

Real Estate

Monthly Price Verification Policy and Procedures

Last Update: July 16, 2008

OVERVIEW

The Real Estate business is separated into several distinct asset classes:

CMBS Securities
Real Estate Derivatives
Large Loans (Fixed & Floating)
Commercial Conduit Loans
Commercial Small ARM Loans
Commercial N/R Mezz- and B-Notes
Commercial Unfunded Rate Locked Commitments
REIT LOC
Principal Whole Loans (PTG)
Real Estate Owned (PTG)
Principal Real Estate Equity Partnership Interests (PTG)

Product Control (“PC”) must perform a series of price verification exercises geared to each asset class. PC’s policy is to perform a price verification review of these assets on a monthly basis.

PREPARATION

- PC downloads all the Real Estate positions and key data from Quest (using the extract/batch report feature) into an Excel spreadsheet.
- PC reconciles the Quest download to the firm’s balance sheet reporting system (GFS).
- PC then aggregates the entire asset population into their respective asset classes in preparation for pricing.
- For PTG positions, please refer to the Mezzanine and Equity Business Price Verification Overview for a description of the process performed by Product Control related to price verification.

VERIFICATION – CMBS Securities

- A pricing download which includes 3rd party pricing data is taken from Quest each month-end.
- A reconciliation between the pricing download and the Quest extract is performed to ensure completeness of the population.
- All non-IO CMBS positions are tested against a 1% pricing variance limit or \$500k pricing variance. Where the difference between the average of third party prices and the Lehman mark is over 1% or the P&L impact on a position by position basis is over \$500k, the position is investigated further. Discussions are held with the business and the results of the discussions are documented in the pricing model.
- IO CMBS positions are subjected to a similar testing, but, given the added complexity in IO pricing, a 5% tolerance level is applied. Any positions which fall outside of the 5% limit are investigated further.
- Positions which fall outside of the range (1% or 5%) are price tested individually on a net present value basis.
- A summary of the 3rd party pricing sources is presented in the ‘Verification Real Estate Shorts Positions’ section later.
- PC creates (straight interpolation) a spread matrix for fixed and floating-rate securities based on spreads published in third-party newsletters (*‘Commercial Mortgage Alert’*, *‘Real Estate Finance & Investments’*). For ratings not provided in CMA, notching adjustments are interpolated from the change in spreads published in Lehman’s CMBS Research publication (*‘ForTheFloor’*).
- The ratings, WAL and security type of each position are obtained through Bloomberg extracts.
- Once the appropriate spreads to be used for each security have been determined (based on security ratings and WAL), each security is then priced on Trepp website or Intex Desktop application. Alternatively, the Yield Table function in Bloomberg may be used. TREPP, Intex and Bloomberg are used by the traders in pricing their positions and PC feels comfortable with the integrity of the results from these sources.
- Where the price from Bloomberg or TREPP is not reasonable, the desk is consulted as to how best to model the positions. The methodology is discussed and if reasonable the revised method is used to price the positions.
- The reasonableness of the desk spreads is also reviewed in relation to the range of spreads published on *CRE News* website.

- Other positions which cannot be price-tested using the above methods, typically investment grade agency securities which are not priced consistently in Bloomberg, TREPP, Intex or where there is no market in the position, are investigated separately in consultation with the business and the appropriateness of the internal marks is commented on.

VERIFICATION – Real Estate Derivatives

The real estate business (CMBS trading desk) enters into different types of derivative contracts for hedging as well as trading purposes. Derivative products that the desk trades currently include:

- Interest rate swaps
- CMBX
- Credit default swaps on CMBS
- Duration neutral swaps
- Total return swaps
- CDX

Interest Rate Swaps: These are price verified by the interest rates products (IRP) valuation control group. The IRP valuation control group provides the testing results to the real estate valuation control group for consolidated reporting purposes.

CMBX: The following procedures are undertaken to price-test the CMBX inventory at the end of every month

- An inventory download is generated from Quest at the end of every month
- A report is sent from RAMP at the end of every month with additional information (globalID, upfront fee,etc)
- CMBX spreads and dollar prices are obtained from Markit via a daily feed to Lehman
- Prices provided by Markit are compared against the desk price to determine if there are any material pricing variances.
- Material pricing variances (those exceeding the established threshold of \$100k) will be escalated to senior management and the desk, and the conclusion reached is documented.

Credit Default Swaps on CMBS: The following procedures are undertaken to price-test the CDS-CMBS inventory at the end of every month

- An inventory download is generated from Quest at the end of every month
- CDS spreads are obtained from the desk and sent to Derivative Fitch and MarkIt. The benchmark composite spreads are obtained from Fitch and MarkIt on a monthly basis.
- The average bond specific spreads determined from Fitch and MarkIt are compared against the desk spread to determine if there are any material pricing variances. If bond specific spreads are not available then Fitch composite spreads are used.

- Material pricing variances (those exceeding the established threshold of \$1 million) will be escalated to senior management and the desk, and the conclusion reached is documented.

Duration neutral swaps:

- An inventory download is generated from Quest at the end of every month
- Index spreads are updated from Lehman Live
- A download is obtained from DMS for trade specific details
- Market value is calculated in the excel model
- Resulting market value is compared against basis in Quest.
- Any over or under valuations exceeding established thresholds (\$100k) are investigated, discussed with front office and conclusions are documented.

Total return swaps:

- An inventory download is generated from Quest at the end of every month
- Index spreads are updated from Lehman Live
- Libor is obtained either from BBA website, Lehman fixed income research or Bloomberg
- A download is obtained from DMS for trade specific details
- Market value is calculated in the excel model
- Resulting market value is compared against basis in Quest.
- Any over or under valuations exceeding established thresholds (\$100k) are investigated, discussed with front office and conclusions are documented.

CDX

- An inventory download is generated from Quest at the end of every month
- Prices provided by Markit are compared against the desk price to determine if there are any material pricing variances.
- Material pricing variances (those exceeding the established threshold of \$300k) will be escalated to senior management and the desk, and the conclusion reached is documented.

VERIFICATION – Commercial Conduit Loans & Large Loans

Fixed Rate Loans

- Conduit and Large Loans are originated with the intention of eventual inclusion in future securitizations and, therefore, price verified as such (i.e., in aggregate).
- Except in cases where the loan is not securitizable, conduit and large loans are priced together by taking the aggregate face value of the loan population and computing a “mock” (fusion) securitization, modeled after a recent comparable Lehman (fusion) deal. In cases where there is not a recent deal, then other similar deals will be considered in the

analysis. Reasons for why the current inventory is similar to the CMBS transaction being modeled after should be documented (e.g., LTV, DSCR, WAC, etc.).

- The conduit deals are typically in partnership with UBS and the mock securitization is based on the total loan balance of the deal. The costs and fees associated are either scaled down according to the balance Lehman contributed or are the actual amounts Lehman received/paid in the deal.
- Using these details, PC calculates the tranche percentages, I/O strips and average lives for the hypothetical deal. Coupon rates are derived based on market convention (i.e., Investment Grade tranches are structured with a target price of 100.5 while Non-Investment Grade tranches are structured with a target spread of Treasuries + 50bps). PC then applies the appropriate discount rates which are derived by interpolating spread-matrices published in internal or third-party newsletters (e.g., *Commercial Mortgage Alert*, *Real Estate Finance & Investment*, *LB CMBS Research 'For the Floor'*).
- The resulting proceeds (based on the execution of the “mock” securitization) are then compared with Lehman’s market value of those loans in order to determine the potential profit/loss. The mock securitization of the loan inventory should result in a hypothetical return on the assets that is in line with the actual return on the deal after interest rate and spread movements have been accounted for. Typically, the return on a LB-UBS securitisation is 0-3% depending on prevailing market conditions and the at-origination spreads of the loans.
- Aged positions
 - Fixed rate loans which are aged over 180 days are identified and the reasons they have not been securitized are investigated with deal originators. Depending on the outcome of the investigation, a decision whether to be included in the mock securitization will be made. In the event they are excluded, we will document our conclusion in the pricing model.

Notes Regarding Fixed Rate Loans

- Fixed rate loans will gain or lose market value after the rate is locked if the underlying base rate moves. To avoid potential losses in the securitization inventory, traders hedge out interest rate exposure through short selling of swaps, treasury and agency securities
- To hedge the interest rate risk on fixed rate loans, traders use the Quickyield Analysis tool on Bloomberg to determine the effective duration of each loan (from life and cpn of the loan). The effective duration is then used in calculating the equivalent Agency or Swap security that replicates the performance of the loan. The traders then short sell these securities with the effect that any adverse movement in interest rates results in a loss on the loan, but a gain on the hedge. Net effect of any I.R movement approximates zero.

- The maturity of the agencies/swaps approximate the lives of the underlying loans which might result in one bucket of treasuries (say 10yr) hedging out a number of underlying loans
- Spread movements in fixed rate loans are hedged using total return swaps against CMBS indices.
- The loans and hedges are tracked through the traders' RAMP system.

Floating Rate Loans

- Large floating rate loans are predominantly originated for securitization or syndication. Typically, Lehman keeps a subordinate piece of the loan after the securitization or syndication and transfers the loan to the B-Note/ Mezz ledger.
- Large floating-rate loans which are syndicable or securitizable in their current condition are price tested in the Securitizable LLF model. For loans which are older than 9 months which have not yet been included in past securitizations (if any), further analysis is carried out on updates to the loan collateral's performance.
- The securitizable large floating rate loans are price verified on an individual basis, using a Net Present Value analysis based on individual loan characteristics.
- PC creates (straight interpolation) a spread matrix for fixed- and floating-rate securities based on spreads published in the '*Commercial Mortgage Alert*' newsletter.
- PC then determines what the theoretical "shadow rating" would have been for the loan based on the LTV at time of underwriting. Shadow rating thresholds are obtained from Moody's Hyper-Tranching for CMBS Large Loans matrix.
- Once the proper discount rate is determined, PC calculates the net present value of the loan. Due to the limited call protection on these positions, the "market" price determined using the above methodology is capped at 100% of face value for floating rate loans. The resulting NPV is then compared to Lehman's market value. The difference between the two amounts represents the potential under or over valuation.
- All positions where our basis is less than the estimated value by \$3mm or where our basis is greater than the estimated value by \$2mm are investigated and the resolution is documented in the pricing model.
- Those loans that are not presently securitization or syndication eligible are price verified as whole loans in the PTG model. It is felt that is appropriate since the loans are not being held with the intention of securitizing or syndication in their present condition.
- Aged Positions
 - Floating rate loans are investigated if they have been held for over 270 days. In each case, the business is consulted for an explanation of the reason for holding and an

understanding if there has been any impact to the collateral value. If the loan remains securitization or syndication eligible, PC will compare the loan's spreads to published market data. In cases where the collateral value has deteriorated, PC will price as a principal position.

VERIFICATION – Commercial N/R Mezz- and B-Notes

- The Commercial N/R Mezz- and B-Notes are price verified on an individual basis, using a Net Present Value analysis based on individual loan characteristics.
- PC creates (straight interpolation) a spread matrix for fixed- and floating-rate securities based on spreads published in the '*Commercial Mortgage Alert*' newsletter.
- PC then determines what the theoretical "shadow rating" would have been for the combined whole loan (the senior plus the junior notes), based on the LTV at time of underwriting. LTV's are updated as new values are obtained from the special servicers. Shadow rating thresholds are obtained from Moody's Hyper-Tranching for CMBS Large Loans matrix.
- Based on the shadow rating assigned to the B-Note/ Mezz position, a discount rate is applied.
- This discount rate is then used to present value the cash flows of the Mezz- or B-Note. The resulting market value is then compared to Lehman's market value. The difference between the two amounts represents the potential under or over valuation.
- All positions where our basis is less than the estimated value by \$3mm or where our basis is greater than the estimated value by \$2mm are investigated and the resolution is documented in the pricing model.
- The "market" price determined is capped at 105% for fixed rate loans and 100% for floating rate position to account for the existence or non-existence of prepayment protection.

Commercial Unfunded Rated Locked Commitments

- Unfunded Rate Locked Commitments are either small or large fixed loans that have not yet funded but have been rate locked. They are rate locked with the intention of eventual funding and inclusion in future securitizations and, therefore, price verified as such (i.e., in aggregate) using mock securitization.

- Except in cases where the rate lock has unwound, unfunded commitments are priced together by taking the aggregate face value of the loan population and computing a “mock” (fusion) securitization, modeled after a recent comparable Lehman (fusion) deal. In cases where there is not a recent deal, then other similar deals will be considered in the analysis.
- The conduit deals are typically in partnership with UBS and the mock securitization is based on the total loan balance of the deal. The costs and fees associated are either scaled down according to the balance Lehman contributed or are the actual amounts Lehman received/paid in the deal.

Please refer to Fixed Rate loans section above for further details on pricing

VERIFICATION – REIT LOC

- The REIT lines of credit and term loans are price verified on an individual basis, using a Net Present Value analysis based on the individual loan characteristics.
- The discount rates used in the REIT file are interpolated from the LoanConnector Website which publishes spreads based on data from current market term loans and revolvers. The appropriate spread for each position is then found by cross referencing the loan type and its credit rating (from Bloomberg/Moody’s). Where a rating is not available, the position defaults to CCC-, Sub-Investment Grade.
- PC obtains the coupon rates (interest earned) from the Trader Prints (Quest) and the “unused” and “facility” fees from the LoanIQ downloads or from discussions with the business. These cash flows are then discounted using the appropriate discount rate (see above) to arrive at a Net Present Value.
- The calculated NPV is then compared to the positions’ market value to arrive at the potential profit/loss.
- All positions where our basis is less than the estimated value by \$3mm or where our basis is greater than the estimated value by \$2mm are investigated and the resolution is documented in the pricing model.

VERIFICATION Real Estate Short Positions

- A Pricing download of Real Estate inventory is taken for month-end and filtered for short positions. Short balances are typically US Treasuries and Agencies used by the Desk for hedging long loan and security balances against interest rate risk.

- The positions are tested against 3rd Party market data feeds bought by Lehman. These are considered to be an accurate reflection of the true market price given the liquidity and uniformity of the securities.
- The internal marks are tested against a threshold of 1% variance from the average of the external prices and/ or a \$300k over or under valuation.
- The 4 external sources the shorts are price tested against are:
 - EJV(Electronic Joint Venture) - EJV's methodology is based on multiple inputs and utilizes their advanced computational capabilities. The basic inputs are daily transmissions of end-of-day valuations from EJV "partner" firms, communication with other broker dealer firms, and feedback from EJV clients. Contributing partners include CitiBank, CS First Boston, Goldman Sachs, JP Morgan, Lehman Brothers, Liberty Brokerage, and Morgan Stanley. The approach is deliberately flexible so that EJV can follow methodologies that reflect current market activities.
 - IDC (Interactive Data Corp. - Int'l Dataline feed) - Financial Times Interactive Data's International DataLine offers international close-of-market pricing and securities information. International DataLine integrates direct exchange feeds, direct exchange feeds through intermediaries, market maker quotes, data from authoritative third parties, and data from the EXSHARE® and EXBOND® data services to provide broad multi-source data coverage.

Their "Best Price" approach takes into account:

Price - Determining the price type generally accepted as the "best" representation of closing value for each security type in each market.

Source - Selecting the most reliable and accurate data source when multiple data sources are available.

- Extel (owned by Interactive Data Corp.) - As part of the Financial Times Group, Extel Financial collects data from over 100 exchanges around the world. Prices are collected through a variety of international data networks from the world's major exchanges and information providers. International bond prices are received directly from the International Securities Market Association (ISMA). Unit Trusts, Insurance Bonds, Offshore Funds, and Broker Fund prices are collected directly from the fund management companies or their PR agencies using an automated collection system. A manual pricing team research price data where no automated data is available.
- ABSG(Asset Backed Securities Group) - Asset Backed Securities Group - a pre-eminent source for comprehensive disclosure data, factor information and independent valuations for U.S. based Asset and Mortgage Backed Securities, ARMs, CMO/REMIC, and SBA Securities.

Further information about these external price sources is available on Lehmanlive (ESM Price browser\documents)

VERIFICATION – PTG OVERVIEW

Price verification for PTG assets (whole loans, REO's, and equity investments) are performed in two stages – One that is performed on a monthly basis and the other a detailed analysis performed on a quarterly basis.

The monthly analysis is performed to closely monitor month over month fluctuations in values and identifying assets that need to be included in the Watch List (i.e. position has a potential for a loss based on the current appraised values). In the monthly pricing files, resolutions are documented on positions with over \$5mn in positive variances and items to be included in Watch List.

The quarterly analysis is a much more detailed analysis of pricing variances resulting from the routine monthly process.

VERIFICATION – Principal Whole Loans (PTG)

- Single Asset and Single Family Whole Loans are price verified on an individual basis, using a Net Present Value analysis based on individual loan characteristics.
- The discount rates used are determined by interpolating spreads published in *'Real Estate Finance & Investments'* newsletter, based on LTV's calculated using recent property values reported by the Servicers (Trimont and PCCP).
- Once proper discount rates are determined, PC then calculates the net present value of the capped receipts over the expected term of the loans. The NPV (based on current values) is compared with "Capped OPB" and "Available Proceeds" (collateral value after paying off any senior lien), and the minimum of these three values is assigned as a value to the position. UPB is capped at 105% as an estimate of a price an investor would pay for such loans that are not call-protected. The value is then compared to Lehman's basis. The difference between the two amounts represents a pricing variance to be researched, subject to thresholds.
- To the extent that the OPB plus any anticipated payoff fees (i.e deferred interest, equity kickers) exceed the value of the collateral, these receipts are then capped at the collateral's value. Deferred fees are excluded from NPV calculations based on current value since the realization of such fees is uncertain until the loan matures, or the borrower pays off the debts.
- The above process is conducted based on current property values as well as stabilized property values (as reported by the Servicers). Even though the analysis is performed using current and stabilized values, pricing variance is based on current value, i.e., the comparison of the current basis versus current value is what yields the pricing variance to be researched, which ultimately leads to suggested mark adjustments or assertions.

VERIFICATION – Real Estate Owned (PTG)

- PC compares Lehman’s basis to the properties’ current values (as reported in the servicer tapes) to determine the pricing variances to be researched, subject to established thresholds.
- The same is done by comparing Lehman’s basis to the projected stabilized value (less any required funding needed to reach stabilization) and then discounting back at a discount rate appropriate for equity (see price verification of Equity Partnership Interests). Credit is given to interim cash flows from the property.
- The analysis based on stabilized values is used to determine “red” items on the Watch List. The valuation based on the current values is used to determine “yellow” items on the Watch List and pricing variances to be researched.

VERIFICATION – Principal Real Estate Equity Partnership Interests (PTG)

- PC price verifies Equity Partnership Interests individually by examining the deal waterfalls under a current partnership liquidation scenario based on current values (as reported by the servicer). There are four components: a) return of capital; b) cumulative preferred return; c) current year preferred return; d) Lehman’s share of the excess profits (if at all). Returns are deemed to be *pari passu*. Model assumes distribution of cash flows in the following order:
 - Pay-off the full amount of any debt
 - Distribution to owners for accumulated preferred returns
 - Distribution to owners for return of capital
 - Distribution to owners for split of any remaining profit according to their profit and loss sharing ratios

In cases, where waterfall agreements differ from model assumptions, modifications are made in the model by over-riding the formulas and the reason/justification noted.

- A similar analysis is conducted based on stabilized values and then discounted back over the expected holding period. The appropriate discount rates are taken from Korpacz and from individual discussions with market participants.
- The analysis based on stabilized values is used to determine “red” items on the Watch List. The valuation based on the current values is used to determine “yellow” items on the Watch List and pricing variances to be researched.

VERIFICATION – PTG (QUARTERLY)

In addition to the monthly processes discussed above, PC performs a detailed position by position valuation analysis on a quarterly basis.

- The price variances are based on the current values of underlying collateral haircut by 10%. The 10% haircut is applied to account for value estimation errors and estimated holding and disposal costs. If the resulting price variance is already negative prior to haircut, then the quarterly analysis is performed on those positions without considering the haircut. . The quarterly analysis is performed for positive and negative price variances in excess of \$3 million.
- Each position with a positive or negative variance in excess of \$3mn is researched in detail by referring to Asset Summary Reports (ASRs) and “Current Information Updates” from Servicers, and communicating with the business and asset managers.
- The decision to mark an asset is primarily a function of whether the position is a consolidated position or not based on FIN46. Thus, the quarterly analysis breaks-down those positions with variances to be researched into two categories: The Consolidated Portfolio and the Mark to Market Portfolio.
- The Consolidated Portfolio is kept at lower of cost of market, and is subject to accounting requirements of SFAS 144. SFAS 144 requires us to categorize positions into three main categories: held for sale, held for use or development. PTG’s assets are in general either in the Held for Sale or development categories since it is not the practice for Lehman to hold properties for use. Development categories include only those assets with no operating cash flow.
- For the Consolidated Portfolio, impairments are recognized to their full extent as held for sale properties are not subject to the undiscounted cash flow testing SFAS 144. No mark-ups are taken beyond par. However, mark-ups may be taken for positions that were impaired previously to the extent of the prior mark-downs taken. For REO positions, such mark-up will be limited to the basis of the assets as of the date they went REO. For assets turned REO prior to 11/30/03, the basis as of 11/30/03 (the date LB adopted FIN46 for the first time) is used.
- For the Mark-to-Market Portfolio, marks (up or down) supported by the analysis may be suggested.
- Once the analysis is completed, PC concludes with mark suggestions which are then discussed with the business unit.

ESCALATION / RESOLUTION – CMBS Securities

- All positions with pricing variances in excess of + or - \$500k are investigated with the trader and the resolution is documented in the pricing model.
- Securities whose variances exceed their specific tolerance level are submitted to the trader for discussion with Product Control. Any unresolved differences are further submitted to both senior management in Product Control and Trading. The results are documented in the pricing model.

ESCALATION / RESOLUTION – Conduit/ Large Loans/ Small ARM

- The mock securitization for fixed-rate loans should result with a return on the loan inventory that is in line with the securitization it is based on. The typical return on a LB-UBS securitisation is 0-3% depending on prevailing market conditions and at-origination spreads of the loans. To the extent that the return on the model falls outside the range, any sources of movement; such as swap & treasury rates, or spreads compression or tightening are investigated and the resolution is documented in the pricing model.
- The desk hedges positions with treasuries or swaps. To the extent that a negative variance did exist, it would be brought to the attention of the business, and decisions reached are concluded in the pricing models.
- Positive variances are not recognized into P&L since the majority of the P&L is contingent upon the successful execution of a CMBS transaction.
- Large floating loans held for securitisation but which remain in inventory past 9 months are investigated for impairments and for updates to the underlying collateral's performance. Where necessary, PC will discuss mark adjustments with the Front office.
- For loans which are put through the PTG model, variances over \$3mm are investigated further, and mark adjustments are discussed with the business. The decision reached is documented in the pricing model.
- Where further analysis of the loans does not provide an explanation for the difference in valuations, then PC will go to the business to discuss marking the loan appropriately.

ESCALATION / RESOLUTION – REIT LOC

- All positions where our basis is less than the estimated value by \$3mm or where our basis is greater than the estimated value by \$-2mm are investigated with the trader and the resolution is documented in the pricing model (liquidity of the deal and the performance risk of the loan is strongly considered in the market).

ESCALATION / RESOLUTION – Short Positions

- Where there are pricing differences with the external marks, further pricing comparison will be made against bloomberg and where differences persist the position will be discussed with the trader, and decisions are documented in the pricing model.

ESCALATION / RESOLUTION – Mezz- & B-Notes

- All positions where our basis is less than the estimated value by \$3mm or where our basis is greater than the estimated value by \$-2mm are investigated with the trader.
- Based on the result of the discussions, the positions are either remarked or justification for current mark is documented in the pricing model.

ESCALATION / RESOLUTION – Whole Loans/ REO's/ Partnership Interests

The Monthly Process

- Negative pricing variances resulting from the monthly process are categorized as either “Red” or “Yellow” items and are included on Watch List – a monthly report distributed to senior management describing each position and the impairment issues along with their resolution.
 - **“Red” Watch List Items:** These are positions that, due to lower anticipated *stabilized* values, are likely to incur capital losses. Red watch list items are brought to the attention of the business. PC will initiate dialog with the business, Risk Management, and the Asset Managers to determine whether or not there is a credit impairment. If so, PC will recommend that the asset be marked appropriately.
 - **“Yellow” Watch List Items:** These are positions that, due to lower *current* values, could potentially result in capital losses, if the business plan does not materialize. However, given a clear business plan and sufficient expected accretion of value through stabilization, it is not likely to result in a loss. Yellow watch list items are brought to the attention of the business. PC will initiate dialog with the business, Risk Management, and the Asset Managers to determine whether or not there is a credit impairment. These items are then monitored closely for potential future write downs, should the business plans not materialize as planned. Positions that have variances in excess of the threshold amounts are included in the quarterly detailed analysis and investigated in further detail.
- Positive pricing variances based on current value in excess of the monthly threshold of \$5mm (without haircutting the current value) are investigated and their resolutions documented on the pricing files.

The Quarterly Process

- The quarterly process results in suggested marks along with justifications or explanations for such marks. The results are then discussed with the business, risk management, asset managers and a final mark established.
- Such marks are then communicated to Front Office Finance group, which in turn instructs middle office of the bookings to be made into the firm's books and records
- Exogenous factors that are not necessarily apparent in the monthly pricing models often exist. These factors are looked at extensively on a position by position basis and decisions justifying either the appropriateness of existing marks or justifying proposed marks are made.
- The resolution of variances may take time, such that all interested parties can do their due diligence around the assets in question.

REPORTING

- A summary of pricing results is submitted to the central valuation group for inclusion into the Capital Markets Valuation package.