<< Return

# Market Risk - BICs Provide New Growth Opportunity in Derivative Hedging

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December 09 — A new concept in derivatives pricing, hedging and trading called Basis Instruments Contracts (BICs) appear to be the most significant theoretical and practical contribution to derivatives analysis since the Black Scholes analysis.

The BICs analysis provides a compellingly useful and exhaustive redefinition of derivatives and trivializes current methods for derivatives pricing and hedging, including PDE /PIDE methods, binomial/trinomial trees and Monte-Carlo. The BICs analysis also provides a new approach for derivatives hedging. In markets were BICs are traded, static hedges of any derivatives contract may be obtained.

Establishing BICs markets would represent for established derivatives exchanges or trading venues a significant growth opportunity since they would represent the ultimate solution for end-users risk management needs. In addition, the advent of BICs would substantially reduce the cost of derivatives hedges, therefore improving the competitiveness of companies that use them. For accounting purposes, it would also bring more transparency to the manner in which corporate assets and liabilities, in particular derivatives, are marked to market. More specifically, compliance with FAS 133,138 and its implementation directives will become more transparent.

In an environment where derivatives miscounting scandals often shake the very existence of some of the world's largest companies, this is indeed a compelling development.

<< Return

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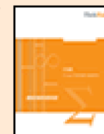

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