The Essentials of Valuation and Performance

A Risk Based Approach

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Understanding the Components of Accurate Valuation and Performance

Understanding the Components

- The Pricing process is essential to determining the value of a client’s portfolio

- In addition to valuation, pricing also supports client reporting requirements and external reporting requirements

- Ultimately it can determine Fees

Publicly Traded Securities

- To Market To Market to find a good price

Risk Based Approach

- Pricing policies and controls should always be risk based and designed to provide both a process and an analytical tool to proactively identify assets which may require periodic assessment relative to pricing.
- Assets should be priced at the time of purchase and, as appropriate, thereafter.
- Assets which cannot be priced or where no price is available, or where valuation has been provided by an "interested third-party" should be reviewed at least monthly.

Risk Based Approach

Categories or ("Tiers") can be established based on the type and source of the valuation source:

Lowest Risk - Priced by downloading tapes or other electronic media purchased from external (non-Bank) pricing vendors

Lower Risk - Priced manually, or through data-feed ,based on a valuation obtained from external (non-Bank) pricing vendor or other disinterested third party source (Bloomberg, S&P, Wall Street Journal)

Nil Risk – Carried at Par or $1

1) For commingled or common trust funds, where the Bank or Trust Company is acting in the capacity of the fund's Trustee,

2) for bonds which fall under the Mello Roos Community Facilities Act of 1982, and are held by Corporate Trust accounts, are priced at par.

3) for Master Trusts

High Risk - Valuation analysis, report or statement prepared by an interested third-party (Investment Advisor, Statements, Corporate Actions)

Highest Risk – Unpriceable, No Price available, Bankrupt, Worthless

Risk Based Approach

To insure asset valuation conforms to the fiduciary and

non-fiduciary requirements established by each business

Unit should review “high risk assets” (defined as assets

held in Tier IV and Tier V).

Risk Based Approach

Review -

1. Pricing source is appropriate;

2. Pricing methodology does not conflict with contractual requirements of the account;

3. Pricing methodology has been disclosed to the client, if appropriate.

4. Bank should continue to maintain the asset on its books.