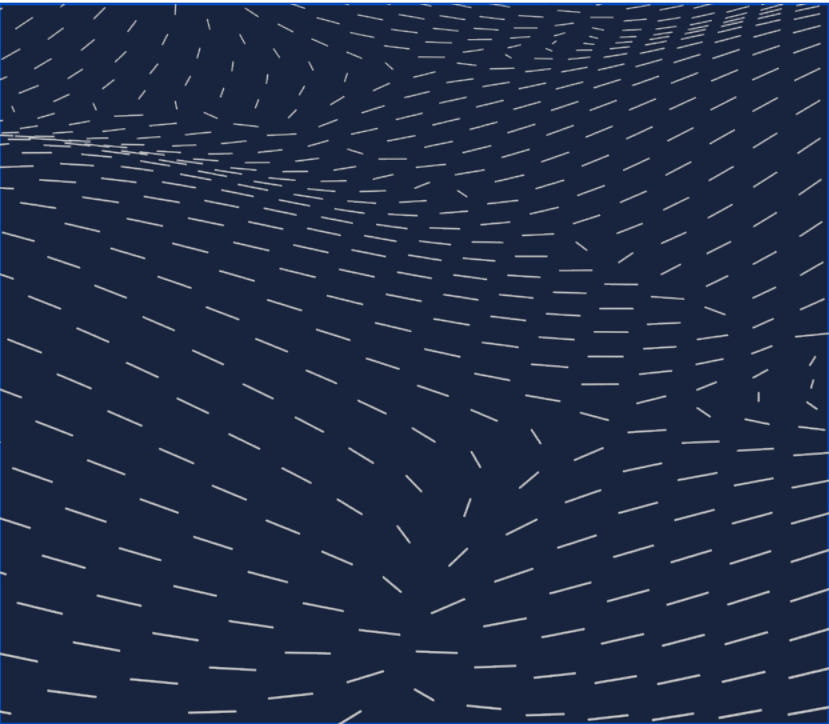


Parameta
Solutions

How Trade & Order data helps in Valuation Control



Our Global Footprint

Parameta Solutions is part of TP ICAP



TP ICAP is the world's largest inter-dealer broker.

Leveraging the breadth and depth of our group brands; ICAP, PVM and Tullett Prebon, Parameta Solutions provides unbiased over-the-counter market information and data, creating transparency and insights that help our clients spot opportunities and manage risk.

86 locations

27 countries

>5,500 employees





The source of OTC Information

Global, multi-asset class coverage for Interest Rates, Money Markets, FX, Credit, Fixed Income, Treasury, Equity Derivatives, Energy and Commodities.

Trusted Source

Our data is used in pre-trade analytics, front office, algorithmic trading, mark-to-market, settlement, risk management, IPV and compliance.

Parameta
Solutions

Win Back Time

View and retrieve data quickly. Strengthen your approach and inform your strategy. Gain a better understanding of where the market is heading.

Bigger and better. Together

Using the price flows generated by TP ICAP's brokerage experts, combined with Parameta's pricing and analytics, our impartial pricing gives you the competitive edge.

Flexibility

Historical, EoD, intraday and real-time data available directly or via third-party channels. Whatever your content demands, we have a solution for your needs.

Operational Excellence

24x6 global support teams ensure the highest levels of accuracy, quality and resilience in our pricing services.

The IPV Journey





Valuation Control wasn't area of the bank that really existed

Regulation wasn't actively looking at OTC markets.

Control meant cost

“I trust my trader he's an honourable man”



“Stop Shredding”

The world changed when ENRON which was a huge success story suddenly went wrong.

This resulted in the first of the regulation FAS157

It was seen that it would be only applicable to commodity markets – however this introduction of FAIR VALUE



FAS 157 Paragraph 8: “The principal market is the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability. The most advantageous market is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability, considering transaction costs in the respective market(s). In either case, the principal (or most advantageous) market (and 4 thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or otherwise determined using a valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.”

In addition, the FAS 157 definition of “fair value” is based on a hypothetical transaction between “market participants” and represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction



Off the back of regulations like FAS157 and later replacements.

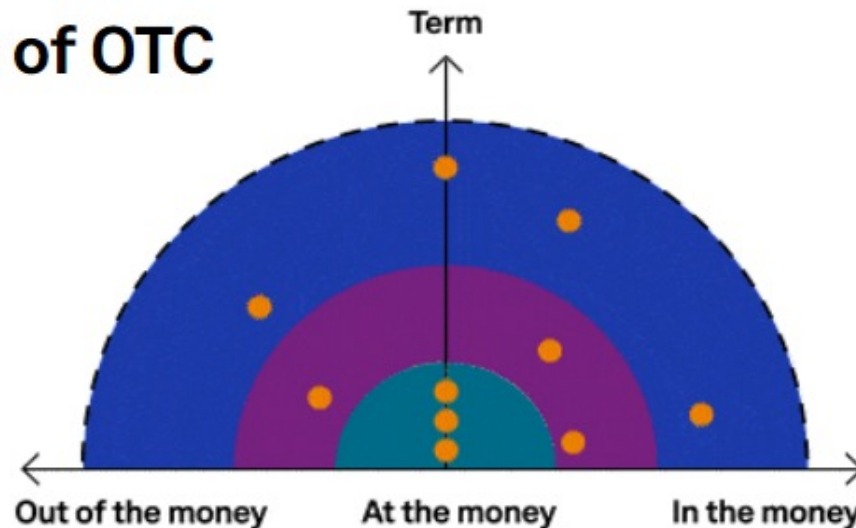
Valuation Control or Independent Price Verification group appeared at every bank, having previously only been at a handful of large T1 banks. These departments were charged with keeping the traders marks under control.

The issue was where were they going to get the data in order to mark to market the banks in a world of OTC derivatives.

The Totem service later consumed into Markit has there to provide banks with a consensus of best estimate of mid-market levels that they were not able to get elsewhere.

Some groups had used broker quotes to get some colour, this didn't cover the grid.

Wide Coverage of OTC Derivatives



Typical derivatives trading portfolio

We cover less liquid, longer dated and out-of-the-money parts of the product curve to provide comprehensive market insight

- S&P Global coverage
- Prices available from exchanges
- Prices available from inter-dealer brokers
- Positions
- Positions for which there is no reliable source of price information



LEHMAN BROTHERS

The markets went crazy. Traders didn't know left from right. Valuations of OTC derivatives became even more relevant though the data would be even more varied.

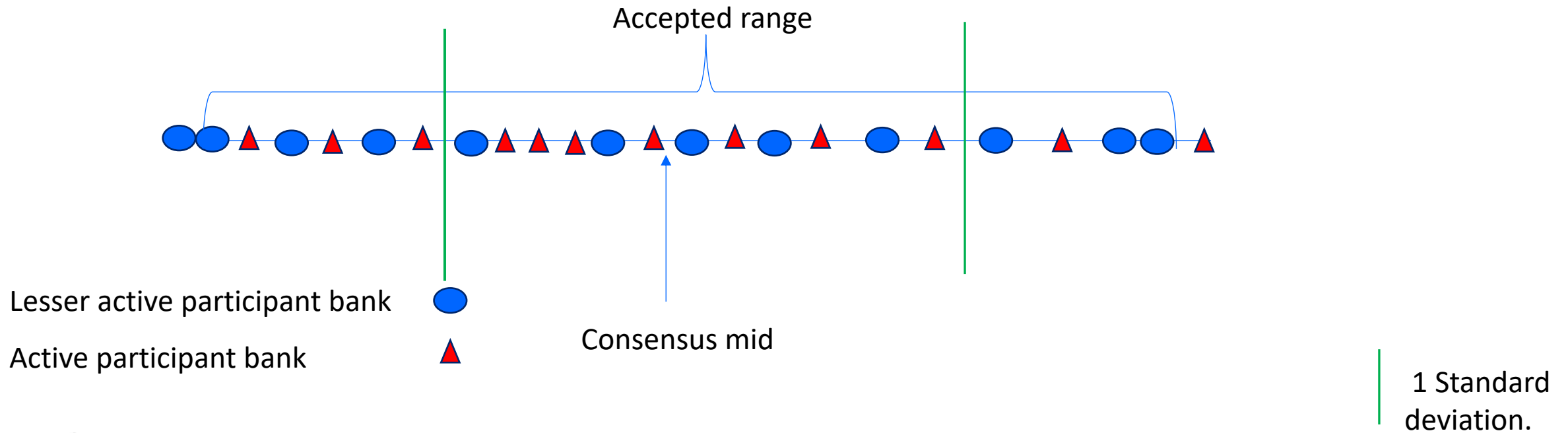
Banks didn't have any info on which to submit, and the data became more important to get.

Consensus levels and ranges were increasingly not in line with where any trading levels were....



As we came out of the crisis and yet more regulation came about more banks were looking with scrutiny at the levels that Totem were returning.

But why? Banks were still submitting their best marks... so where was the issue??





Regulator: “How do you know the Consensus is right?”

Bank: “It’s been going for 25yrs, has every bank submitting, it covers all the surfaces that we trade”

Regulator: “How do you know the Consensus is right?”



Many different consensus providers have tried to solve this issue – though this isn't the main issue facing Valuation control groups now.

The main issues that they are facing are:

- 1) Backtesting – try to prove that the consensus levels that you've received are actually in line with the market.
- 2) Fair Value Hierarchy – How much of your book falls into level 2 and how much remains in level 3
- 3) Prudent Valuation – Can you solve the AVA calculations..



Extract from the EBA Discussion paper on Prudent Valuation

2. Institutions shall consider a full range of available and reliable market data to determine a prudent value using one or more of the following market data sources:

(a) exchange prices in a liquid market;

(b) trades between parties at arm's length in the exact same or very similar instrument, either from the institution's own records or, where available, trades from across the market;

(c) tradable quotes from brokers and other market participants;

*(d) consensus service data where the number of contributors is greater than or equal to 10 and the institution has performed a valuation **backtesting**.*

Back to broker data



ATM / Nov	1Y	2Y	3Y	4Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
1D											1
2D	1										
1W							7				
2W							1		1		
3W									7		
4W							1				
1M	20	7			11		17		12		13
35D											1
2M							4	2			
3M	50	15			12		15	2	1		6
6M	20	10		1	7		4		3		6
9M	18	10			5		5		2	2	2
1Y	84	10	4		9	1	19	2			4
18M	16	5			1		5	1			6
2Y	46	17	1		3	4	13		3		3
3Y	5	8			17	2	16	1	3		16
4Y	2	4			3	2	11		10	1	3
5Y	5	11			7	1	13		12		11
6Y							2				1
7Y	1	2			5	3	1		12		
8Y	2	1	1		4		1		5		
9Y					1				1		
10Y	1	17			1		11		14		4
12Y									6		
15Y		13			2		1	1			1
20Y							4				

TPICAP data allows Parameta an unique position to be able to provide trade and order data across large areas of surfaces.

Close out costs and Concentrated Positions clearly evidence

Here EUR Swaptions ATM shows where is trading and where isn't trading. This naturally allows banks to solve the three use cases on the previous slide though also look towards the RFET tests also for FRTB.



“The risk of fines from not being able to produce satisfactory controls is the biggest factor that we are considering”

Q&A

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