**Subject:** 📉 SVaR PnL Reduction Initiative – Analysis Summary, Key Opportunities & Stakeholder Input Needed

Dear Colleagues,

Following several months of research and cross-team collaboration, we are excited to share a consolidated update on the **SVaR PnL Reduction initiative** — with the goal of enabling stakeholders to make informed decisions based on detailed analysis.

This work spans both **SPG (Structured Products Group)** and **Credit**, and we’ve identified multiple opportunities to improve capital efficiency, reduce inflated SVaR charges, and lay a strategic foundation for long-term optimization.

**🧠 What Was Analyzed – SPG & RMBS Focus**

We started with **Agency RMBS (primarily CMOs)** and uncovered several high-impact opportunities with strong potential for SVaR reduction.

**✅ SPG / CMO Opportunities (Estimated > $60M Reduction)**

| **Enhancement** | **Description** |
| --- | --- |
| **Change Data Source** | Move from ICE Marks to Bloomberg BVAL, JPM, or Markit for raw prices used in prepayment models (AdCo/Polypath → OAS). |
| **OAS Aggregation Method** | Update OAS index aggregation methodology to improve risk capture. |
| **Constituent Mapping** | Use actual Volcker portfolio CUSIPs for index construction. |
| **New Index for Floaters** | Create dedicated 3M floater index for better optionality treatment. |

**✅ Other SPG Levers**

* **RMBS TBA & Pools**: Adjust modeled TBA assumptions → non-model assumptions → (Est. $30M–$40M).
* **Statistical Outlier Detection**: (Est. $90M+ in impact).
* **Shift Methodology Rework**: Move from absolute → relative/hybrid for better stress representation.

🔁 These enhancements are **building blocks** for later expansion into **CMBS, CLO, Non-Agency RMBS**, and other securitized products.

**⚠️ Risk & Assumptions**

* Many of these changes may trigger **Model Validation** or **Regulatory Reviews**, especially **data source changes**.
* That’s why the plan is to **start with CMOs and TBAs**, demonstrate success, and scale from there.

**🔍 Credit Portfolio – What’s Different?**

Unlike SPG, **Credit is at an earlier stage** and is currently constrained by legacy infrastructure and modeling limitations.

**⛔ Why Credit Can't Mirror SPG (Yet)**

* Still using **RVF+ FO Pricer**, which lacks proper modeling of:
  + Optionality
  + Hazard rate curves
  + Recovery assumptions
  + Credit volatility
* It's equivalent to asking SPG to model SVaR without an internal prepayment model live.

**✅ Foundation Milestone for Credit**

* **Time Series Granularity** improvements are underway.
  + Alone, this **won’t guarantee SVaR reduction**, but it is a critical prerequisite for:
    - Future hedging of tail risk
    - Better issuer-level sensitivity capture
    - Enablement of full revaluation VaR or credit curve modeling later

**🔧 Current Credit Optimization Tracks**

**1. Callable Bonds → From Standard Charge to DSR**

* Capital benefits possible, but **blocked until**:
  + Better FO pricers are onboarded
  + Data models support OAS, hazard curves, credit vol
* This was intended for **Vasara + EMR**, currently **on pause due to Clean PnL focus**.

**2. Time Series Granularity**

* Needed regardless of capital outcome
* Enables **issuer-level modeling**, curve construction, and future enhancements (e.g., relative shift testing, tail hedging)

**🧱 Strategic View: Short-Term vs Long-Term Solutions**

| **Criteria** | **Short-Term (Mars + RFDM)** | **Long-Term (Vasara + EMR + MDSOR)** |
| --- | --- | --- |
| Future Compatibility | ❌ Not reusable | ✅ Reusable & scalable |
| ROA | Low | High |
| Implementation Difficulty | Low | High (but achievable) |
| Capital Impact | Low | Medium (with Full Reval & Model Fixes) |

**🗣️ Key Stakeholder Input Needed**

To move forward effectively, your feedback is essential. Below are **open questions** for discussion:

**📌 Implementation & Strategy**

* Should we implement Credit TS granularity using short-term RFDM or invest in Vasara/EMR?
* Should we aim for **tactical fixes** or **long-term scalable integration**?
* Do we agree that **future compatibility and reusability** are core to the design?

**📊 Capital Efficiency & ROA**

* What **level of SVaR/capital reduction** do we expect from this initiative?
* Should the initiative prioritize **capital impact, auditability**, or **model transparency**?
* What **return on investment** (ROA) should we target?

**👥 Execution & Resourcing**

* Can this be delivered with existing resources, or will it require additional funding or support?
* Do we have **modeling scenarios** or backtesting that validate the expected capital impact?