



Latin American Bank Adopts FINCAD F3 for Curves, P&L Attribution, Risk Reporting and CVA

Highlights

Client

Latin American Multilateral Bank

Business objectives

- Reduce manual processes
- Decrease operational risk
- Gain access to P&L, CVA and MTM reports
- Increase the frequency of risk reporting
- Improve valuation accuracy by implementing OIS discounting for 12 different currencies

Requirements

- Introduce powerful risk management solution for derivatives portfolio able to integrate with existing systems
- User-friendly, flexible and customizable interface
- Implementation and ongoing support from selected expert provider

FINCAD solution

FINCAD F3

FINCAD Professional Services

FINCAD features

- Unmatched speed in generating accurate pricing, valuation and risk calculations
- Industry standard approach to computing CVA
- Built on flexible and customizable architecture
- Expert Professional Services for implementation and ongoing support

Success factors

- Decreased operational risk while taking risk reporting from once monthly to once daily
- Improved workflow efficiency with automation
- Reduced time to generate risk calculations from 35 min. to 10 min.

The Challenge

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 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 and perform profit and loss (P&L) attribution, in order to assist them in understanding daily fluctuations in the value of their portfolio. The Bank also desired to establish a best practice approach to calculating credit valuation adjustments (CVA), as this was necessary to meeting regulatory requirements and for the Bank's business reporting requirements.

FINCAD's Solution

Having been a satisfied client of FINCAD for more than a decade, the Bank decided to turn to FINCAD again to meet their needs. The Bank's Market Risk team had already been successfully using FINCAD for trade valuation and sensitivity analysis for many years.

The Bank's key decision-makers soon chose to deepen their relationship with FINCAD by implementing F3, an advanced enterprise solution for modeling, pricing, valuation, and risk management of multi-asset, multi-currency derivative and fixed income portfolios. F3 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 all other areas in the Bank consuming derivatives results

About FINCAD

FINCAD is the leading provider of enterprise portfolio and risk analytics for multi-asset derivatives and fixed income. An industry standard since 1990, our advanced analytics, flexible architecture and patented technology enable financial institutions to make better investment and risk decisions. Our goal is to provide our clients with solutions that help them achieve their goals, with no compromises. Clients include leading global asset managers, hedge funds, insurance companies, pension funds, banks and auditors. To learn more about our award-winning solutions, please visit fincad.com.

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The Bank also elected to use FINCAD Professional Services to assist with both implementation and ongoing technical support of their FINCAD solution. "The decision to utilize FINCAD Professional Services was a strategic one," commented the Head of Market Risk. "Our business model is such that we do not keep quants on staff. The FINCAD team has been able to fill this gap, giving us ongoing access to expert quant resources that help us implement and run all our derivatives risk calculations beautifully."

The FINCAD solution receives trade and market data information, producing calculation results on-demand. Also, at times selected by users, a scheduler triggers calculations stored for reporting purposes. Key trade reports are also generated to feed back into the firm's core banking system. The FINCAD solution stores the portfolios, market data, curves, and results, producing a historical market risk repository for further analysis.

The Results

The Market Risk, Operations, and Accounting departments are benefitting from a drastic reduction in manual processes that were once necessary to carrying out their jobs. Therefore, more time is available to spend on strategic work, and operational risk related to human and spreadsheet error is markedly reduced.

Since using FINCAD F3, the Bank has also been able to speed up valuation and risk calculations, automating the complete set of reports down to just 10 minutes.

Prior to FINCAD F3, valuation and risk exposure reports were only generated on an end of month basis. However, now the Bank has access to these key calculations intraday and reports them on a daily basis. "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," said the Head of Market Risk.

Richer risk calculations such as scenario analysis, CVA, and P&L attribution now enable the Bank to maintain greater control over its business. Furthermore, the Bank has the option to expand their FINCAD solution in the future. F3's valuation and risk engine is both powerful and flexible, making it easy for the firm to add more currencies or derivative trade types as their business strategy expands or changes.

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