To reduce SVaR (Stressed Value at Risk) PnL from 700 to 200, you'll need to look at **what is driving the SVaR** and **strategically reduce** those contributors.

 **Model adjustments**: Ensure models used in SVaR calculations aren't overestimating sensitivities (within governance constraints).

 **Break Down the SVaR PnL**

* **Attribution:** Use SVaR attribution to determine

Adjust Portfolio Composition

Reduce **concentration** in single-name exposures or sectors that spike under stress.

* Increase **hedging positions** that perform well in stressed scenarios.

**Step-by-Step: How to Know What Will Move the Needle**

**1. Attribute SVaR First**

Get a **full decomposition of SVaR** into:

* By **risk class** (IR, Credit, Equity, FX, Commodity)
* By **desk or book**
* By **risk factor** (issuer, curve point, currency, etc.)

**2. Rank Contributors by Capital Impact**

Use the **Pareto Principle (80/20 Rule)**:

* Identify top 20% of risk factors causing 80% of SVaR.

**Progress by Impact = Target those top 5–10 risk drivers.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Risk Factor** | **SVaR Contribution** | **Spread01 / Vega / Delta** | **Strategy** |
| F D Spread | -Mi2aM | -$WahadMM/bp | Reduce Spread01 |
| HY Credit Index (CDX) | -150M | -$500k/bp | Hedge/offset |
| EURUSD FX | -70M | Unhedged delta | Hedge FX spot |
| VIX Vega | -50M | High Vega | Reduce option exposure |
| USD 10y swap | -80M | Duration | Reduce DV01 |
|  |  |  |  |

**3. Target High-Impact Actions**

You’re looking for **capital-efficient levers** like:

**a. Reduce High Spread01 or Vega Sensitivities**

* Hedge credit positions or reduce long/short spread basis trades
* Cap exposure to nonlinear derivatives

**b. Address Unhedged Positions**

* FX risk can be cheap to hedge but costly in SVaR
* Macro overlays (like put spreads, receive fixed swaps)

**c. Clean Up Risk Factor Mapping**

* Mis-mapped risk factors or stale data = inflated SVaR
* Ensure sector/rating buckets are current and accurate

**d. Diversify Concentrated Positions**

* Concentration in a few issuers or sectors magnifies SVaR
* Add positions that diversify or hedge correlation

**4. Build “Impact Estimation Table”**

Estimate effect of each action using scenario simulations or marginal SVaR:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **4. Build “Impact Estimation Table”** |  |  |  |  |
|  |  |  |  |  |
| Estimate effect of each action using scenario simulations or marginal SVaR: |  |  |  |  |
|  |  |  |  |  |
| **Action** | **SVaR Reduction Estimate** | **Effort (Low/Med/High)** | **Owner** | **Timeline** |
| Hedge F D 50% exposure | -mi2a  M | Medium | Credit Trading | 1 week |
| Reduce CDX HY by 25% | -70M | Low | Credit Desk | 2 days |
| Hedge EURUSD with forward | -60M | Low | Treasury | 1 day |
| Cut VIX Vega by 50% | -30M | Medium | Equity Derivs | 1 week |
| Clean mapping anomalies | -40M | High | Risk Tech | 2 weeks |

**5. Set SVaR Targets by Desk and Monitor**

* Assign **desk-level SVaR targets**
* Create weekly dashboard: Actual vs Target SVaR, Top Movers, Actions Taken

**Summary – Progress by Impact Framework**

| **Step** | **What to Do** |
| --- | --- |
| 1 | Attribute SVaR (book, risk factor, desk) |
| 2 | Identify Top Contributors (Pareto 80/20) |
| 3 | Evaluate Actions with SVaR Reduction Estimate |
| 4 | Execute Quick Wins (Hedging, Diversification, Fix Mapping) |
| 5 | Monitor with Dashboards & Adjust Weekly |

**Part 1: SVaR PnL Reduction Checklist (Target: 700 → 200)**

Here’s a **practical checklist** to guide you in identifying and reducing the SVaR PnL:

**1. Attribution & Decomposition**

* **Run full SVaR attribution**: Identify top contributors by:
  + Asset class (IR, FX, EQ, Credit, Commodity)
  + Region (e.g., US Rates, EU HY Credit)
  + Desk or book
  + Instrument (e.g., swaptions, CDS, equity options)

**2. Risk Factor Exposure Review**

* Review sensitivities (Delta, Vega, Gamma) for top risk factors.
* Identify the **biggest PnL movers** under stress scenarios (e.g., 2008 crisis).

**3. Portfolio Actions**

* **Hedge or reduce** large directional exposures (e.g., steepeners, spread trades).
* Reduce **non-linear exposures** (e.g., options with high vega).
* Reduce **concentration risk** (e.g., large positions in volatile sectors or illiquid names).

**4. Hedging Strategy**

* Introduce **offsetting positions** that profit under stressed conditions.
* Consider **macro hedges** (e.g., index puts, rate receivers, FX options).

**Summary**

|  | **Basel 2.5** | **Basel 4 (FRTB)** |
| --- | --- | --- |
| **SVaR** | Required | **Eliminated** |
| **Risk Sensitivity** | Moderate | High (risk-class granularity) |
| **Tail Risk** | SVaR captures it | ES captures it better |
| **Capital Drivers** | VaR + SVaR + IRC | ES + NMRFs + RFET compliance |
| **Use of Internal Models** | Relatively easy | Strict validation & approval |