DERIVATIVES ANALYSIS: INDEPENDENT AMOUNT (IA) COMPUTATION COLLATERAL OTC

Tutorial by Qcfinance.in

Independent Amounts IA

Provide an additional buffer of protection to dealers to protect against certain risks – including risks arising where:

(i) there is market volatility and a delay before new collateral requirements are computed, called and settled

(ii) the dealer's exposure increases after the default of the end user as a result of market fluctuations prior to the dealer closing out its position;

(iii) margin payments are not made because they fall below an agreed threshold amount

(iv) there is a discrepancy between margin valuations (based on mid-market values) and default valuations under the ISDA Master (depending on the method used upon close-out).

IA Custodian

- IA Posted Directly with the Dealer or its Affiliate
- IA Posted with a Third Party Custodian of the Dealer
- IA Posted with an Agent Appointed by Both Parties

Pre Requisite

- Pricing derivative products like Futures, Options, Indexes, CDS, CDO, FRAs, SWAPs, SWAPTIONs, CAPs/FLOORs.
- Credit Risk Model, Value at Risk. Knowledge of Interest Rates, Credit spreads, bond pricing, etc.

Validation

- Correlation issues resulting in fallback calculation, risk factor mapping issues, missing risk sensitivities, risk discrepancies, low exceptions in the risk engine

IA numbers for Hedge Funds

- Discrepancies between the IA values provided by the counterparty and the internal calculation

Greek computation for structured products

- Sensitivities with various factors, here interest rate becomes the most important
- Should we be using Copulas or Correlations?
- Are the distributions different at some scare for extra events (EVT)?
- Mapping and finding sensitive for all risk factors to the structure product

References

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