

The XVA conundrum

For OTC derivatives there is an increasing number of valuation adjustments to account for various effects like credit risk (CVA/DVA), funding costs (FVA), capital costs (KVA) and various other effects since these effects are typically not considered in the pricing in the Front Office systems. These adjustments do not only need to be considered when entering a new OTC derivative transaction in pricing the transaction but also in risk management and in the valuation for accounting purposes. The purpose of the talk is to give an overview of the steadily growing family of XVA adjustments.