

FINCAD Offers Consistency in Derivatives Valuations

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NEW YORK — Valuing derivatives in a manner compatible with practices followed by other firms or auditors can be a challenge for institutional investors. The **Hospitals of Ontario Pension Plan (HOOPP)** found that by using FINCAD Analytics Suite for Excel, a derivatives valuation solution offered by **FinancialCAD (FINCAD) Corporation**, the plan could value these securities in a manner consistent with that of its auditors.

“Our auditors actually use FINCAD [Analytics Suite For] Excel, so when they were auditing the valuations that feed into our book of records, they were actually able to match results,” says Jeff Rabb, Vice President of Risk Management at HOOPP, which had about C\$57.2 billion (\$49 billion) in assets under management as of year-end 2008. “FINCAD is automated, transparent and known in the industry, so when auditors come in, they are familiar with it.”

HOOPP began using the FINCAD solution about 18 months ago and is aiming to run all of its derivatives products through the solution, according to Rabb. HOOPP currently runs about 90 percent of its derivatives activity through FINCAD, he adds. “We use very many different types of derivatives,” says Rabb. “We are not like a typical pension plan which might just use interest-rate swaps or cross-currency swaps. We have some more complex ones as well. We use the FINCAD Analytics for developers to do the valuations. It’s done within the IT environment, so it’s very structured and controlled.”

In addition, FINCAD’s compatibility with other software packages proved to be another benefit, explains Rabb. “If we wanted to use FINCAD for scenario testing, we could have other software programs call the FINCAD routines and value derivatives under multiple scenarios,” he says.

FINCAD also operates its Alliance Program, which allows commercial software developers to embed FINCAD analytics solutions into their own offerings. **Shadow Financial Systems**, a provider of post-trade processing, Treasury and accounting services for trading, is the newest member of the program. Shadow Financial Systems’ participation in the program began when a client, **Alternative Investment Solutions (AIS)**, chose FINCAD for valuing derivatives of its own clients.

“AIS uses Shadow as its basic bookkeeping system to maintain positions for its hedge fund customers and to do the accounting for those positions to generate net asset values as their administrator,” says Donald Marino, Chief Executive Officer, Shadow Financial Systems. “To extend the functionality and the offering AIS makes to its clients, they needed to do valuations of these OTC derivative products. They approached us with the concept of wrapping the AIS tools and bringing them into Shadow’s bookkeeping processes so the position valuations could be generated as part of the normal job streams that are submitted to process the accounting sweeps for all the hedge fund customers.”

DERIVATIVES VALUATION

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Users of Shadow Financial’s ShadowSuite application can leverage the FINCAD derivative pricing library to independently value derivative positions in post-trade processing and clearing operations. ShadowSuite handles post-trade processing, reconciliation, clearing, settlement, Treasury and accounting functions, and will expand its swaps module using the FINCAD library to value floors, caps, collars, straddles and swaptions. “We use the FINCAD libraries in the hundreds of processes for valuations that are running somewhere in the design used to compare [pricing] in tandem with yesterday’s data,” says Marino. “We created an ‘end of day’ that doesn’t require shutting the system down. Our system is up and running for Singapore to start doing specific enquiries. Now we can actually provide valuations as an auditable and controlled function of our system.”

Along with the FINCAD Analytics Suite for Excel, FINCAD offers the development toolkit used in the Alliance Program, as well as software-as-a-service (SaaS) versions of its offerings, including FINCAD Auditor Insight and The Perfect Hedge, geared to corporate treasurers, risk managers, auditors, analysts and service providers.

“The development toolkit is used both by internal developers in financial services firms, and by other software vendors,” says Robert Park, President and Chief Executive Officer, FINCAD Corporation. “We have about 70 partners who embed FINCAD Analytics in their business process systems.” These partners include DST, the portfolio management and accounting systems provider that uses FINCAD for risk management functions; order management systems providers Charles River Development and Linedata Beauchamp; and corporate treasury solutions providers such as Misys.

“‘The Perfect Hedge’ includes the ability to enter derivative positions and value them [for] value at risk using essentially

the linear method and it has a scenario engine,” adds Park. “It also provides hedge effectiveness support to comply with FAS 133. So it gives users the ability to match underlying positions with hedging transactions in a one-to-one or many-to-many relationships and calculates — prospectively and retrospectively — compliance with hedge effectiveness rules.”

Markaz, the Kuwait Financial Centre, an asset management and investment banking firm, is deploying FINCAD Analytics as part of its work to build and maintain trading and technology infrastructure for the Kuwait Stock Exchange, supporting options trading in the Middle East. Markaz is using the FINCAD Analytics Suite for Developers as its pricing engine for exchange-traded options, and FINCAD Analytics Suite for Excel to value structured products and after-hours and over-the-counter trades. “FINCAD Analytics is providing us with proven industry standard analytics that are fast, accurate, robust, and transparent,” says Hussein Zineddine, Assistant Vice President, Equity Derivatives and Structured Products, Markaz. “With its breadth of coverage, FINCAD Analytics enable us to manage valuations of various trades of both conventional and Islamic financial structures.”

Through these partnerships and products, FINCAD has become a leading provider of independent pricing and risk analytics, according to industry consultancy Celent. “FINCAD has continued to strengthen its analytics across multiple asset classes and now has enhanced capabilities to support cross-asset pricing for structured products,” states a Celent report on the derivatives and structured process pricing industry issued this month. “FINCAD particularly stands out not only in having a broad asset class coverage for its pricing libraries, but also significant ISV partners that embed its models and tools in their applications, therefore enabling clients to gain more consistent access to its models in third-party applications.” □