



Article from

Risk Management Newsletter

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Letter from the Editors

By Robert He and Baoyan Liu (Cheryl)

IN THIS ISSUE, WE ARE GLAD TO PROVIDE THREE RELATIVELY LONG ARTICLES SO THE AUTHORS CAN EXPLORE THE TOPICS IN MORE DETAILS. To some extent, the topics are all very important but not have been discussed in previous issues.

As part of our recurring feature, “Insights from Wall Street,” we have “Art of Hedging” written by Christopher Metli and Boris Lerner from Morgan Stanley. This great piece of research and analysis is intended to help risk managers and investors to make better risk management and hedging decisions. The original article is very comprehensive and covers many key aspects of hedging. For this August issue, the paired down article introduces a hedging framework that could be used to guide hedging design and discusses in details about the difference of two important hedging instruments—S&P put options and VIX based derivatives. We hope the readers will appreciate many practical insights from this article.

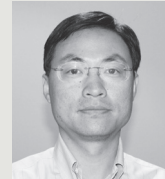
In “Fatness of Tails in Risk Models,” David Ingram introduces a metric called “Coefficient of Riskiness” which is derived from the commonly used average and standard deviation. This new metric would complement the Coefficient of Variance measure that is commonly used by modelers to compare volatility of different models.

In “Realizing ERM’s Potential: Driving Strategic Execution and Stock Value Growth,” Damon Levine encourages risk managers to move away from the defensive angle (downside protection) so often emphasized in ERM to value creation by exploiting risk-intelligent opportunity. This article provides an overview of the Stock Value Approach (SVA) to ERM as a solution to these common challenges.

As usual, we provided a list of recent articles and papers that may be of interest to the members. These pieces can provide further information on a broad range of topics.

We would like to give a special thank you to David Schraub, and Kathryn Baker for helping us pull together this August newsletter.

Enjoy reading and please let us know your thoughts about this newsletter and the articles. ■



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Solvency II Equivalence

On June 5, 2015, the European Commission adopted a first package of third country equivalence decisions under Solvency II. Switzerland was granted full equivalence while Australia, Bermuda, Brazil, Canada, Mexico and the United States received temporary equivalence status (10 years and covers solvency calculation). These decisions now need to pass other formalities and other equivalence decisions are envisaged in the future. Please see http://europa.eu/rapid/press-release_IP-15-5126_en.htm for more information.