Edgelab

ANALYTICS

PRC & PRG for investment suitability

Edgelab offers Product Risk Classification (PRC) and Portfolio Risk Grade (PRG) to help banks simplify investment suitability assessments and ensure compliance with MiFID II, FIDLEG, HKMA, MAS, and other regulatory standards. PRC enables instrument-level checks both pre and post-trade, while PRG handles portfolio-level checks.

About the PRC

Edgelab's PRC is a simplified indicator taking values from 1 (lowest) to 5 (highest risk). It gives a relative indication of the risk of losses an investor takes when holding a financial product. This risk mainly originates from three sources: market, credit, and liquidity, all of which are captured by our PRC. The indicator scale can be adjusted to meet the client's requirements.

Over 55 banks worldwide, including four Tier 1 banks, rely on our PRC for their investment advisory services.

Transparent
Easy to compare between products, across asset classes and currencies

Independent
Without bias of a financial institution that has an incentive in product distribution

Stable
Reflects effective changes in the risk of the products

Simple
Understandable and explainable by advisors and relationship managers

Complete
Consistently available across all types of assets

Methodology

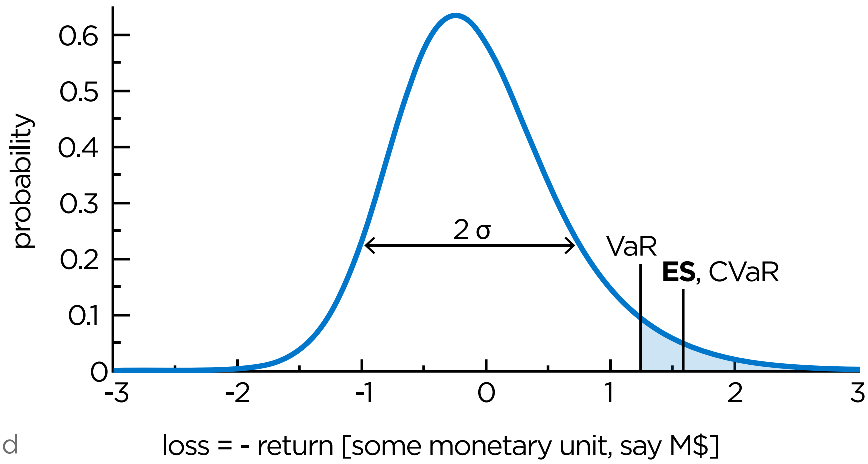
RISK MEASURE
Expected shortfall

TIME HORIZON
30 days

CONFIDENCE LEVEL
90%

METHOD
Historical innovation*

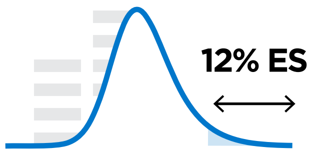
*Edgelab ex-ante risk measure method



The mapping to an integer index is done using a broad calibration universe that sets the transformation from ES to PRC. The calculation of the PRC's is performed following these 3 steps:

1. Data collection

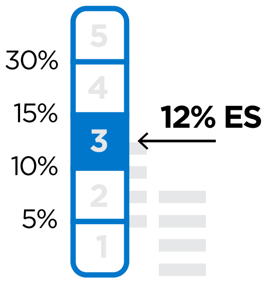
All prices, Terms and Conditions and metadata (e.g., pricing frequency for funds) are collected and stored.



2. Risk evaluation

Relative Expected Shortfall (ES) is calculated for each product in its local currency, considering market and credit risk factors. All instrument types, including complex ones like structured products, are covered by our repricing capabilities, with no use of linearisation, proxies or high-level mappings.

Additionally, a liquidity-adjusted version of the PRC is made available, factoring in long-term liquidity risk by scaling market risk to accommodate potential delays in position liquidation.



3. Mapping and stability

Product's ES are mapped to the PRC categories, based on the calibration universe. Finally, a stability rule is added to avoid short-term fluctuations for assets close to PRC boundaries.

About the PRG

Similarly to PRC, the PRG is mapping a portfolio risk measure to risk classes. Starting from the instrument risk distributions, the portfolio risk measure is computed as the aggregation of the positions in the portfolio, including the FX rates from the position's local currencies to the portfolio reference currency. Hence, the portfolio risk measure takes fully into account the correlation or diversification among positions, and the FX risk. This faithful risk measure is mapped to the PRG categories, based on a set of reference portfolios, as described below.

PURPOSE

Portfolio risk measure on a scale from 1.00 to 5.99 which can be compared to the chosen risk profile.

CONFIGURATION

- **Number of risk profiles**
- **Risk measure definition**
  (e.g. Vol, Var,... - time horizon...)
- **Choice of bounds calibration**
  (e.g. dynamic via strategies, static based on fixed bounds,...)

Max PRC or Weighted Average

The bounds are inferred from the PRCs' positions within the strategies

- \+ More basic to understand
- − Does not account for diversification and FX risk

PRG Fixed Bounds

The bounds' levels are fixed by the bank

- \+ Account for diversification and FX risk
- \+ Easy to understand and to control
- − Possibly not representative of the market regime
- − Arbitrary bounds

PRG Bank's Strategies Based Bounds

The bounds are inferred from strategies

- \+ Follow market regime
- \+ Alignment with strategies and client risk profile definition
- \+ Account for diversification and FX risk
- \+ Low operating cost

How to access it

In 15 minutes

This is how long it takes to install our Excel Add-in and obtain the metrics directly in your spreadsheet.

In 2-3 days

With a direct access to our API, you can integrate them in your existing tools within a couple of days.

A simple switch-on*

A range of partners provide access to our PRC via their platforms - it's sufficient to switch it on. Partners include Avaloq, Azqore, Expersoft, Finnova and Temenos.

*Time depends on our partners

Get an exclusive migration offer.

info@edgelab.ch

COMING SOON Product rating algorithm that will comply PRC grades to your suitability rules