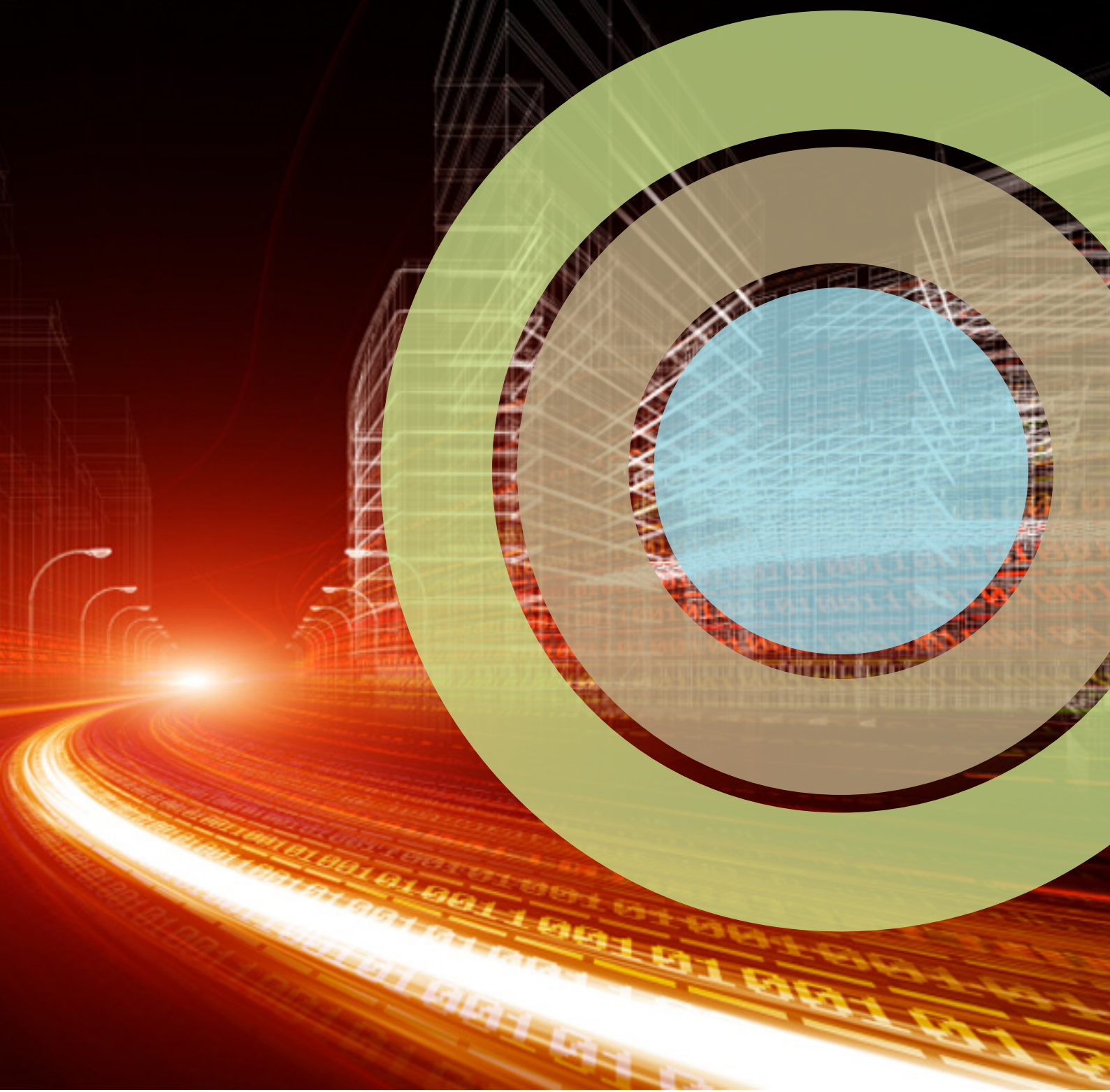


Structured finance perspectives  
Trends in ABS, MBS & CDO Market Pricing



PRINCIPIA

# Executive summary

104 structured finance investors from the US and EU responded to the first of three surveys focusing on the pricing, performance data and cashflow models used by holders of structured finance securities.

This report explores investor's use of secondary market pricing based on the findings of an industry survey that took place in May 2012.

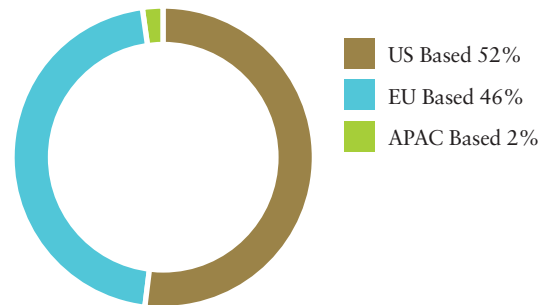
The results highlight the combination of methods investors employ to obtain market pricing for ABS, MBS and structured credit securities; which providers they use; and the operational barriers associated with using pricing information across a portfolio of structured finance assets.

## Key findings

- 93% said that they use at least one independent vendor of pricing across their structured finance assets
- 58% indicated that they still use dealer marks for pricing some of their structured finance assets
- 78% use more than one method to determine market pricing
- Three independent pricing providers lead the way in cross asset market pricing for structured finance securities
- However it's not that clear cut. 60% of investors use at least two independent sources for ABS pricing
- Price quality, price transparency and the integration of pricing sources ranked as the most important issues for investors when choosing a vendor
- Investors seek greater consolidation and less reliance on using multiple pricing sources across their investments.

## Investor focus

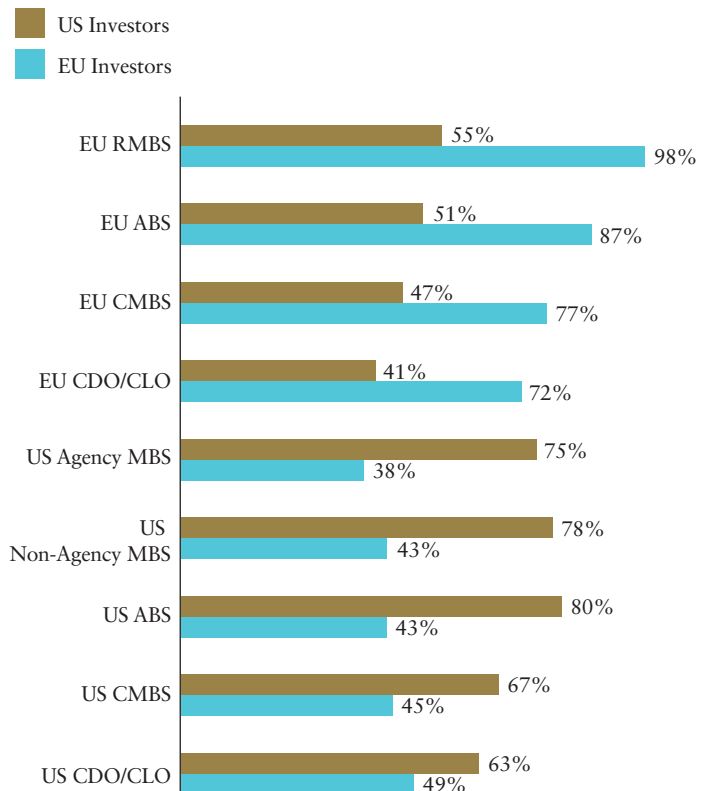
### Investor breakdown



US investors show a broader mandate to invest in non-US issued ABS and MBS. The reverse is not as evident with EU investors who remain more focused on EU issuance.

RMBS on the whole were held the most by both EU and US investors, followed by consumer ABS and then CLO/CDOs.

### % of investor respondents that hold investments in the following:



# Pricing methods

## Independent, in-house or what the dealers say

Of all the data required in the initial and ongoing management of securitization investments, market pricing information is fundamentally important to running the business.

The relative simplicity of the data hides the fact that there are a variety of methods that investors use to source the prices, with each method often involving complex evaluation and analysis at the point of establishing a price quote.

In light of new regulatory requirements and the focus on transparency, access to independent third party pricing is a vital part of ABS participants' operations.

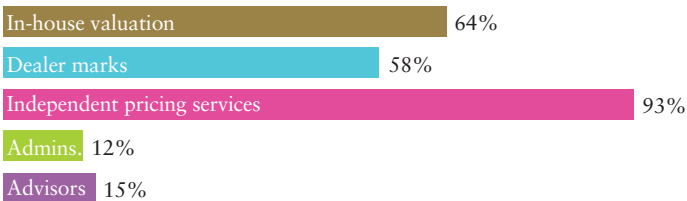
93% of respondents stated that they purchased data from independent pricing services (IPS) for secondary market pricing.

In the current environment where investor due diligence and detailed investment analysis is the mandated norm for investors, 64% of respondents said they also evaluated pricing in-house, alongside their third party sources.

In total, 78% of respondents used two or more methods to price assets, across the spectrum of ABS, MBS and structured credit. In Europe, 83% of investors use two or more methods, while in the US the number drops to 73%.

CDOs aside, a greater percentage of investors use independent pricing sources for US assets than for EU issued assets, reflecting a greater depth in the US secondary markets and wider availability of observable market prices for US assets.

### Pricing methods used by investors



Investors in CDOs used independent pricing services less for these positions, relying more on in-house established price marks or dealer marks. Only 68% of European investors use an IPS for CDOs, compared with 85% in the case of RMBS.

# 78%

of investors said they used two or more methods to price their assets

In the US, 57% relied on dealer marks for CDOs compared with only 36% for RMBS.

EU investor's use of independent pricing services lower for CDOs

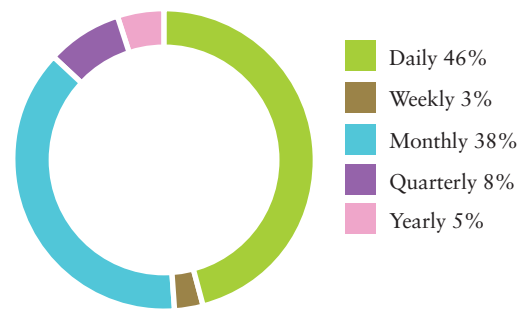


### Pricing frequency

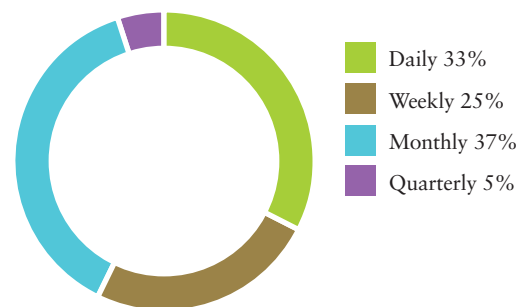
87% of US investors revalue monthly or more frequently, compared with 95% of EU investors.

However, we can see that the US market is more developed from a data availability perspective, reflected by the frequency in which investors revalue their positions on a daily basis.

### Frequency of revaluation: US investors



### Frequency of revaluation: EU investors



# Independent Pricing Services

## The A-Z of independent pricing providers

The survey aimed to record all the major IPS' currently being used by investors in structured finance assets.

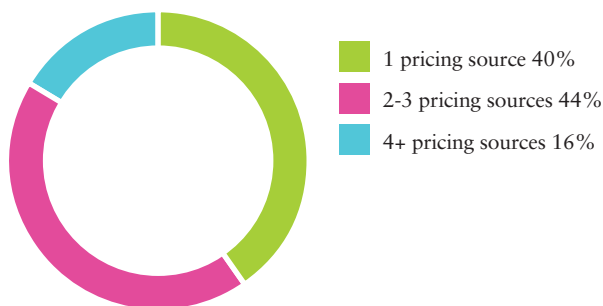
The following results do not compare the relative quality, adequacy or effectiveness of pricing providers, but highlight what services are available and what investors are currently using across the spectrum of ABS and structured credit investments.

The following companies, whose products were identified by the investor sample, are a mix of both well known vendors as well as some newer entrants to the space.

- Barclays
- Bloomberg
- Clayton IPS
- Credit Market Analysis
- EuroABS
- FactSet
- Interactive Data (IDC)
- Markit
- MBS Source
- Moody's Analytics
- PriceServe (BoAML)
- Pricing Direct (JPM)
- RBS PriceSmart
- RiskSpan
- S&P Capital IQ
- Sector MBS Plus
- SIX Telekurs
- SQX
- Street Software
- Thomson Reuters
- Trepp

These providers deliver an array of streaming pricing data, evaluated pricing, contributed prices, data cleansing and additional services. Here we will analyze them in terms of their uptake geographically; ability to price across multiple asset classes; and any specialism within specific sectors of structured finance.

### Number of independent pricing sources accessed by investors



93% of respondents said they used independent pricing services, but significantly, 60% of investors said that they had to access at least two IPS' to obtain pricing across their structured finance positions.

16% of respondent stated that they accessed at least four different independent data providers. On average, investors used between two and three external vendors to cover the assets they invested in - alongside their other pricing methodologies.

## 60%

of respondents that had access to at least two independent pricing sources across their structured finance positions.

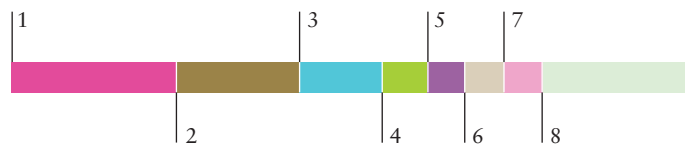
Here, a picture of the complex data flows associated with managing and maintaining structured finance portfolios emerges.

Even for the simplest data available for ABS and structured credit, investors more often than not need to access and integrate multiple sources of external pricing information, as well as obtaining marks from dealers and coming up with in-house best price calculations.

The vendors with larger overall market share were those used for pricing across multiple asset classes. Those that on average, provided pricing for three or more asset classes to individual investors, were the providers used the most.

### Independent pricing services market share

This highlights the relative market share of secondary market pricing providers across structured finance securities



1. Bloomberg
2. Markit
3. Interactive Data
4. Moody's Analytics
5. Thomson Reuters
6. Trepp
7. S&P Capital IQ
8. Other

Providers that focused on individual asset classes in more depth ranked well alongside the larger cross asset pricing providers.

Trepp for example specializes in CMBS data and analytics and compares favorably with the larger cross asset pricing vendors in terms of relative market share, particularly in the US.

Increasingly, cross asset providers are leveraging data from best in class providers to build out cross asset offerings. One recent example is Markit's distribution of CMBS pricing from Trepp.



# Independent Pricing Services continued

## Geographical variance

There were marked geographical differences between the IPS' used by US and EU investors, and also how these services were used depending on investment in EU or US issued assets.

# 16%

of investors stated that they accessed at least four different independent data providers

US investors used a broader range of IPS than EU investors. 10 suppliers received at least a 15% share of US investors, compared with just five suppliers across the EU investor base.

This further highlights the more mature and competitive market for pricing data in the US.

### Independent pricing services: US investors

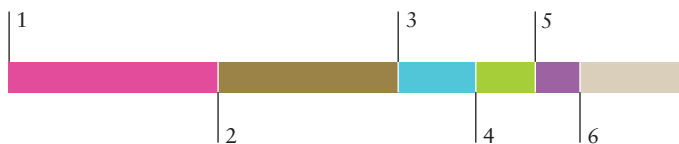
A wider range of vendors used than in the EU.



1. Bloomberg
2. Interactive Data
3. Markit
4. Thomson Reuters
5. Trepp
6. PriceServe (BoAML)
7. Moody's Analytics
8. Pricing Direct (JPM)
9. RBS PriceSmart
10. S&P Capital IQ
11. Other

### Independent pricing services: EU investors

Relative market share of vendors in the EU



1. Bloomberg
2. Markit
3. Interactive Data
4. Moody's Analytics
5. S&P Capital IQ
6. Other

For US assets, IDC was used more than Markit and for EU assets Markit was used more than IDC. European investors tended to use data vendors with larger market coverage in EU asset pricing (e.g. Markit). US investors more often select data vendors with greater market coverage in US asset pricing (e.g. IDC).

## Operational control issues highlighted

We asked investors what they felt were the most important aspects of an independent pricing provider's data and services.

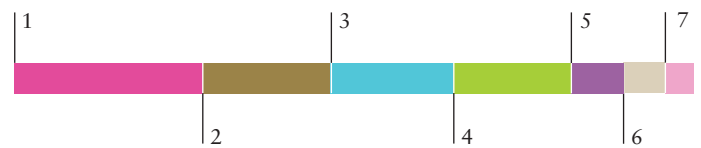
It is no surprise that the quality of pricing was ranked as 'critical' on the most occasions. Linked with the desire for quality, the transparency of pricing assumptions ranked a close second.

From an operational perspective though, the most important thing to investors was the access and integration of data across their business - key to managing and using information from multiple sources in day-to-day portfolio management, risk oversight and accounting.

The only observed difference between EU and US investor attitudes here was the increased importance US investors placed on being able to actively challenge prices.

### Aspects of pricing provider services

Ranked by investors in order of importance



1. Quality of Prices
2. Transparency of assumptions
3. Data access & integration
4. Coverage of assets
5. Active price challenge process
6. Access to pricing team
7. Value added services

"The difficulties around integrating multiple pricing sources arise because of the amount of manual processes required to bring it all in, the lack of automated feeds and issues with identifying data sources easily. Understanding pricing depth and correcting stale pricing also takes time with multiple feeds."  
Head of Credit Investment, Major UK Bank

# Tying it all together

## In summary

With increased industry standardization and growing data availability, portfolio managers need the flexibility and the infrastructure to efficiently integrate and analyze multiple sources of pricing data.

It is evident that a large proportion of investors experience operational barriers when trying to integrate and manage these fundamental data points across their structured finance assets.

Pricing information is becoming more readily available. Even for illiquid assets, there are many data parsing services and offerings that deliver strong proxy valuation tools. Vendors are increasingly delivering ways to view observable prices on comparable assets and provide access to historic pricing to build model valuations.

Competition will drive availability and pricing quality across asset classes and the major players in the space are seeing the value of becoming a 'one stop shop' for structured finance and credit assets. New entrants to the space, such as CMA, RiskSpan and EuroABS further broaden the options available to investors.

The operational aspects of managing the sea of data efficiently and effectively will remain though. As the structured credit markets grow again, so will the challenges associated with this.

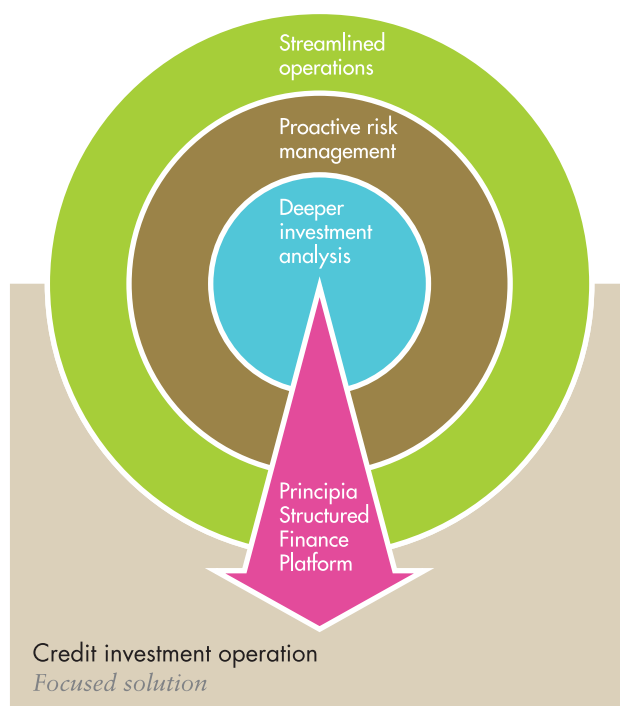
For price determination alone, an investor might use anywhere between two and five pricing methodologies and/or data sources across their portfolio.

This does not even scratch the surface of the data or tools required for investors to then go on and independently monitor the credit performance of individual deals, or across a portfolio of diverse assets, hedges and liabilities.

It is clearer than ever that investors demand more than just data.

In June 2012 a second survey will explore how investors obtain, manage and leverage deal issuance and pool performance data in the ongoing management of structured finance assets.

# Know your investments: Visibility, analysis and control



## ● Deeper investment analysis

- **Knowledge:** Unify pricing, performance and deal data for on demand analysis
- **Confidence:** More accurately assess future performance
- **Breadth:** Manage all assets, hedges and liabilities in one place
- **Visibility:** Slice and dice by collateral, deal or portfolio characteristics for better informed decisions

## ● Proactive risk management

- **Compliance:** Accurately define, manage and report on risk parameters across deals and portfolios
- **Surveillance:** Track and analyze any deal, tranche or collateral performance measure to identify and signal risks
- **Foresight:** Stress test default, delinquency or prepayment rates
- **Disclosure:** Report risk information for any stratification of the business on request

## ● Streamlined operations

- **Consolidate:** Centrally manage multiple portfolios for increased transparency and efficiency
- **Streamline:** Integrate portfolio management, risk control and accounting
- **Integrate:** Eliminate redundant systems and processes
- **Control:** Avoid inconsistencies from front to back office with audit and workflow control

# About Principia

Principia Partners LLC (Principia) provides a comprehensive single platform solution for the end-to-end management of structured finance investments. Global financial institutions and independent asset managers have used the award winning Principia Structured Finance Platform since 1995 to unify investment analysis, portfolio management, risk surveillance, accounting and operational control across the breadth of structured credit assets, fixed income investments and complex derivatives.

For over 15 years Principia's mission has been to help investors independently address the deal specific investment and cashflow analysis, valuation, risk management, reporting and due diligence requirements of structured credit investments and portfolios.

Its dedicated support and continued development of functionality for structured finance instruments is accompanied by a proven and fully integrated derivative valuation framework. This consolidated credit investment and market risk solution delivers the backbone necessary to unify and perform deeper investment analysis, proactive risk surveillance and ensure operational control across the credit investment business.

Principia is based in New York, with an office in London and a technology center in Conshohocken, Pennsylvania. Principia SFP was awarded the Credit Technology Innovation award by Credit magazine in 2008, 2009 and 2010.

For more information please visit: [www.ppllc.com](http://www.ppllc.com)

# Contact us

**To speak us about the Principia Structured Finance Platform, please contact:**

Douglas Long  
EVP Business Strategy  
Principia Partners

Email: [long@ppllc.com](mailto:long@ppllc.com)

Tel: +44 (0)20 7618 1366

## **Principia in New York**

Principia Partners  
120 Broadway – Suite 1340  
New York  
NY 10271

Email: [info@ppllc.com](mailto:info@ppllc.com)

Tel: +1 (212) 480 2270

## **Principia in London**

Principia Partners  
Queen's House  
8-9 Queen Street  
London  
EC4N 1SP

Email: [info@ppllc.com](mailto:info@ppllc.com)

Tel: +44 (0)20 7618 1350