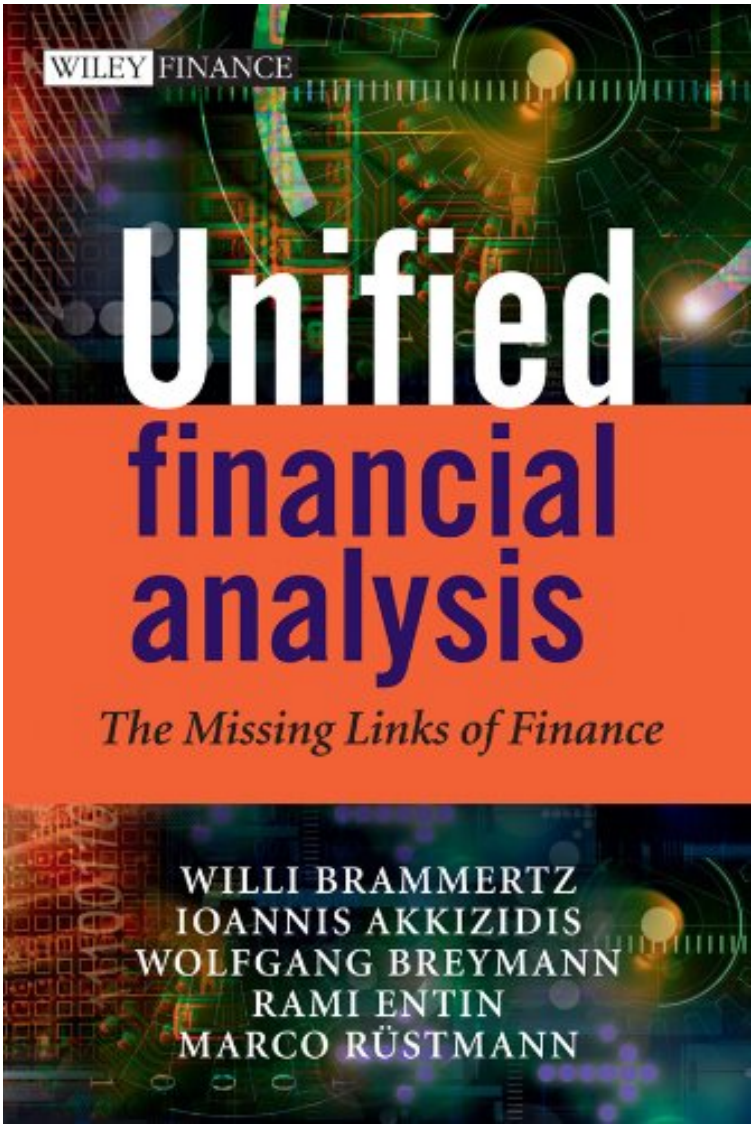
(Download pdf ebook) Unified Financial Analysis: The Missing Links of Finance

Unified Financial Analysis: The Missing Links of Finance

Willi Brammertz, Ioannis Akkizidis, Wolfgang Breymann, Rami Entin, Marco Rustmann
*ePub | *DOC | audiobook | ebooks | Download PDF*



DOWNLOAD READ ONLINE

#2018903 in eBooks 2011-11-04 2011-11-04File Name: B0065OPZ5U | File size: 52.Mb

Willi Brammertz, Ioannis Akkizidis, Wolfgang Breymann, Rami Entin, Marco Rustmann : Unified Financial Analysis: The Missing Links of Finance before purchasing it in order to gage whether or not it would be worth my time, and all praised Unified Financial Analysis: The Missing Links of Finance:

5 of 5 people found the following review helpful. A Better Analytical Framework for Risk ManagementBy Robert D. KugelAs it turns out, the carefully crafted risk management banking reforms of the past 15 years came to naught as the financial panic of 2008 unfolded worldwide. There are many efforts underway to try to prevent a repeat of the debacle and since they address different issues they take different forms. One of the frequently-cited root causes of the panic was the lack of transparency in the value of complex assets (such as mortgage-backed securities, swaps and non-

exchange-traded options) held by financial institutions. We think an important reason why this lack of visibility developed was the mismatch between increasingly complex 21st century securities trading methods and the 20th (even 19th) -century legal and statutory underpinnings of the assets/liabilities themselves. While parts of the financial services industry was using increasingly sophisticated IT systems to value and trade financial instruments, the underlying information available about those instruments in this trading context was (and is) fundamentally flawed. While not immediately apparent, we had created a "garbage-in-junk-out" information system. The solution is not to return to the past. We need to reform how we get information about financial assets/liabilities and modernize techniques for risk management and analysis using better information.One interesting idea that has emerged on the risk management front is developing better modeling and analysis to make the process more effective. "Effective" means that the focus of the risks measured shifts from static to dynamic analysis and one that examines the components of the terms of the financial contract instead of a multitude of individual groupings of roughly similar instruments. It's an intriguing idea because in theory it would make it possible to understand, measure and rank the sources of future risks faster and more accurately than the existing stress test methodologies.The new approach, which is advocated by Willi Brammertz, is designed to bring the analysis of bank assets up a notch in terms of its level of detail. Like all such approaches, it has the effect of bringing increased flexibility and speed to the process. The painstaking and bespoke risk management systems built for Basel I and II, for example, could be replaced with much more powerful ones that are actually less complex and easier to construct.To make the approach workable requires mapping the terms and conditions (TsCs) of financial contracts to a standard taxonomy. This method is better aligned with today's financial markets. Not only would it make it far easier to monitor and measure risk in all assets held in financial institutions, it also would facilitate all aspects of the securitization process. Up until the 1980s, most loans and other such financial assets were held to maturity and serviced by the originator. Swaps and other derivatives were in their infancy. Collecting a standard set of data about financial contract terms wasn't necessary because financial institutions had all the information they needed from internal sources and they had every incentive to ensure that they limited loss exposure to at least reasonably prudent standards. There was no need to monitor these assets using IT automation, which in any case would have been impractical well into the 1990s because the cost would have been prohibitively high. Today, though, the increased flexibility of financial markets worldwide to match the needs of borrowers and lenders, combined with hedges and other derivatives to offset or shade risks, makes it necessary to understand and monitor these assets/liabilities at an elemental level. Luckily, the information technologies necessary are readily available and suitably cheap. Creating and managing a taxonomy of all of the terms and conditions of the full range of financial contracts would not be a simple undertaking, but it is hardly rocket science. While the initial version should strive to be as complete as possible, the taxonomy must be flexible enough to incorporate new elements to adapt to market changes. Even so, as Brammertz points out, some of these contracts inevitably will need to have non-standard terms and that must also be accommodated, but the vast majority of the value of financial assets in the hands of financial institutions can be defined, analyzed and monitored using structured frameworks.As an aside, once the taxonomy is in place it might be able to replace today's verbiage-rich legal templates with a more consistent, modular (Lego-like) structure so that drafting loan agreements, securitized leases, indentures and other financial contracts becomes more of a "fill in the blanks" exercise rather than a custom-built project. While securities lawyers and clever investors (those who can find value in poorly drafted instruments) may suffer, everyone else will benefit from a more efficient process and more transparent financial assets/liabilities.Once a system of structured TsCs are in place, information technology will be able to substantially improve the analysis and reporting of financial assets and liabilities, thereby increasing transparency and enabling more effective risk management. It will bring the structure of financial instruments and contracts back in line with today's trading technology and practices.Using today's information technology it would become possible (and essential) to create financial models that take advantage of the standardized definitions of TsCs for regulatory and management purposes. Having a standard taxonomy and framework for risk modeling will enable more flexible and dynamically accurate assessment of risk by financial regulators, company managements and their boards, external rating agencies and any interested third party with access to the data. This also allows risk managers to focus on the underlying detailed structure of the assets and liabilities rather than on some artificial classification of them, bringing the process closer to the source and substance of their value and risk.Shifting the analysis from broad classifications of asset/liability types to the elements that actually drive the value and risk of these instruments makes it possible to do dynamic modeling at a much higher level of accuracy. It enables regulators, financial institution executives, auditors and others to anticipate the impact of systemic or institutional stress. When structured financial contracts are in place, information technology will make it possible to (1) run standard risk assessments far more rapidly, (2) perform ongoing discovery analysis to identify new sources of dynamic and static risk and (3) create "risk isoquants" that measure a key set of metrics around what needs to happen to reach a failure point, either institution-specific or systemically. These metrics also can be monitored by regulators, central banks and investors.It's important to understand that the solution to today's imbalance between 21st century trading methods and 20th century financial instrument structures cannot be to try to return to the past. The genie is out of the bottle and the tools are available to address the imbalance. Instead of attempting to stamp out financial

innovation, we need to use these tools to enable more intelligent regulation, risk management and investing.Robert D. Kugel CFA2 of 2 people found the following review helpful. a new direction for thinking about risk management in large corporationsBy DanielThe book provides a well structured and thought provoking overview on the direction risk analysis and financial risk management should take in the future of large corporations, be it banks, insurers or non-financial corporates. The concept clearly stems from financial/banking background but proves to be fruitful for any quantitative financial risk and value management. To me it seems that insurers already have developed the topic the most with their focus on real world, integrated stochastic simulation of all kinds of risks and their also newer insurance practice of long term dynamic simulation of risks. No wonder that insurers are ahead, since they are in the business to keep risks on their balance sheets, and hence try to understand the risks, in contrast to many banks, as the financial crisis tells us.Also for non-financial corporates the book suggests a clear direction for future integrated risk management. It shows how an integrated risk and value model adressing the long term risks and uncertainties in a going concern perspective can align financial and core business management. In contrast to all past value at risk approaches that were tried to be transfered to non-financial corporates this book's focus on long term dynamic real world simulation provides a fruitful approach also for non-financial corporates.Of course realisation of such an integrated concept in any industry will have to take a lot of hurdles and the biggest hurdles will be political tactics within corporate management's trying to protect their silo gardens.For students the books provides a very comprehensive overview of what they will hopefully be able to implement once in their future careers.For practitioners from any industry with some good background in finance the book will open up a clear concept road map for people who are willing to take integrated risk management a few steps ahead of the competitors. If the reader is not from a banking background, she should try to pick the relvant aspects of the first parts in combination with the focus of the non-financial corporate chapter, though.Future will tell, whether the concept remains a philosophical dream or will be transformed into a competitive advantage of those who successfully implement the concept. As can be seen from experience already is that some companies start to go that route and implement and do not give up just because implementation is difficult. Daniel2 of 2 people found the following review helpful. Welcome changeBy Dr. SunilThe book is a welcome change from all what has been available on the financial risk management shelf so far. The myth of silos of risks is wonderfully shattered, especially with the current financial crisis still towering around us. Each and every chapter is aesthetically written keeping the flow intact. The chapter on Financial Contracts brings out some of the concepts which have been partially neglected so far in financial analysis, such as behavioral patterns. I personally recommend the chapter on Risk and VaR for all risk managers. The book covers micro and macro world view of finance. The book has distinguishable mark of Dr. Brammertz several years of experience in applied financial risk management. I recommend this book for all those who wish to stay in financial risk management.

Unified Financial Analysis arrives at the right time, in the midst of the current financial crisis where the call for better and more efficient financial control cannot be overstated. The book argues that from a technical perspective, there is no need for more, but for better and more efficiently organized information. The title demonstrates that it is possible with a single but well organized set of information and algorithms to derive all types of financial analysis. This reaches far beyond classical risk and return or profitability management, spanning all risk categories, all valuation techniques (local GAAP, IFRS, full mark-to-market and so on) and static, historic and dynamic analysis, just to name the most important dimensions. The dedication of a complete section to dynamic analysis, which is based on a going concern view, is unique, contrasting with the static, liquidation-based view prevalent today in banks. The commonly applied arbitrage-free paradigm, which is too narrow, is expanded to real world market models.nbsp; The title starts with a brief history of the evolution of financial analysis to create the current industry structure, with the organisation of many banks following a strict silo structure, and finishes with suggestions for the way forward from the current financial turmoil. Throughout the book, the authors advocate the adoption of a 'unified financial language' that could also be the basis for a new regulatory approach. They argue that such a language is indispensable, if the next regulatory wave ndash; which is surely to come ndash; should not end in an expensive regulatory chaos. Unified Financial Analysis will be of value to CEOs and CFOs in banking and insurance, risk and asset and liability managers, regulators and compliance officers, students of Finance or Economics, or anyone with a stake in the finance industry.

From the Inside Flaplsquo;The current worldwide financial crisis also puts its finger on Risk Management, and this at all levels of the bank internal control and external supervisory chain. No doubt one of the weaknesses of the current system in place is its extreme silo thinking. The authors are to be congratulated on trying to break free from this intellectual as well as practical deadlock by presenting a much more holistic approach. No doubt all interested in Risk Management will learn a lot from reading this book.rsquo; Paul Embrechts, Department of Mathematics and RiskLab, ETH Zurich" lsquo;A great work of unification and simplification. Contrary to most books who like stressing the complexity of financial analysis, this book demonstrates anbsp; reality which is much simpler than otherwise presented. Once the correct building blocks and structures are set, different fields of finance as diverse as accounting and option pricing disclose their unifying roots and a complexity, that is manageable. This is the right kind of

simplification revealing a sign of intelligence. This book gives the reader a comprehensive view of the generation of risk and revenue from financial contracts to institution level.rsquo; Julien Delbet, Head of Asset Liability Management, Retail Banking, Socieacute;teacute; Geacute;neacute;rale. lsquo;The authors present an integrated framework that emphasizes the commonalities rather than the differences between various approaches to financial analysis. In the process, the book bridges numerous practical and conceptual gaps between financial theory, risk analysis, management/control, and accounting, and yet still manages to avoid bogging down in arcane vocabulary or unnecessary technical detail. Readers ranging from financial practitioners and risk managers to IT professionals will benefit from giving this book a serious read.rsquo; Christopher L. Culp, Adjunct Professor of Finance, The University of Chicago Booth School of Business, and Honorarprofessor, Universitauml;t Bern, Institut fuuml;r FinanzmanagementFrom the Back Coverlsquo;Unified Financial Analysisrsquo; arrives at the right time, in the midst of the current financial crisis where the call for better and more efficient financial control cannot be overstated. The book argues that from a technical perspective, there is no need for more, but for better and more efficiently organized information. The title demonstrates that it is possible with a single but well organized set of information and algorithms to derive all types of financial analysis. This reaches far beyond classical risk and return or profitability management, spanning all risk categories, all valuation techniques (local GAAP, IFRS, full mark-to-market and so on) and static, historic and dynamic analysis, just to name the most important dimensions. The dedication of a complete section to dynamic analysis, which is based on a going concern view, is unique, contrasting with the static, liquidation-based view prevalent today in banks. The commonly applied arbitrage-free paradigm, which is too narrow, is expanded to real world market models. The title starts with a brief history of the evolution of financial analysis to create the current industry structure, with the organisation of many banks following a strict silo structure, and finishes with suggestions for the way forward from the current financial turmoil. nbsp; Throughout the book, the authors advocate the adoption of a lsquo;unified financial languagersquo; that could also be the basis for a new regulatory approach. They argue that such a language is indispensable, if the next regulatory wave ndash; which is surely to come ndash; should not end in an expensive regulatory chaos. lsquo;Unified Financial Analysisrsquo; will be of value to CEOs and CFOs in banking and insurance, risk and asset and liability managers, regulators and compliance officers, or anyone with a stake in the finance industry.About the AuthorWilli Brammertz (Zurich, Switzerland) has worked for 20 years in the field of financial analysis. He is founding partner of IRIS, now part of FRS Global, and father of one of the worldrsquo;s leading financial analysis systems riskprotrade;. This system now runs in more than 200 banks in about 20 countries. Ioannis Akkizidis (Zurich, Switzerland) is Financial Risk Management Consultant and Analyst for IRI S integrated risk management. Wolfgang Breymann (Zurich, Switzerland) is Professor for Financial Mathematics at the Zurich University of Applied Science Winterthur. Ram Entin (Zurich, Switzerland) is Financial Risk Management Consultant and Analyst for IRIS integrated risk management. Marco R?stmann (Zurich, Switzerland) is a Lecturer and Researcher at the Zurich University of Applied Sciences in Risk and Insurance Management He holds a PhD from the University of St Gallen