APPENDIX 18A: FVA formula and discounting

The symmetric FVA formula can be derived in a similar fashion to the one for ColVA in Appendix 16A:

$$FVA = -\sum_{i=1}^{n} EFV_{t_{i-1}}\left\{\exp\left[-s_{t_{i-1}} \times t_{i-1}\right] - \exp\left[-s_{t_i} \times t_i\right]\right\} \quad (1)$$

where the spread term s represents the difference between discounting rates which should be the funding spread of the institution in question. This formula is equivalent to the difference when discounting at the cost of funding minus discounting at the rate in which there is no funding cost (e.g. OIS). This is illustrated in Spreadsheet 18.1.

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