

# Financial Risk Management: A Practitioner's Guide to Managing Market and Credit Risk

By Steve L. Allen



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### A top risk management practitioner addresses the essential aspects of modern financial risk management

In the *Second Edition of Financial Risk Management + Website*, market risk expert Steve Allen offers an insider's view of this discipline and covers the strategies, principles, and measurement techniques necessary to manage and measure financial risk. Fully revised to reflect today's dynamic environment and the lessons to be learned from the 2008 global financial crisis, this reliable resource provides a comprehensive overview of the entire field of risk management.

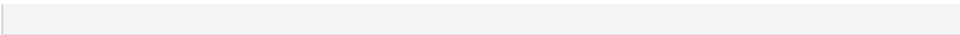
Allen explores real-world issues such as proper mark-to-market valuation of trading positions and determination of needed reserves against valuation uncertainty, the structuring of limits to control risk taking, and a review of mathematical models and how they can contribute to risk control. Along the way, he shares valuable lessons that will help to develop an intuitive feel for market risk measurement and reporting.

- Presents key insights on how risks can be isolated, quantified, and managed from a top risk management practitioner
- Offers up-to-date examples of managing market and credit risk
- Provides an overview and comparison of the various derivative instruments and their use in risk hedging
- Companion Website contains supplementary materials that allow you to continue to learn in a hands-on fashion long after closing the book

Focusing on the management of those risks that can be successfully quantified, the *Second Edition of Financial Risk Management + Website* is the definitive source for managing market and credit risk.

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### Editorial Review

From the Inside Flap

The world of financial risk management continues to evolve, and in order to keep up with this dynamic discipline, you need the most up-to-date information possible. That's why Steve Allen, a risk expert with over thirty years of experience in this field, has created the *Second Edition of Financial Risk Management*.

While written to reflect current market conditions—and address lessons learned from the recent financial crisis—this reliable resource still remains true to the first edition's successful approach of making a complex topic understandable. It skillfully covers the strategies, principles, and measurement techniques necessary to effectively manage and measure financial risk. It also explores important real-world issues such as proper mark-to-market valuation of trading positions, the determination of needed reserves against valuation uncertainty, the structuring of limits to control risk taking, and a review of mathematical models and how they can contribute to risk control.

Engaging and informative, this book offers a balanced account of financial risk management. Initial chapters provide a general background to financial risk management, detailing an institutional framework for understanding how risk arises in financial firms and how it is managed. Here, you'll become familiar with key concepts used by today's risk managers and learn from some of the most prominent financial disasters of the past thirty years—including the 2007–2008 crisis.

The next part of the book, which focuses on the principles of financial risk management, first lays out an integrated framework for this difficult endeavor, and then takes a closer look at value-at-risk (VaR), stress testing, and the control of model risk. After these issues are thoroughly explored, the final part of *Financial Risk Management, Second Edition* applies the principles, previously covered, to each specific type of financial risk: spot risk, forward risk, vanilla options risk, exotic options risk, credit risk, and counterparty credit risk. As each type is discussed, a detailed analysis is given of models used to price these risks as well as how these models can be used to measure and control risk.

Focusing on the management of those risks that can be successfully quantified, *Financial Risk Management, Second Edition* is an essential resource for both seasoned risk professionals and aspiring students. And with its companion website—which contains Microsoft Excel® spreadsheets built specifically to illustrate material in the book—you can quickly begin to develop an intuitive feel for risk measurement and reporting.

From the Back Cover

### Advance Praise for *Financial Risk Management, Second Edition*

"Steve Allen's revised book is an excellent read for both seasoned risk professionals and students. He has done a wonderful job of making a complex topic understandable. His chapters on financial crises should be a must-read for everyone in the profession as 'those who don't learn from history are forced to repeat it.'"

—Leslie Rahl, CEO and Managing Partner, Capital Market Risk Advisors

### Praise for the *First Edition*

"A very practical and deep approach to the problems of financial risk management."

—**Nassim Nicholas Taleb**, Distinguished Professor of Risk Engineering, New York University's Polytechnic Institute, and author of *The Black Swan and Antifragile*

"Key material on how risks can be isolated, quantified, and managed from a top risk management practitioner."

—**John Hull**, Maple Financial Chair in Derivatives and Risk Management, and Director, Bonham Centre for Finance, University of Toronto

"Allen's book is a treasure-trove of material and an invaluable resource for any professional seeking to understand modern risk management. It begins with basic concepts and builds carefully to the practical and theoretical ideas necessary for dealing with the complexities of the most sophisticated and relevant financial instruments today."

—**Neil Chriss**, Managing Principal, Hutchin Hill Capital, and author of *Black-Scholes and Beyond*

The *Second Edition* of *Financial Risk Management + Website* puts an emphasis on practical application. To that end, this book provides readers with exclusive access to a companion website filled with supplementary materials, allowing you to continue to learn in a hands-on fashion long after closing the book.

#### About the Author

**STEVEN ALLEN** is a risk management consultant, specializing in risk measurement and valuation with a particular emphasis on illiquid and hard-to-value assets. Until his retirement in 2004, he was Managing Director in charge of risk methodology at JPMorgan Chase, where he was responsible for model validation, risk capital allocation, and the development of new measures of valuation, reserves, and risk for both market and credit risk. Previously, he was in charge of market risk for derivative products at Chase. He has been a key architect of Chase's value-at-risk and stress testing systems. Prior to his work in risk management, Allen was the head of analysis and model building for all Chase trading activities for over ten years. Since 1998, Allen has been associated with the Mathematics in Finance Master's Program at New York University's Courant Institute of Mathematical Sciences. In this program, he has served as Clinical Associate Professor and Deputy Director and has created and taught courses in risk management, derivatives mathematics, and interest rate and credit models. He was a member of the board of directors of the International Association of Financial Engineers and continues to serve as co-chair of their Education Committee.

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