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June 2018

University of Adelaide Prof uses Palisade's @RISK to Predict FIFA World Cup

June 2018 – University of Adelaide

For the FIFA World Cup he has developed a Monte Carlo simulation of the competition using @RISK, based on team rankings with other input including recent form. The modern Monte Carlo technique was developed in World War 2, by scientists working on the Manhattan Project – the development of the atomic bomb. The key idea is that rather than trying to work out every possible outcome of a complex system, enough possibilities are modelled to be able to estimate the chance of any particular outcome occurring.

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Counterparty Risk & CVA – x VA

June 2017 – RiskMathics White Paper

Traditional derivatives pricing and valuation generally considered solely the impact of cashflows. For simple tranactions, this problem was considered relatively straightforward and often simply a question of applying the correct discount factor. Valuation was only considered difficult where cashflows were themselves more complex, such as being non-linear, contingent or multidimensional.

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Bank risk committees: desperately seeking risk managers

June 2018 – Steve Marlin (Writer on the RM desk for Risk.net, MBA from Columbia University)

Regulators have spent the last several years toughening their rules on the quality of banks' risk oversight. They had good reason to act: in the years that followed the crisis, it was acknowledged risk committees were often too stretched to wield proper oversight of banks' risk appetites, and in many cases too lacking in expertise to understand them – even where they met regularly enough to form a proper view.

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Bitcoin futures growth could prompt bank ratings downgrades

June 2018 – Dan DeFrancesco (Writer for Risk.net's risk management desk, Dan spent three years covering financial technology.)

Rating agencies are considering downgrading banks that clear bitcoin futures – and potentially even those just exposed to the contracts through their central counterparties – should volumes continue to increase on the new, volatile contracts.

Since the launch of bitcoin futures contracts in December, the cryptocurrency has seen a significant downturn. The price of bitcoin on the spot market dropped by 66% over a four-month period after the derivatives went live on CME Group and rival CBOE.

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June 2018

Banks fear more trades will be caught in NMRF trap

June 2018 – Dan DeFrancesco (Writer for Risk.net's risk management desk, Dan spent three years covering financial technology.)

Banks are concerned that proposed amendments to the Fundamental Review of the Trading Book could increase the number of extraneous risk factors they are expected to capitalise outside their models – potentially loading more costly add-ons onto already inflated market risk capital charges.

Market participants' anxiety over a potential increase in non-modellable risk factors (NMRFs) stem from an appendix included in the Basel Committee on Banking Supervision's recent consultation.

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UK banks ramp up market risk

June 2018 – Alessandro Aimone (Writer for Risk.net. He plays with numbers on Risk Quantum.)

Market risk rose across UK banks in the first quarter, while operational, credit and counterparty risk declined, figures from the Bank of England (BoE) show.

Market risk-weighted assets (RWAs) grew by £23 billion, or 6.2%, year-on-year, to £397 billion, with the increase over the last quarter alone amounting to £18 billion, or 4.9%.

In contrast, credit and counterparty RWAs were 3.9% lower at £2.08 trillion, down from £2.2 trillion a year ago. Operational RWAs were also lower year-on-year.

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Citi's CRO on the importance of risk sensitivity

June 2018 – Steve Marlin (Writer on the RM desk for Risk.net, MBA from Columbia University)

Six months after the release of new banking rules by global standard-setters, the industry is still digesting their effect. The world's biggest banks had invested considerable time and money developing complex models to calculate risk capital. But the Basel Committee on Banking Supervision ripped up several of those model-based approaches in December, in some cases replacing them with simpler, standardised rules.

Many in the industry protest that the new Basel III standards impose overly conservative risk weights, and are too blunt compared with the previous advanced approaches.

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Has op risk capital peaked for US banks?

June 2018 – Tom Osborn (Editor of Risk Quantum. Louie holds a bachelor's degree in modern history and politics from the University of London.)

Operational risk capital – for so long the bane of big US banks – may finally have passed its high-water mark, as the pace of fines racked up for crisis-era misdeeds starts to abate.

Three of the big five US banks reported falls in operational risk-weighted assets (RWAs) during the first quarter of 2018: at Citi, the drop was $2.5 billion; at Goldman Sachs it was $3.3 billion; at Morgan Stanley, $178 million.

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Quants tout exposure-based approach to op risk modelling

June 2018 – Luke Clancy

Operational risk modelling has long been viewed as something of an alchemic process, reliant to a greater or lesser degree on making sense of patterns in historical losses to predict future capital requirements. Now, a group of op risk experts is proposing an alternative quantification technique based instead on current exposures and event frequencies – an approach the experts say has longevity for banks, even after the current internal models regime is scrapped.

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Climate risk joins ethics in driving lending decisions

June 2018 – Stella Farrington

A number of banks have reduced or stopped the funding of polluters in recent years. The reasons for such actions are complex, ranging from ethical concerns to political and shareholder pressure. Increasingly though, lenders are starting to think that it also makes good financial sense.

The 2015 Paris Agreement has raised the reputational costs of lending to carbon-heavy companies and accelerated a global move towards a low-carbon economy.

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