Hedging Risks for Financial Products

KARA LEMON SPORTELLI MS’87

International trade carries substantial risks, with companies faced with volatile exchange rates, commodities prices, and tariffs. Kara Lemont Sportelli MS’87, managing director at BNP Paribas in London, heads the team that structures financial products for corporations that want to hedge those risks.

With a master’s degree in computer science from Columbia Engineering, Sportelli creates the mathematical models for tailor-made products that BNP Paribas provides to its international clients.

Consider the European company that makes aluminum cans. It needs to buy the aluminum, which carries a risk with fluctuating commodity prices. It sells the product in dollars, which also carries a risk with exchange rates changing by the day.

“The company is worried about the aluminum price going up and the dollar weakening,” she says. “So I work between the sales people and the traders to put in a structure that hedges both.”

“These financial instruments, meanwhile, must conform to international accounting standards. “We have to be able to demonstrate that the hedge they put in is the proper hedge for the risk they have,” says Sportelli. “There are regulations, and they have to be able to demonstrate to their auditors that it’s a good hedge.”

Sportelli arrived at Columbia in 1985 after majoring in math at Bates College. While at Bates, she became enthralled by computer science and came to Morningside Heights to deepen her knowledge. She landed a job on the arbitrage desk at Wall Street investment bank Salomon Brothers, creating computer models for risk management. She worked in Tokyo, then transferred to London for what was to be a one-year assignment.

Twenty-one years later, she’s still there. At Salomon, she worked on the arbitrage desk until 1992, when she went to the trading floor, pricing and promoting financial instruments called derivatives, such as interest rate swaps and options. When the derivatives market collapsed in 1995, she moved to the London office of CIBC, a Canadian bank, which at the time was building up internationally.

By 2004, she’d come to BNP Paribas, the Paris-based bank, where she now heads the structuring team for all asset classes within the bank’s fixed-income division. The team has recently expanded to develop expertise in structuring derivatives in emerging markets.

In her post, Sportelli also recruits talent from graduate schools around the world. She says graduates of engineering schools do well in finance, with their strong foundations in quantitative analysis. She came to Columbia in 2010 to make a presentation about BNP Paribas to engineering students, including several who majored in operations research.

“Finance is a technical business, and engineering students have the right skills,” she says. “You need quantitative abilities to do well in trading and structuring.”

Sportelli didn’t plan for a career in finance. But she says the field was a good fit.

“In finance, I’ve been surrounded by really bright people; it hasn’t been so bureaucratic,” she says. “From early in my career, I was encouraged to be entrepreneurial. I stayed open-minded and took the opportunities as they came.”