



Finance and Economics Discussion Series: Pricing Counterparty Risk at the Trade Level and CVA Allocations

United States Federal Reserve Board, Michael Pykhtin, Dan Rosen

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Finance and Economics Discussion Series: Pricing Counterparty Risk at the Trade Level and CVA Allocations

By Michael Pykhtin, Dan Rosen

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****. We address the problem of allocating the counterparty-level credit valuation adjustment (CVA) to the individual trades composing the portfolio. We show that this problem can be reduced to calculating contributions of the trades to the counterparty-level expected exposure (EE) conditional on the counterparty's default. We propose a methodology for calculating conditional EE contributions for both collateralized and non-collateralized counterparties. Calculation of EE contributions can be easily incorporated into exposure simulation processes that already exist in a financial institution. We also derive closed-form expressions for EE contributions under the assumption that trade values are normally distributed. Analytical results are obtained for the case when the trade values and the counterparty's credit quality are independent as well as when there is a dependence between them (wrong-way risk).



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