



MAKOSI

USING SAP® SOFTWARE TO HELP REDUCE HIGH-RISK CREDIT DERIVATIVE EXPOSURES

QUICK FACTS

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Darren Isaacs, Chief Executive Officer, Makosi

Company

- Name: Makosi
- Location: New York
- Industry: Professional services
- Products and services: International specialist firm, providing project management expertise in financial, accounting, legal, and technical specialty areas
- Revenue: US\$6 million
- Employees: 50
- Web site: www.makosi.com
- Implementation partner: Everything Xcelsius

Challenges and Opportunities

- Reduce exposure to billions of dollars of liability and loss of trading license
- Achieve federally mandated targets for electronic submission of OTC (over-the-counter) derivative instruments
- Manage highly effective derivative operations team to prioritize tasks, reduce manual processes, and increase productivity

Objective

Implement dashboard solution to optimize team performance, track trade status, and mitigate risk

SAP® Solutions and Services

Xcelsius® software

Implementation Highlights

- Completed in just 4 weeks, with dashboard operational in 2 weeks
- Enhanced aggregated data to include aging and trade status

- Deployed on same server that hosts existing install of Microsoft SQL Server database and Microsoft SharePoint Web portal software

Why SAP

- Proof-of-concept dashboard, using live data and updated in real time, that is developed in hours, not days
- Used with Microsoft Excel
- High volumes of data – from different sources and formats – supported
- Fast, server-free installation that installs on existing hardware and software infrastructure
- Administration through Excel spreadsheets

Benefits

- Scalable, configurable dashboard that streamlined project management, reduced manual processes, and established competitive differentiator
- “Over 30 day” trades reduced by 600% to only 60 trades
- Days outstanding for trades reduced to within regulatory standards
- Electronic submission timeliness improved by 12.5%
- Billions of dollars of exposure reduced due to reduction in long-standing unconfirmed trades
- Write-off amounts reduced
- Standardized, meaningful performance metrics that prioritized tasks and accelerated resolution of highest-risk trades
- Automatic alerts sent when trades exceed pre-established risk criteria



Makosi is a highly specialized international project management consulting firm with a very successful business model: hire the best and brightest experts in the financial, accounting, legal, and technical specialty areas and build an effective results-oriented project management practice around those individuals. So when a large broker-dealer was reeling from the worldwide collapse in credit markets, it turned to Makosi to help reduce its exposure and restore it to a solid financial and regulatory footing.

For the broker-dealer, the risks couldn't be any higher. Several of its investments in the derivatives market, specifically its credit default swap (CDS) contracts, existed only as unconfirmed paper transactions. The broker-dealer had thousands of these CDS contracts whose details were unconfirmed with the counterparties – including the amounts and economic variables involved.

The lack of visibility into these paper-based CDS contracts exposed the broker-dealer to billions of dollars in risk. These unconfirmed trades also hindered the broker's compliance with federal regulations that include the requirement that CDS contracts be confirmed within strict time frames once trade agreements occur. Additionally, a defined percentage of trades are mandated to "go electronic" and be confirmed via a broker-wide electronic tool, such as Deriv/SERV, which is operated by the broker-dealer Depository Trust & Clearing Corporation (DTCC). Failure to follow any of these guidelines could result in significant damage to the broker-dealer's business reputation.

A Critical Project Requiring Critical Performance Monitoring

Lacking the capacity to clear its backlog of unresolved CDS contracts, the broker-dealer looked to the professionals at Makosi's derivatives operations team to get its "black box" trades resolved and in compliance. Each of Makosi's 15-member team was assigned to a major client – either another broker-dealer or a larger institutional broker-dealer – and each specialist was charged with resolving that institution's CDS contracts.

Much of the work involved confirming the CDS contracts between the parties as well as formatting and data manipulation to prepare the unsubstantiated contracts for electronic submission and tracking in the DTCC. To manage the team, Makosi employed manual processes, relying on daily meetings and constantly updating Microsoft Excel spreadsheets. "We had the best people helping our client," says Darren Isaacs, CEO of Makosi. "What we didn't have was a way to track individual and overall progress, increase efficiency, and,

most importantly, prioritize the work by identifying those trades that posed the highest risk to our client."

Selecting the Right Dashboard Solution

Makosi required real-time metrics to monitor and manage the performance of its team and the status of the CDS contracts. According to Isaacs, "We knew that we needed a dashboard solution; we just didn't have a lot of technical experience with them." Makosi turned to Mico Yuk, founder of Everything Xcelsius, to help them review various solutions and implement the final selection. After evaluating several dashboarding solutions – including software from Dundas Data Visualization Inc., Tableau, and iDashboards – Makosi chose Xcelsius® software as the best fit for its needs.

Makosi found the combination of functionality, performance, and scalability to be far superior to other solutions it reviewed. Makosi liked the fact that employees could load the Excel spreadsheets they currently use directly into the software and could even use spreadsheets to configure the dashboard. In addition, Makosi liked the fact that Xcelsius could be available to all members of the team through its existing deployment of Microsoft SharePoint Web portal.

The company was impressed by how little Xcelsius cost to implement and how quickly the solution could produce results. "In less than an hour, we had a mock-up Xcelsius dashboard, showing us what could be achieved by the tool," said



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Isaacs. “After a few hours, we had a full proof-of-concept dashboard with five of our key metrics displayed, all with real data. It only required us to distill the metrics into a visually viable presentation and then work on the logistical aspects with regard to data acquisition and upload.”

Rapid, Server-Free Implementation

Implementation time occurred in just four weeks, due in part to the fact that Xcelsius is a desktop solution that requires no separate server. A majority of that time was spent on database configuration. “The dashboard itself was operational in just two weeks,” said Yuk. “We also helped keep implementation costs low because I could do much of the work remotely, using Excel spreadsheets to configure the Xcelsius dashboard.”

In providing the data needed to run the dashboard, the broker-dealer could not provide Makosi with proprietary information about specific CDS contracts. However, it did provide Makosi with aggregated and rudimentary trade data that posed little risk to the broker-dealer

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but required Makosi to build additional fields related to the aging and status of the trades. The data is supplied to the dashboard using daily XML file feeds

from the SQL Server database as well as Excel files. Business users access the Xcelsius dashboard using the SharePoint Web portal. Makosi is also saving hardware and maintenance costs by deploying the Xcelsius dashboard on the same server that hosts the database and the Web portal.

Powerful Performance Metrics That Enhance Project Visibility

Makosi configured the Xcelsius dashboard to allow the project team and its client to track and manage derivatives-specific tasks using metrics that include:

- **High-risk trade status** – Identification of those trades that require immediate attention, including trades exceeding a set dollar amount, trades alleged against the dealer by a client broker-dealer, or trades that have a particular status in the trade lifecycle
- **Number of days outstanding** – The number of days that a trade sits unconfirmed
- **Electronic versus paper trades** – Percentage of total trade population that have gone electronic (for example, via DTCC)
- **Unprocessed trades** – Trades that have not been addressed by the team
- **Percentage completion** – Percentage indicating overall project completion
- **Comment aging** – The number of trades that have not been commented upon or explained by the specialist or team member (Makosi strives to keep comment age below three days)
- **Trade status** – The current status of the trade as it moves through the trade lifecycle and how long the trade has been sitting in that particular step in the process

If any of the above metrics exceed specific thresholds configured through the dashboard, the dashboard metric item will display in red, providing team members with a visual cue that action is required immediately.

The successful implementation of Xcelsius allows Makosi to get a solid handle on its team’s performance and accelerate work completion. These standardized, meaningful performance metrics and automated alerts help Makosi prioritize tasks that clear the broker-dealer’s backlog of highest-risk trades first. As a result, manual interventions have been decreased and team leaders can set daily, weekly, and monthly targets as well as track workloads on a daily basis.

“We are far more efficient,” according to Isaacs, “because we can use the dashboard to determine which team members are idle on a given day and quickly shift work to them.” In addition, by achieving greater visibility into individual team member performance, team members as a whole are far more productive.

Dashboard-Enabled Success That Gets Noticed

Almost immediately, by using the Xcelsius dashboard to improve project performance, Makosi has dramatically reduced the backlog of trades that are unconfirmed on both the paper and electronic basis. As a result, Makosi's performance has not escaped notice from its client. The broker-dealer has improved submissions timeliness from 80% to 90%, a significant achievement from a market and regulatory perspective.

Trade days outstanding for the CDS contracts no longer far exceed federal guidelines but are now well within compliance. In fact, the broker-dealer is now meeting all federal targets and has mitigated substantial risk to business reputation. Not only has the broker-dealer avoided compliance violations and reputational risk, but it has gained greater visibility into billions of dollars' worth of exposure and reduced write-off amounts. In total, Isaacs estimates that the Makosi derivatives operations team has cleared billions of dollars of exposure.

Xcelsius Enables a New Service Offering for Makosi

Building on the success Makosi achieved in using the dashboard to manage the CDS contract project, Xcelsius has now become an integral part of Makosi's project management tool set that's used by its derivative operations team. The company is marketing its dashboard capability as a competitive differentiator in its pursuit of new projects.

"The great thing about the dashboard," says Isaacs, "is that we can configure the metrics ourselves, simply by using an Excel spreadsheet. It gives us tremendous flexibility to use this tool not just for this client but for clients across most of our specialty areas. Ultimately, we want to use our increased expertise in Xcelsius as a distinct specialty practice."



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