



ARTICLE

## HOW TO CALCULATE DESK FRTB WITHIN A WEEK

The front office can take control of FRTB and cost-effectively optimize capital consumption – with the right tool.

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## The front office can take control of FRTB and enable desks to start cost-effectively optimizing capital consumption within a week – with the right tool.

The front office continues to feel the pressure on margins. Trading desks must be able to take control of their costs and manage their books to maximum capital efficiency. Traders and desk heads need fast and flexible access to analysis on capital cost scenarios, and that analysis must respond quickly to changing market environments, new strategies and initiatives. Most importantly, the analysis must be under the control of the desk. Leaving it to enterprise functions within the bank doesn't provide the agility and flexibility that the front office needs to make optimal trading decisions.

The Fundamental Review of the Trading Book (FRTB) is an obvious example. Under FRTB, capital outcomes will be significantly modified by the bank's desk structure and whether an individual trade's risk factors have sufficient time series history to be considered liquid and "modelable." Some positions will be strongly penalized, and some hedges will no longer be effective in reducing market risk capital.

So before a trader or desk head can decide which trades to execute or even which business lines to invest in, they must understand all FRTB capital costs. And to avoid unprofitable decisions, that information must be readily available – which means on traders' desktops.

### Finding the right tool

But enterprise risk applications are generally not widely available to handle such analysis, and even when they are, they may not be focused on the types of detailed scenarios that are required to understand the impact on desk profitability. Homegrown tools, meanwhile, may provide the speed, but they are generally neither efficient nor reliable. Using tactical computing tools like these to inform mission-critical decisions can lead to errors and oversights. And while they may be simple to build, these tools are often costly to maintain.

So we know what doesn't work. But what does? You need a tool that is flexible and agile; available

on the desktop but able to scale to tens or hundreds of thousands of trades; and accurate, reliable and benchmarked against the regulations. It must be open and therefore easy for users to modify the inputs, methods and outputs – in this case the capital calculation.

With the right tool, users can run both FRTB standardized and advanced calculations in one go, which lets them see consistent results side by side. If trade details are also provided, the tool should be able to supply fully accurate modelling as well, capturing a full range of non-linear and complex trade-specific payoffs. What-if trades and desk structures should be supported natively. Finally, users must be able to perform impact assessments on trades, risk factor histories, desk structures, and – most importantly – regulatory approval on individual desks.

With the right solution and a full set of reliable FRTB calculations, the desk doesn't need to build analytics from scratch; the simplest implementation only requires a sensitivity extract, allowing users to be up and running with a quantitative impact study in under a week. Furthermore, if results are calculated and aggregated in-memory, it should be extremely fast to run new scenarios on the fly, allowing the desk to act quickly.

### Beyond calculations

The right tool will also deliver strategic benefits. As FRTB and banks' strategies to cope with it both evolve, the desk will need to improve the tooling and accuracy of its forecasts. Technology can help the front office shape the optimal regulatory strategy, keeping the desk at the center of the conversation around regulatory approval, desk structure and strategy.

### Contact us

To find out more about FIS' solutions for risk and FRTB, contact us at [getinfo@fisglobal.com](mailto:getinfo@fisglobal.com) or visit [www.fisglobal.com](http://www.fisglobal.com).