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Financial Machineries Ltd and IASON Ltd collaborate to create an anonymous secure benchmarking service for FRTB, using distributed-ledger technology.

Financial Machineries Ltd (FM) is collaborating with Italy's IASON Ltd to develop a vendor-neutral, Secure Benchmarking Service (SBS) utility. SBS will help banks and other independent data sources to aggregate their OTC illiquid prices, contributions, traded and transacted datasets, allowing each to "observe" market risk regulatory capital rules, modelled in line with the requirements of the Fundamental Review of the Trading Book (FRTB).

The Secure Benchmarking Service (SBS) will provide a vendor-neutral and anonymised regulatory modelling utility, allowing banks to prove individually that they have enough data to use an internal model for market risk capital calculations, within the scope of FRTB. More importantly, SBS will help each contributing bank to avoid the punitive penalties of using FRTB's standard model.

The collaboration will deliver a hosted utility based on blockchain and distributed ledger technology (DLT), as well as innovative cryptography techniques.

Financial Machineries (FM) chose to collaborate with IASON on SBS as IASON's technology dovetails perfectly with FM's contributions methodology services in this area. IASON, Italy's leading risk management consultancy which specialises in EU Stress Test and FRTB methodologies, is defining the methodology for the utility. Both firms look forward to working with a consortium of contributing banks and other data sources wishing to pool their OTC and non-exchange derivative data in a safe environment.

Antonio Castagna, CEO of IASON, Milan, says "the consequence of FRTB will mean every firm will have to source greater levels of data with more granularity. Banks will have to run multiple, full revaluation scenarios, in order to calculate expected shortfalls, taking into account different liquidity horizons, as well as constrained and unconstrained diversification configurations. By utilising the Secure Benchmarking Service, each bank is reassured that their trade data remains anonymous through the utility calculation process, is not able to be re-engineered and more importantly, will each have full control of the resultant market data."

Sheena Clark, founder of FM, points out that "the challenge for contributing banks arises from legacy systems and fragmented data governance processes. By shining a penumbra into internal data sourcing, proving they have enough validated data available to use an internal model for capital calculations under FRTB, will allow banks to reduce capital set aside. We expect SBS will reduce significant strain on IT infrastructures and processing speeds."

Financial Machineries (FM) is working with banks across Europe and plans to have the SBS up and running by Q2, 2017, in time for testing in the run up to the start of FRTB at the beginning of 2019.

Tags: FRTB, regulations, data contributions, contributed data, utility, regulatory compliance

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