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Article of the month:

Multi-curve Fixed Income Modeling

June 2017. Fabio Mercurio (Global head of Quantitative Analytics Bloomberg)

There are many instances in the past and recent history where Treasury bills and even sovereign bonds happened to trade at a negative yield. For instance: i) in November 1998, the yield of Japan's six-month Treasury bills fell to minus 0.004 percent; ii) in November 2009, 3-month US T-Bills were trading at minus 0.03 percent after market supply shrunk.
Traders were so eager to carry healthy assets in their books that they were willing to pay an extra premium for that; iii) in February 2016, the Japanese government sold 2.2 trillion yen of bonds at an average yield of minus 0.024 percent, followed in July by the German government that issued gten-year bonds whose yield recorded an historic low of minus 0.05 percent. Also in July, the yields of all Swiss government bonds up to fty years turned negative, with the one-year bond yield falling as low as about minus 1 percent.
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Climate risk rising up agenda for lenders

September 2018. Stella Farrington (Senior writer of risk management, trading and regulation)

Under ever-increasing pressure from investors, banks are striving to improve their climate-related risk disclosure.
Mainstream investors, such as large asset managers, are increasingly concerned not only with a bank's green credentials but with its resilience to regulatory and physical climate risk. They want transparency on how banks are thinking about these risks, and insight into how they are assessing and managing them.
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Long-Term Matters: Disruptive change is coming – which side will you choose?

September 2018. Raj Thamotheram (Founder & Chair, Preventable Surprises)

Prof Jeffrey Pfeffer, one of the most influential management thinkers, was typically direct when I asked him what he thought the underlying problem was: "Companies and investors worry about environmental sustainability reputation but don't care at all about human sustainability."
In the US, IBM has laid off older staff and allegedly replaced them with cheaper workers from India. This would be a breach of its own guidelines. Investigative journalists at ProPublica and Mother Jones say that "in the past five years alone, IBM has eliminated more than 20,000 American employees aged 40 and over, about 60% of its estimated total US job cuts during those years".
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Improved credit loss estimates proposed for IFRS 9

September 2018. Luke Clancy (financial journalist at Risk.net)

A new method of providing smoothed estimates for probability of default could lead to better loan loss forecasting under recently introduced accounting standard IFRS 9, a new paper finds.
The technique claims to help banks make more accurate fixes on expected credit loss, or ECL, which is an important part of the new standard. It may also help for annual stress tests, such as the US Federal Reserve's Comprehensive Capital Analysis and Review, or CCAR. Some institutions already use the technique….

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Esma preps stricter stress-testing rules for EU funds

September 2018. Steve Marlin (Risk management writer)

European investment funds will be required to conduct standardised stress tests to gauge their resilience in extreme market conditions under new guidance being finalised by European Union authorities.
The European Securities and Markets Authority (Esma) is expected to release a draft proposal at the beginning of 2019, and is aiming to have the guidance finalised by mid-year.
European Ucits and alternative investment funds (AIFs) already perform regular, in-house stress tests.

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Modelled market risk falls for UK banks as standardised risk rises

September 2018. Alessandro Aimone (FX/Equity trader, Staff writer)

The proportion of market risk-weighted assets (RWAs) calculated by their own models is shrinking for large UK banks, Risk Quantum analysis shows.
The percentage of market RWAs generated using the internal models approach (IMA), accounted for 70% of the total in the second quarter of the year, down from 74% at the end of 2016. In contrast, the share of market RWAs generated by the regulators' standardised approach increased from 26% to 30% over the same period.

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Do two sizes fit all? Banks aim to standardise vendor risk

September 2018. Dan DeFrancesco

Wall Street can be cold, dark. For some of its champions, success is measured in personal triumphs. For others, there is deep satisfaction in the failures of others. Winning isn't enough. Everyone else has to lose.
But there are situations, be they few and far between, where the benefits of working together to accomplish something overwhelm those of going it alone.
In the recent past, this has happened twice. KY3P and TruSight were cobbled together by two different camps of big banks…

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Cyber security begins a shift to the risk department

September 2018. Steve Marlin (Risk management writer)

Those who are paid to worry are converging on a similar thought: cyber risk is too important to be left to IT.

In tech departments, unsurprisingly, the view is different: suits who model risk have neither the skills nor the alacrity to deal with real-world, moving-target cyber threats.

Either way, the two sides are already seeing a lot more of each other. Some banks, cognisant of the financial and reputational hazard cyber breaches represent, have been seeding risk departments with hardcore…

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Cancelling 2011 reform 'could cost Italy €8bn': reports

September 2018. Carlo Svaluto Moreolo (Senior Staff Writer)

Canceling the effects of Italy's Fornero pension reform of 2011 will require around €8bn of additional spending, according to reports in the Italian press.

In its budget report last week, the country's government confirmed its plan to roll back the reforms that raised the state retirement age to 67. The coalition – made up of the Northern League and the Five Star Movement – instead wants to allow retirement after workers have reached 64 years of age while contributing to the system for at least 38 years. The measure would initially affect 400,000 workers.

The government said it had agreed to a significant rise in spending for 2019 to "overcome" the country's public pension framework and maintain electoral pledges to lower the default retirement age.

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On The Record: Small Caps

September 2018. Carlo Svaluto Moreolo (Senior Staff Writer)

We have an active-only approach for small caps because we believe small caps belong to the realm of inefficient markets. Our mandates are truly active: we allow our managers to reach a tracking error of 10%. We are aware of the doubts in the academic literature and asset management business circles about the continued existence of the small-cap premium.

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UPCOMING EVENTS

Risk Management Perspectives Conference 2018

12th October 2018, Convention Centre Dublin

The Society of Actuaries in Ireland is pleased to announce the date for the Risk Management Perspectives Conference 2018, which will take place on Friday 12th October 2018 in the Convention Centre Dublin. The "Risk Management Perspectives" conference will provide attendees with insights into the challenges and opportunities that risk management creates for organisations.

[Find out more]

AFIR-ERM Colloquium, Florence 2019

21st to 24th May 2019. Florence, Italy

The Istituto Italiano degli Attuari and Ordine degli Attuari (ISOA) and the AFIR-ERM Section are pleased to invite you to the AFIR-ERM Colloquium 2019: "Innovating Actuarial Research on Financial Risk and ERM", that will be held from 21 to 24 May 2019 in Florence, Italy, the cradle of Renaissance. Come enjoy from its artistic heritage as you walk along in an "open-air museum". Find out more about the event.

[Find out more]