**Key Takeaways on Clean P&L & Hypothetical P&L**

**1. Importance of Improving Processes & Testing Infrastructure**

* It is critical that everyone is invested in **building a better process** and a **more robust testing infrastructure** to enhance accuracy and efficiency.

**2. Understanding P&L Components**

* **Model P&L & Comprehensive P&L**:
  + **Traditional P&L**: Reflects the change in portfolio value from one day to the next.
  + **Difference Between Model P&L and Comprehensive P&L**:
    - Model P&L may include **adjustments** for issues like:
      * Incorrect prices
      * Missed data points
      * Necessary corrections
    - Comprehensive P&L is what Finance refers to as the standard daily P&L.
* **P&L Attribution Methods**:
  + **Two Approaches**:
    - **Waterfall Style**
    - **Greeks Style**: Attributes P&L to **market risk factor movements** (e.g., changes in interest rates, FX, and first/second-order effects).
  + For **Clean P&L**, these methods are **less relevant** but become significant when discussing **Volcker-related matters**.

**3. Clean P&L Components**

* **Theta (Time-Related Effects)**:
  + Includes factors related to the **passage of time**, such as:
    - Accruals
    - Coupon payments
    - Funding effects
* **Position P&L**:
  + Captures **position changes** and **intraday activities**, including:
    - Cash flows ocurring within the day
    - New trades
    - Amendments
    - Option exercises between T-1 and T

**4. Clean P&L vs. Hypothetical P&L**

* **Hypothetical P&L (HPL) – "Bottom-Up" Approach**:
  + Built from **first principles**, disregarding:
    - **Theta (passage of time)**
    - **Position changes (intraday activity)**
  + Methodology:
    - Use **yesterday's market data** (curves, quotes) and **roll it forward** to today.
    - Keep **forward rates constant**, assuming no changes except the date.
    - Calculate P&L using these two sets of market data on the same starting positions.
* **Purpose of Hypothetical P&L (HPL)**:
  + **Regulatory Requirement (OOO**
    - HPL is used to **backtest VaR (Value at Risk)**.
    - **Why?** VaR **excludes** theta effects and intraday activity.
  + **Assessing VaR Model Accuracy**:
    - Ensures the model effectively predicts **maximum portfolio losses**.
    - If breaches OOOur, the bank must **hold additional capital** as a penalty.
  + **Financial Impact**:
    - **Current deficiencies in HPL and backtesting cost the bank**
    - This makes remediation a **top priority**.
* **Clean P&L – "Top-Down" Approach**:
  + Starts from **Comprehensive P&L**, then subtracts adjustments to derive Clean P&L.
  + **Key Principle**:
    - **Top-down and bottom-up approaches should closely align**.
    - Both numbers will be calculated and reconciled within **VVVV**.
  + **Action Plan Submitted to OOO**:
    - Commitment to **produce both Clean P&L and HPL** and **reconcile them**.

**5. Data Readiness for Testing & Validation**

* **Full Portfolio Testing**:
  + Requires high-quality **production data** from data sources.
  + **Urgency for Line of Business (LOB) Teams**:
    - The **sooner** LOB teams start reviewing sample messages, the **better**.
    - Helps identify **requirement gaps** for new and existing products.
    - SOR (Source of Record) teams can **prioritize fixes accordingly**.
* **Finance Open Questions**:
  + Outstanding questions around:
    - **Clean P&L model integration** & **finance adjustments**.
    - **Reconciliation display on PPPP** & **distribution to FFFF via VSRE**.

**6. Infrastructure, Capacity Planning & Testing**

* **Infrastructure & Capacity Planning**:
  + Additional capacity planning is needed to support clean P&L processing.
  + **Jobs Setup Approach**:
    - Initial focus on **getting infrastructure in place**.
    - **Early-stage outputs may be imperfect**, but refining over time will improve quality.
    - Goal: **Start with something functional, then optimize**.

**7. Target Deliverables & Key Challenges**

* **Yellow** 
  + **Daily manual reconciliation** against SOR (Source of Record).
  + **Goal is NOT a 100% match rate**:
    - Current baseline results have **known issues** (e.g., T.Q.Appraoch inconsistencies).
    - Aim to **achieve a high, defendable match rate** with more accurate results.
* **Key Challenges (Headwinds)**:
  + **Coupon Payment Reconciliation for P&L with FFFF**.
  + **Regression Tests**:
    - Initial results showed **zero match rates**.
    - Need improvements in **data consistency and validation**.
  + **Production-Level Manual Reconciliation**:
    - Market data and reference data issues in **lower environments** often block deeper reconciliation.
    - **Production-level tests anticipated to yield a higher match rate**.

**Final Notes**

* **Priority is fixing Clean P&L & HPL deficiencies, given the financial impact.**
* **Testing and reconciliation must be accelerated to meet regulatory requirements.**
* **Alignment across business units is crucial to successful implementation.**

1. **Clean P&L Definition & Importance:**
   * **Comprehensive P&L**: Standard daily P&L calculation reflecting portfolio value changes.
   * **Model P&L Adjustments**: Addresses pricing errors and other financial corrections.
   * **P&L Attribution Methods**:
     + **Waterfall Style & Greeks Style**: Attributes P&L to market risk factor movements.
   * **Passage of Time P&L**:
     + Equivalent to theta but includes other time-based effects like accruals and funding.
   * **Position P&L**:
     + Tracks changes due to intraday activities such as cash flows and trade amendments.
2. **Hypothetical P&L & Its Role in VAR Backtesting:**
   * **Hypothetical P&L (Bottom-Up Approach)**:
     + Strips out passage of time and position-related changes.
     + Used for backtesting VAR, which lacks theta and intraday effects.
     + Backtesting ensures VAR models accurately predict potential losses.
   * **Business Impact**:
     + Current deficiencies in clean P&L and VAR backtesting are costing the bank.
     + High priority remediation effort required to address regulatory concerns (OOO).
   * **Reconciliation Strategy**:
     + Both **top-down** and **bottom-up** methods will be used.
     + Action plan submitted to OOO to ensure accurate reconciliation.
3. **Strategic Roadmap & Deliverables:**
   * **Key Areas of Focus**:
     + **Accurate data sourcing** ().
     + **Depth integration** (T.M.Approach, INST, OBS).
     + **Engine work & risk model enhancements**.
     + **Finance reconciliation & reporting**.
   * **Desk-Level vs. Line-of-Business Implementation**:
     + Reconciliations OOOur at the desk level.
     + CA) and rollouts happen at the **line of business (LOB)** level.
   * **Current Progress & Milestones**:
     + Repo desk is the first to go live with full strategic components.
     + Some concerns about **CATA data quality from T.D.Appraoch** .
4. **Trade Data Sourcing & Market Data Integration:**
   * **2.0 Deployment**:
     + Ensuring production data is reliable for full portfolio testing.
     + CATAL are now publishing in production.
   * **Corrective Action (CA) Requirements**:
     + Full requirements for feed1 are due by
     + Teams urged to start reviewing sample messages now.
5. **Heat Map & Delivery Tracking:**
   * **Major Components**:
     + **Trade Data Sourcing (TDS 2.0), Market Data (SOR) Infrastructure (Capacity Planning)**.
     + **Clean P&L Model Integration, Finance Adjustments, Reconciliation (VSRE Framework), Display on Parallax**.
   * **Regulatory Compliance**:
     + Model validation and documentation required by end of Q1.
6. **Reconciliation Strategy & Regression Testing:**
   * **Calypso & Catalyst Issues**:
     + Identified issues with Calypso’s latest release; fix deployed next week.
   * **Daily Manual Reconciliations**:
     + Establishing baselines with Calypso, Mars, and middle-office P&L.
   * **Strategic Reconciliation Framework**:
     + Moving away from legacy reconciliation tools.
     + First adopters of VSRE strategic framework.
7. **Infrastructure & Job Setup:**
   * **BS2 Job Setup**:
     + Teams encouraged to set up infrastructure first, refine later.
   * **Capacity Planning**:
     + Particularly crucial for **FX and Rates desks**.
8. **Key Risks & Challenges:**
   * **Data Quality Issues**:
     + TDS 2.0 needs stable production data for accurate reconciliation.
   * **Alignment with Horizontal Milestones**:
     + Ensuring dependencies across different teams are met.
   * **Time Constraints**:
     + March 31st deadline for manual reconciliation.
     + Model documentation deadlines per CA commitments.
9. **Conclusion & Next Steps:**

* **Leadership Confidence**: Management has confidence in the team to execute strategically.
* **Urgency & Prioritization**: Addressing clean P&L issues is critical to regulatory and financial stability.
* **Action Plan**:
  + Ensure **TDS 2.0 production data is validated**.
  + Drive early engagement from Line of Business teams on message validation.
  + Expand **regression test coverage**.
  + Align master plans across horizontal components.

**Final Remarks:**

* This initiative presents a strategic opportunity for the VVVV team.
* Need **full engagement across teams** to meet aggressive timelines.
* **Regulatory, financial, and operational implications are high**, requiring a concerted effort to fix existing gaps in clean P&L and VAR backtesting.

Would you like a more condensed version for a quick executive update?

You deliver value at every interaction with quants🡪   
you never make the same mistake twice

Say no to opportunities that don’t add value

Do the basics at scale , consistently,

You follow up quickly,