

CREDIT AND DEBIT VALUATION ADJUSTMENTS

Response to the Exposure Draft

About the respondent

APVIF is the association of professional financial instruments valuers. It was founded in 2011 and currently counts 10 members.

The association purposes are;

- to define and broadcast standards and guidelines of financial valuation methods,
- to communicate on the profession and promote it,
- to take part in working groups with regulators.

APVIF is a member of FFEE.

Its President is Francis Cornut, Chief Executive Officer of DeriveXperts and member of the derivatives valuation working group.

Comments

This document covers all issues related to CVA and DVA. As valuation specialists we find it very useful and we believe it will help us to better understand principles of best practice in this area.

Response to questions

Q1 Do you agree that the proposed scope is appropriate?

Answer

Yes

Q2 Do you agree with these definitions?

Answer

Yes

Q3 Do you believe that other methods should be considered in addition to the Monte Carlo, such as binomial and trinomial trees?

Answer

No. At this stage MC seems the most common method used for xVA calculations. Once the TIP for Derivatives valuations is finalised, it could be used as a reference. For the purpose of this document, mentioning American MC may be useful.

Q4 Do you believe that netting sets have been discussed to an appropriate level of detail?

Answer

No. This section would deserve more details in particular:

- How to deal with net exposure with fully / partially / non collateralised deals
- Manage with complex CSAs:
 - multi currency
 - multi asset
 - asymmetric collateral arrangements
 - physical collateral
- Carefully watching events on collateral:
 - callability
 - early termination
 - break clauses
 - recouping
- Requirement for having a central transaction repository

Q5 Do you consider that there is a need for the IVSC to augment this with more specific guidance on governance and controls in the financial sector?

Answer

No

Q6 Do you consider that there is a particular issue or issues that arise when considering a suitable governance and control protocol for calculating CVA or DVA that does not otherwise give rise to concern?

Answer

? This question is not really clear.

Q7 Do you agree that it is appropriate to suggest that entities with less complex or smaller derivative holdings in relation to their overall business should adopt less complex methodology, or instead should all entities be expected to implement equally rigorous methodology?

Answer

Yes, the methodology used should be adapted to complexity and materiality, however equal rigor between entities should be expected to determine the appropriate methodology and to control its results.

Q8 Does the discussion about the cost of funding contribute to the objective of this TIP outlined in the “Scope and Purpose” section on p3?

Answer

Yes

Q9 Given the current debate in this area, do you believe it is appropriate for this TIP to outline the main issues, or should this be removed altogether until there is greater consensus?

Answer

We believe FVA is important to discuss alongside CVA and DVA and cannot be ignored even if a clear consensus has not yet been reached.

Q10 With this in mind, are there any key principles that have been omitted or not fully explained?

Answer

In our view this document is very good and very useful. As we mentioned earlier we think that the section about netting and collateral could be a little bit more detailed.