

Compliance

[See previous W5 version guide](#)

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

 Save

New Risk Profile

Choice



Profile Description

Type

<u>Asset Class</u>	Choice
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</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

Description

 Duplicate

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>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</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

Description

Counterparty Group

 Duplicate

Selection/Choice



BMW Group

Click Save.

At the pop up, click Yes to confirm.

1.2 Tag Security

From Set Up > Static > Securities.

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

Click on the Edit button of the security. In this example, BMW 3.5% 5/20.

Click on Risk Profile.

Select Counterparty Group.

Security Risk Profile

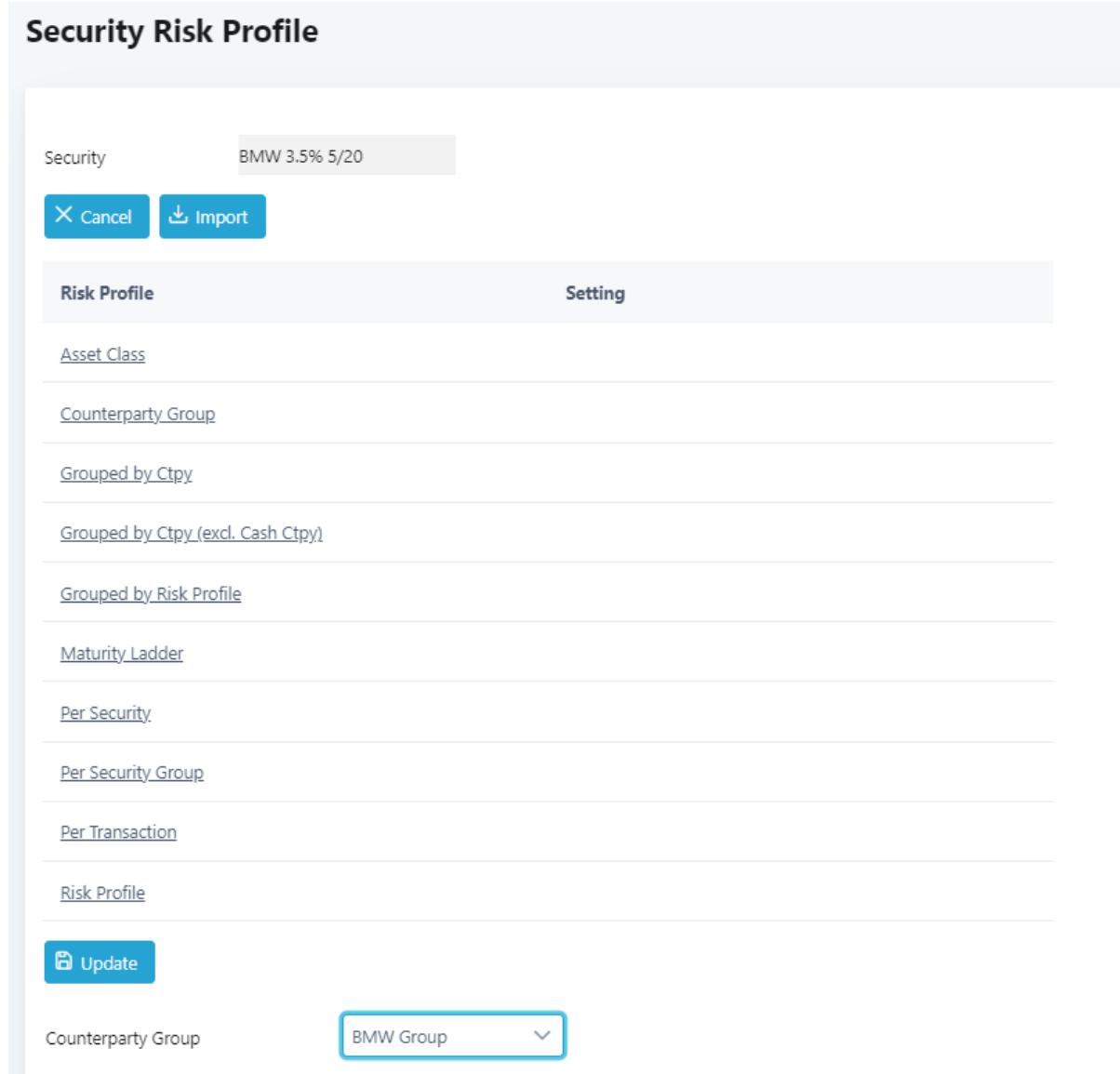
Security BMW 3.5% 5/20

[Cancel](#) [Import](#)

Risk Profile	Setting
Asset Class	
Counterparty Group	
Grouped by Ctpy	
Grouped by Ctpy (excl. Cash Ctpy)	
Grouped by Risk Profile	
Maturity Ladder	
Per Security	
Per Security Group	
Per Transaction	
Risk Profile	

[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

[X Cancel](#) [Import](#)

Risk Profile	Setting
Asset Class	
Counterparty Group	BMW Group
Grouped by Ctpy	
Grouped by Ctpy_(excl. Cash Ctpy)	
Grouped by Risk Profile	
Maturity Ladder	
Per Security	
Per Security Group	
Per Transaction	
Risk Profile	

1.3 Set up Compliance Rule

From Set Up > Risk > Compliance.

Click on Action and select New.

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

Compliance Rules

 Cancel

 Save

Shortname*

Rule 1

Description*

Amount invested in BMW
Group < GBP 30M

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

BMW 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

[X Cancel](#)

[Save](#)

Shortname*

Rule 1

Description*

Amount invested in BMW Group < GBP 30M

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*

30000000

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

 Save

New Risk Profile Choice 

Profile Description	Type
<u>Asset Class</u>	Choice
<u>Counterparty Group</u>	Choice
<u>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</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

Description  Duplicate

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>Grouped by Ctpy</u>	Choice
<u>Grouped by Ctpy (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</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

Description **Country Risk** **Duplicate**

Selection/Choice **+**

Netherland

Click Save.

At the pop up, click Yes to confirm.

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

[X Cancel](#) [Import](#)

Risk Profile	Setting
Asset Class	
Counterparty Group	
Country Risk	
Grouped by Ctpy	
Grouped by Ctpy (excl. Cash Ctpy)	
Grouped by Risk Profile	
Maturity Ladder	
Per Security	
Per Security Group	
Per Transaction	
Risk Profile	

[Update](#)

Country Risk

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

[Cancel](#) [Import](#)

Risk Profile	Setting
Asset Class	
Counterparty Group	
Country Risk	Netherland
Grouped by Ctpy	
Grouped by Ctpy_(excl. Cash Ctpy)	
Grouped by Risk Profile	
Maturity Ladder	
Per Security	
Per Security Group	
Per Transaction	
Risk Profile	

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

 Cancel

 Save

Shortname*

Rule 2

Description*

Amount invested in
Netherlands must be less
than GBP 35M

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

Netherlands

▼

Select Netherlands.

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

 Cancel

 Save

Shortname*

Rule 2

Description*

Amount invested in
Netherland must be less
than GBP 35M

Alert Type*

Warning

Portfolio Group

▼

Risk Dimension

Rule Type*

Risk Profile

▼

Risk Profile*

Country Risk

▼

Netherland

▼

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

 Save

New Risk Profile Ranking 

Profile Description	Type
Asset Class	Choice
Counterparty Group	Choice
Country Risk	Choice
Grouped by Ctpy	Choice
Grouped by Ctpy (excl. Cash Ctpy)	Choice
Grouped by Risk Profile	Choice
Maturity Ladder	Choice
Per Security	Choice
Per Security Group	Choice
Per Transaction	Choice
Risk Profile	Choice

Description  Duplicate

No records found.

In the Description Field, enter “Credit Rating”.

Click on the + sign.

Enter selection choices for Credit Rating profile.

Risk Profile Maintenance

 Save

New Risk Profile

Ranking



Profile Description	Type
<u>Asset Class</u>	Choice
<u>Counterparty Group</u>	Choice
<u>Country Risk</u>	Choice
<u>Grouped by Ctpy.</u>	Choice
<u>Grouped by Ctpy.(excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</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

Description

Credit Rating

 Duplicate

Selection/Choice



AAA



BBB



CCC



DDD



EEE



Click Save.

At the pop up, click Yes to confirm.

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

 Cancel  Import

Risk Profile	Setting
Asset Class	
Counterparty Group	
Country Risk	
Credit Rating	
Grouped by Ctpy	
Grouped by Ctpy (excl. Cash Ctpy)	
Grouped by Risk Profile	
Maturity Ladder	
Per Security	
Per Security Group	
Per Transaction	
Risk Profile	
 Update	
Credit Rating	<input data-bbox="619 1381 857 1426" type="button" value="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

[X Cancel](#) [Import](#)

Risk Profile	Setting
Asset Class	
Counterparty Group	
Country Risk	
Credit Rating	EEE
Grouped by Ctpy	
Grouped by Ctpy (excl. Cash Ctpy)	
Grouped by Risk Profile	
Maturity Ladder	
Per Security	
Per Security Group	
Per Transaction	
Risk Profile	

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

 Cancel  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

Select EEE for credit rating range.

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

X Cancel Save

Shortname*	Rule 3		
Description*	Amount invested with rating EEE are disallowed		
Alert Type*	Warning		
Portfolio Group			
Risk Dimension			
Rule Type*	Risk Profile		
Risk Profile*	Credit Rating	EEE	EEE
Limit			
Limit Type*	Absolute		
Min/Max	Max		
Ccy			
Limit*	0		

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>Grouped by Ctpy.</u>	Choice
<u>Grouped by Ctpy. (excl. Cash Ctpy)</u>	Choice
<u>Grouped by Risk Profile</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

Description

MM Counterparty

 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

Choice



Profile Description

Type

Asset Class

Choice

Counterparty Group

Choice

Country Risk

Choice

Credit Rating

Ranking

Grouped by Ctpy

Choice

Grouped by Ctpy (excl. Cash Ctpy)

Choice

Grouped by Risk Profile

Choice

Maturity Ladder

Choice

Per Security

Choice

Per Security Group

Choice

Per Transaction

Choice

Risk Profile

Choice

Description

MM Counterparty

 Duplicate

Selection/Choice



Foreign Bank

Local Bank

Click Save.

At the pop up, click Yes to confirm.

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

[X Cancel](#) [Import](#)

Risk Profile	Setting
Asset Class	
Counterparty Group	
Country Risk	
Credit Rating	
Grouped by Ctpy	
Grouped by Ctpy (excl. Cash Ctpy)	
Grouped by Risk Profile	
MM Counterparty	
Maturity Ladder	
Per Security	
Per Security Group	
Per Transaction	
Risk Profile	

[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

[X Cancel](#) [Import](#)

Risk Profile	Setting
Asset Class	
Counterparty Group	
Country Risk	
Credit Rating	
Grouped by Ctpy	
Grouped by Ctpy (excl. Cash Ctpy)	
Grouped by Risk Profile	
MM Counterparty	Local Bank
Maturity Ladder	
Per Security	
Per Security Group	
Per Transaction	
Risk Profile	

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*.

Compliance Rules

 Cancel

 Save

Shortname*

Rule 4

Description*

Amount invested for
longer than 364 days
must be less than GBP 5M

Alert Type*

Warning

Portfolio Group

▼

Risk Dimension

Rule Type*

Maturity Ladder

▼

Select Rule Type* as Maturity Ladder.

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

Risk Profile*

MM Counterparty

Local Bank

▼

For the limit set as below.

Limit

Limit Type*

Absolute

▼

Min/Max

Max

▼

Ccy

GBP

▼

Click + to add tenor and limit.

Beyond Tenor (Days)*

Limit*

+



<input type="text" value="364"/>	<input type="text" value="5000000"/>	Remove
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The completed values are as shown below.

Compliance Rules

 Cancel

 Save

Shortname*

Rule 4

Description*

Amount invested for
longer than 364 days
must be less than GBP 5M

Alert Type*

Warning

Portfolio Group

▼

Risk Dimension

Rule Type*

Maturity Ladder

▼

Risk Profile*

MM Counterparty

▼

Local Bank

▼

Limit

Limit Type*

Absolute

▼

Min/Max

Max

▼

Ccy

GBP

▼

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 step 1.1, 1.2, 2.1, 2.2, 3.1, 3.2, 4.1, 4.2.
18-Nov-2019	Lyra	Updated screenshots.
21-Mar-2023	TS	Updated to W6 instructions and screenshots.