

Title (en)
SYSTEM AND METHOD OF MARGINING FIXED PAYOFF PRODUCTS

Title (de)
SYSTEM UND VERFAHREN ZUR BEGRENZUNG VON FESTEN ABRECHNUNGSPRODUKTEN

Title (fr)
SYSTEME ET PROCEDE PERMETTANT DE MARGINALISER DES PRODUITS A BENEFICE FIXE

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Application
EP 05793915 A 20050831

Priority

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Abstract (en)
[origin: WO2006031446A2] A system and method is disclosed for determining performance bonds related to fixed payoff products, i.e. contracts which payoff a fixed amount based on the outcome of an underlying event regardless of the particular value of the underlying event. , The worst outcome of the overall portfolio, which may contain more than one instrument, is calculated. This permits the portfolio to have both long and short positions on the same underlying event and offsets, e.g. long (bought but not closed out) and short (sold but not closed out) positions, among instruments in the portfolio are factored in. A universe of outcomes is constructed including single events with single outcomes, and the probability thereof, an single events with multiple outcomes, each with a probability thereof. This universe is implemented in a matrix probabilities on different outcomes, also referred to as "strikes." Each strike/outcome then has an associated price and probability, typically factored together as single value reflective of both. Events with low probability will have low values, resulting in a lower margin requirement, as will be explained below. The margin requirement/performance bond is then set equal to the amount of the maximum loss that the portfolio can sustain for any possible outcome of the underlying event, adjusted for the probability of the outcome.

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