Calibrate Consulting
Profit and Loss Explain (PLE)

PLE Control Overview

PLE is a key part of the overall control framework for a trading business. An effective PLE process allows a business to:

Comply with Regulation: The Fundamental Review of the Trading Book (FRTB) regulations will soon require firms to test PLE effectiveness monthly in order to qualify for internal model treatment. Even in entities out of scope of the FRTB, regulators now view a robust and well governed daily PLE process as being essential.

Analyse Profit and Loss (PnL): allows the risk drivers of historical PnL to be comprehensively identified and analysed, ensuring that the PnL is understood by the front office and finance.

Verify Risk Management Framework: provides a quantitative assessment of how well the firm's risk management model captures the risk factors that drive its PnL, identifying any exceptions and bringing finance and risk departments together.

Test Models Daily: verifies that the greeks produced by the firm's models are fully consistent with their valuations, using the firm's actual portfolio and current market conditions. This is an important component of model risk control.

Common Issues

Many trading businesses do not currently have an effective PLE process in place, with the control often implemented via ad hoc spreadsheet solutions (if at all). Such solutions do not allow for entity wide analysis on a consistent basis, or provide a basis for assurance that all exceptions which could indicate an issue have been captured and resolved appropriately.
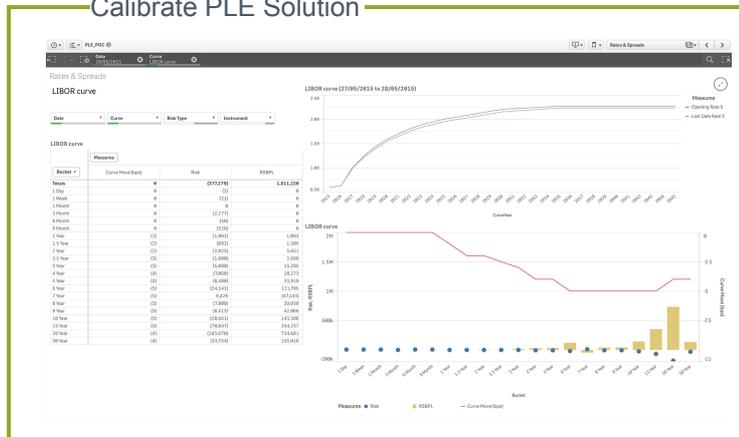
Ensuring that the front office, finance, market risk and model risk control teams become better connected (sharing the same data rather than existing in silos) is currently a key theme among both regulators and senior management. A robust PLE process helps bring these groups together and allows them to cross check and verify their core outputs.

Our Solution

The Calibrate Profit & Loss Explain (PLE) Solution provides a full PLE package sitting on top of and using greeks and valuations from IBM® market risk management software – including Algo Market Risk®, Algo One Risk® and Algo Risk Service on Cloud®. It strengthens the control environment, proactively addressing a current regulatory focus with a highly scalable solution. A high return on investment is expected in terms of both cost and time versus a, typically expensive, proprietary system.

Sophisticated reporting is combined with ease of use, whether on PC or mobile device, with the solution being highly scalable to ensure maximum return on investment for the client.

Calibrate PLE Solution

Calibrate Consulting

Established in 2008, Calibrate operates globally with bases in London and New York. Our team has deep experience in the area of PLE implementation, both as industry practitioners and on behalf of our clients. Please get in touch to discuss any aspect of PLE and how we can help.

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