

Navigating inflation with Kondor

Appetite is growing worldwide for hedge and inflation-linked investment products. With Kondor, banks already have all the tools they need to access these opportunities.

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The beauty of the Finastra Kondor solution is that it covers both the underlying instruments (Bonds) and the Hedges (IRS). This enables our customers, not only to trade and to measure the inflation risk, but to hedge it as well, and to measure, manage and report the aggregated risk and P&L in a instant, without installing any new features.

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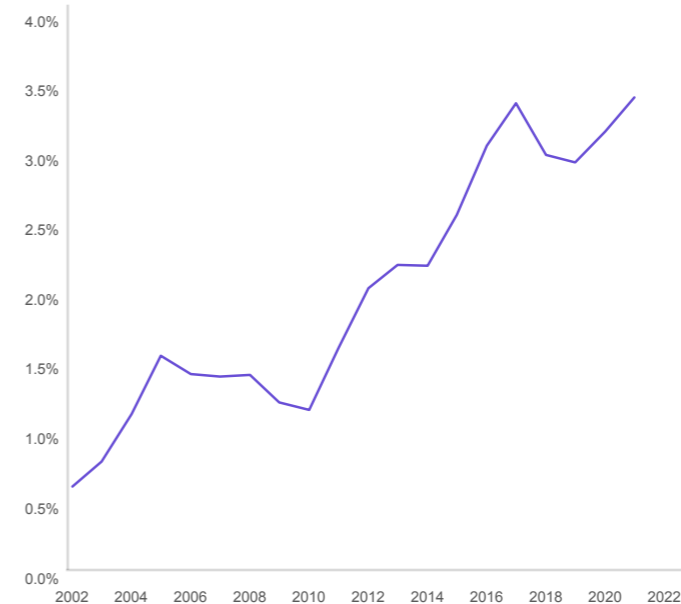
Inflation has been increasing globally due to the monetary policies implemented during the pandemic, logistics issues, and the continuing impacts of war and climate change. Inflation-linked transaction volumes, for both cash and derivative trades, have been growing over the last decade.

For instance, in the US, the daily volume of US Treasury Index Inflation securities (US TIPS) has more than tripled since 2010, while overall US securities volume has only increased by 20%.

Now US TIPS represents a the fastest growing sector in US treasury Bonds market Similar growth is also occurring in other markets globally. And one might think that this trend will not stop in the short term.

All the functionality described in this document is available in Kondor, out of the box, from version 3.2.

% of daily trading of inflation securities vs total US treasury



Source: Federal Reserve Bank of NY

Trade and Analytics

Kondor has complete front to middle to back coverage of relevant inflation instruments and their conventions.

Derivatives coverage

Product	Characteristics
Bonds, papers and repos	See details on the next page
Zero-coupon (ZC) and revenue inflation swaps	Supports different CPI conventions, including UK, US and EUR conventions for ZC inflation swap
Year-on-year swaps, real coupon swaps, caps and floors	Supports multiple regional differences For example: UK LPIs swaps
Total return swaps	Follows a similar convention to bonds.
UDI swaps	Supports domestic and cross-currency versions

P/L and Risk

Inflation-linked instruments are covered in all the reporting and risk management modules of Kondor, to enable full visibility at the most granular level.

- Inflation instruments are included in all standard reports: P/L, Cash-flows...
- The RiskKatcher module of Kondor offers the possibility to capture inflation risk at the most granular level:
 - Delta/Gamma sensitivities on CPIs/ Zero-coupons/Forward Rate curve
 - Sensitivities to seasonality curves
- Inflation-linked products are included in FRTB-SA, SIMM and SA-CCR coverage
- Inflation-linked products are integrated in VaR workflows (historical scenario building, Var/expected shortfall computation, backtest and stress tests)

Pricing and curves

Pricing of inflation-linked instruments using CPI curves and discount curves is available.

- Kondor uses the market standard model for revaluation. Assignment of CPI curves and discount curves is fully flexible.
- The CPI forward curve is built in Kondor out of zero-coupon inflation swaps quotes. Major quoting conventions are covered, including EUR, UK and US.
- CPI curves can also be built using inflation bond quotes
- CPI curve interpolation methodology relies on inflation seasonality which is estimated using historical or user inputs data.

Conventions coverage

The inflation market is very rich in terms of conventions. Kondor covers all the conventions of major inflation cash markets and is continuously expanding coverage of emerging markets conventions. These products are integrated into the entire front-to-back-to-risk chain. The list of conventions below is not exhaustive but provides a view of the main conventions that are covered in Kondor.

See cash conventions coverage table.

Cash conventions coverage

Convention	Ref. CPI Interpolation	Lag	Rounding convention (number of decimals)	Guarantee against deflation
Eurozone except Italia (IBund, OATi...)	Linear	3 Months	Ref CPI: 5th Adj factor : 5th	Redemption only
Italy (BTP Italia)	Linear	3 Months	Ref CPI: 5th Adj factor: 5th	Notional can only increase at each period: Notional = previous notional x max(6 month Adj Factor, 1)
UK (Index-linked Gilt)	Linear (new) or flat (old)	3 Months (new) or 8 Months (old)	Ref CPI: 5th Adj factor: 5th	No guarantee
Sweden (Index-linked treasury bonds)	Linear using 30 day per month assumption	3 Months	No rounding	1 issuance without protection Other issuances Redemption only
US (TIPS, I-Bonds)	Linear	3 Months	Ref CPI: 5th Adj factor: 5th	Redemption only
Canada (Real return bonds)	Linear	3 Months	Ref CPI: 5th Adj factor: 5th	No guarantee
South Africa	Linear	4 Months	No rounding	Redemption only
Australia (Capital Indexed Bonds)	Flat	6 Months	Adj factor: 2th	Redemption only
Japan (JGBi)	Linear using 10th of the month as reference	3 Months	Ref CPI: 3rd Adj factor: 5th	Redemption only
Türkiye	Linear	3 Months	Ref CPI: 6th	Redemption and coupon

About Finastra

Finastra is a global provider of financial software applications and marketplaces, and launched the leading open platform for innovation, FusionFabric.cloud, in 2017. It serves institutions of all sizes, providing award-winning solutions and services across Lending, Payments, Treasury & Capital Markets and Universal Banking (digital, retail and commercial banking) for banks to support direct banking relationships and grow through indirect channels, such as embedded finance and Banking as a Service. Its pioneering approach and commitment to open finance and collaboration is why it is trusted by ~8,600 institutions, including 90 of the world's top 100 banks. For more information, finastra.com

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