

# Calibrate Consulting Profit and Loss Explain (PLE) integrated with IBM® OpenPages® Governance

## 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 currently have the PLE control implemented via ad hoc spreadsheet solution (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. A tight and well defined governance process is crucial for an effective PLE control - without one escalation decisions are effectively left to the most junior and inexperienced members of the team.

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.

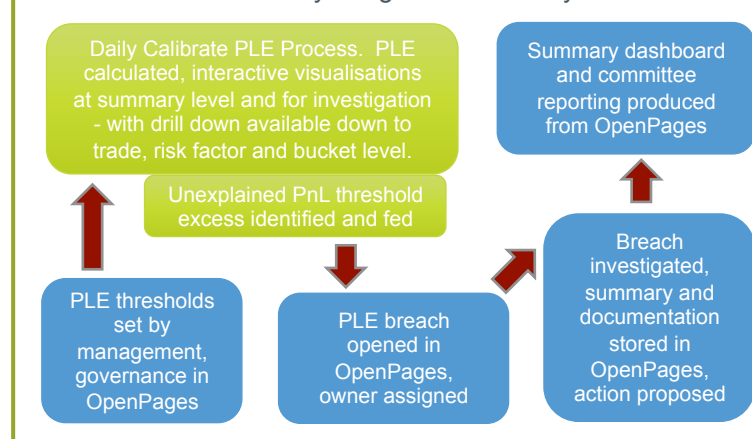


## Our Solution

The Calibrate Profit & Loss Explain (PLE) Solution provides a full PLE package using greeks and valuations from the client's risk management system. The application is fully integrated with the IBM OpenPages Model Risk Governance solution to enable highly developed and reliable PLE governance processes to be implemented efficiently and effectively.

Together the two solutions strengthen the control environment, proactively addressing a current regulatory focus in a highly scalable way. A high return on investment is expected in terms of both cost and time versus a, typically expensive, proprietary system.

### PLE Governance Fully Integrated with Daily Process



## 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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