Path-Dependent Second Order PDEs
and Dynamic Risk Measures

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Introduction

Path dependent second order PDEs

Martingale problem for second order elliptic differential operators with path dependent coefficients

Time consistent dynamic risk measures

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INTRODUCTION

The field of path dependent PDEs first started in 2010 when Peng asked in [Peng, ICM, 2010] whether a BSDE (Backward Stochastic Differential Equations) could be considered as a solution to a path dependent PDE. In line with the recent literature, a solution to a path dependent second order PDE

\[ H(u, \omega, \phi(u, \omega), \partial_u \phi(u, \omega), D_x \phi(u, \omega), D^2_x \phi(u, \omega)) = 0 \]  

is searched as a progressive function \( \phi(u, \omega) \) (i.e. a path dependent function depending at time \( u \) on all the path \( \omega \) up to time \( u \)).
The notion of **regular solution** for a path dependent PDE (1) needs to deal with càdlàg paths.

To define partial derivatives $D_x \phi(u, \omega)$ and $D_x^2 \phi(u, \omega)$ at $(u_0, \omega_0)$, one needs to assume that $\phi(u_0, \omega)$ is defined for paths $\omega$ admitting a jump at time $u_0$.

S. Peng has introduced in [Peng 2012] a notion of regular and viscosity solution on the set of càdlàg paths based on the notions of continuity and partial derivatives introduced by Dupire [Dupire 2009].

The main drawback for this approach and all the approaches based on [Dupire 2009] is that the set of càdlàg paths endowed with the uniform norm topology is not separable, it is not a Polish space.
Recently Ekren Keller Touzi and Zhang [EKTZ 2014] proposed a notion of viscosity solution for path dependent PDEs in the setting of continuous paths. This work was motivated by the fact that a continuous function defined on the set of continuous paths does not have a unique extension into a continuous function on the set of càdlàg paths.
NEW APPROACH

In the paper I present now "Dynamic Risk Measures and Path-Dependent second order PDEs", I introduce a new notion of regular and viscosity solution for path dependent second order PDEs, making use of the Skorokhod topology on the set \( \Omega \) of càdlàg paths.

Our study for viscosity solutions of path dependent PDEs allows then to introduce a new definition of viscosity solution for path dependent functions defined only on the set of continuous paths.
CONSTRUCTION OF SOLUTIONS

Making use of the Martingale Problem Approach for integro differential operators with path dependent coefficients [J. Bion-Nadal 2015], I construct then time-consistent dynamic risk measures on the set $\Omega$ of càdlàg paths. These risk measures provide viscosity solutions for path dependent semi-linear second order PDEs.
INTRODUCTION

PATH DEPENDENT SECOND ORDER PDEs

MARTINGALE PROBLEM FOR SECOND ORDER ELLIPTIC
DIFFERENTIAL OPERATORS WITH PATH DEPENDENT
COEFFICIENTS

- Martingale problem introduced by Stroock and Varadhan
- Path dependent martingale problem
- Existence and uniqueness of a solution to the path dependent martingale problem

TIME CONSISTENT DYNAMIC RISK MEASURES
In all the following, $\Omega$ is the set of càdlàg paths $\mathcal{D}(\mathbb{R}_+^+)$ endowed with the Skorokhod topology.

$d(\omega_n, \omega) \to 0$ if there is a sequence $\lambda_n : \mathbb{R}_+ \to \mathbb{R}_+$ strictly increasing, $\lambda_n(0) = 0$, such that $\|\text{Id} - \lambda_n\|_\infty \to 0$, and for all $K > 0$, $\sup_{t \leq K} \|\omega(t) - \omega_n \circ \lambda_n(t)\| \to 0$.

The set of càdlàg paths with the Skorokhod topology is a Polish space (metrizable and separable). Polish spaces have nice properties:

- Existence of regular conditional probability distributions
- Equivalence between relative compactness and tightness for a set of probability measures
- The Borel $\sigma$-algebra is countably generated.

The set of càdlàg paths with the uniform norm topology is not a Polish space. It is not separable.
NEW APPROACH FOR PROGRESSIVE FUNCTIONS

DEFINITION

Let $Y$ be a metrizable space. A function $f : \mathbb{R}_+ \times \Omega \to Y$ is progressive if $f(s, \omega) = f(s, \omega')$ for all $\omega, \omega'$ such that $\omega(u) = \omega'(u) \ \forall u \leq s$.

To every progressive function $f : \mathbb{R}_+ \times \Omega \to Y$ we associate a unique function $\overline{f}$ defined on $\mathbb{R}_+ \times \Omega \times \mathbb{R}^n$ by

$$\overline{f}(s, \omega, x) = f(s, \omega *_s x)$$

$$\omega *_s x(u) = \omega(u) \ \forall u < s$$

$$\omega *_s x(u) = x \ \forall s \leq u \quad (2)$$

$\overline{f}$ is strictly progressive, i.e. $\overline{f}(s, \omega, x) = \overline{f}(s, \omega', x)$ if $\omega(u) = \omega'(u) \ \forall u < s$.

$f \to \overline{f}$ is a one to one correspondance, $f(s, \omega) = \overline{f}(s, \omega, X_s(\omega))$. 
**Definition**

A progressive function \(v\) on \(\mathbb{R}_+ \times \Omega\) is a regular solution to the following path dependent second order PDE

\[
H(u, \omega, v(u, \omega), \partial_u v(u, \omega), D_x v(u, \omega), D_x^2 v(u, \omega)) = 0
\] (3)

if the function \(\bar{v}\) belongs to \(C^{1,0,2}(\mathbb{R}_+ \times \Omega \times \mathbb{R}^n)\) and if the usual partial derivatives of \(\bar{v}\) satisfy the equation

\[
H(u, \omega \ast_u x, \bar{v}(u, \omega, x), \partial_u \bar{v}(u, \omega, x), D_x \bar{v}(u, \omega, x), D_x^2 \bar{v}(u, \omega, x)) = 0
\] (4)

with \(\bar{v}(u, \omega, x) = v(u, \omega \ast_u x)\)

\((\omega \ast_u x)(s) = \omega(s) \forall s < u\), and \((\omega \ast_u x)(s) = x \forall s \geq u\). The partial derivatives of \(\bar{v}\) are the usual one, the continuity notion for \(\bar{v}\) is the usual one.
CONTINUITY IN VISCOsITY SENSE

**DEFINITION**

A progressively measurable function $v$ defined on $\mathbb{R}_+ \times \Omega$ is continuous in viscosity sense at $(r, \omega_0)$ if

$$v(r, \omega_0) = \lim_{\epsilon \to 0} \{v(s, \omega), (s, \omega) \in D_\epsilon(r, \omega_0)\}$$

(5)

where

$$D_\epsilon(r, \omega_0) = \{(s, \omega), r \leq s < r + \epsilon, \omega(u) = \omega_0(u), \forall 0 \leq u \leq r$$

and $\sup_{r \leq u \leq s} ||\omega(u) - \omega_0(r)|| < \epsilon}\}

$v$ is lower (resp upper) semi continuous in viscosity sense if equation (5) is satisfied replacing $\lim$ by $\lim \inf$ (resp $\lim \sup$).
Viscosity supersolution on the set of càdlàg paths

**Definition**

Let \( v \) be a progressively measurable function on \((\mathbb{R}_+ \times \Omega, (\mathcal{B}_t))\) where \( \Omega \) is the set of càdlàg paths with the Skorokhod topology and \((\mathcal{B}_t)\) the canonical filtration.

\( v \) is a viscosity supersolution of (3) if \( v \) is lower semi-continuous in viscosity sense, and if for all \((t_0, \omega_0) \in \mathbb{R}_+ \times \Omega\), there exists \( \epsilon > 0 \) such that

- \( v \) is bounded from below on \( D_\epsilon(t_0, \omega_0) \).
- for all strictly progressive function \( \bar{\phi} \in C_b^{1,0,2}(\mathbb{R}_+ \times \Omega \times \mathbb{R}^n) \) such that \( v(t_0, \omega_0) = \bar{\phi}(t_0, \omega_0, \omega_0(t_0)) \), and \((t_0, \omega_0)\) is a minimizer of \( v - \phi \) on \( D_\epsilon(t_0, \omega_0) \).

\[
H(u, \omega_x, \bar{\phi}(u, \omega, x), \partial_u \bar{\phi}(u, \omega, x), D_x \bar{\phi}(u, \omega, x), D_x^2 \bar{\phi}(u, \omega, x) \geq 0
\]

at point \((t_0, \omega_0, \omega_0(t_0))\).
**Viscosity solution on continuous paths**

**Definition**

A progressively measurable function \( v \) on \( \mathbb{R}_+ \times \mathcal{C}(\mathbb{R}_+, \mathbb{R}^n) \) is a viscosity supersolution of \( H(u, \omega, v(u, \omega), \partial u v(u, \omega), D_x v(u, \omega), D_x^2 v(u, \omega)) = 0 \) if \( v \) is lower semi-continuous in viscosity sense and for all function strictly progressive \( \overline{\phi} \in C_{b}^{1,0,2}(\mathbb{R}_+ \times \Omega \times \mathbb{R}^n) \) such that

- \( v(t_0, \omega_0) = \phi(t_0, \omega_0) \), and \( (t_0, \omega_0) \) is a minimizer of \( v - \phi \) on \( \tilde{D}_\epsilon(t_0, \omega_0) \)

\[
H(u, \omega \ast_u x, \overline{\phi}(u, \omega, x), \partial u \overline{\phi}(u, \omega, x), D_x \overline{\phi}(u, \omega, x), D_x^2 \overline{\phi}(u, \omega, x) \geq 0
\]

at point \( (t_0, \omega_0) \).

with \( \phi(u, \omega) = \overline{\phi}(u, \omega, \omega(u)) \), \( \tilde{D}_\epsilon \) is the intersection of \( D_\epsilon \) with the set of continuous paths, and \( \Omega \) is the set of càdlàg paths with the Skorokhod topology.
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3 MARTINGALE PROBLEM FOR SECOND ORDER ELLIPTIC DIFFERENTIAL OPERATORS WITH PATH DEPENDENT COEFFICIENTS
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4 TIME CONSISTENT DYNAMIC RISK MEASURES
The martingale problem associated with a second order elliptic differential operator has been introduced and studied by Stroock and Varadhan in their papers "Diffusion processes with continuous coefficients I and II", Communications on Pure and Applied Mathematics, 1969.

Second order elliptic differential operator:

$$L_{t}^{a,b} = \frac{1}{2} \sum_{i,j=1}^{n} a_{ij}(t, x) \frac{\partial^2}{\partial x_i \partial x_j} + \sum_{i=1}^{n} b_{i}(t, x) \frac{\partial}{\partial x_i}$$

The operator $L^{a,b}$ is acting on $C_0^{\infty}(\mathbb{R}^n)$ (functions $C^{\infty}$ with compact support).
**Martingale Problem of Stroock and Varadhan**

**State Space:** \((C([0, \infty[, R^n]); \) \(X_t\) is the canonical process: \(X_t(\omega) = \omega(t)\)

\(\mathcal{B}_t\) is the \(\sigma\)-algebra generated by \((X_u)_{u \leq t}\).

Let \(0 \leq r\) and \(y \in R^n\). A probability measure \(Q\) on the space of continuous paths \(C([0, \infty[, R^n)\) is a solution to the martingale problem for \(L^{a, b}\) starting from \(y\) at time \(r\) if for all \(f \in C_0^\infty(R^n),\)

\[
Y^{a, b}_{r, t} = f(X_t) - f(X_r) - \int_r^t L^{a, b}_{u}(f)(u, X_u)\,du
\]

is a \(Q\) martingale on \((C([0, \infty[, R^n), \mathcal{B}_t)\) and if \(Q(\{\omega(u) = y \ \forall u \leq r\}) = 1\)

\[
L^{a, b}_{u}(f)(u, X_u) = \frac{1}{2} \sum_{1}^{n} a_{ij}(u, X_u) \frac{\partial^2 f}{\partial x_i \partial x_j}(X_u) + \sum_{1}^{n} b_i(u, X_u) \frac{\partial f}{\partial x_i}(X_u)
\]
Stroock and Varadhan have proved the existence and the uniqueness of the solution to the martingale problem associated to the operator $L^{a,b}$ starting from $x$ at time $t$ assuming that $a$ is a continuous bounded function on $\mathbb{R}_+ \times \mathbb{R}^n$ with values in the set of non negative matrices, $a(t, x)$ is invertible for all $(t, x)$ and $b$ is measurable bounded: $Q^{a,b}_{t,x}$
I have recently studied the martingale problem associated with an integro differential operator with path dependent coefficients. In this talk I restrict to the case where there is no jump term. We consider the following path dependent operator:

\[ L^{a,b}(t, \omega) = \frac{1}{2} \sum_{1}^{n} a_{ij}(t, \omega) \frac{\partial^2}{\partial x_i \partial x_j} + \sum_{1}^{n} b_i(t, \omega) \frac{\partial}{\partial x_i} \]  

The functions \( a \) and \( b \) are defined on \( \mathbb{R}_+ \times \Omega \) where \( \Omega \) is the set of càdlàg paths. For given \( t \), \( a(t, \omega) \) and \( b(t, \omega) \) depend on the whole trajectory of \( \omega \) up to time \( t \).
**Path Dependent Martingale Problem**

Let \( \Omega = \mathcal{D}([0, \infty[, \mathbb{R}^n) \) be the set of càdlàg paths

**Definition**

Let \( r \geq 0, \omega_0 \in \Omega \). A probability measure \( Q \) on the space \( \Omega \) is a solution to the path dependent martingale problem for \( L^{a,b}(t, \omega) \) starting from \( \omega_0 \) at time \( r \) if for all \( f \in C^\infty_0(\mathbb{R}^n) \),

\[
Y^{a,b,M}_{r,t} = f(X_t) - f(X_r) - \int_r^t (L^{a,b}(u, \omega)(f)(X_u) du
\]

is a \( Q \) martingale on \( (\Omega, (\mathcal{B}_t)) \) and if

\[
Q(\{\omega \in \Omega | \omega_{|[0,r]} = \omega_0_{|[0,r]}\}) = 1
\]
Assume that $a$ and $b$ are bounded. Let $Q$ be a probability measure on $\Omega$ such that $Q(\{\omega \in \Omega \mid \omega_{[0,r]} = \omega_{0|[0,r]}\}) = 1$. The following properties are equivalent:

1. For all $f \in C_0^\infty(\mathbb{R}^n)$,

   \[ Y_{r,t}^{a,b,M}(f) = f(X_t) - f(X_r) - \int_r^t L^{a,b}(u, \omega)(f)(X_u)du \]  

   is a $(Q, \mathcal{B}_t)$ martingale

2. For all $f \in C_b^{1,2}(\mathbb{R}_+ \times \mathbb{R}^n)$, $Z_{r,t}^{a,b,M}(f) =$

   \[ f(t, X_t) - f(r, X_r) - \int_r^t \left( \frac{\partial}{\partial u} + L^{a,b}(u, \omega)(f)(u, X_u) \right)du \]  

   is a $(Q, \mathcal{B}_t)$ martingale.
**Theorem**

- For all \( \phi \in C_{b}^{1,0,2}(R_{+} \times \Omega \times R^{n}) \) strictly progressive,

\[
\phi(t, \omega, X_{t}(\omega)) - \phi(r, \omega, X_{r}(\omega)) - \int_{r}^{t} \left[ \frac{\partial}{\partial u} + L^{a,b}(u, \omega) \right] \phi(u, \omega, X_{u}(\omega)) du
\]

is a \((Q, B_{t})\) martingale.

- For all \( g : R_{+} \times \Omega \rightarrow R \) progressive, such that \( \bar{g} \)

\((\bar{g}(s, \omega, x) = g(s, \omega \ast_{s} x)) \) belongs to \( C_{b}^{1,0,2}(R_{+} \times \Omega \times R^{n}) \),

\[
g(t, \omega) - g(r, \omega) - \int_{r}^{t} \left[ \frac{\partial}{\partial u} + L^{a,b}(u, \omega) \right] (\bar{g})(u, \omega, X_{u}(\omega)) du
\]

is a \((Q, B_{t})\) martingale.
**Path Dependent Martingale Problem**

For \( \phi \in C^{1,0,2}_b(R_+ \times \Omega \times \mathbb{R}^n) \),

\[
L^{a,b}(u, \omega)(\phi)(u, \omega, X_u(\omega)) =
\]
\[
+ \frac{1}{2} \sum_{ij} a_{ij}(u, \omega) \frac{\partial^2 \phi}{\partial x_i \partial x_j}(u, \omega, X_u(\omega)) + \sum_i b_i(u, \omega) \frac{\partial \phi}{\partial x_i}(u, \omega, X_u(\omega))
\]

The martingale problem studied by Stroock and Varadhan is a particular case of the above path dependent martingale problem with \( a(t, \omega) = \tilde{a}(t, X_t(\omega)) \), \( b(t, \omega) = \tilde{b}(t, X_t(\omega)) \), \( \tilde{a}, \tilde{b} \) defined on \( R_+ \times \mathbb{R}^n \). **Which continuity assumption on** \( a \)? Recall that \( \Omega \) is the set of càdlàg paths.

**Definition**

A progressive function \( \phi \) defined on \( R_+ \times \Omega \) is progressively continuous if \( \overline{\phi} \) is continuous on \( R_+ \times \Omega \times \mathbb{R}^n \) \( \overline{\phi}(u, \omega, x) = \phi(u, \omega *_u x) \).

Motivation: If \( \tilde{a} \) is continuous, \( a \) given by \( a(t, \omega) = \tilde{a}(t, X_t(\omega)) \) is progressively continuous but not continuous on the set of càdlàg paths.
**Existence and uniqueness**

**Theorem**

Let $a$ be a progressively continuous bounded function defined on $\mathbb{R}_+ \times \Omega$ with values in the set of non negative matrices. Assume that $a(s, \omega)$ is invertible for all $(s, \omega)$. Let $b$ be a progressively measurable bounded function defined on $\mathbb{R}_+ \times \Omega$ with values in $\mathbb{R}^n$. For all $(r, \omega_0)$, the martingale problem for $\mathcal{L}^{a,ab}$ starting from $\omega_0$ at time $r$ is well posed i.e. admits a unique solution $Q^{a,ab}_{r,\omega_0}$ on the set of càdlàg paths.
THE ROLE OF CONTINUOUS PATHS

**Proposition**

Every probability measure $Q_{r,\omega_0}^{a,ab}$ solution to the martingale problem for $\mathcal{L}_{a,ab}$ starting from $\omega_0$ at time $r$ is supported by paths which are continuous after time $r$, i.e. continuous on $[r, \infty]$. More precisely

$$Q_{r,\omega_0}^{a,ab}(\{\omega, \omega(u) = \omega_0(u) \ \forall u \leq r, \text{ and } \omega|_{[r,\infty]} \in C([r, \infty[, \mathbb{R}^n)\} = 1$$

**Corollary**

For all continuous path $\omega_0$ and all $r$, the support of the probability measure $Q_{r,\omega_0}^{a,ab}$ is contained in the set of continuous paths:

$$Q_{r,\omega_0}^{a,b}C([\mathbb{R}_+, \mathbb{R}^n]) = 1$$
Feller property

Let $X$ be the quotient of $\mathbb{R}_+ \times \Omega \times \mathbb{R}^n$ by the equivalence relation $\sim$: 

$$(t, \omega, x) \sim (t', \omega', x') \text{ if } t = t', \ x = x' \text{ and } \omega(u) = \omega'(u) \ \forall u < t).$$

**Theorem**

Assume furthermore that $b$ is progressively continuous bounded. Consider on the set of probability measures $\mathcal{M}_1(\Omega)$ the weak topology. Then the map

$$(r, \omega, x) \in \mathbb{R}_+ \times \Omega \times \mathbb{R}^n \rightarrow Q_{r, \omega, x}^{a, ab} \in \mathcal{M}_1(\Omega)$$

is continuous on $X$

Let $h(\omega) = \overline{h}(\omega, \omega(T)), \overline{h}$ continuous, $\overline{h}(\omega, x) = \overline{h}(\omega', x)$ if $\omega(u) = \omega'(u), \ \forall u < T.$

**Proposition**

The function $v(r, \omega) = Q_{r, \omega}^{a, ab}(h)$ is continuous in viscosity sense. It is a viscosity solution of $\partial_t v(t, \omega) + \mathcal{L}^{a, ab} v(t, \omega) = 0, \ v(T, \omega) = h(\omega)$
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TIME CONSISTENT DYNAMIC RISK MEASURES
Recall the following important way of constructing time consistent dynamic risk measures [J. Bion-Nadal 2008].

**Proposition**

Given a stable set $Q$ of probability measures all equivalent to $Q_0$ and a penalty $(\alpha_{s,t})$ defined on $Q$ satisfying the local property and the cocycle condition,

$$\rho_{st}(X) = \operatorname{esssup}_{Q \in Q} (E_Q(X|\mathcal{F}_s) - \alpha_{st}(Q))$$

defines a time consistent dynamic risk measure that is: $\rho_{st}$ is non decreasing, convex, translation invariant by elements $\mathcal{B}_s$-measurable and $\rho_{r,t} = \rho_{r,s} \circ \rho_{s,t}$ for all $r \leq s \leq t$.

cocycle condition:

$$\alpha_{r,t}(Q) = \alpha_{r,s}(Q) + E_Q(\alpha_{s,t}(Q)|\mathcal{F}_r)$$

for all $r \leq s \leq t$, for all $Q$ in $Q$, 

**TIME CONSISTENT DYNAMIC RISK MEASURES**
**Stable Set of Probability Measures Solution to a Martingale Problem**

**Definition**

Let $r \geq 0$ and $\omega \in \Omega$.

Let $a$ be progressively continuous bounded defined on $\mathbb{R}_+ \times \Omega$ with values in non-negative matrices, such that $a(t, \omega)$ is invertible for all $(t, \omega)$. Let $\Lambda$ be a closed convex lower hemicontinuous multivalued mapping ($\Lambda(t, \omega) \subset \mathbb{R}^n$). Let $L(\Lambda)$ be the set of continuous bounded selectors from $\Lambda$.

The set $Q_{r, \omega}(\Lambda)$ is the stable set of probability measures generated by the probability measures $Q^{a, a\lambda}_{r, \omega}, \Lambda \in L(\Lambda)$ with $\lambda(t, \omega') = \Lambda(t, \omega', X_t(\omega'))$.

Let $\mathcal{P}$ be the predictable $\sigma$-algebra. Every probability measure in $Q_{r, \omega}(\Lambda)$ is the unique solution $Q^{a, a\mu}_{r, \omega}$ to the martingale problem for $L^{a, a\mu}$ starting from $\omega$ at time $r$ for some process $\mu$ defined on $\mathbb{R}_+ \times \Omega \times \mathbb{R}^n$ $\mathcal{P} \times \mathcal{B}(\mathbb{R}^n)$-measurable $\Lambda$ valued ($\mu(u, \omega, x) \in \Lambda(u, \omega, x)$).
For $0 \leq r \leq s \leq t$, define the penalty $\alpha_{s,t}(Q_{r,\omega}^{a,a\mu})$ as follows

$$
\alpha_{s,t}(Q_{r,\omega}^{a,a\mu}) = E_{Q_{r,\omega}^{a,a\mu}} \left( \int_{s}^{t} g(u, \omega, \mu(u, \omega)) du | \mathcal{B}_s \right)
$$

(11)
GROWTH CONDITIONS

DEFINITION

1. $g$ satisfies the growth condition (GC1) if there is $K > 0$, $m \in \mathbb{N}^*$ and $\epsilon > 0$ such that

$$\forall y \in \Lambda(u, \omega), \quad |g(u, \omega, y)| \leq K(1 + \sup_{s \leq u} ||X_s(\omega)||)^m(1 + ||y||^{2-\epsilon}) \quad (12)$$

2. $g$ satisfies the growth condition (GC2) if there is $K > 0$ such that

$$\forall y \in \Lambda(u, \omega), \quad |g(u, \omega, y)| \leq K(1 + ||y||^2) \quad (13)$$
**BMO CONDITION**

**Definition**

Let $C > 0$. Let $Q$ be a probability measure.

- A progressively measurable process $\mu$ belongs to $BMO(Q)$ and has a BMO norm less or equal to $C$ if for all stopping times $\tau$,

$$E_Q\left(\int_\tau^\infty ||\mu_s||^2ds\mathbf{|F}_\tau\right) \leq C$$

- The multivalued mapping $\Lambda$ is $BMO(Q)$ if there is a map $\phi \in BMO(Q)$ such that

$$\forall (u, \omega), \sup\{||y||, y \in \Lambda(u, \omega)\} \leq \phi(u, \omega)$$
**THEOREM**

Let \((r, \omega)\). Assume that the multivalued set \(\Lambda\) is \(\text{BMO}(Q_r, \omega)\). Let 
\[ Q = Q_{r, \omega}(\Lambda) \] 
Let \(r \leq s \leq t\).

\[
\rho_{s,t}^{r,\omega}(Y) = \text{esssup}_{Q_{r,\omega} \in Q}(E_{Q_{r,\omega}}(Y|B_s) - \alpha_{s,t}(Q_{r,\omega}))
\]

with \(\alpha_{s,t}(Q_{r,\omega}) = E_{Q_{r,\omega}}\left(\int_s^t g(u, \omega, \mu(u, \omega))du \right| B_s)\)

- Assume that \(g\) satisfies the growth condition \((GC1)\). Then \((\rho_{s,t}^{r,\omega})\) defines a time consistent dynamic risk measure on \(L_p(Q_{r,\omega}, (B_t))\) for all \(q_0 \leq p < \infty\).

- Assume that \(g\) satisfies the growth condition \((GC2)\). Then \((\rho_{s,t}^{r,\omega})\) defines a time consistent dynamic risk measure on \(L_p(Q_{r,\omega}, (B_t))\) for all \(q_0 \leq p \leq \infty\).

\(q_0\) is linked to the \(\text{BMO}\) norm of the majorant of \(\Lambda\).
**Feller property for the dynamic risk measure**

**Definition**

The function $h : \Omega \rightarrow \mathbb{R}$ belongs to $\mathcal{C}_t$ if there is a $\tilde{h} : \Omega \times \mathbb{R}^n \rightarrow \mathbb{R}$ such that

1. $h(\omega) = \tilde{h}(\omega, X_t(\omega))$
2. $\tilde{h}(\omega, x) = \tilde{h}(\omega', x)$ if $\omega(u) = \omega'(u) \ \forall u < t$

and such that $\tilde{h}$ is continuous bounded.

**Theorem**

Under the same hypothesis. For every function $h \in \mathcal{C}_t$, there is a progressive function $R(h)$ on $\mathbb{R}_+ \times \Omega$, $R(h)(t, \omega) = h(\omega)$, such that $\overline{R}(h)$ is lower semi continuous on $X$.

$$\forall s \in [r, t], \forall \omega \in \Omega, \ \rho^{s,\omega}_{s, t}(h) = R(h)(s, \omega)$$ (14)

$$\forall 0 \leq r \leq s \leq t, \ \rho^{r,\omega}_{s, t}(h)(\omega') = R(h)(s, \omega') \ Q^a_{r, \omega} \ a.s.$$ (15)
**Viscosity solution**

**Theorem**

Assume furthermore that $g$ is upper semicontinuous on $\{ (s, \omega, y), (s, \omega) \in X, \ y \in \Lambda(s, \omega, \omega \ast_s \omega(s)) \}$. Let $h \in C_t$. The function $R(h)$ is a viscosity supersolution of the path dependent second order PDE

$$-\partial_u v(u, \omega) - \mathcal{L} v(u, \omega) - f(u, \omega, a(u, \omega) D_x v(u, \omega)) = 0$$

$$v(t, \omega) = f(\omega)$$

$$\mathcal{L} v(u, \omega) = \frac{1}{2} \text{Tr}(a(u, \omega) D_x^2 v(u, \omega))$$

$$f(u, \omega, z) = \sup_{y \in \Lambda(u, \omega)} (z^* y - g(u, \omega, y))$$

at each point $(t_0, \omega_0)$ such that $f(t_0, \omega_0, a(t_0, \omega_0)z)$ is finite for all $z$.

$$\rho_{s, t}^{s, \omega'} (h) = R(h)(s, \omega')$$
**Theorem**

Assume furthermore that \( \Lambda \) is uniformly \( BMO \) with respect to \( a \). Assume that \( f \) is progressively continuous. Let \( h \in \mathcal{C}_t \). The upper semi-continuous envelop of \( R(h) \) in viscosity sense

\[
R(h)^*(s, \omega) = \limsup_{\eta \to 0} \left\{ R(h)(s', \omega'), (s', \omega') \in D_\eta(s, \omega) \right\}
\]

is a viscosity subsolution of the above path dependent second order PDE.
THANK YOU FOR YOUR ATTENTION