

## RCG Rolls Out Behavioural Tool

ONE FIRM IS RESPONDING TO THE CHANGING MARKET CONDITIONS WITH A NEW RISK MANAGEMENT TOOL...



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Futures clearing firm Rosenthal Collins Group (RCG) says it has developed and filed for patent protection on what it claims is a 'first of its kind' futures brokerage risk management system.

Based on Complex Event Processing (CEP) technology and scheduled to launch in the first quarter, the firm says RCG RiskHunter is designed to "hunt" out and highlight any trading pattern or behaviour that deviates from a client's or trader's historical behaviour. The firm says the technology will enable it to highlight prospective risk issues in real time across exchanges, products and the 24-hour trading day to allow for rapid response and amelioration if needed.

As an example, the firm says that if a client typically trades in 10 lots and typically has a profit/loss profile around the \$2,000 mark and then takes on a larger position, or runs a position for a larger P&L, it will be flagged by the system.

RCG is then able to assess the risk and if necessary talk to the client. Parameters are set by RCG and serve to offer clients an added degree of protection, the firm adds. Clients are increasingly aware of the potential risks they are running in these volatile markets, therefore RCG, by deploying RiskHunter, can add an extra layer of protection by flagging issues within minutes, rather than further down the post-trade chain.

Connamara Systems worked with the RCG technology team to develop and implement RCG's idea, bringing in California-based Coral8 to supply the CEP technology. CEP has been used in the military and other industries and is a popular technology behind algorithmic trading.

Connamara says that RiskHunter augments the existing pre-trade and post-trade risk management processes that already exist in RCG. By operating in near real time around the clock, the system closes the time gap that firms usually face between a transaction and the regular monitoring of profit and loss within and across accounts. "If RCG encountered a situation in which the pre-trade process did not prevent a behaviour that could put a client or the firm at risk, within minutes of an electronic trade, the firm could understand the impact and take corrective measures," Connamara states.

"Throughout the past year, we've seen unprecedented volatility across the financial and commodity markets to the point where a market can take a remarkable turn against a client in very short order," says Scott Gordon, RCG chairman and CEO. "RiskHunter gives our risk management personnel a new vehicle for mitigating risk by finding potential issues before they can have a significant impact on individuals or the firm."

The new technology interfaces with RCG's back office system to accumulate information and "hunt" for key indicators to verify that every client trade is within defined parameters. The system is built on a CEP engine that incorporates complex algorithms, client trading information, live market data and RCG parameters to identify trading behaviours and patterns, regardless of how a trade is placed or in which market.

RCG RiskHunter provides virtually instantaneous warning if a trader or organisation may potentially present a risk issue, RCG says. The CEP technology encapsulates proprietary algorithms developed by RCG that identify accounts and associated activity, correlating streams of real-time data. Multiple alert levels trigger appropriate action by RCG, it adds. The system is not linked to front end pricing engines.

"This has been a truly exciting project as I believe RCG RiskHunter will be a game-changer for risk management in the futures industry," says Jim Downs, founder and CEO of Connamara. "It completes the pre-trade and post-trade loop for risk management, enabling RCG to have a much faster view of potential issues than others in the industry and to view risk in ways that have never been accomplished before."

Downs and his team were responsible for identifying the necessary technology, brought in Coral8, and led the design and implementation, which included a comprehensive integration of multiple systems within RCG. At the same time, RCG began developing the complex algorithms, and within weeks, the team was able to test the system with a proof of concept, applying the CEP technology real time to high-speed, high-volume data within the firm and confirming that the project would be successful.

"We're finding that the RCG RiskHunter technology is so flexible and customisable that we can continuously modify the scope of the system to add new risk factors and algorithms that enhance what RiskHunter can do," Gordon concludes.