Financial Information

# The Big Four Accounting Firms

1. Deloitte
2. PWC – PricewaterhouseCoopers
3. E&R – Ernst & Young
4. KPMG

# Bank Capital Requirements

Capital is a cushion against potential losses.

## Core capital is the minimum amount of capital that a [thrift bank](http://www.investopedia.com/terms/t/thriftbank.asp), such as a [savings](http://www.investopedia.com/terms/s/savings.asp) bank or savings and loan company, must have on hand in order to comply with Federal Home Loan Bank regulations. Core capital consists [of equity capital](http://www.investopedia.com/video/play/debt-to-equity-ratio/) and declared reserves.

Read more: [Core Capital Definition | Investopedia](http://www.investopedia.com/terms/c/core-capital.asp#ixzz4EnZvu24v) <http://www.investopedia.com/terms/c/core-capital.asp#ixzz4EnZvu24v>   
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## Tier 1 Capital

Consists of **shareholder’s equity** (the net value of a company, or the amount that would be returned to shareholders if all the company's assets were liquidated and all its debts repaid) and **retained earnings** (percentage of [net earnings](http://www.investopedia.com/terms/n/netincome.asp) not paid out as [dividends](http://www.investopedia.com/terms/d/dividend.asp), but retained by the company to be reinvested in its core business, or to pay debt)

## Tier 2 Capital

[Tier 2 capital](http://www.investopedia.com/terms/t/tier2capital.asp) includes [revaluation reserves](http://www.investopedia.com/terms/r/revaluationreserves.asp), hybrid capital instruments and subordinated term debt, general loan-loss reserves, and [undisclosed reserves](http://www.investopedia.com/terms/u/undisclosedreserves.asp). Tier 2 capital is supplementary capital because it is less reliable than tier 1 capital.

# Minimal Capital Requirements

## FRTB

The fundamental review of the trading book (**FRTB**) is a complete overhaul of the way banks *assess market risk* in the trading book. The new framework tackles both the internal modelling for market risk (partially revised in 2009 as part of “Basel 2.5”) and also the standardised approach (untouched since Basel II).

### STANDARDIZED APPROACH

* Sensitivity calculations across all risk factors: equity, general interest rate risk, credit spread risk, commodity and FX risk covering delta, vega and curvature risk.
* Aggregation methodologies across multiple dimensions, including trading desk, instrument type, currency etc.
* Correlation calculations across all asset classes for aggregation of risk

### INTERNAL MODEL

* Risk Measurement – Calculate general or specific risk. VaR, Monte Carlo.
* Sensitivity Analysis – shocking any curve or risk factor (PV01, Cs01, Greeks, parallel and non-parallel shift.
* Stress Testing – user-defined stress tests to stress market data, stochastic parameters, correlations and reference data, to determine the impact on portfolio risk as well as to perform BIS regulatory stress tests (FRTB).

## Razor Risk and FRTB

Razor Risk supports the **FRTB** – minimum capital requirements for market risk capital reforms. i.e. Calculate and manage market risk capital and performance.

* Razor can manage the firm’s trading book vs. banking book by routing positions to trading/banking portfolios
  + ***Trading book***: assets held by a bank that are traded regularly. Basel III required daily MTM and VaR calculations with a 10-day horizon.
  + ***Banking book:*** assets held by a bank until maturity. Daily MTM is not required.
* Razor provides **front to back analytics:** Firms can calculate minimum capital requirements using Expected Shortfall approach, or the Sensitivity Based approach.
* Verify the firm’s capital numbers using Razor’s backtesting framework:
  + Calculate theoretical P&Ls and compare against hypothetical P&Ls
  + Manage breaches

# Banks Tiers

## Tier 1 Banks (desc order)

Goldman Sachs, Morgan Stanley, JPMorgan Chase, BOA ML (Bnk of Amer Mer Lynch), Duetsche, Citi and Credit Suisse (tied), Barclays & UBS.

## Tier 2 Banks (desc order)

HSBC, Nomura Holdings, RBC, BNP Paribas, RBS, TD Securities, Wells Fargo, Lazard, Jefferies, Société Générale, and BMO.

# The Major Exchanges

NYSE

NASDAQ

LSE (London Stock Exchange Group)

Japanese Exchange Group

Shanghai Stock Exchange

Hong Kong Stock Exchange

Euronext

Shenzhen (China)

TMX Group

Deutsche Borse (Germany)

# Glossary of terms

## PV01 (<https://eiptrading.com/risk-management/> )

PV01 is an acronym for the Price Value for a 01 change in yield. This measures the impact on price of a 0.01% (1 Basis Point or 1 BP) change in yield.

# CS01

With respect to [credit default swaps](http://www.investment-and-finance.net/derivatives/c/credit-default-swap.html), it is the credit exposure of the swap at a given point in time (it stands for credit spread dollar value of one [basis point](http://www.investment-and-finance.net/derivatives/b/basis-point.html)). It reflects the change in market value of a [CDS](http://www.investment-and-finance.net/derivatives/c/cds.html) in response to a one basis point change in the [swap premium](http://www.investment-and-finance.net/derivatives/s/swap-premium.html). More specifically, it is the change in a CDS contract market for a one basis point parallel shift in the credit curve.

Fixed Income

An investment that provides a return in the form of fixed periodic [payments](http://www.investopedia.com/terms/p/payment.asp) and the eventual return of principal at maturity.

A fixed income security is commonly referred to as a bond or money market security. i.e. Treasuries, Corporate bonds, Muni bonds, CD.