

# **HG, HY, & EMG Cash Price Testing Policy & Procedure**

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## **1. Introduction**

### **I. Background**

All positions within HG, HY, and EMG are required by FAS 157 to mark to market at fair value which is defined as the amount at which the position could be exchanged in a current arm-length transaction.

In order to derive the fair value, we rely on our knowledge of the market and other third party data sources and methods to reflect both specific market conditions and the risk inherent in these positions.

The purpose of this policy and procedure is to document the existing procedure on the price testing and valuation for HG, HY, and EMG positions. This policy and procedure will be amended in the future to reflect the changes in the business, product, market, external regulatory and accounting policies.

### **II. Scope**

This policy and procedure document applies to price valuation for HG, HY, and EMG cash positions.

## **2. Price Testing Policy and Procedure**

### **I. Completeness and Accuracy**

The entire HG, HY, and EMG testing population should have all the positions solely or partly owned by these desks. The main source of the HG, HY, and EMG populations is Gquest.

In the price verification file, we reconcile the Quest Price Testing: Inventory Export file to a Quest extract of the relevant businesses in order to ensure a complete population.

### **II. Obtain the third party data for price verification**

Several independent price testing data sources we are adopting in the current month-end price valuation process:

**Derived Prices for testing**

Position prices

Executed trade activities

**Source**

EJV, IDC, ABSG, IDSI, Markit,  
Bloomberg

Laura, GQuest

Detailed explanations of these data sources and methodologies:

- Executed trade activities – we refer the latest trade price (up to a 10 days before/ after month-end depending on market volatility and liquidity of the position)
- External Prices
  - External prices are fed through Gquest from EJV, IDC, ABSG, IDSI, and Bloomberg. These prices are reviewed and prices that are more than a month old and incorrect prices are removed.
  - Prices are also downloaded directly from Bloomberg and Markit
- Alternative methods may be used.
- If no external price is available, the position is untested.

### **III. Hierarchy of the price valuation data (methodologies)**

**Principle: to find reliable, accurate and independent prices to test positions**

Price valuation combines art and science when adopting any methods for the purpose of testing all positions in the month-end process Judgment is often used on individual positions. Current procedure takes the preference of these methods in the following order (\*it may change in individual cases):

- 1) Executed trade activities – Based upon the liquidity of the position and current market conditions, prices from trades 10 days before or after month end are used to verify the accuracy of the marks
- 2) External Prices – External prices are used to ensure the accuracy of the majority of the positions held by the EMG business.
- 3) Alternative methods.
- 4) Untested – No reliable and accurate price exists for some positions

### **IV. Valuation adjustment threshold and resolution**

- Valuation adjustment threshold
  - For HY & HG variances above \$500K for Level 2 & 3 positions, and variances above \$300k for Level 1 positions are investigated further
  - For EMG Variances above \$400K for Level 2 & 3 positions, and variances above \$300k for Level 1 positions are investigated further.
  - Thresholds may be adjusted to reflect volume and market volatility
- Resolution of significant valuation variance

Materiality, market condition, vender quality, traders' track records, and traders' discussion are used to resolve the variance.

## **V. Management reporting and escalation**

- **Management reporting**  
Valuation variance reports are prepared and reviewed by product control team and the trading desk. Price testing template package and GCP – Americas valuation package are monthly prepared.
- **Significant issue escalation**  
If price verification product controller and trader cannot resolve the material variance, the issue is to be escalated to senior finance management (Global Head of Fixed Income Product Control, Global Head of Valuation Control Group, and Head of GCP trading desk). After the escalation, a collective decision will be made and P&L may be adjusted.