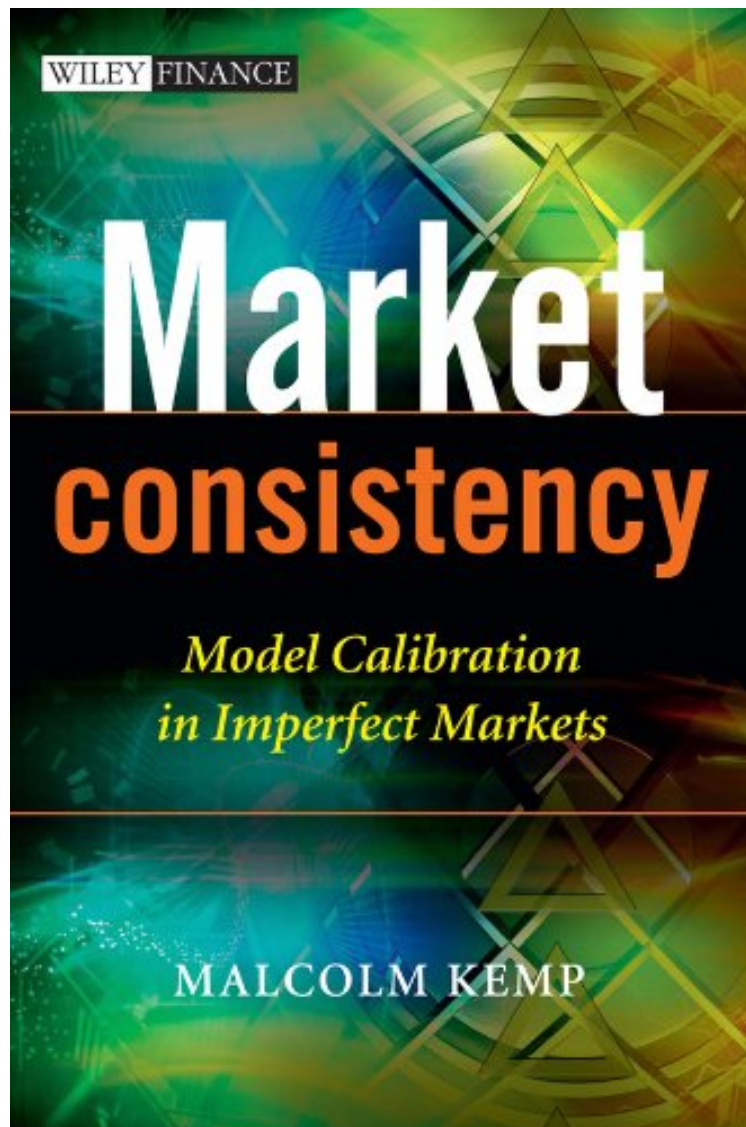


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Market Consistency: Model Calibration in Imperfect Markets (The Wiley Finance Series)

Malcolm Kemp

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Malcolm Kemp : Market Consistency: Model Calibration in Imperfect Markets (The Wiley Finance Series)
before purchasing it in order to gauge whether or not it would be worth my time, and all praised Market Consistency: Model Calibration in Imperfect Markets (The Wiley Finance Series):

0 of 0 people found the following review helpful. Three StarsBy CustomerIt is one of the most boring books on this subject0 of 0 people found the following review helpful. Good principlesBy Pierre W.This book is a practitioner's

commentary on the current market consistent methodology. The book can be divided roughly into two parts: risk neutral and real world. Connections to pricing, hedging and solvency capital are themes throughout the book. The subtitle "Model Calibration in Imperfect Markets" can be misleading as the book rarely goes into the technical details in model calibration. However, the principles are clearly explained and important questions in practice are addressed. The author draws his examples from his broad experience in banking, insurance and asset management. This can be challenging and less useful for readers who have no experience in a specific practice. But this book is not intended as a user's manual anyway. The style is quite similar to that of *Dynamic Hedging* by Nassim Taleb, perhaps less personal. This is an original book at the time of publishing and it remains to be a very useful reference for consultants and financial officers.

Achieving market consistency can be challenging, even for the most established finance practitioners. In *Market Consistency: Model Calibration in Imperfect Markets*, leading expert Malcolm Kemp shows readers how they can best incorporate market consistency across all disciplines. Building on the author's experience as a practitioner, writer and speaker on the topic, the book explores how risk management and related disciplines might develop as fair valuation principles become more entrenched in finance and regulatory practice. This is the only text that clearly illustrates how to calibrate risk, pricing and portfolio construction models to a market consistent level, carefully explaining in a logical sequence when and how market consistency should be used, what it means for different financial disciplines and how it can be achieved for both liquid and illiquid positions. It explains why market consistency is intrinsically difficult to achieve with certainty in some types of activities, including computation of hedging parameters, and provides solutions to even the most complex problems. The book also shows how to best mark-to-market illiquid assets and liabilities and to incorporate these valuations into solvency and other types of financial analysis; it indicates how to define and identify risk-free interest rates, even when the creditworthiness of governments is no longer undoubted; and it explores when practitioners should focus most on market consistency and when their clients or employers might have less desire for such an emphasis. Finally, the book analyses the intrinsic role of regulation and risk management within different parts of the financial services industry, identifying how and why market consistency is key to these topics, and highlights why ideal regulatory solvency approaches for long term investors like insurers and pension funds may not be the same as for other financial market participants such as banks and asset managers.

From the Inside Flap "This is a very timely book that will repay careful reading, and help to develop insurance companies' and model designers' thinking in the run-up to the implementation of Solvency II. Many tricky topics are covered in a helpful and clear way, which can only improve the quality of communication between the actuarial and accounting professions." Kathryn Morgan, Fellow of the Institute of Actuaries "Malcolm Kemp has done a great job - he has put together views from different perspectives, in an excellent and comprehensive way. This book provides big and important support for actuarial practitioners, and certainly for other mathematical professions as well." Christoph Krischanitz, President of the Actuarial Association of Austria and Chairman of WG "Market Consistency" Groupe Consultatif Actuariel Europeen "This is a timely and learned book on a highly topical subject and contains many valuable insights. The scope is wide-ranging, providing an overarching framework for the principles and practices of market consistency; and showing clearly how different elements of financial practice fit together within this framework. There is recognition that markets rarely exhibit all the qualities needed to make the application of market consistency straightforward and clear guidance on how to combine market information with reasoned judgement. This book should make a significant contribution to the debate on the use of market consistency and to improving the quality of market consistent valuations derived in practice." Colin Wilson, Head of Investment Risk, Government Actuary's Department "The financial world more than ever needs clarity of communication in setting business strategy, enterprise risk management, regulatory supervision and more generally in providing advice to Board Directors and senior management. Through *Market Consistency* Malcolm Kemp has brought together great clarity in developing a rigorous framework of well-defined terms, concepts and principles. The book is structured to be of value to practitioners in advanced finance as well as financial practitioners who are less mathematically inclined. Large parts of the book should be essential reading for Board Directors responsible for their organisation's enterprise risk management, and equally for financial practitioners advising those Directors." Tony Hewitt, Programme Director, MSc Actuarial Finance, Imperial College Business School "The recent liquidity crisis has led many to call into question market consistent methods. In this comprehensive and accessible account the author successfully addresses the challenges posed to both the theoretical justification for and practical application of such approaches across a range of disciplines." Paul Fulcher, Managing Director, Risk Advisory, UBS Investment Bank

From the Back Cover "This excellent and very timely book might reasonably have been entitled *How I Learned to have an Adult Relationship with Financial Markets*. I heartily commend this valuable contribution to present global debates on regulation of banks and others. It should be on the bookshelves of regulators and accounting standard-setters as well as of general managers and non-executive directors of banks, insurers, and asset managers. It will be a valuable tool in support of the

education of the actuaries, accountants, risk managers and asset managers of the future. It is very up to date and should stand the test of time in future. A very welcome addition to the literature." —Seamus Creedon, Consultant, KPMG LLP "In a period in which there is considerable confusion about 'what the market has to say'; this work is a timely, comprehensive, up-to-date and lucid treatment of all the concepts and techniques needed for marking assets and liabilities to market across all financial service disciplines. With its unique all-inclusive scope it is sure to become a standard reference for bankers, insurers, fund managers and academics in finance." —Professor Michael Dempster, Centre for Financial Research Statistical Laboratory, University of Cambridge "Malcolm Kemp has written a very timely book on market-consistent valuation and model calibration. Given the recent market developments and the upcoming changes in regulation in the EU (Solvency II), the issue of market-consistent valuation has become a very hot topic. Kemp not only gives a review of the relevant literature and offers in-depth discussion of all the relevant issues surrounding market-consistent model calibration, but also offers a practitioner's perspective. I feel this gives the book great added value." —Antoon Pelsser, Professor of Actuarial Science, University of Amsterdam Achieving market consistency can be challenging, even for the most established finance practitioners. In *Market Consistency: Model Calibration in Imperfect Markets*, leading expert Malcolm Kemp shows readers how they can best incorporate market consistency across all disciplines. Building on the author's experience as a practitioner, writer and speaker on the topic, the book explores how risk management and related disciplines might develop as fair valuation principles become more entrenched in finance and regulatory practice. This is the only text that clearly illustrates how to calibrate risk, pricing and portfolio construction models to a market consistent level, carefully explaining in a logical sequence when and how market consistency should be used, what it means for different financial disciplines and how it can be achieved for both liquid and illiquid positions. It explains why market consistency is intrinsically difficult to achieve with certainty in some types of activities, including computation of hedging parameters, and provides solutions to even the most complex problems. The book also shows how to best mark-to-market illiquid assets and liabilities and to incorporate these valuations into solvency and other types of financial analysis; it indicates how to define and identify risk-free interest rates, even when the creditworthiness of governments is no longer undoubted; and it explores when practitioners should focus most on market consistency and when their clients or employers might have less desire for such an emphasis. Finally, the book analyses the intrinsic role of regulation and risk management within different parts of the financial services industry, identifying how and why market consistency is key to these topics, and highlights why ideal regulatory solvency approaches for long term investors like insurers and pension funds may not be the same as for other financial market participants such as banks and asset managers.

About the Author Malcolm Kemp is a well known actuary and expert in risk and quantitative finance, with over 25 years' experience in the financial services industry. From 1996 to 2009 he was Head of Quantitative Research at a leading UK investment management business and before that was a partner in an actuarial consultancy. He is currently Managing Director of Nematrian Limited.