Prudent Valuation Optimisation

FINCAD's Prudent Valuation Optimisation service helps leading financial institutions that are already compliant with prudent valuation requirements calculate their optimal netting procedure for a marked reduction in capital costs.

Overview

To meet requirements outlined in the European Banking Authority's (EBA) Regulatory Technical Standards, financial institutions throughout Europe have invested heavily in implementing well-defined prudent valuation frameworks.

While banks have been largely focused on what they need to do to achieve compliance, it's equally important to understand how your firm can benefit from the regulation. In fact, flexible policies set forth by regulators in regards to netting provide scope for firms to realise significant capital savings.

FINCAD's Prudent Valuation Optimisation service helps your firm reach optimal netting under regulatory requirements.

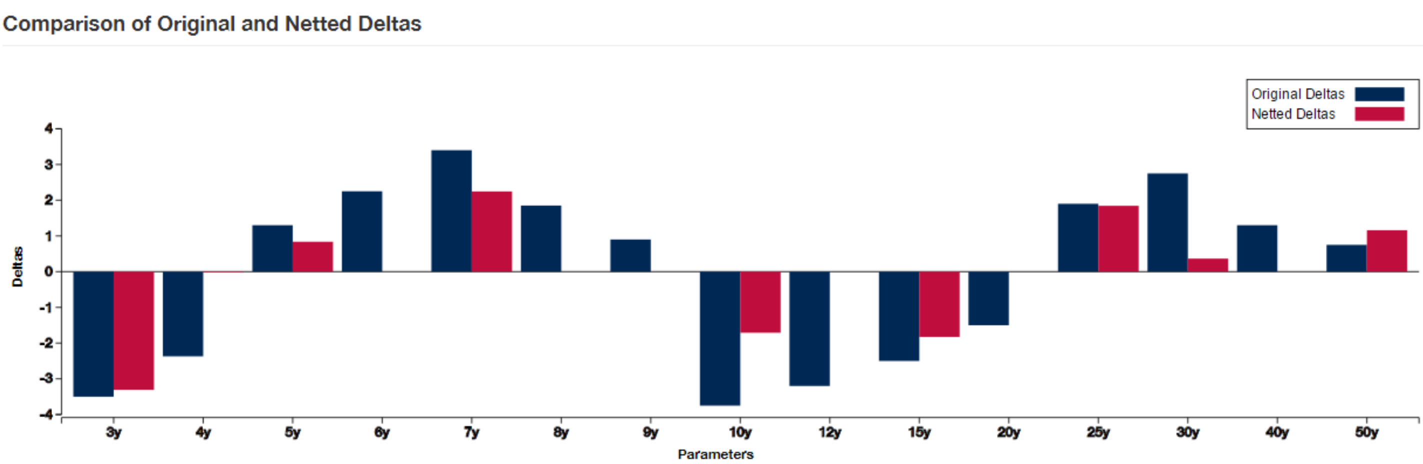

Figure 1: A long/short interest rate swap portfolio featured in section 4 of the official document, optimised with respect to standard yield curve risk factors using the FINCAD Prudent Valuation Optimisation service where the capital savings are in excess of 50%.

Our Optimisation Strategy

FINCAD helps clients realise ideal netting by focusing on the core Additional Valuation Adjustments (AVAs) for Market Price Uncertainty (MPU) and Close Out Costs (CoCo).

Our optimisation strategy is based on the following rationale:

- **What We Do:** Substantial netting is allowed by the regulator, which in turn opens firms up to significant capital savings. FINCAD's team of experts help you realise your maximum netting benefit.
- **Our Focus:** We focus on the AVAs associated with MPU and CoCo as this is where quantitative optimisation can be applied to the netting of risk exposures.
- **How We Make it Simple:** FINCAD does not require comprehensive knowledge of your internal processes. We generate your optimal netting portfolio efficiently based on your original exposures.

Regulatory Constraints

From a regulatory perspective, firms may decide how to calculate AVAs, provided that their positions meet three criteria:

1. The total value of the reduced exposure should be the same as the original exposure.
2. The reduced parameters can be mapped to a set of tradable instruments.
3. The variance of the difference between new and original P&Ls from 100 historical trading days of exposures is, at maximum, 10% of the original P&L variance.

Data Requirements

Financial institutions can only net once they are compliant with prudent valuation requirements.

Compliant firms using the FINCAD optimisation service should have the following data available:

- Delta for the risk factor
- MPU or CoCo for each risk factor
- 100 days of risk factor returns
- Internal netting constraints

Our Service Offering

As a client of this service offering, you will submit your portfolio reference data to FINCAD. Using this data, FINCAD's optimisation framework will compute your optimal netting portfolio, and provide you with a netting summary and proof of the results. Should a more collaborative approach be required, an interactive hosted solution is also available.

To learn more about how FINCAD's Prudent Valuation Service can help you save capital, email us at info@fincad.com or phone us at 00 800 304 07020.