

Contents

1. Introduction	1
2. Principles	3
2.1 Our Code	3
2.1.1 <code>auto</code>	4
2.2 Functional Programming	5
2.3 Type and State	5
2.4 Physical Code Structure	6
2.4.1 Facts	6
2.5 Platform	7
2.6 Some Design Patterns	8
2.6.1 Factory Method	9
2.6.2 Decorator	9
2.6.3 Singleton	9
2.7 Optimization	9
2.7.1 Calibration	10
2.7.2 <code>map</code>	10
2.8 Threads	11
3. Types and Interfaces	13
3.1 The User Base	13
3.2 A Public Example	14
3.3 Interface Generation	17
3.4 Interface Types	18
3.4.1 Tables and Cells	19
3.5 Interface Code	21

3.5.1	Customization Directives	22
3.6	Other Containers	22
3.7	Environment	23
3.7.1	Exception Messaging	25
3.7.2	Fast-Path Optimization	27
3.7.3	Macro Hackery	30
3.7.4	Repository Access	31
3.8	Enumerated Types	33
4.	Vector and Matrix Computations	37
4.1	Customizing Vectors	37
4.2	Algorithms	38
4.2.1	Join	40
4.3	Matrices and Square Matrices	41
4.3.1	Internal Layout	41
4.3.2	Pasting and Formatting	41
4.4	Matrix Multiplication	43
4.4.1	Inheritance and Substitutability	44
4.5	Decompositions (Square)	45
4.6	Decompositions (Symmetric)	46
4.7	Decompositions (Sparse)	48
4.7.1	Tridiagonal Matrices	49
4.7.2	Band Diagonal Matrices	50
4.7.3	SLAP Format	51
4.7.4	The Symmetric Case	55
4.8	Decompositions (Other)	57
5.	Persistence and Memory	59
5.1	Storage	59
5.2	Extraction	62
5.2.1	Public Types	63
5.2.2	Example: Linear Interpolant	64
5.2.3	Reader Registry	66
5.3	Rebuilding	67
5.3.1	Some Syntactic Sugar	68
5.4	Code Generation	70
5.5	A Display Interface	75
5.5.1	Storage	75

5.5.2	Extraction	78
5.5.3	Refinements	81
5.6	Auditing	82
5.6.1	Bag	82
5.6.2	Filling Up	83
5.6.3	Audit Types	85
5.7	More on Repositories	87
5.7.1	Unique Objects	87
5.7.2	Naming	89
5.7.3	Matching	90
6.	Testing Framework	91
6.1	Component Tests	91
6.1.1	Physical Structure	93
6.1.2	Reuse	93
6.2	Regression Tests	94
6.2.1	Repository Instrumentation	94
6.3	No Silver Bullet	96
7.	Further Maths	97
7.1	Interpolation	97
7.2	Special Functions	99
7.2.1	The Normal Distribution	99
7.3	Root Solvers	101
7.4	Underdetermined Search	104
7.4.1	Function and Jacobian	106
7.4.2	Weights and Smoothing	108
7.4.3	Monitoring Progress	109
7.5	Quadrature	110
7.5.1	Gaussian Quadrature	111
7.5.2	Adaptive Quadrature	113
7.6	Distributions	113
7.6.1	Implied Vol	114
7.7	Baskets	115
7.7.1	Whole-Basket Moment Matching	116
7.7.2	Taylor Expansion of Projected Vols	118
7.7.3	Midpoint Variance	118
7.8	Random and Quasi-Random Numbers	118

7.8.1	Random Deviate Streams	118
7.8.2	Generator Implementation	119
7.8.3	Transforms	120
7.8.4	Low-Discrepancy Sequences	123
7.8.5	Spectral and Spining Methods	126
7.9	PDE Solvers	127
7.9.1	Cube	128
7.9.2	Coordinate Mapping	129
7.9.3	Coefficient Calculators	131
7.9.4	Forward Induction	133
7.10	American Monte Carlo	134
7.10.1	Recursive Partitioning	134
7.10.2	Biases	136
8.	Schedules	139
8.1	Enumerated Switches	139
8.1.1	Groundwork for Extensibility	141
8.1.2	30E/360 ISDA, ACT/ACT ISMA	144
8.1.3	BUS/252	144
8.1.4	Other Enumerations	146
8.2	Holidays	147
8.2.1	Cities	147
8.2.2	Holiday Sets	148
8.3	Currencies	151
8.3.1	Internals	153
8.4	Increments	154
8.5	Legs	157
8.5.1	Stubs	159
8.5.2	Build from Parameters	160
8.5.3	CDS	162
8.5.4	Inflation Instruments	163
9.	Indices	165
9.1	Naming and Parsing	165
9.1.1	Short Names	167
9.1.2	Nonstandard Indices	167
9.2	Fixings	168
9.2.1	Composites	170

9.3	Sorting and Hashing	171
9.4	Implied Vol	172
10.	Pricing Protocols	175
10.0.1	Which is a Model?	177
10.1	Past and Future	177
10.2	Underlyings	178
10.3	Payments and Streams	178
10.3.1	Payment Reporting	180
10.3.2	Commitment to Streams	181
10.3.3	Destinations	182
10.4	Index Paths	183
10.4.1	Historical Paths	184
10.5	Defaults and Contingent Payments	185
10.5.1	Immediate Payments	187
10.5.2	Viewing Indices	187
10.6	Requests and Promises	188
10.6.1	Help for Models	190
10.6.2	Destinations	191
10.7	Bermudans and Barriers	192
10.8	Payouts	194
10.8.1	Trade State	195
10.8.2	Values Store	196
10.9	Steps	196
10.9.1	Valuation and Reevaluation	199
10.10	Use Case Review: PDE	199
10.11	Use Case Review: Monte Carlo and Hedge	201
10.11.1	Causality	202
10.12	Costs and Benefits	202
10.13	Assembling the Class Hierarchy	203
10.13.1	Stepper	203
10.13.2	Asset Values and Tokens	203
10.13.3	SDE	204
10.13.4	Model	204
10.13.5	Trade	205
10.13.6	Historical Data Access	205
10.13.7	Assets	207
10.13.8	Solvers	208

11.	Standardized Trades	209
11.1	Trade Classes	209
11.2	Cash	211
11.3	Equity and FX	215
11.3.1	Equity Forward Payout	215
11.3.2	Equity Index	217
11.3.3	Equity Forward Data	218
11.3.4	FX Option	218
11.3.5	Forcing Backward Induction	220
11.4	Legs and Swaps	222
11.4.1	Putting it Together	225
11.5	Caps	226
11.6	Swaps and Swaptions	228
11.7	Bermudans	230
11.7.1	Two Views	231
11.8	Composites	231
11.8.1	Rescaled Trades	231
11.8.2	Sums and Collections	233
12.	Curves	237
12.1	Risk	237
12.2	Libor and Funding	238
12.3	Build Instruments	239
12.3.1	Tenor	241
12.4	Dividend	241
12.5	Hazard	242
13.	Models	245
13.1	Vasicek-Hull-White	245
13.1.1	Parametrization	246
13.1.2	Model Contents	248
13.2	Interface to Numerical Pricing	249
13.3	Interface to Valuation Requests	252
13.3.1	Index Paths	258
13.3.2	Efficiency	259
13.3.3	Back to Libor	261
13.4	Cox-Ingersoll-Ross	262
13.5	Black-Karasinski	263

13.5.1	Forward Induction PDE Sweep	264
13.6	Single Equity with Local Vol	265
13.6.1	Interpolated Vol	266
13.6.2	Derivation from Implied Vol	266
13.6.3	Model and SDE	267
13.7	A Simple Hybrid Model	268
13.7.1	The Case for Components	270
13.7.2	State Bounds Checks	271
14.	Semianalytic Pricers	273
14.1	A Moment-Matching Pricer	273
14.2	Multimethod Objects	274
14.3	Method Registry	277
14.4	Interaction with Re-evaluator	277
14.5	Interaction with Composites	278
14.6	Pure Pricers	279
14.7	Trade-Dependent Calibration	280
14.7.1	Stabilization	282
15.	Risk	283
15.1	Slides and Bumps	283
15.2	Mutants	284
15.3	Reports	285
15.3.1	Barewords	287
15.4	Portfolios	287
15.5	Tasks	288
15.6	Slide Utilities	289
15.7	Conclusions	290
16.	Additional Code	291
16.1	Add Multiple	291
16.2	ArrayFunctor	291
16.3	Boolean	292
16.4	Composite	292
16.5	Cube	293
16.6	Handle	293
16.7	Matrix	294
16.8	Maybe	297

16.9 PWC (Piecewise Constant)	298
16.10 Vector	299
16. Acknowledgements and Further Reading	301
<i>Index</i>	303