

Market Risk implementations

BUSINESS NEED (Market Risk)

The Basel Committee defined various shortcomings in the current 10-day VaR (Value At risk) framework and have designed incremental and specific risk capital charges to address this issue. The incremental risk charge as described by the Basel Committee “represents an estimate of the trading book’s overall exposure to certain risks over a given time horizon taking into account liquidity horizons of positions or sets of positions”. Specific risk provides protection in the event of adverse price movements in securities by various issuers. This initiative will need to build Specific and Incremental Risk measures which will:

- Explain the historical price variation in the portfolio;
- Capture concentrations (magnitude and changes in composition);
- Be robust to an adverse environment;
- Capture name-related basis risk;
- Capture event risk;
- Be validated through backtesting;
- Satisfy the pending regulatory requirements for incremental risk.

OPPORTUNITIES/CHALLENGES....

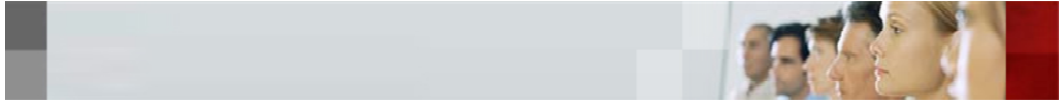
This initiative will need to define the methodological framework for this bank in incorporating these elements and complete a model development approach. Additionally, policies, procedures, and impacts to the market risk model are to be included in this initiative. This project will make this particular bank comply with regulatory and economic capital requirements as defined by the bank of international settlements.

EnableIT SOLUTION

This project carried the bank towards implementing the Oracle Revelus solution to capture incremental and specific risk charges. This provided the bank with a better understanding of their risk-return, strengthen their competitive advantage, and reduce the overall cost of compliance.

Oracle Revelus delivers an easily configured toolset that leverages a comprehensive data model and dashboard functionality, and, when used in tandem with compliance solutions, provides a highly effective, end-to-end solution for addressing compliance goals for multiple regulations, such as Basel II.

The Oracle Revelus suite includes an Enterprise Risk Management; Governance, Risk, and Compliance (GRC); and Customer Insight for financial services.



VALUE OF INVESTMENT

The solution will provide the bank with a more efficient method to track risk for their business units. The purpose of the investment is to comply with international and regulatory agreements for the market risk framework as outlined by Basel II.

TECHNOLOGIES USED |

- C++
- Java
- MS Office
- Oracle
- SQL Server
- .Net

BUSINESS DOMAIN

Market risk

Incremental risk

Specific risk

VaR

Front office

Middle office