

MARKET RISK FUNDAMENTAL REVIEW OF THE TRADING BOOK

SOLUTION

- Monocle ensured that all new requirements of the FRTB sensitivity-based approach are in place and amended the current internal models process (IMA) to comply with the FRTB regulations

BANKING AREA

- Market Risk

SKILL SETS

- Python
- Data Analysis
- Excel & VBA
- MatLab
- Technical Documentation Drafting

THEMES

- Regulatory Capital
- Data and Technology
- RDARR
- Process Mapping

INSIGHTS

- Review current processes to determine a clear scope of work and timelines
- Determine a clean and complete list of risk factors
- Have a clear understanding of the data provided by different areas and the ownership thereof
- Understand data requirements for various applications

OVERVIEW

FRTB serves to promote credibility and consistency for market risk modelling by making the Standardised Approach (SA) method more risk sensitive. The FRTB updates include explicitly capturing default risk and other residual risks as well as amending the current Internal Models Approach (IMA) method. The Credit Valuation Adjustment Framework has also been updated to align to the new market risk framework.

In order to comply with the FRTB requirements, one of our retail, corporate and investment bank clients planned to create a centralised data store to hosts all the necessary risk factors. They also made the decision to move their current IMA process utilising the Value-at-Risk (VaR) metric into a new, approved FRTB vendor solution.

Monocle worked on the technical documentation and process flows for the entire FRTB programme as well as the risk factor bucketing and definitions for the SA and VaR calculations. Monocle was involved in the migration of VaR from the current risk engine in the new risk engine and assisted in building out the Credit Valuation Adjustment models to align to the revised framework. As part of the overall VaR migration project, Monocle assisted in recreating the market risk and regulatory hierarchy for the FRTB solution as well as validated the risk factors, scenarios and subsequent VaR results between the two risk engines. Monocle was tasked with assessing and improving the IMA default risk charge (DRC) model by evaluating the data flows of the SA to improve synergies between IMA DRC and SA data processes.

RESULTS



New and improved FRTB vendor solution for VaR metric



A centralised data store that will host all risk factors that are applicable



A new aggregation and reporting engine and tool

KEY SKILLS REQUIRED

- An understanding of the new market risk (FRTB) and CVA Frameworks in order to be able to apply it to current risk processes
- Technical knowledge to improve current capital models to align them to the updated regulations
- Experienced data analysis and validation testing
- Python and Linux capabilities to build out solutions

TESTIMONIAL

Monocle has been instrumental in assisting our bank in the delivery of the FRTB project. From technical expertise, business analysis, process documentation and backfilling capabilities to free up internal capacity, they have been willing to step in where required. We would not have progressed as far as we have without their assistance.

Head of Risk & Capital Mgmt