

The DESK

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The Credit Risk Management Market Just Skipped a Beat

It's a strong sign of intense customer interest around managing credit risk in the current market: Two of the top-ranking credit risk systems companies have been acquired in the past week. Risk management solutions provider Triple Point Technology (TPT) announced it has acquired ROME Corp., while global banking software company Temenos announced it has acquired Financial Objects.

This week we sat down with TPT's Michael Schwartz and ROME's Dan Reid to talk about what the two companies can do together. Next week we'll bring you the details of the Financial Objects agreement.

"The turmoil in the credit markets and all the volatility in the commodities markets has brought risk management and counterparty credit risk to the forefront of what our customers are asking us to help them with," says Schwartz, TPT's chief marketing officer. "It's a natural progression as we build out across the enterprise risk management front to be able to bring together counterparty credit with the market and price risk that we typically handle."

He says bringing on ROME's systems and brain trust (all but CEO David Achim and duplicative administrative staff will make the transition to TPT) adds the final piece to TPT solution's total coverage of the four areas of corporate financial exposure: market risk, governance and regulatory compliance (GRC) risk, operational risk and counterparty credit risk. The deal comes only weeks after TPT acquired INSSINC, which specializes in GRC solutions.

"Traditionally in our space, people are focused on the transaction... and I don't mean to diminish that at all. But

we've really been focused on the business intelligence side, what we call the management or decision-making side: How do I take all that information from my transaction systems and help companies run their business better? That's what separated us in the past. Now you add the INNSINC and ROME acquisition, and we have completely redefined what it means to be in this space," Schwartz says.

Reid, ROME's chief marketing officer, SVP of global solutions and one of its founders, says the acquisition by TPT is the culmination of the vision that created the company seven years ago. ROME makes a tasty acquisition target – its outstanding reputation and hefty client list has led to two years on the Inc 5000 list of fastest-growing companies for the past two years and a doubling of its revenue growth two years running. But the business still hadn't had "the scope, the capital and the breadth to go after everything we've wanted to," Reid says. ROME wasn't big enough to do an IPO and then use that capital to acquire other firms, and it wasn't enamored of the many venture capital firms, private equity and others that came calling as a result of its strong performance.

"We waited for something that was very strategic, and that's what Triple Point is for us. The solutions are very complementary, the technology is absolutely complementary, and this gives us access not only to greater capital but also an installed customer base. It's very exciting for us," says Reid, who is now TPT's vice president of credit risk solutions.

Under the terms of the acquisition, ROME will be a business unit within the TPT organization, continuing to provide its stand-alone solutions to its existing customer base through its broad integration with the major risk systems on the market. "We're not moving away

from being able to apply our (ROME) solution to anyone, regardless of the ETRM solution they have," Reid says. "We're not expecting everyone to start using Triple Point Trading and Risk," Schwartz adds.

But won't this new partnership disrupt ROME's long-standing alliances with TPT's major competitors, such as SunGard? Reid doesn't think so. "More so than in other markets, in the commodity trading market the client drives the solution and has specific and demanding requirements, including the physical side of credit risk and market risk together. Our work to provide an ECRM solution integrated with TPT products does nothing to take away from our need to integrate with other ETRM, accounting and treasury systems...and the needs of those vendors to provide a viable proposal/solution to their customers." He says ROME will continue to work collaboratively with all of its existing partners, including other ETRM vendors.

But ROME will also expand its stand-alone credit risk offering to TPT's sizeable customer base worldwide – Reid is particularly enthused about the global reach of TPT's sales and service organization, which will allow the ROME tools to move into new international markets.

But by the end of the year, the real fruits of the deal will be launched – a fully integrated solution. "With the credit crunch and the volatile commodity markets, there's a lot of value in having counterparty credit fully integrated with your market and price risk and trading on one platform," Schwartz says. "They're linked: as I manage one, I need to manage the other... To be able to manage them all on one common platform is a huge advantage."

The acquisition also reduces integration risk for customers – when combined on a single platform, it allows customers to manage their business instead of managing integration projects.

In terms of technology, the companies are expecting a fairly seamless integration between TPT's Commodity XL and ROME's credit tools, largely because they are both built on a similar Java technology platform with an open architecture that provides well-defined integration points. TPT completely revamped their

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technology earlier last year, increasing the solution's performance five-fold – and shifting to the technology on which ROME was built. The new Commodity XL for Credit Risk will be that “deep-dive integration” of the two company's solutions. It will achieve a level of integration between the two product sets that “no one else can match, because it will be a bundled solution with no interface points and no hand-offs,” Reid says.

“We've been enabled for highly-scalable, cluster-aware grid computing (that TPT converted to), so there's a good sync there now. That allows us to not only have a robust, high-performance, highly scalable solution for both solutions, but for the integrated product, we're able to leverage everything from processes to data at a very low level in a very scalable way,” he says. “That makes our combined solution unmatched in terms of scale and processing power.”

Reid says the market is looking for that kind of full enterprise risk management solution these days – they need the whole package of market risk and credit risk tools. The combined TPT and ROME can now respond to a whole RFP with highly integrated – and fast – tools, and that simplifies the decision for the client. “It changes the playing field from picking some best-of-breeds and trying to integrate them to taking us out of the fray of wanting just one or the other. I don't think anyone can compare to the full offering,” he says. “It always comes into that whole integration discussion that is so painful for the IT side, when you start saying the business wants all of these things, now how do we buy it and how do we implement it?”

Reid says the market has shifted from the days when the trading side drove the business and, as a result, got all the resources and investment capital for systems. Very public blowups from Enron to Amaranth – “you book these deals and they look good, but the credit wasn't taken care of and the company goes down,” he says – has driven the board and the C-suite to make credit part of the process, adding in cost of credit and making sure credit policies aren't just “some kind of stop sign after the trade is done to reprimand a trader.”

Aligning the trading organization with the credit risk needs and appetite of the organization allows the executive level to go after an acceptable level of risk and go after a good return – “but not go after maybe the highest return but with the highest risk,” he says. “If you do that, you're really putting yourself in danger. So they want that combined strategy for their organizations and that's what we can provide.”