Algorithmics Awarded Patent for Integrated Market and Credit Risk Modeling Technology

*Compound Sampling Framework allows clients to effectively model Economic and Regulatory capital and properly price CVA Algorithmics, the leading provider of risk solutions, today announced that it has been awarded a patent for the technology underlying its Compound Sampling Framework, which uses an innovative approach to modeling integrated market and credit risk. The patent has been awarded for the technology’s unique approach to modeling various correlated risks in a consistent, computationally efficient fashion.*

Toronto, London (PRWEB UK) 13 June 2011 -- Algorithmics, the leading provider of risk solutions, today announced that it has been awarded a patent for the technology underlying its Compound Sampling Framework, which uses an innovative approach to modeling integrated market and credit risk. The patent has been awarded for the technology’s unique approach to modeling various correlated risks in a consistent, computationally efficient fashion. This patent recognizes Algorithmics’ investment in modeling integrated market and credit at a time when the integration of market and credit risk is receiving considerable industry and regulatory attention.

The patented technology underlies Algorithmics’ Algo Credit Economic Capital and Algo Credit Regulatory Capital products, and the Credit Valuation Adjustment (CVA) capability within Algorithmics’ Integrated Market & Credit Risk solution.

- In Algo Credit Economic Capital, the technology is used to estimate efficiently economic capital at various confidence intervals, consistently capturing the joint interactions between market and credit movements.
- In Algo Credit Regulatory Capital, the technology is used to derive the regulatory required Alpha measure for calculating capital in the trading book.
- For CVA, the patented technology is used to properly capture wrong-way risk in a bank’s CVA pricing.

The approach works both in single step and multi-step modes and can capture correlated market, migration, default and double-default risks using compute times that run orders of magnitude faster than traditional ‘brute-force’ simulation approaches. The technology utilizes a consistent, transparent, bottom-up approach to integrating these risks.

Ben De Prisco, Senior Vice President of Research and Financial Engineering, said: “This technology represents a significant advance in the area of integrated market and credit risk modeling. The last several years have provided irrefutable evidence as to the importance of capturing integrated market and credit movements both in terms of measuring capital requirements and in pricing. What we’ve seen, confirmed by some of the findings of the Basel Committee, is that traditional, simplistic top-down approaches for modeling these joint risks can lead to sizable biases in overall risk estimates. However, while transparent, bottom-up integration approaches have always been the preferred route, they do come with performance implications. This patented technology helps firms overcome these performance barriers, enabling full integration of market and credit risk in a timely fashion. With this technology, businesses can get the answers they need, when they need them.”

Michael Zerbs, President and COO, Algorithmics, added: “This latest patent is yet another example of our commitment to research and to solving some of the difficult issues the industry currently faces. We will
continue to invest in cutting-edge research to ensure we provide risk solutions that help our clients create
value.”

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Notes to Editors:

Algorithmics is the world's leading provider of risk solutions. Financial organizations from around the world
use Algorithmics’ software, analytics and advisory services to help them make risk-aware business decisions,
maximize shareholder value, and meet regulatory requirements. Supported by a global team of risk experts
based in all major financial centers, Algorithmics offers proven, award-winning solutions for market, credit and
operational risk, as well as collateral and capital management. Algorithmics is a member of the Fitch Group.
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Integrated market and credit risk links analytical components within a single data engine and database that has a
flexible and highly scalable architecture. This enables firms to integrate the solution with existing systems
today, and provides a framework to adapt with the market and deliver increasingly sophisticated analysis going

Algo Credit Economic Capital enables enterprise-wide economic capital calculations for market and credit
risks. Driven partly by competitive pressures and best practice, and partly by regulator expectations around
Pillar 2 compliance with Basel II, the software supports financial institutions seeking to implement
management approaches founded on risk-based economic capital calculations.

Algo Credit Regulatory Capital allows users to generate robust and consistent Basel II credit regulatory capital
calculations across the enterprise, including a number of key features relating to the management of data inputs.

Credit Value Adjustment (CVA) is traditionally defined as the difference between the risk-free portfolio value
and true portfolio value of one or more trades. This accounts for the expected loss arising from a future
counterparty default and can be formulated as: CVA = Discounted expected exposure x Default probability x
Loss given default.

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