

## ARMS and the risk man

*With his Singapore-based consultancy, Advanced Risk Management Solutions, Ralph Liu is doing more than most to lay a risk-management groundwork in Asia.*

**Richard Metcalfe reports**

**M**ost players accept that Asian markets currently represent the area of greatest medium-term potential for derivatives. But the more they look into these markets, the more they see how much risk-management groundwork still needs to be done to make derivatives work in this new environment.

Ralph Liu, a former banker, corporate treasurer and investment manager, is one of the few people doing such groundwork. His Singapore-based consultancy, Advanced Risk Management Solutions (ARMS), is a global business, but has more than enough to do right on its doorstep in Asia. Together with a subsidiary firm, Advanced Open Systems Technologies (AOS), ARMS has tapped into a deep and growing need for expert and independent advice, particularly on derivatives, but also more broadly on financial markets.

Among the clients are both new exchanges in Kuala Lumpur (Kloffe and the MME, covering their publicity and the requirements of member firms), the ceos and board members of banks across Asia, the central bank of China (on the systems side), regulatory agencies (often working on national derivatives guidelines) and local forex clubs, senior regional partners in big-six accountancies, and any number of dealing rooms in banks, corporates, institutional investors and brokerages across the region.

Since late 1994, when the firm started up, the list of ARMS activities has comprised: financial training (particularly aimed at senior management and official

qualifications, or the likes of Malaysian Futures & Options Registered Representatives - all its certification programmes conform with the requirements of the Association Cambiste Internationale); risk-management advice and derivatives-related consulting; turnkey work on dealing operations; and systems implementation. AOS builds on this with a treasury management system that covers payment risk as well as cash and derivative market and credit exposure.

More recently, ARMS/AOS has been exploring joint ventures with similar firms in other parts of the world and using the RiskMetrics methodology to focus on value-at-risk, which Liu says is still very new to the region. He has also added what he calls strategic planning to the list of activities. Among the joint ventures is a scheme to launch a series of training applications, going into China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Sri Lanka, Taiwan and Thailand. In this vein, ARMS is already using a Danish package for its options called Trader Trainer.

Liu says that, after selling derivatives, becoming an adviser is like becoming a doctor when you used to sell pharmaceuticals. He says he is now free to judge whether the patient is truly ill and, if so, which medicine to prescribe. A common complaint is that products that would test the sophistication of the most advanced end-users in the US have been sold to virtual novices in Asia. Although recent courtroom developments in London have upheld banks' right to claim payment on structured derivatives (see *FOW* January),

Liu finds it significant that structured notes business in Asia has disappeared in the past eighteen months. He is particularly scathing of the practice of getting treasurers to write options, questioning why natural buyers of insurance should become sellers, if not because they are being tricked into selling it too cheaply.

In general, Liu's approach is to demystify and demythify derivatives. Thus he jokes that the 'Greeks' used to describe option-price behaviour should include terms such as epsilon - the time decay of an option dealer's IQ. More seriously, he feels that Asian regulators need to get together with their counterparts in developed derivatives markets to ensure that best practice does not lag behind the growth of instruments. Otherwise the risk-enhancing capacity of derivatives will overshadow the risk-management.

Including Liu, there are 23 personnel in ARMS/AOS, 15 of them on the systems side. This number not only keeps growing, but is also often supplemented by freelancers as needed. Most of the work is project-based, though some customers have gone as far as retaining ARMS full time.

Liu feels his greatest asset, aside from direct experience of derivatives trading books at banks like Chase and UBS, is local knowledge. His first language is Mandarin and, just as importantly, he reckons he has built up a relationship of trust with customers across the region. As with other independents around the world, this is looking like an ace card when it comes to derivatives and risk management. ■

