

Latin American Bank: Using FINCAD for Curves, P&L Attribution, Risk and CVA

This Latin American bank is a multilateral government-owned entity with a client base comprised mainly of corporations that are active in foreign commerce.

THE CHALLENGE

The bank's Treasury Division manages a multicurrency portfolio of interest rate swaps, cross currency swaps and FX Forwards (including USD, EUR, GBP, CHF, JPY, CAD, MXN, BRL, CNH, COP, PEN and CLP). These instruments are part of the treasury operation for hedging the bank's exposures.

With goals of automating processes surrounding the input and output of trade and market data, and establishing integration with the back office, the bank set out to locate suitable technology. The bank required a solution that could help them increase valuation accuracy, to perform profit and loss (P&L) attribution, and to assist them in understanding daily fluctuations in the value of their portfolio. They also desired to establish a best practice approach to calculating credit valuation adjustments (CVA), as this was necessary to meeting regulatory requirements and for business reporting requirements.

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HEAD OF MARKET RISK, Latin American Bank

SOLUTION

Having been a satisfied client for more than a decade, the bank decided to deepen their relationship with FINCAD by using FINCAD Professional Services and implementing functionality for modeling, pricing, valuation and risk.

FINCAD was chosen for its:

- powerful curve building, including the ability to implement OIS curves for a long list of currencies,
- ability to produce accurate P&L Attribution and CVA results,
- functionality for making workflow more manageable and efficient for the Market Risk group and other departments consuming derivatives results, and
- the Professional Services team, giving the bank ongoing access to expert quant resources.

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THE RESULTS

The Latin American Bank has experienced several positive benefits since using FINCAD. Highlights include:

Time Savings and Better Accuracy: The Market Risk, Operations and Accounting departments are benefitting from a marked reduction in manual processes. More time is available to spend on strategic work, and operational risk related to human and spreadsheet error is reduced.

Automation: The bank is now able to speed up valuation and risk calculations, automating the complete set of reports down to just 10 minutes.

Intraday Reporting: While once valuation and risk exposure reports were only generated at the end of the month, now the bank has access to these key calculations intraday and reports them on a daily basis.

Improved Risk Management: Richer risk calculations such as scenario analysis, CVA and P&L attribution now enable the bank to maintain greater control over its business.

“Having the ability to move our risk reporting from a once monthly to a daily function has made a world of difference. Producing results more frequently means there is less risk involved and we are operating more efficiently.”

HEAD OF MARKET RISK, Latin American Bank

LOOKING FORWARD

FINCAD's valuation and risk engine is both powerful and flexible, making it easy for the Latin American bank to add new currencies or derivative trade types as their business strategy expands or changes.



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