

## Best Sell-Side Credit Risk Product

# Numerix

Following a pair of 2013 Sell-Side Technology Awards wins for its CrossAsset credit risk platform, including sell-side product of the year, Numerix is back in the same position one year later—perched on top. But unlike the firm's continued success in this extremely competitive category, nothing about the development of CrossAsset has remained static, with 11 new clients signed in the past year.

While Numerix's handle on Basel III-mandated credit valuation adjustment (CVA) calculations and dynamic CVA hedging is well-established, it sought this year to do one—or two—better, by finishing up a refresh of its stack to include debt valuation adjustment (DVA) and funding valuation adjustment (FVA) calculations, with a newly reengineered “XVA” framework for CrossAsset as a result. Though neither DVA nor FVA is required of sell-side firms to the extent that CVA is under global regulation—yet—the analytics provider identified a growing need as major investment houses seek to more accurately measure the short- and long-term profit and loss (P&L) of individual trades over time on their own, especially for bespoke contracts and structured notes.

Profitability was once measured simply by mid-market valuation plus client margin. DVA now measures the additional cost incurred by a bank's own credit quality; FVA, meanwhile, develops a present value of the costs required to secure external funding associated with the trade, and does so upfront, rather than over its entire lifespan. In only one example, JPMorgan highlighted FVA earlier this year as costing the bank an extra \$1.5 billion, after it implemented a new calculation framework. If that number was large enough to raise eyebrows and require special explanation in the 2013 fourth quarter results at a bank of JPMorgan's size, a similar effect is likely to be seen up and down the Street, and in short order.

XVA, therefore, has been designed to project valuation adjustments taking into account the peculiarities of different International Swaps and Derivatives Association (ISDA) contracts that can be structured for 30-year terms or even longer, while aggregating credit risks a portfolio level. It allows CrossAsset to provide all three valuation-adjustment flavors faster, flexibly, and with more transparency to users than in the past, despite the heavy computational capacity these calculations demand. And Numerix's research in derivatives and pricing theory—respected across the industry as a unique source of strength—ensures the vendor will remain up on the next set of intricate credit risk criteria that takes hold in the post-crisis era. They may even help define it.

—TBM



Victor Anderson, Joseph Saporito, and John Starks

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Valuation



Counterparty Credit Risk

Risk

The best trading decisions require the best analytics.



Numerix CrossAsset platform delivers a highly flexible, transparent solution to calculate, analyze and limit exposures across business units and optimize capital allocation for Basel III compliance. A key differential for Numerix is its ability to support any instrument type within its Credit Valuation Adjustment (CVA) framework; calculations for PFE, FVA and DVA from both a trade and portfolio level are also possible with full incorporation of multi-curve modeling.

The learn why Numerix was named Sell Side Technology  
"Best Sell-Side Credit Risk Product" visit  
<http://nx.numerix.com/Numerix-Best-Counterparty-Risk-Analytics.html>

