

EU Bank Forex Risk within Global Forex Markets

Methods of Financial Risk Control using VaR

ABSTRACT

Quantitative financial research communicates to different types of style of financial risk measures in many ways. Within the world of international trading markets, financial firms and companies operating should establish financial risk control policies and techniques to protect financial positions due to the uncertainty of foreign exchange (FX) trading value instabilities. Foreign exchange departments and public sector agencies are encouraged to develop specific measures that best address the foreign exchange risk of their business. Foreign exchange risks (FX risk), from a market risk prospective is the risk of capital and/or cash flow value fluctuations due to changes in currency exchange rates.

The study focuses on the process of financial companies (i.e. EU Banks) measuring foreign exchange risk more precisely using Value at Risk (VaR) techniques; as well as risk measures that summarize and support management-relevant aspects of the entire gain/loss risk profile for financial investment objectives. The methods of assessment FX risk, within Financial Risk Control Theory, of VaR for Individual Positions, Portfolio VaR, VaR Instruments, Basel Backtesting, VaR to Expected Shortfall (ES) were investigated.

The Financial Risk Control Performance Investigation of the methods of determining FX risk using VaR was explained and results of innovative computation valuations discovered were also deliberated.