

Valuations and analytics

Empowering institutional buyers of derivatives – Tim Mortimer PhD,
managing director of Future Value Consultants, explains how

As well as a general trend for greater accounting and auditing disclosure of derivative position values, this year has also seen the implementation of accounting standard IAS39, which deals with fair values of derivative positions. As a result, many institutions now have a need for regular, reliable independent valuations with the capability to analyse and price derivative products.

These requirements can be handled by Future Value Consultants Datapricer® system, a web-based application that has two modules: independent valuations and product pricing. Available at a competitive cost and based on models of investment banking quality and market pricing data, derived from a wide selection of reliable observable sources, it leverages off Future Value Consultants' market leading position as research provider in structured products.

Below are three examples of situations where such capabilities add genuine value to institutions involved in derivatives:

- 1. Situation:** Investment banks needing independent price checks and stress testing on a portfolio of options and hedges
Requirement: Market risk team wishes to examine a series of vanilla and exotic options and their associated hedges to test valuations, risk measures and generate value-at-risk (VaR) numbers
Solution: Future Value Consultants takes option and hedge details in mutually agreed spreadsheet format and, with its own models and data, derives price, hedge and stress calculations for the client at a sensible cost in a short turnaround time
Result: The client's team responsible for audit preparation has extra comfort for the crucial end of year audit, the first under the IAS39 directive
- 2. Situation:** Product providers or investment company vehicles seeking regular independent asset valuations
Requirement: Weekly independent valuations required by investment company trustees to ensure valuations from the investment bank, with which it traded, represent fair market value
Solution: Future Value Consultants sends valuations by e-mail the next business day after each valuation point based on current market data, a pricing model representative of market practice and an appropriate bid-offer spread
Result: Product provider satisfies its obligations to ensure investors are treated fairly during the entire investment horizon

3. Situation: Product providers seeking reliable asset pricing estimates before dealing, in order to assess competitiveness of market quotes

Requirement: Many product providers do not have full pricing capabilities, but need to assess the value of structure pricing they receive from counterparties prior to purchasing a hedge for an institutional or retail issue

Solution: Future Value Consultants' Datapricer® pricing module allows quick, easy and accurate analysis of a wide variety of structured products on different underlying assets

Result: For a fixed annual subscription, the client is able to price and analyse hundreds of possible products and price check quotes. By saving a few basis points per trade, they justify the fee of the service many times over. ■

Future Value Consultants already supplies its Datapricer® pricing and valuations services to many major institutions in the UK, US and Europe.

Contact details

For more information about any of these services including a free trial for Datapricer® pricing or valuations please contact Future Value Consultants on:

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"We at Future Value Consultants believe that transparency and proper procedures for derivative trades are essential for any institution involved in this market. We also believe that we have a complete cost effective solution, which helps our clients build up their own expertise"