select Rule Type* as Maturity Ladder.

Select MM Counterparty for Risk Profile*. The system will require additional selection for choice of this counterparty.



The screenshot shows a single field labeled "Risk Profile*". It is a dropdown menu with "MM Counterparty" selected. To the right of the dropdown is a yellow rectangular button with a small downward arrow.

For the limit set as below.



The screenshot shows a form titled "Limit". It contains the following fields:

- Limit Type***: A dropdown menu with "Absolute" selected.
- Min/Max**: A dropdown menu with "Max" selected.
- Ccy**: A dropdown menu with "GBP" selected.

Click + to add tenor and limit.

Beyond Tenor (Days)*	Limit*	
364	5000000	Remove

The completed values are as shown below.

Compliance Rules

←
Save

Shortname*

Description*

Alert Type*

Portfolio Group

Risk Dimension

Rule Type*

Risk Profile*

Limit

Limit Type*

Min/Max

Ccy

Beyond Tenor (Days)*	Limit*	
364	5000000	Remove

FREQUENTLY ASKED QUESTIONS

FAQ01. What is the difference between a hard block, soft block and warning?

When a compliance rule is set up, it can be marked as either a hard block, soft block or warning. This tagging will affect the handling of the pre-trade transaction that cause a compliance breach.

A hard block

When the system encounter a breach on a hard block, the user will not be allowed to continue with the pre-trade transaction.

A soft block

A soft block rule allows a user to continue with the trade provided the user has the permission to proceed on soft block. The permission required is 15014 Book Investment with breach warnings.

A warning

A warning rule always allows a user to continue with the transactions. Permission 15014 Book Investment with breach warnings is not required.

FAQ02. How does the system handle hard blocks, soft blocks and warnings when multiple compliance rules breach occur?

The severity of a breach are ranked as follows:

- warning
- soft block
- hard block

A pre-trade transaction may cause multiple rules in a compliance rule group to breach. The severity of the breach of that compliance group will be set to the highest of the breached rule.

Eg:

Rule 1 - Warning

Rule 2 - Warning

Rule 3 - Soft block

The pre-trade breach of the compliance rule group will be dealt with a soft-block because of Rule 3.

FAQ03. What is the difference between a strict and adaptive pre-trade compliance check?

When a user attempts to book a trade, the system run a compliance check based on the rules to apply for that portfolio. The check will determine the risk exposure before and after the trade.

Strict and adaptive compliance check setting is used to determine how the system should interpret the test results.

Strict

Under a strict compliance check setting, only the “after” result is used to determine whether the check passes or fails.

Example:

Limit = 50% max

	Before	After
Exposure	40%	70%
Result	Pass	Fail
Overall	FAIL	

Adaptive

Under an adaptive compliance check setting, the overall result is determined in two stages:

- i) Whether post trade pass or fail,
- ii) If i) fails, then it tests whether the post trade aggravates or alleviate the exposure. If it aggravates, the fail status remains. But if it alleviates the exposure then the test is deemed to pass.

Example 2A

Limit = 50% max

	Before	After
Exposure	40%	70%
Result	Pass	Fail
Overall	FAIL (Aggravate)	

Limit = 50% max

	Before	After
Exposure	80%	70%
Result	Fail	Fail
Overall	PASS (Alleviate)	

Limit = 50% max

	Before	After
Exposure	80%	80%
Result	Fail	Fail
Overall	PASS (Alleviate)	

Limit = 50% **MIN**

	Before	After
Exposure	40%	45%
Result	Fail	Fail
Overall	PASS (Alleviate)	

Limit = 50% **MIN**

	Before	After
Exposure	40%	40%
Result	Fail	Fail
Overall	PASS (Alleviate)	

Limit = 50% **MIN**

	Before	After
Exposure	40%	35%
Result	Fail	Fail
Overall	FAIL (Aggravate)	

An adaptive test has the advantage of providing flexibility in managing pre-existing or technical compliance breach.

RELATED INFORMATION

[Risk Portfolio Set Up](#)

[Risk Profile Set Up](#)

[Portfolio Preference Set Up](#)

CHANGE HISTORY

Date	By	Changes
31-Aug-2016	TS	Created.
22-Mar-2017	Clarissa	Added Related Information, Compliance FAQs.
11-May-2017	TS	Updated Related Information.
24-Aug-2018	Silpa	Updated steps 1.1, 1.2, 2.1, 2.2, 3.1, 3.2, 4.1, 4.2.
18-Nov-2019	Lyra	Updated Screenshots.