



Deloitte Valuation
Conference
Introductory session

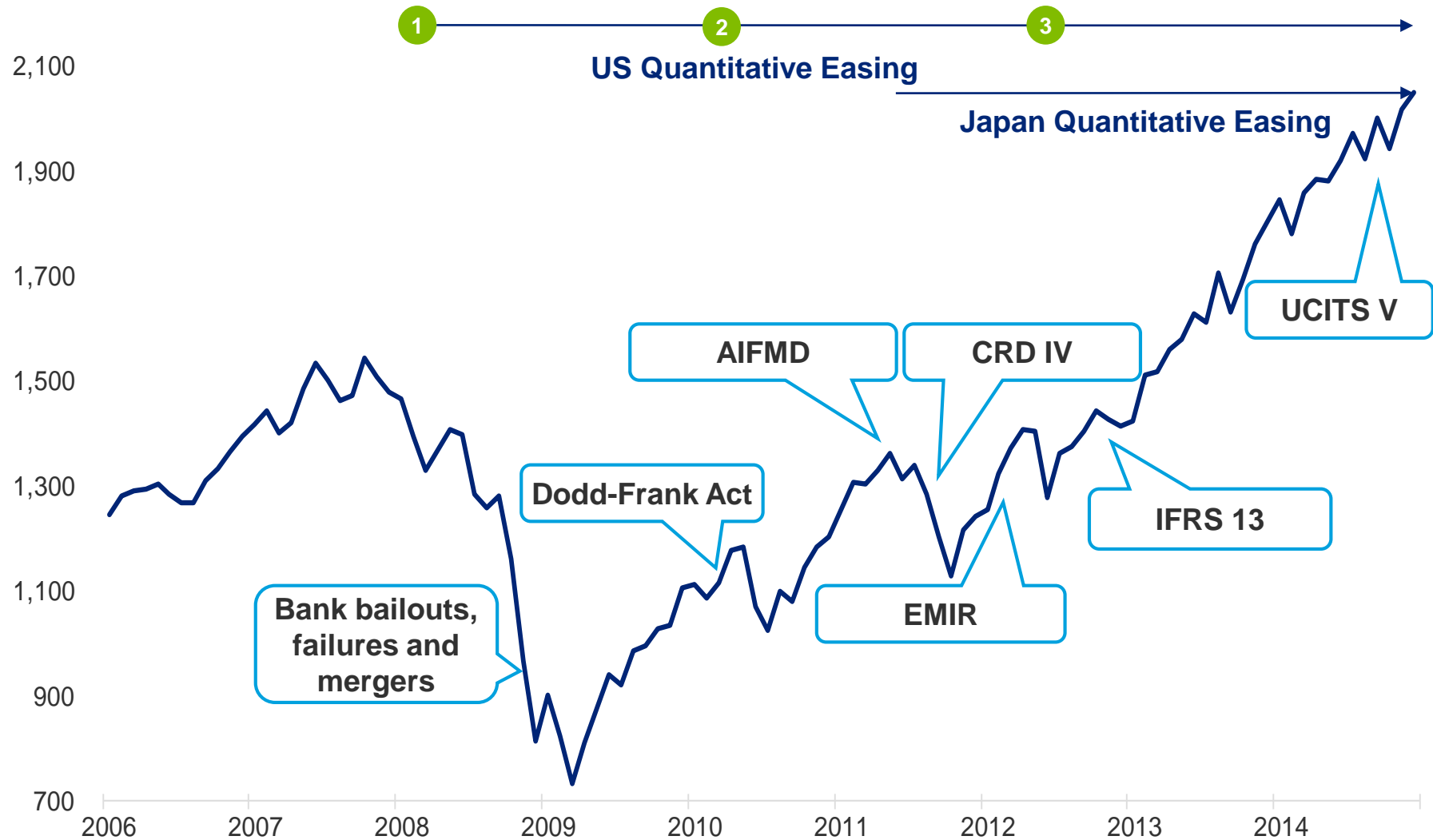
December 2014

Agenda

1	Introduction
2	Overview of 2015 Valuation Conferences' Topics
3	Conclusion

Historical Price

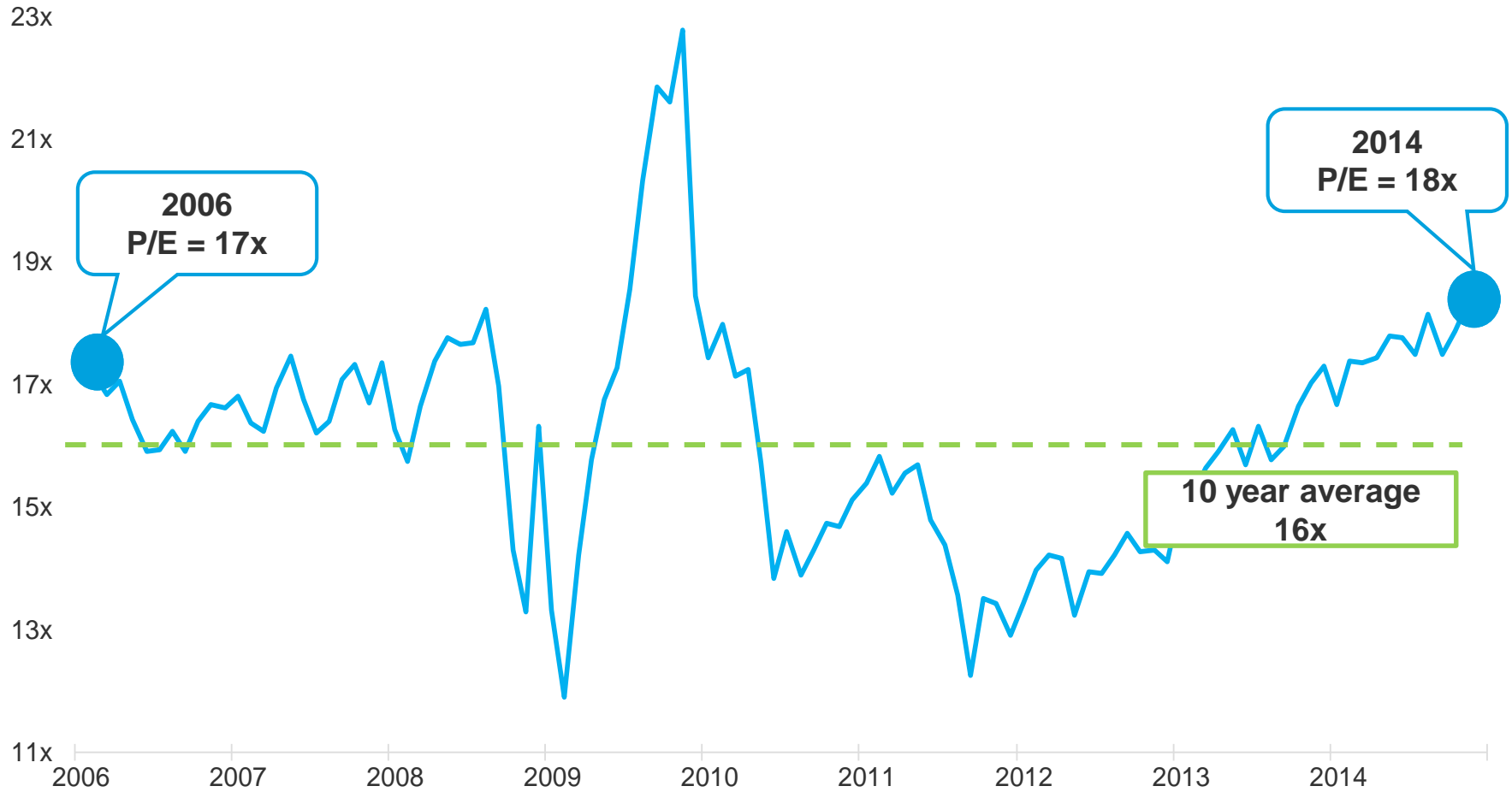
S&P 500



Source: S&P Capital IQ

Trailing Price/Earnings Ratio

S&P 500



Source: S&P Capital IQ

Market Volatility

VIX index (S&P 500)



80

70

60

50

40

30

20

10

2006

2007

2008

2009

2010

2011

2012

2013

2014

June 9, 2014 5:08 pm

Market volatility plummets to multiyear lows

By Ralph Atkins in London and Michael MacKenzie in New York

Global markets are less volatile than at any time in almost a decade as **central bank intervention** has sent share prices to record highs and interest rates to historic lows.

Gauges of market volatility for currencies, equities, bonds and oil have all plummeted, with analysts attributing the falls to the widespread view that official interest rates will remain exceptionally low for a long time.

Source: Financial Times, FT.com

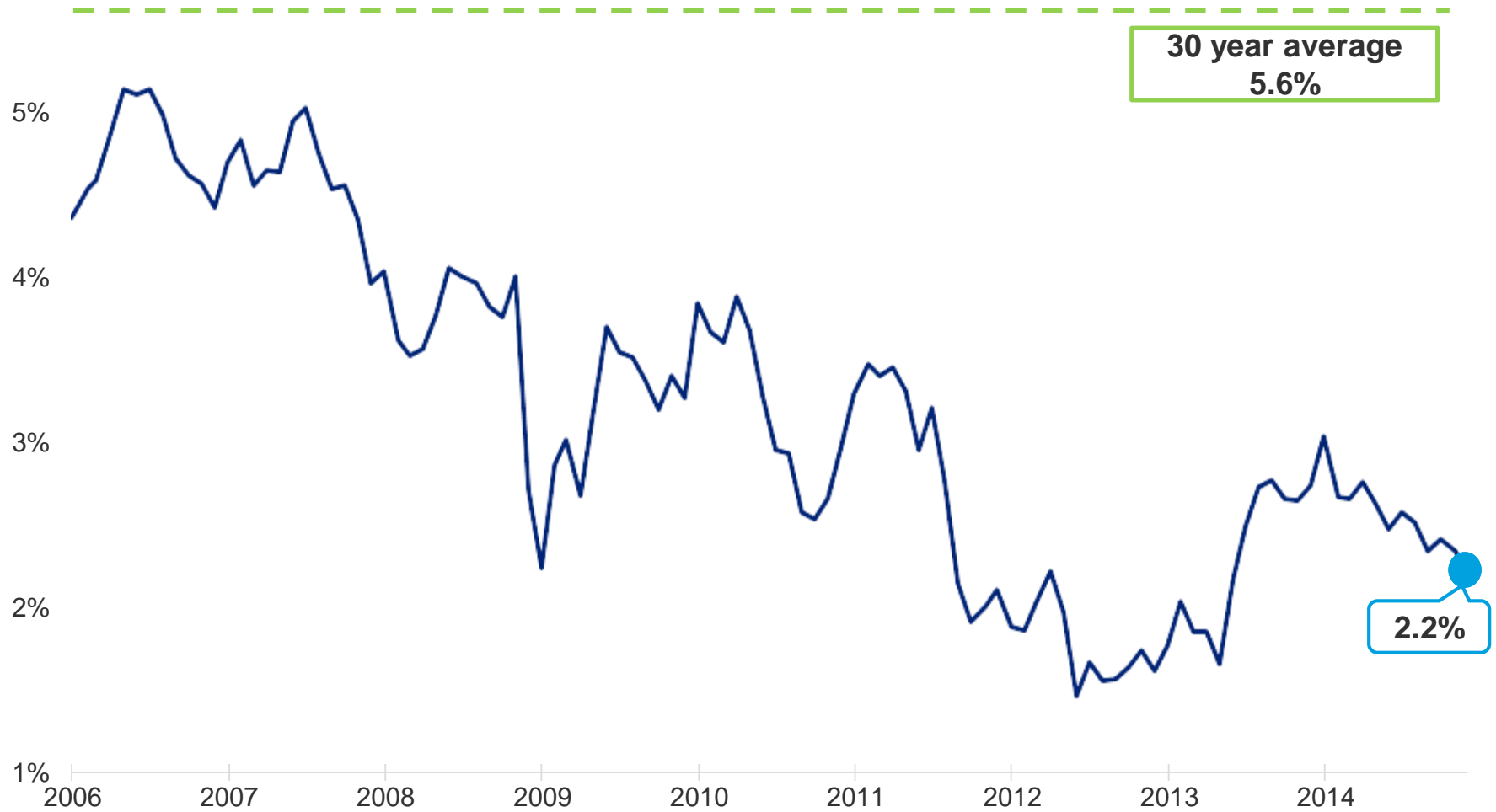
10 year average
20

14.3

Source: Chicago Board Options Exchange

Interest rate environment

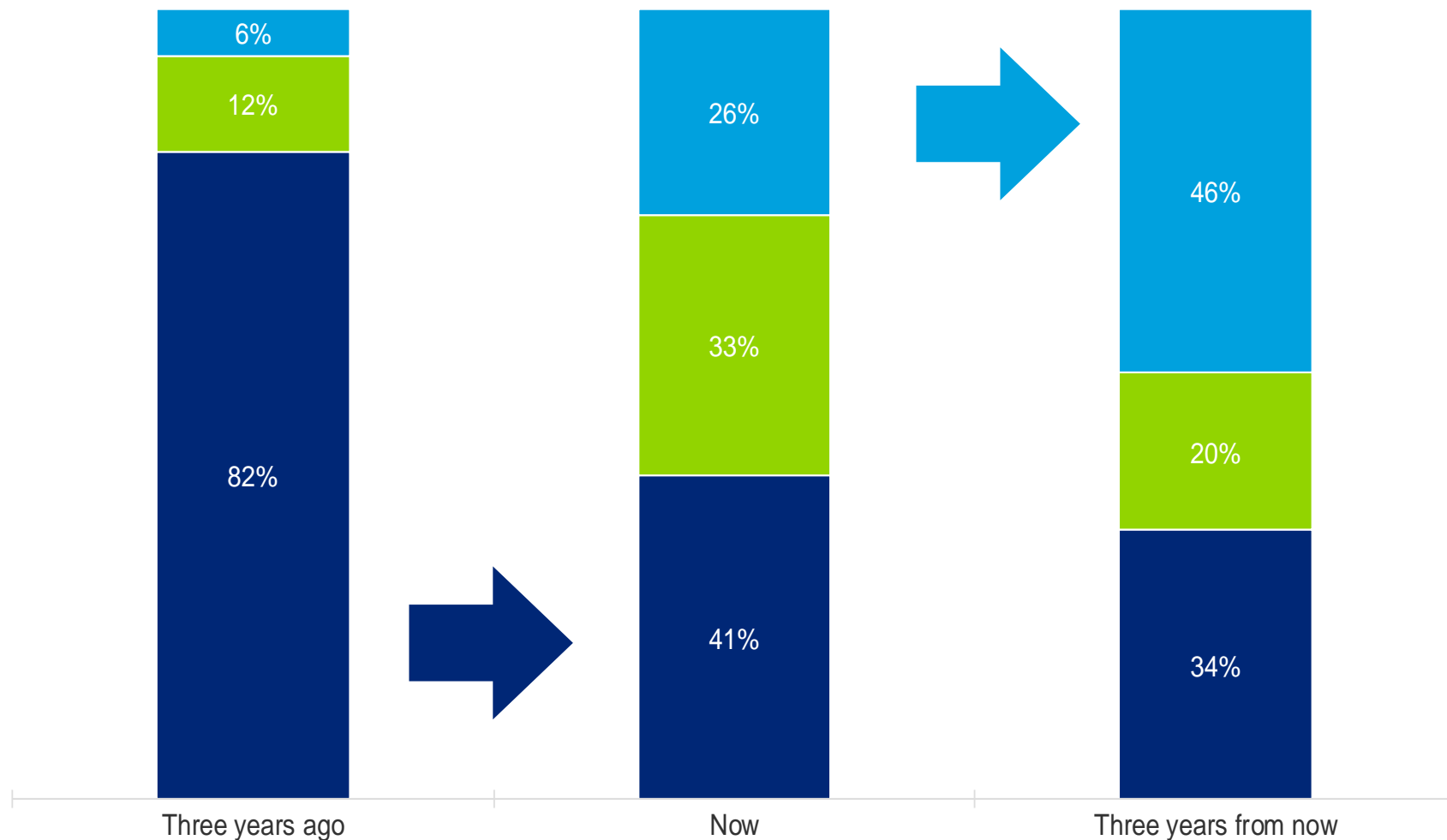
10 year US government bond rates



Source: S&P CapitalIQ

Investor Survey

Investor portfolio allocation to private market assets



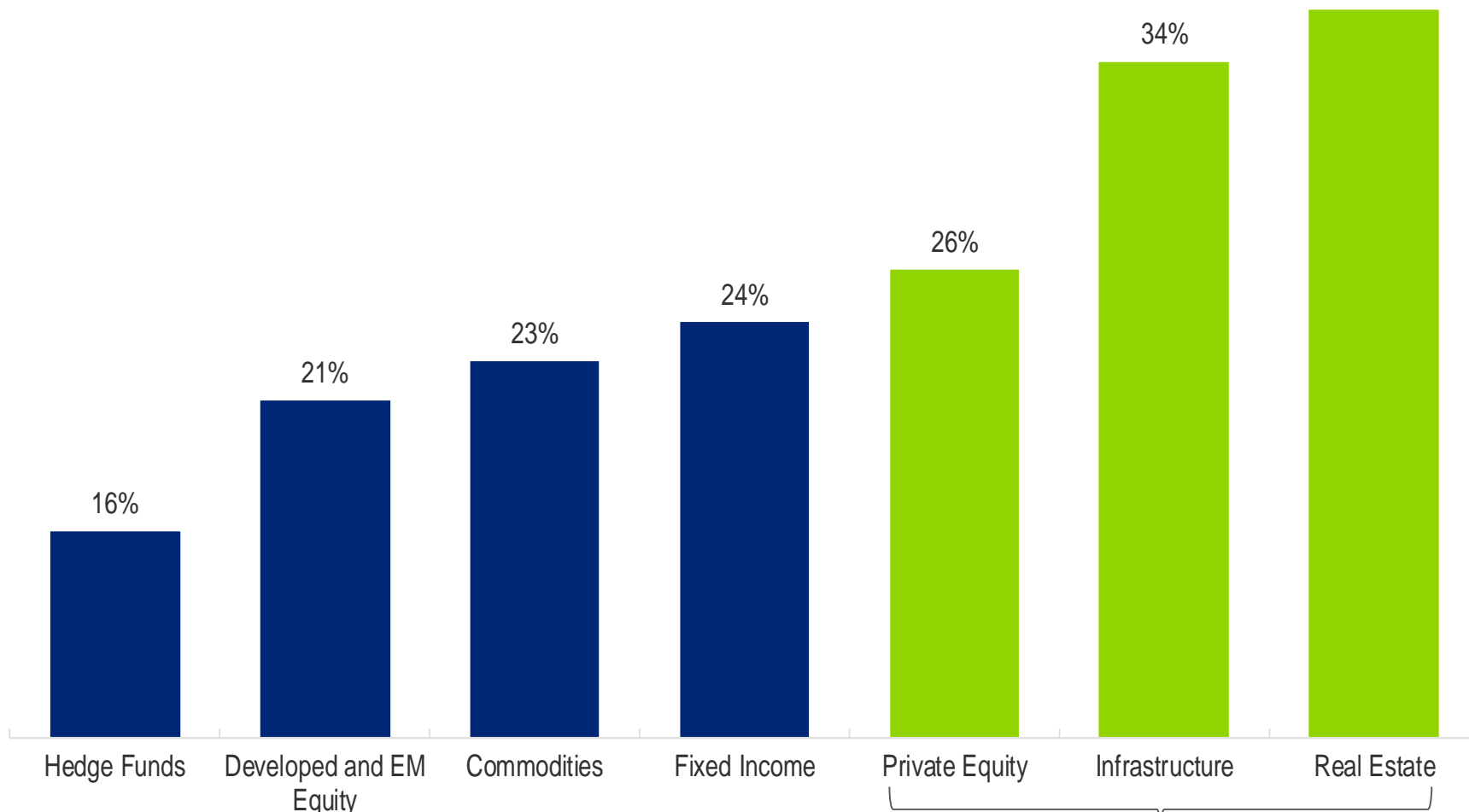
Source: The Economist Intelligence Unit study for BlackRock, September 2014

■ 0-10% ■ 11-15% ■ 16%+

Investor Survey

Evolving investment allocations

% investors planning to increase exposure by asset class



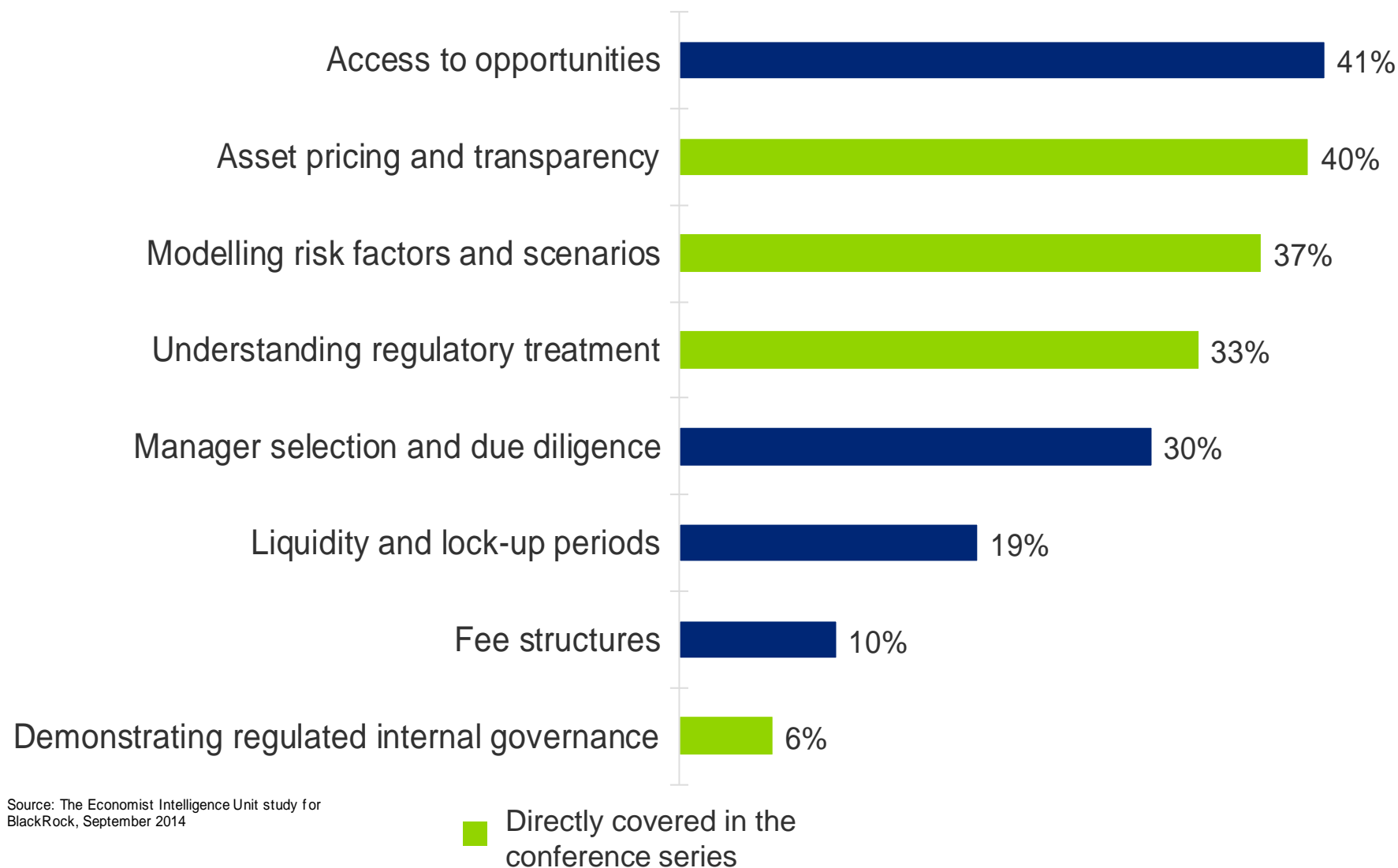
Source: The Economist Intelligence Unit study for BlackRock, September 2014

■ Directly covered in the conference series

Hard to value assets

Investor Survey

Perceived challenges to investing in private market assets



Source: The Economist Intelligence Unit study for BlackRock, September 2014

Valuation Conferences

Agenda

Conference	Date
Valuation for AIFMs	10 February, 2015
AIFMD valuation requirements for depositary banks & asset servicers	24 February, 2015
Fund directors: valuation and related risks	12 March, 2015
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Sound valuation in credit institutions: more than a regulatory requirement	16 June, 2015
Valuation for incentive plans	15 October, 2015
Valuation and tax considerations	12 November, 2015
Valuation: How to meet audit requirements	8 December, 2015

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Introduction

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Overview of 2015 Valuation Conferences' Topics

2.1

Valuation for AIFs

2.2

Sound Valuation in Credit Institutions

2.3

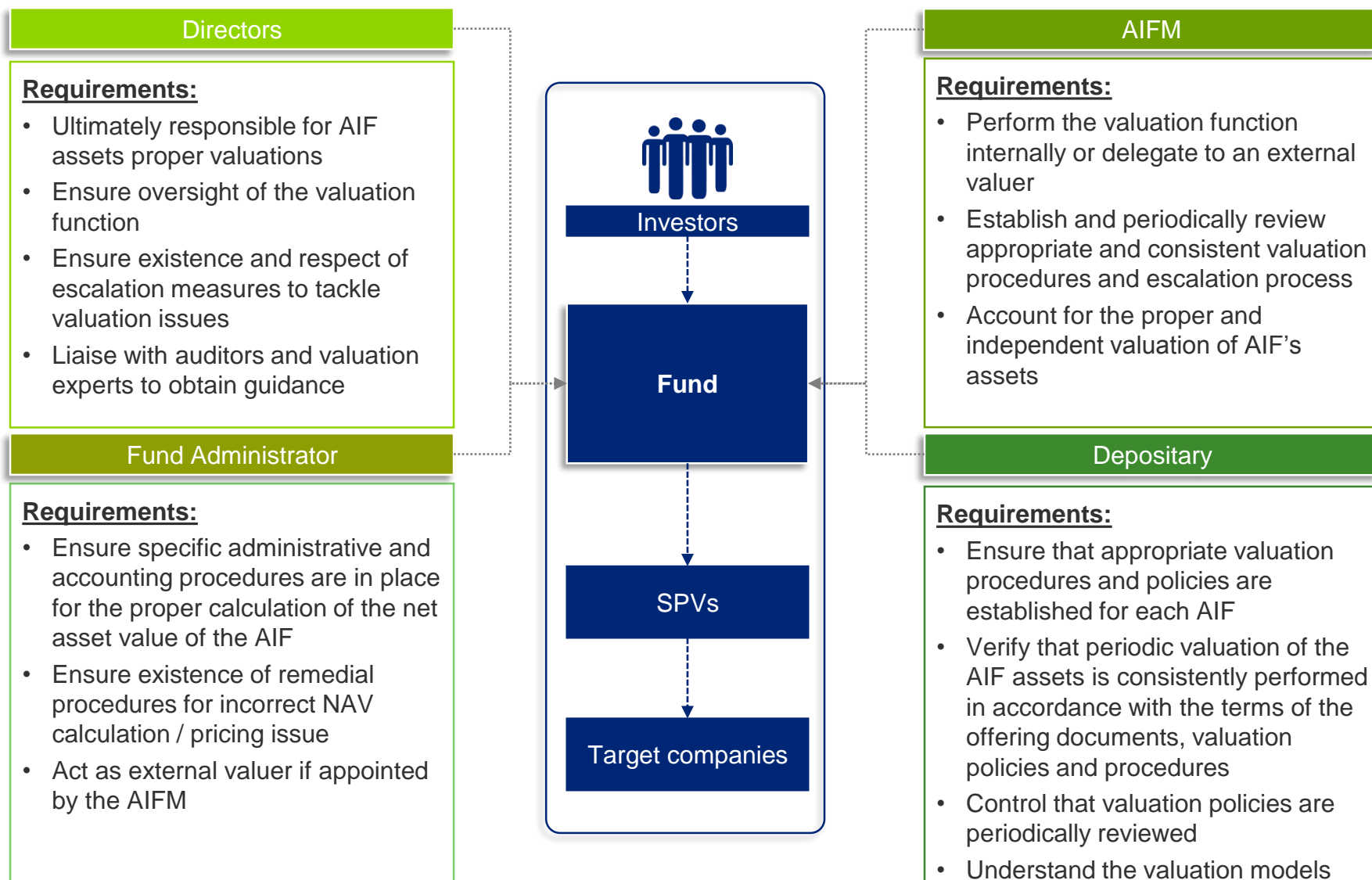
Accounting and Audit Requirements

3

Conclusion

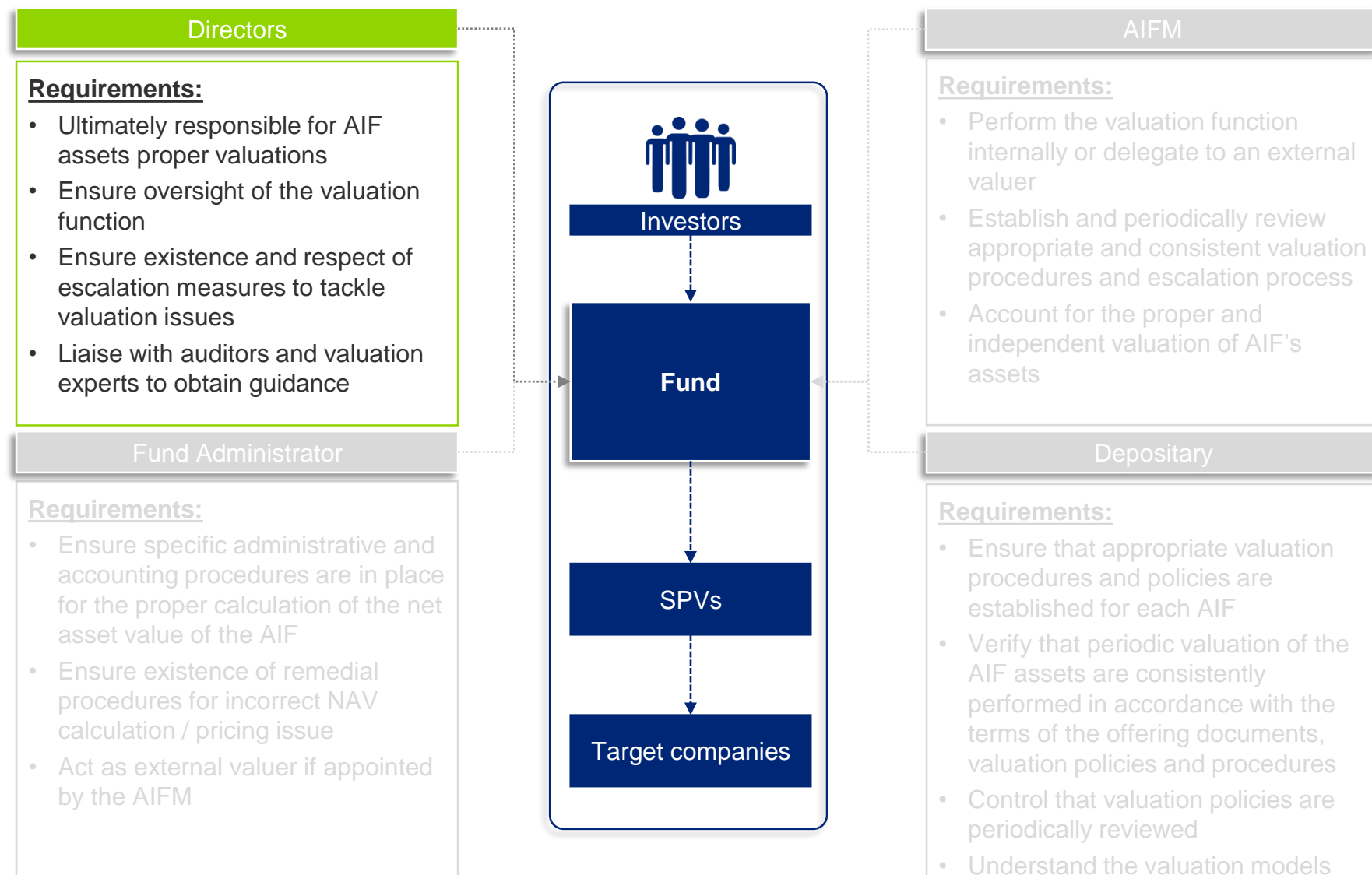
Valuation Issues for alternative investment funds

Overview of AIF stakeholders and related requirements



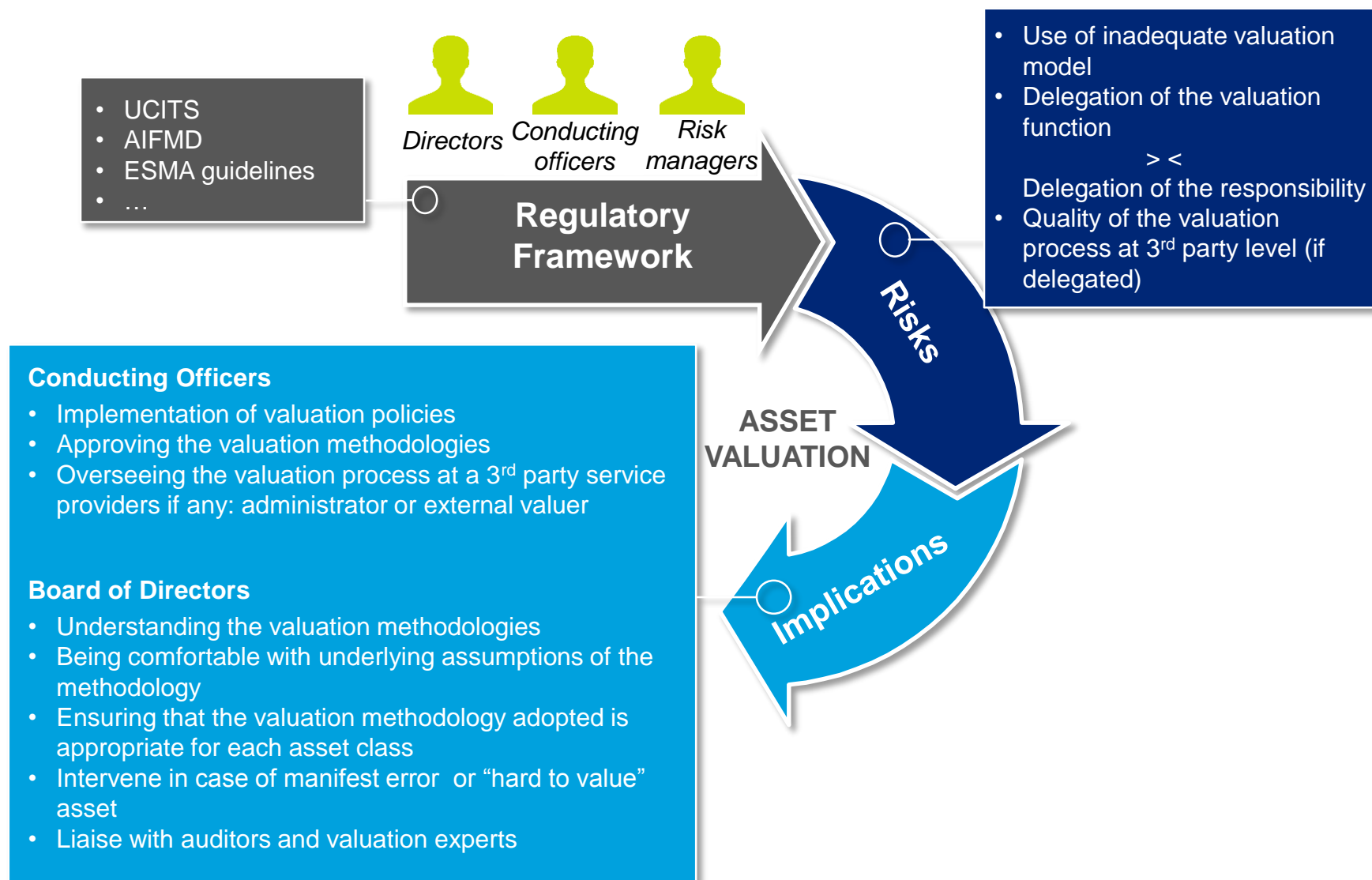
Valuation Issues for alternative investment funds

Overview of AIF stakeholders and related requirements



Valuation matters and related risks

Implications for Fund Directors, Conducting Officers & Risk Managers



Valuation matters and related risks

Implications for Fund Directors, Conducting Officers & Risk Managers



EXPERTISE

- Board of Directors must have appropriate skills in order to understand and approve the asset valuation process
- Board of Directors must have a sound asset class knowledge

INDEPENDENCE

- Risk and Valuation functions must be independent of the portfolio management from a functional and hierarchical perspectives
- Remuneration of the Risk and Valuation functions must be independent of the performance of the operating units
- One Conducting Officer overseeing the portfolio management function
- At least one Conducting Officer overseeing the Risk and Valuation functions

PORTFOLIO MANAGEMENT

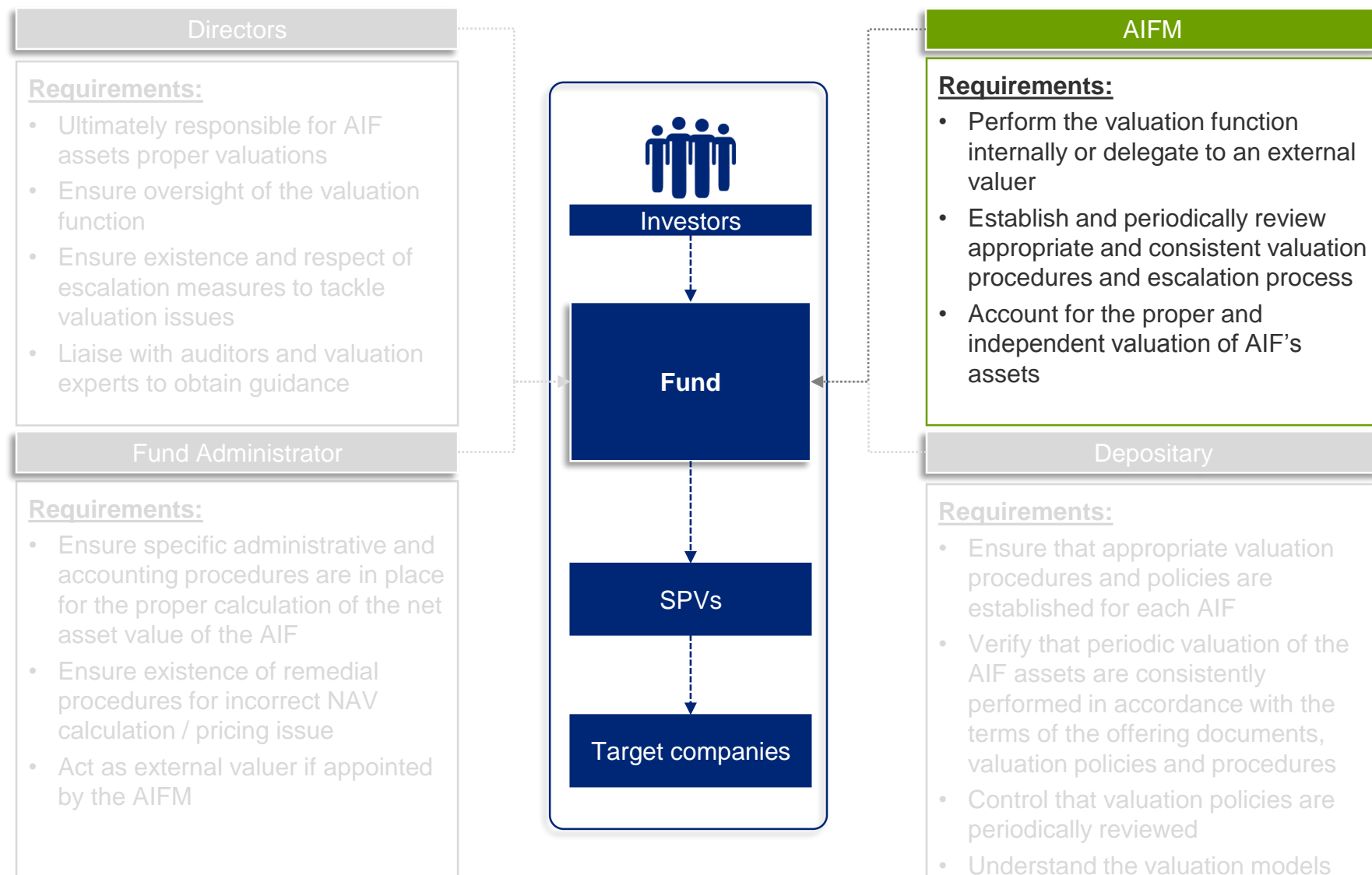
- Independence from Portfolio management doesn't mean that the Risk and Valuation functions cannot be supported
- Provides the relevant data to perform valuations

RISK MANAGEMENT

- Interaction with the different parties involved in order to understand the portfolio management and decision-making process
- Review of Marked-to-Model valuations
- Critical review of the policies and valuation methodologies, including OTC derivatives

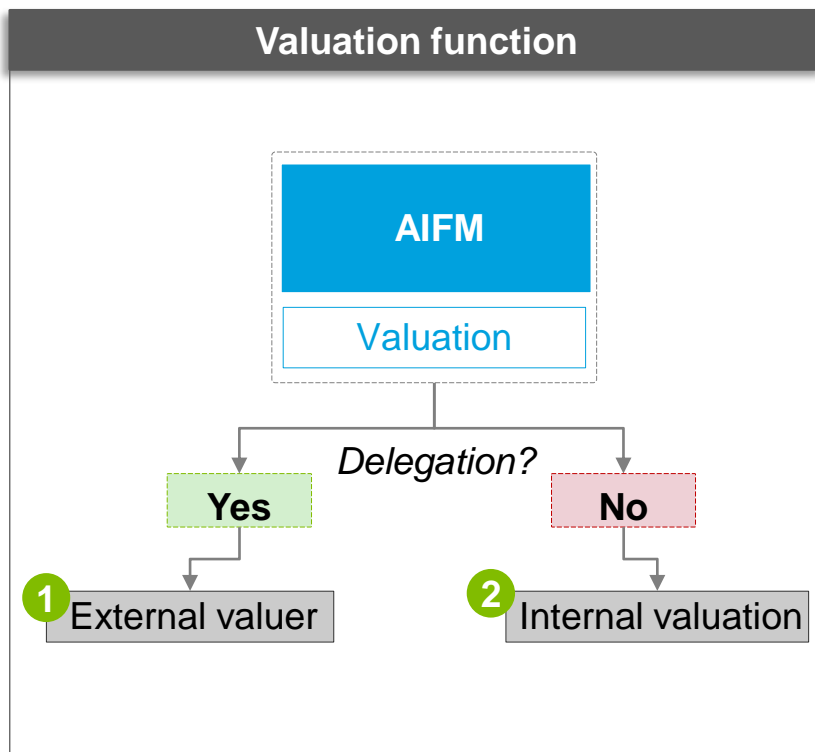
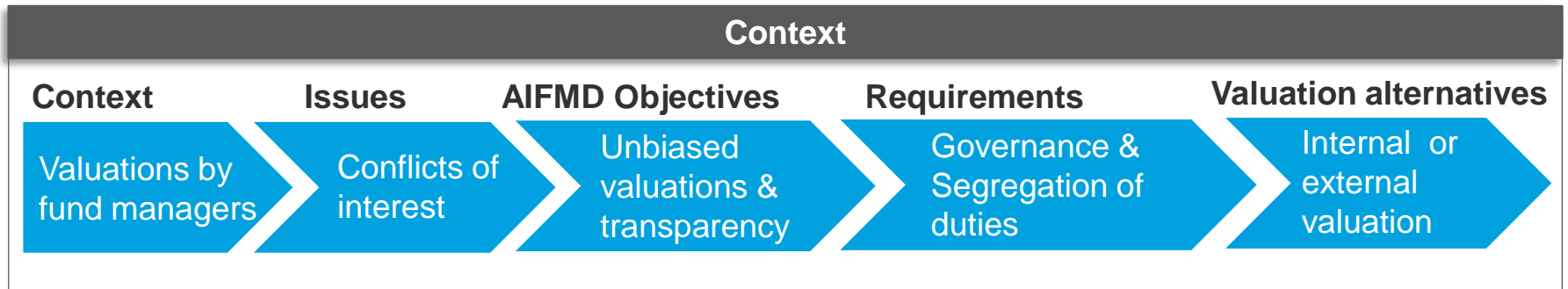
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Valuation for AIFMs

The directive requirements in a nutshell



1

External valuer

- Provides assets' values for NAV pricing
- Unlimited liability towards AIFMs in case of negligence
- Scope of work? (means vs. results)
- High risk, high fees?

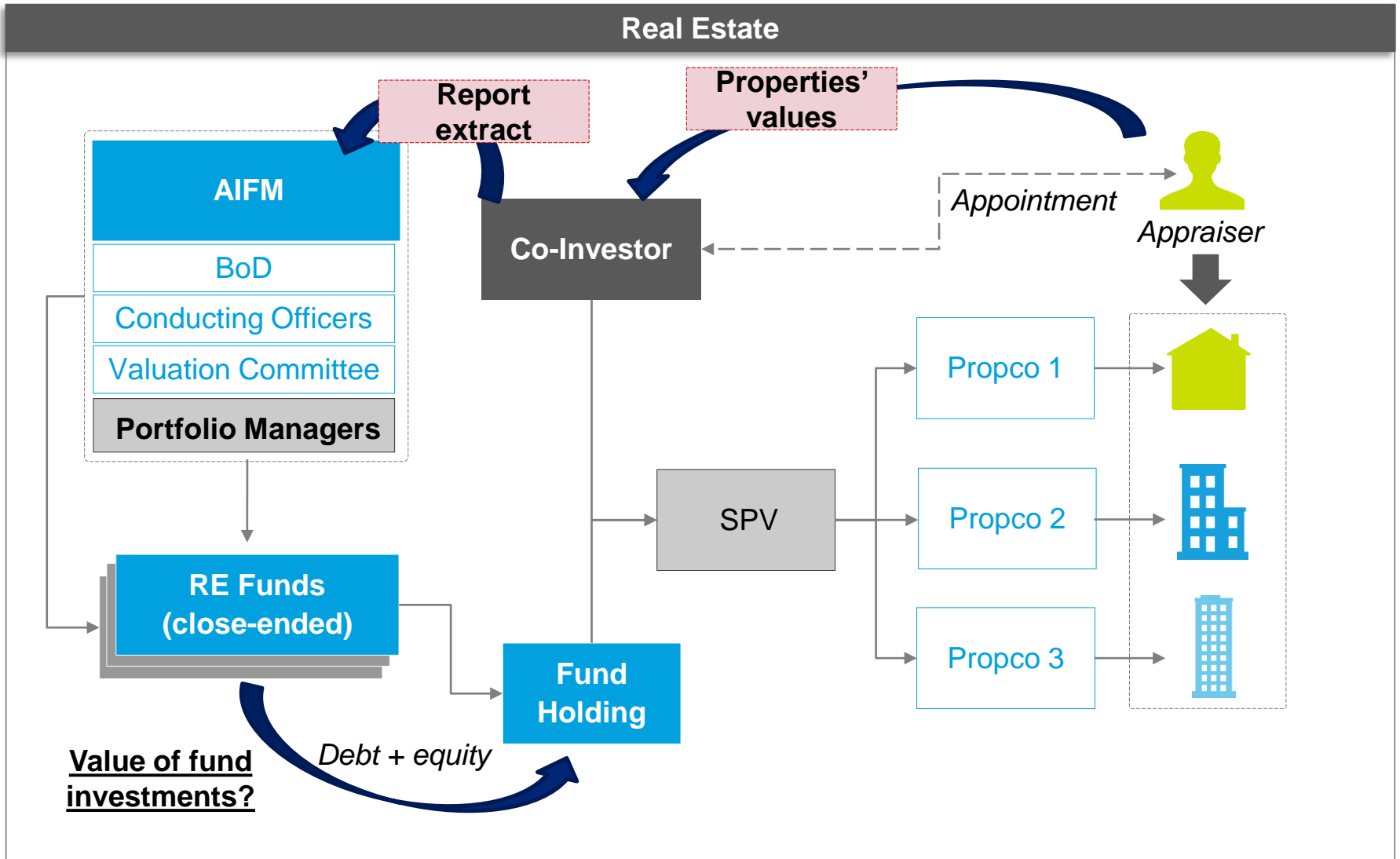
2

Internal valuation

- Scale to achieve segregation of duties?
- Competencies to cover assets' diversity
- Well-defined valuation process
- Strong governance framework

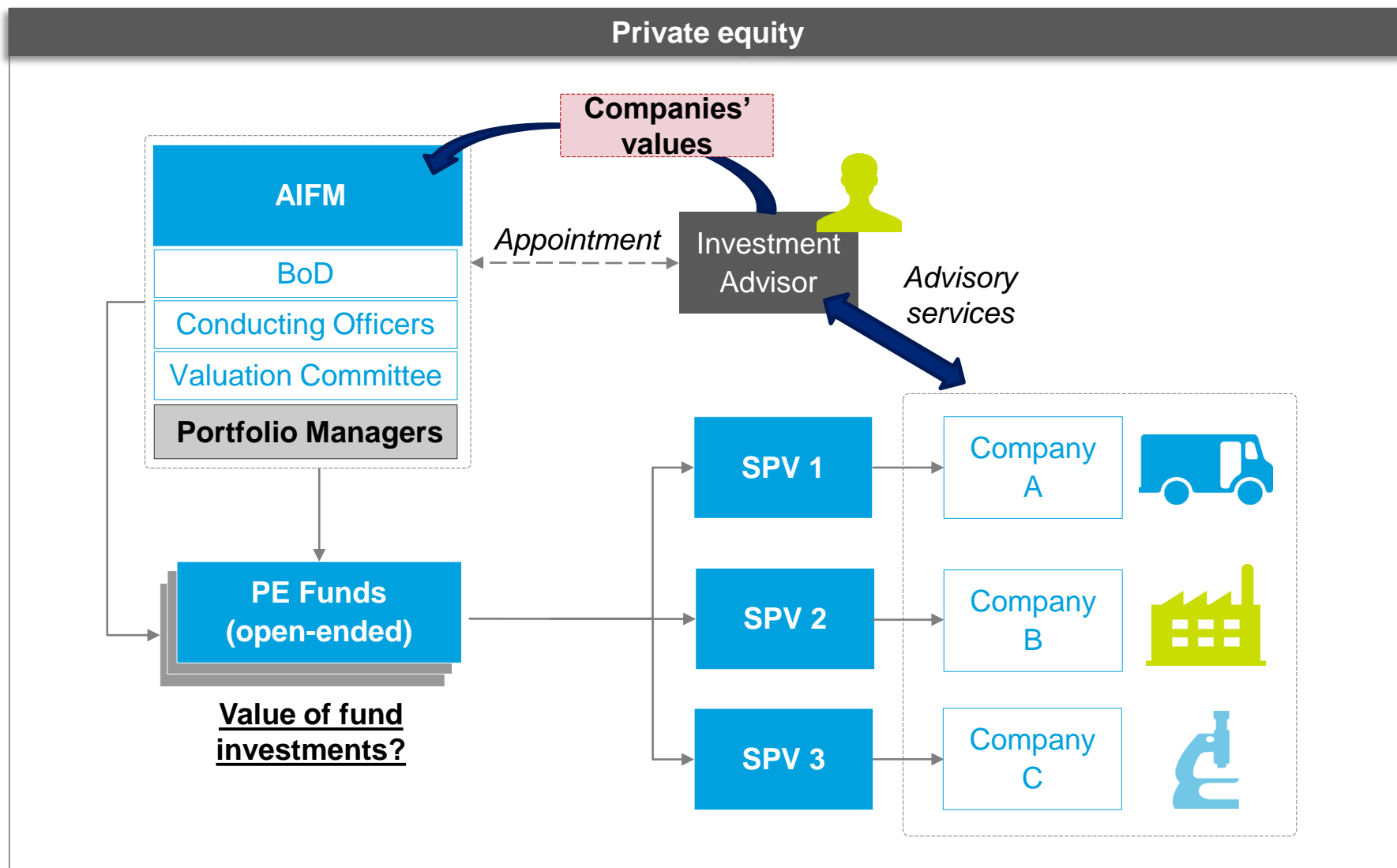
Valuation for AIFMs

The external valuer: Don't get confused



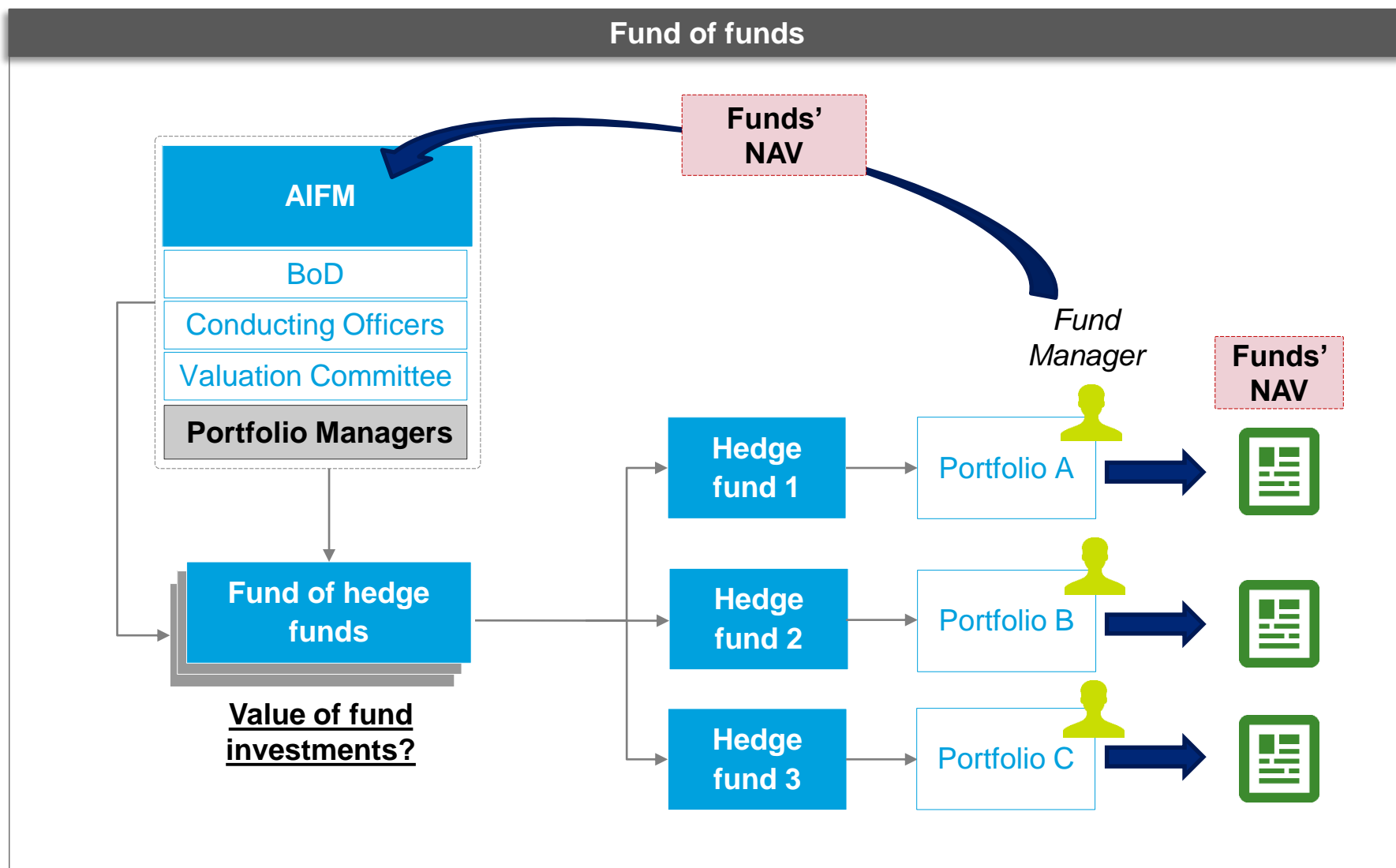
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The external valuer: Don't get confused



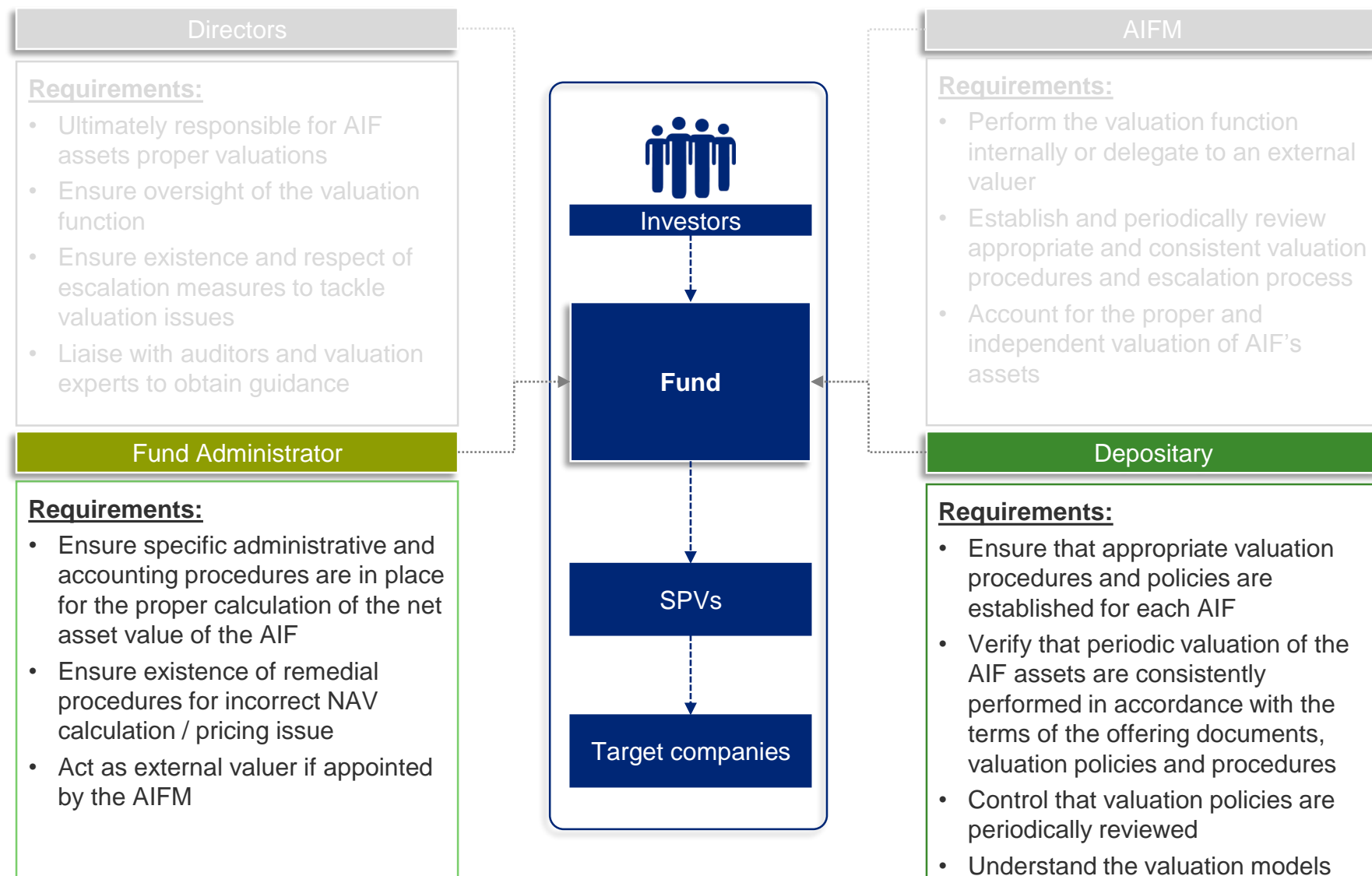
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The external valuer: Don't get confused



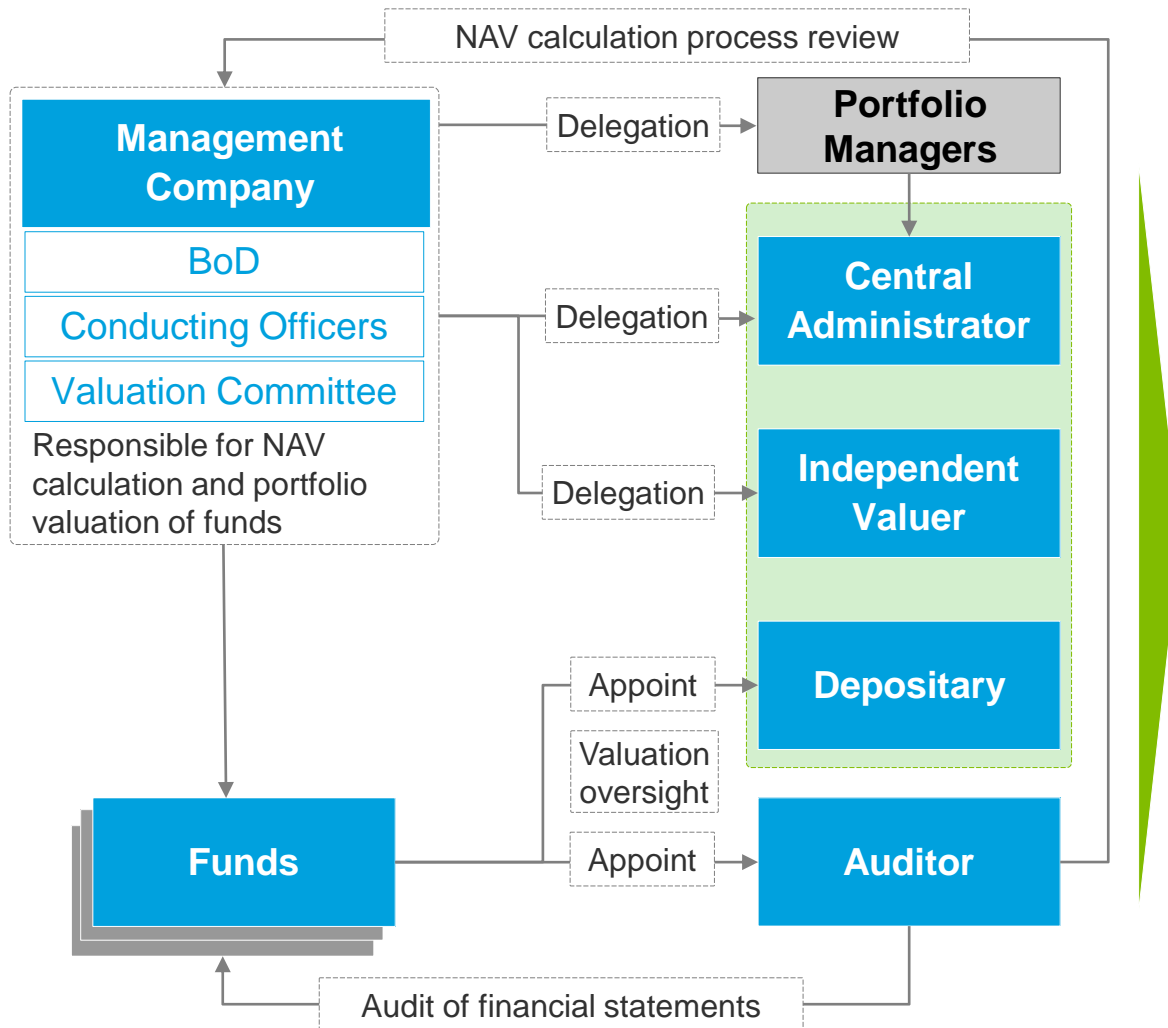
Valuation Issues for alternative investment funds

Overview of AIF stakeholders and related requirements



Valuation: multiple actors involved

What questions will we answer?



- Who is the AIFM?
- Is valuation in-sourced?
- Central Administrator as valuator?
- Who does oversight?
- What synergies between FA and DB?
- How far does due diligence go?
- Practical solutions options

How to be pragmatic?

Market practices in terms of valuation oversight

Obligations

Asset valuation policies & skills

Functional split

Valuation oversight

Escalation procedures

Commonly observed practices

- Per asset class
- Depositary oversight
 - Valuation and NAV process
 - Valuation skills
- AIFM delegates Portfolio Management
- Delegation of NAV and valuation
 - Can be different actors*
- Risk Management in-sourced
- Tripartite Operating Memorandums (AIFM, FA, Depositary)
- AIFM oversight on NAV and valuation (if delegated)
- Depositary due-diligence on AIFM and valuation delegates
- Formalized in Operating Memorandum
- Procedures and monitoring tools
- Depositary involved

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2.3 Accounting and Audit Requirements

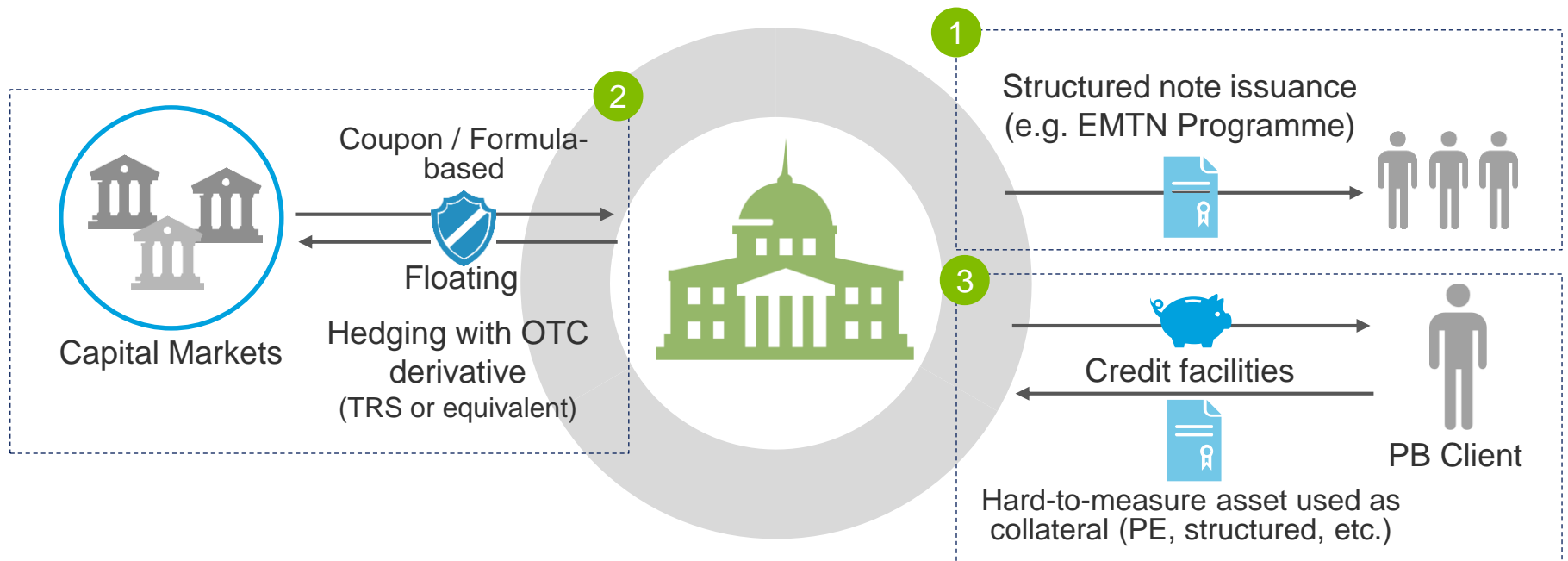
3 Conclusion

Sound valuation in credit institutions

Regulatory impact on valuation processes

Daily valuation of trading book	OTC Derivatives	Collateral measurement	Prudent valuation
 CRD IV	 CRD IV, EMIR	 CRD IV	 CRD IV, IFRS

Challenges existing in different areas of operations create requirements for enhanced internal valuation processes

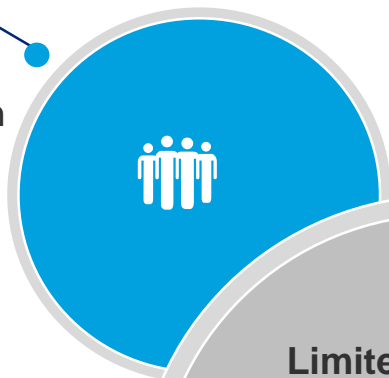


Sound valuation in credit institutions

Addressing other stakeholders' needs

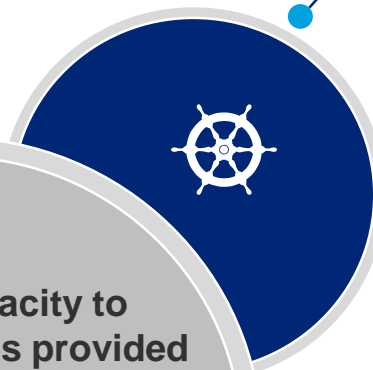
Customers

- Fair and transparent pricing of assets held in portfolios
- Potential performance enhancer



Governing bodies

- Accountable for sound business (and risk) oversight
- Adequate valuation processes provide extra assurance and serve as evidence of sound governance practice



Limited capacity to challenge prices provided by counterparts and blind reliance on those values for hard-to-measure assets is no longer a viable option.

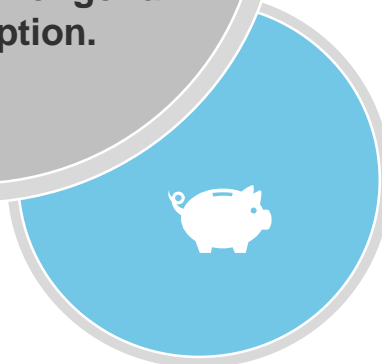
Regulators

- Daily valuation of items in the trading book
- Counterparty credit risk and CVA
- Collateral management
- Prudent valuation
- Valuation oversight duties for depositaries



Shareholders

- Overpriced products can negatively impact P&L and harm the performance of the institution



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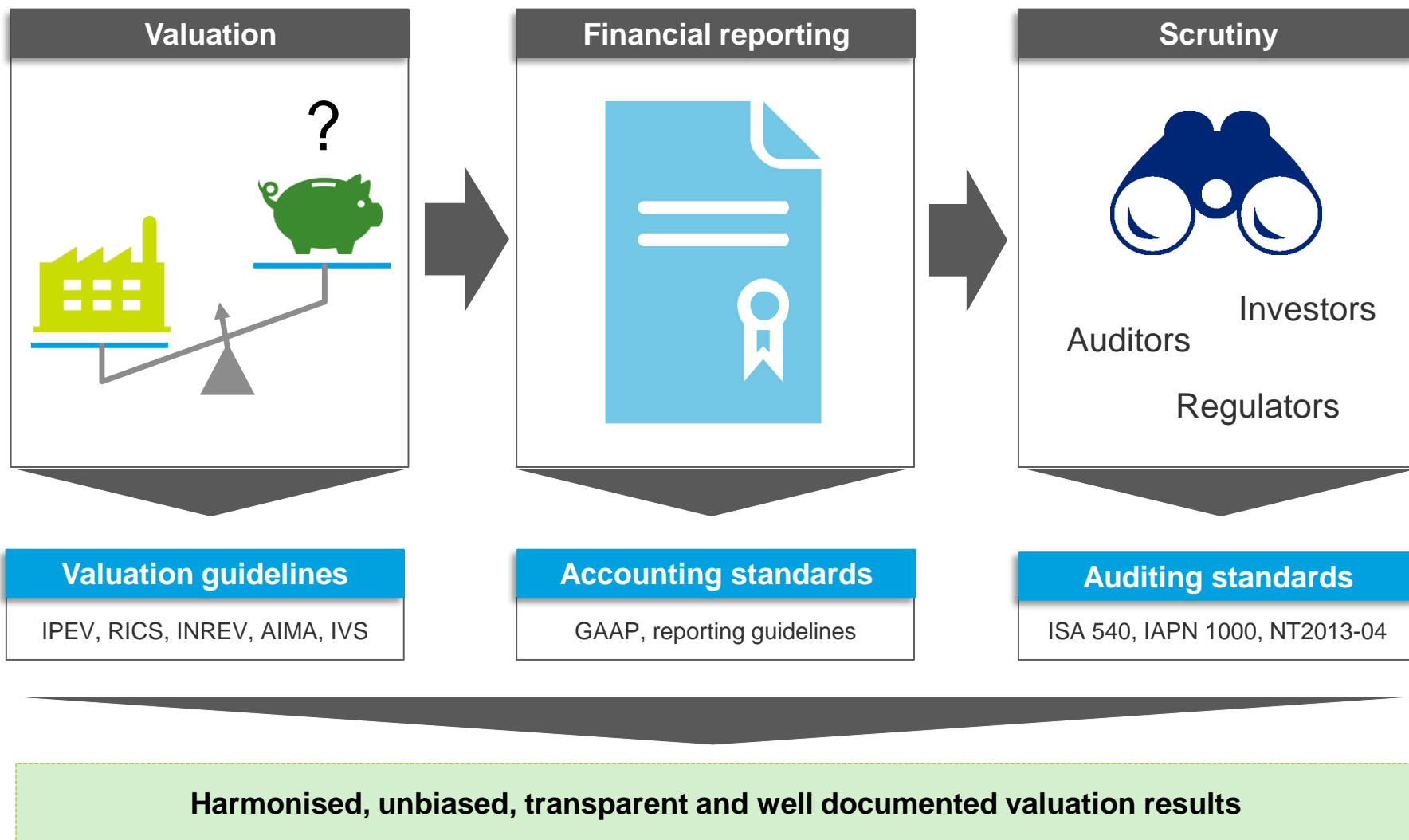
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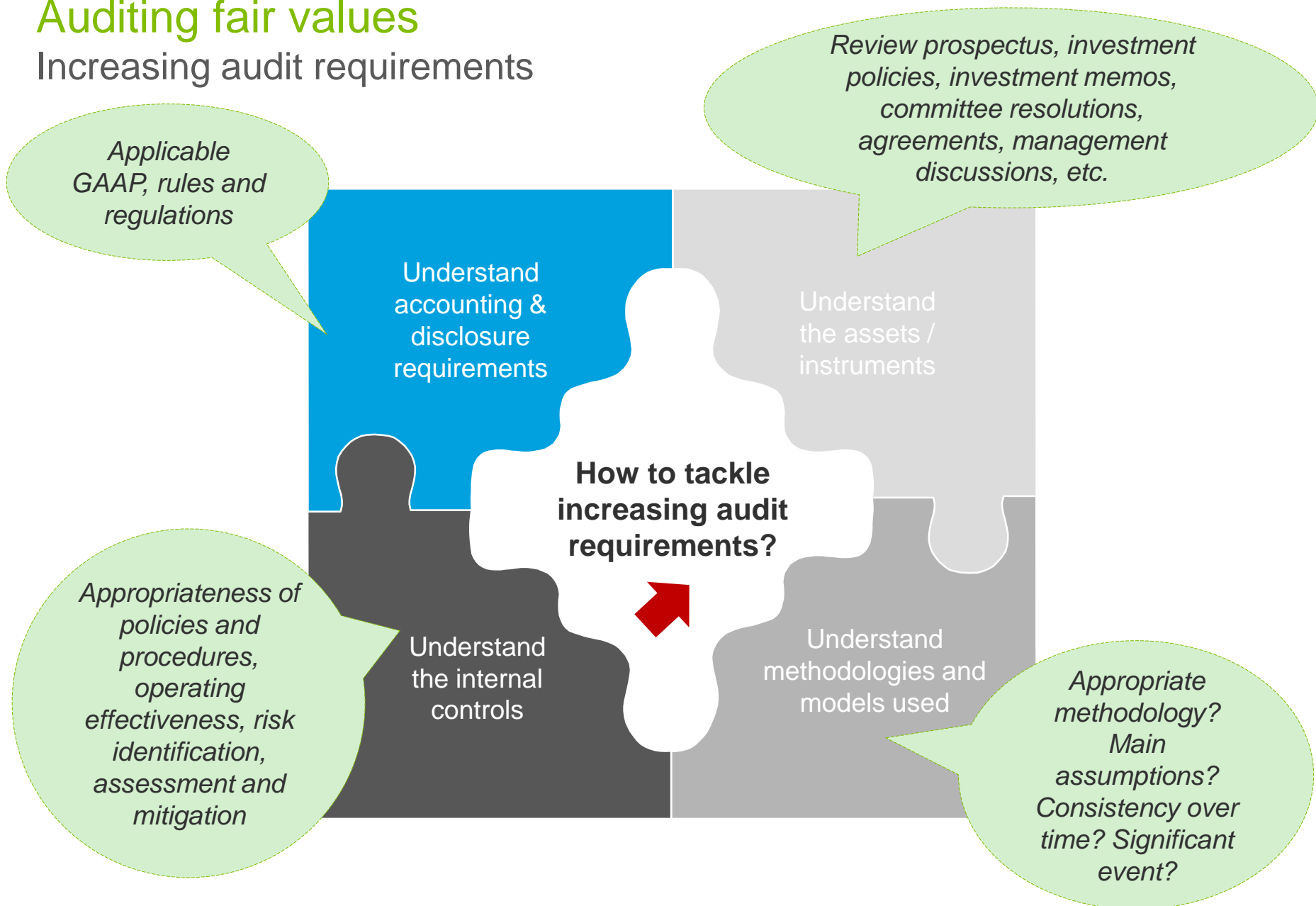
Valuation in the context of financial reporting

A complex environment



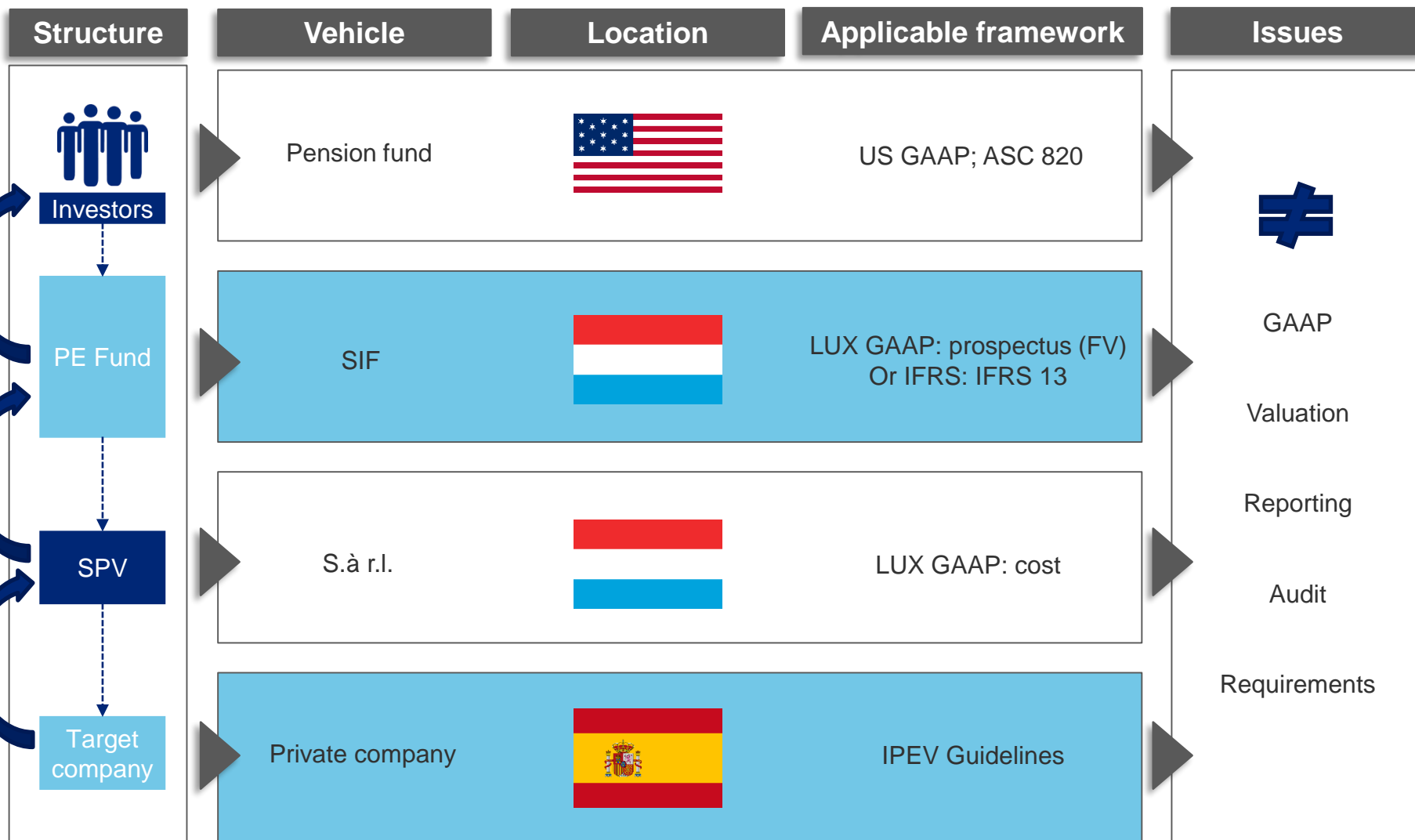
Auditing fair values

Increasing audit requirements



A complex environment

Case Study



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Conclusion

A dedicated website for this conference series is available at:
<http://www2.deloitte.com/lu/en/pages/financial-services/events/deloitte-valuation-conferences.html>



Wishing you a very merry Christmas from Deloitte