

MXN Swaps

Updating valuation methodology



BUSINESS REQUIREMENT

Investment managers or funds trading a new OTC instrument are confronted with potential valuation problems. They need to be sure that their administrator has the capability of updating its valuation methodology to accommodate the new product. Additionally, OpHedge recognizes that the more OTC products it can independently

“life cycle manage,” the more efficient its operational process becomes.

These concerns came to the fore when an OpHedge client started to trade Mexican Peso interest rate swaps, which, due to a unique day count fraction on cash flows, settle accruals every 28 days.

CHALLENGE

The unusual day count for the Mexican Peso interest rate swaps needed to be incorporated into OpHedge’s derivative system in order to properly accrue, and

subsequently value, the Mexican swaps. An aggressive timetable was required, since our client was actively trading the product and had positions in its portfolio.

SOLUTION

OpHedge gathered requisite information and identified the key issues to reaching a solution, including specific business needs, system enhancements required, and time constraints imposed. We orchestrated the necessary enhancements with our system vendor to accommodate the required adjustments, and

then we initiated a thorough and planned testing procedure. Upon completing the test work, we rolled out the enhancement to our production environment, and our staff was able to successfully value independently and settle the swaps within our OpHedge platform.

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