

Excerpt from the 2006 Annual Report on Software for Financial Engineering and Risk Management

The following excerpt is from the article "Continued Financial Product Innovation and Regulatory Requirements Drive Change for Software Firms" published in the "Annual Report on Software for Financial Engineering and Risk Management" by the authors of Financial Engineering News.



Mirko Vanous, product management team lead at FINCAD, says many firms he works with are looking increasingly for ways to bring valuation in-house, as opposed to relying on dealers and counterparties for valuations.

This trend has two main drivers. First, regulations such as FAS 133 and Sarbanes-Oxley are implicitly trying to get firms to bring valuation in-house and to prove they understand the risks they face, or potentially face. Regulations also look for transparency which ultimately benefits investors and shareholders, but also helps firms re-evaluate their risk strategies.

Second, OTC (derivative) securities are becoming more complicated. Straightforward intuitive reasoning that worked in the past may not be adequate for their valuation and risk assessment. Instead, they may require increasingly complex modeling.

As a result, financial risk managers who handle valuation and risk assessment have taken on a more strategic role at many firms. To support the financial risk manager function, firms are looking to in-house and independent valuation.

While we are seeing a trend toward more complex securities, firms are now less likely to buy a security if they don't have the infrastructure to independently value it and assess its risks. In-house valuation technology will allow firms greater flexibility in relation to the types of securities available to them as investment and risk management vehicles.

To capitalize on these trends, FINCAD provides software and services that support the independent valuation of derivatives and financial securities. FINCAD also is beginning to offer more exotic coverage such as callable snowball notes.

Mr. Vanous says that the world is going towards fair value accounting, and the ultimate beneficiaries will be shareholders and/or investors, as they will be able to have greater confidence that firms are getting the numbers right.

Please visit www.fincad.com to learn more about FINCAD.

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