



Case Study

Risk Sensitivity Analysis for Credit Derivatives

confluentia

Case Study:

Investment Bank – Risk Sensitivity Analysis for Credit Derivatives

Situation and objective

A major investment bank was embarked on an initiative to build a strategic cross-asset risk platform for market risk and credit risk that would receive risk sensitivities and market data and use them to run VAR scenarios. The data would in turn feed all downstream users of risk information, including regulatory, collateral management, and counterparty risk management. The risk-platform team had specified their requirements to the various front-office system owners. The credit derivatives front office IT team-one of the teams that would need to provide the data-needed to confirm that it could fulfill the requirements specified by the risk-platform team.

The credit derivatives IT group selected Confluentia to run their stream of the project, based on a combination of its strong business analysis skills and its solid grasp of credit derivatives risk and P&L, ranging from vanilla CDS through to correlation products.

Solution

Working with the support of the client's IT and risk-management staff, Confluentia performed the following:

- Gap analysis of requirements against data currently sent
- Clarification with risk management to ensure consistency e.g. confirming when curves and surfaces should be recalibrated
- Review of new risk metrics requested to determine whether development would be needed to calculate them
- Prioritization of new risk measures based on whether they were required for VAR calculations or for other, secondary calculations
- Production of data dictionary for all risk measures calculated by credit derivatives front-office IT (description, the amount that the curve is shifted, the direction, whether bucketed etc).

Result

The analysis was completed and business requirements were documented and delivered on time to the relevant development teams.



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Confluentia

[kon-floo-en-shuh]

Noun, Latin for Confluence, from com- 'together' + fluere 'to flow'