

## HOUSE OF THE YEAR, TAIWAN

# Chinatrust Commercial Bank

**C**hinatrust Commercial Bank is a pioneer in quantifying risks and implementing new risk management processes. It is this focus that has enabled the bank to conduct more derivatives business this year.

Chinatrust has dominated the over-the-counter derivatives market share in Taiwan. The bank was the top player for 10 out of the 12 months up to May 2011, when a total of NT\$97.03 trillion (\$3.31 trillion) of notional OTC transactions was recorded, according to Taiwan's central bank. Sybil Lee, vice-president of Chinatrust's market risk division, says Chinatrust's advances in counterparty credit risk quantification are central to explaining its consistent leading position in Taiwan's OTC derivatives market during the award assessment period.

While not yet in place, Chinatrust is also moving to incorporate credit valuation adjustment (CVA) into its calculations of counterparty credit capital charges. The work is being conducted by executives in the bank's risk quantification unit, a subdivision under market risk, despite a lack of agreement among regulators and market practitioners on the best way to measure CVA and incorporate it into credit counterparty risk calculations.

While CVA is not yet deployed, Lee says the bank's focus on dynamically managing counterparty credit limits through constantly updating market implied levels has helped Chinatrust to secure business. "For our existing modelling of counterparty credit risk, we have done a lot of enhancements and investment in quantitative analysis, [and] back-testing to ensure that we capture the latest market data levels," she says. "We have dedicated officials in charge of updating the implied volatility of every single product that we structure on a monthly basis."

This investment has enabled the bank to develop a wide range of derivatives required by clients, ranging from currency knock-out products that enable investors to bet on the future direction of the US dollar to commodity knock-out products that reference copper options trading on the London Metals Exchange.

Clients appreciate the bank's focus on derivatives. "We have been impressed by Chinatrust's forex, interest rates and commodity hedging capabilities," says John Chang, vice-president in the finance division at China Airlines in Taipei. "Chinatrust's in-house trading platforms for forex, exotic interest rates and energy are not commonly seen even among global banks."

Chinatrust's web-interfaced trading platform allows traders to put product and client data into a real-time



Sybil Lee, Chinatrust

calculator, which factors in a counterparty risk charge that is incorporated into the pricing globally.

Vincent Wang, a senior director in the risk management department at Hon Hai Precision, Taiwan's leading electronic contract manufacturer, says Chinatrust's forex trading capability is a significant outperformer in the market. "Chinatrust's 24-hour forex trading platform enables us to seize the timing to trade, even in some illiquid currency pairs."

The bank has also unified its policy setting for all sources of risk – be they credit, market, asset and liability management, business strategy and/or reputational risks – under one executive committee. "After the collapse of Lehman [Brothers], we realised that what started as a market-wide systemic risk quickly translated into the credit risk of a single institution, which then, when the crisis came to Asia, transformed into a lot of operational risk issues," says Prudence Lin, senior vice-president of the risk management division in Taipei. "Hence, we needed better alignment for our various risk divisions to mitigate the contagiousness of risks."

### Offshore renminbi

In Beijing, the authorities have yet to designate a clearing bank for the settlement of renminbi offshore in Taiwan, but regulators have allowed Taiwanese banks with branches in Hong Kong to operate offshore renminbi business since March. This has enabled Taiwanese banks to accept offshore renminbi (CNH) deposits and engage in derivatives trading in instruments such as CNH-denominated swaps and forwards.

Chinatrust officials say that, as of July, the bank's Hong Kong branch had 1.88 billion yuan (\$293 million) in CNH deposits from around 250 clients, mostly Taiwanese corporates. As a result, Chinatrust has sought to invest in offshore renminbi bonds, dubbed 'dim sum' bonds, in a bid to enhance yields.

Jack Wang, executive vice-president in the bank's derivatives department, says Chinatrust is offering investment products such as CNH option-linked dual currency deposits – for example, between the Australian dollar and CNH – through its Hong Kong branch.

"If, in future, the renminbi could become one of the G-10 currencies, we are confident that we can quickly connect our offshore branches to Hong Kong – or even with our headquarters in Taiwan as soon as regulatory agreements are established across the straits – to quickly provide CNH derivatives solutions," says Wang. ●