

# Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

<b>Student:</b>	<b>Mikoláš Volek</b>
<b>Advisor:</b>	<b>Doc. PhDr. Petr Teplý, Ph.D.</b>
<b>Title of the thesis:</b>	<b>Counterparty credit risk modelling</b>

## **OVERALL ASSESSMENT** (provided in English, Czech, or Slovak):

Counterparty credit risk has got attraction from all regulators, academics and practitioners around the globe in recent years. As a result, Mikoláš Volek has chosen an interesting topic for his master thesis when analyzing the impact of wrong-way risk on credit value adjustment (CVA) approximation.

The thesis, which is built on a strong mathematical background, consists of six main chapters. In Introduction the author presents his motivation for the research and discusses key terms including relevant mathematical background. However, this introductory chapter has 23 pages, what is too long. The second chapter describes CVA calculation and related issues. The third one presents literature review. The fourth chapter provides information on the CVA model, what serves as a good basis for Mikoláš' research. In the fifth chapter he presents own model, applies the Monte Carlo simulation based on empirical data (CDS spreads on AIG senior unsecured debt). However, this part is relatively short compared to the previous extensive theoretical background. He reveals, among others, that in the model the zero specification (i.e., no wrong-way risk, or credit spreads uncorrelated with risk-free rates) results in higher CVA than the baseline, which is clearly unwarranted. The last sixth chapter concludes the work and states final remarks.

The thesis fulfills standards format requirements despite some chapters could have been done better (e.g. shorter introduction, more extensive literature review etc.). Mikoláš has developed own CVA model, what makes his work valuable. He has demonstrated his deep knowledge in the field of credit risk management when applying standard statistical techniques.

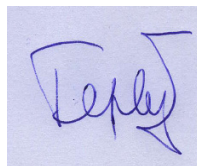
The author has been meeting his advisor on a regular basis. However, the author does not consult with his advisor the final version of the thesis. The thesis by Mikoláš Volek shows that he has developed a solid academic approach and built own model. I consider this master thesis as a standard piece of academic work and support it to be accepted in this form. All in all, I propose **Grade B from this thesis**.

## **SUMMARY OF POINTS AWARDED** (for details, see below):

<b>CATEGORY</b>	<b>POINTS</b>
<i>Literature</i> (max. 20 points)	15
<i>Methods</i> (max. 30 points)	27
<i>Contribution</i> (max. 30 points)	15
<i>Manuscript Form</i> (max. 20 points)	15
<b>TOTAL POINTS</b> (max. 100 points)	<b>72</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>2</b>

**NAME OF THE REFEREE:** Petr Teplý

**DATE OF EVALUATION:** 8. 9. 2016



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**Examiner Signature**

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## **EXPLANATION OF CATEGORIES AND SCALE:**

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

**METHODS:** *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

**CONTRIBUTION:** *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

**MANUSCRIPT FORM:** *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

## **Overall grading:**

TOTAL POINTS	GRADE		
81 – 100	<b>1</b>	= excellent	= výborně
61 – 80	<b>2</b>	= good	= velmi dobře
41 – 60	<b>3</b>	= satisfactory	= dobře
0 – 40	<b>4</b>	= fail	= nedoporučuji k obhajobě