



Complex OTC Derivative and Structured Product Valuations

Interactive Data Pricing and Reference Data now provides valuations for highly complex OTC derivatives and structured products through an exclusive agreement with Prism Valuation.

The services described below are provided by Interactive Data Pricing and Reference Data, Inc. referred to as “Interactive Data” within this document.

Valuations of complex OTC derivatives and structured products are in increasing demand as a result of the combination of new regulations, market volatility, and the credit crunch. Financial institutions have been working to ensure that they have a firm grasp on the value of their holdings, and assessing risk exposure is a key focus.

Interactive Data offers valuations for these OTC derivatives and structured products from Prism Valuation via our FTSSM portfolio administration service, which enables clients to submit deal confirms or other source documents directly, rather than having to input the structure and select and calibrate models.

■ Coverage

The service is capable of providing valuations for most flavors of OTC derivatives and complex securities, and new structures are continually being added. Following is a sample of our current coverage. (For a detailed list of the products covered, please refer to *Complex OTC Derivative and Structured Products Coverage*.)

Interest Rates

- Bermudan swaptions
- Callable zeroes and range accruals (single index, CMS spread, etc.)
- Callable CMS spread options and basis swaps
- Digitals and swaptions
- Target Redemption Notes (TARNs)
- Snowballs, snowbears, and snowblades (callable path dependents)
- Quantos including callable quantoed structures
- Hybrids

Inflation

- Swaps, hybrids, caps, floors, and swaptions

FX

- Power reverse dual callable and dual triggerable
- Digitals, barriers, and knock-outs
- FX range accruals and baskets
- Rainbow options

Equity

- Basket options
- Index & single stock digitals, barriers and knock-outs
- Autocallables and cliquets
- Mountain range options (Himalaya, Altiplano, Everest)
- Variance swaps and options
- Dispersion swaps

Commodity

- Baskets and hybrids

Hedge Fund / Managed Fund / Mutual Fund

- Baskets and CPPI structures

Credit

- Asset swaps
- Bespoke and index CDOs, CPDOs, & CDO-squareds
- Basket default swaps and X-to-Y to default baskets
- Hybrids

■ Reports

Valuation Transparency Report

Transparency and standards are fundamental to the valuation process. Investors and regulators expect consistent, transparent and fair pricing across all alternative investment classes. An important feature of the structured products valuation service is an innovative Valuation Transparency Report, in which the valuation process for even the most complex structures is illuminated in plain language. This includes the choice of: underlying market data, appropriate model selection, and calibration strategies culminating in a valuation. This report includes information such as:

- Required underlying market data
- Model and calibration choices, along with reasons behind the choices, including details on determination of any model parameters which are not directly calibrated to market data
- Primary and secondary sensitivities

Valuation Discrepancy Report

With increased market volatility, clients need to better understand what factors can cause a difference in valuation; therefore, a detailed Valuation Discrepancy Report can be provided on an ad-hoc request basis. This value-added analysis compares differences between a client's valuation (counterparty and/or internal valuations) and the Prism Valuation service. The analysis provides a detailed report that breaks down what, in Prism Valuation's opinion, are the maximum variances that can be caused by different market data inputs, model selection, calibration choices, parameter sensitivities, and numerical methods. This report concludes with what Prism Valuation believes is the maximum valuation deviation for that product.

■ Delivery Options

Valuations are available on a daily, weekly, monthly, or quarterly basis, through our FTS portfolio administration service, including a user friendly front end.

Sample Transparency Report - Snow Ranger

Deal Description

The EUR Snow Ranger swap has an initial coupon of a fixed rate accrued daily, while 6M Euribor sets within a defined range for that period. Subsequent coupon payments are range accrual coupons linked to the previous coupon paid which are accrued, while 6M Euribor is within a defined range for that period. The coupon payer has the right to cancel the swap on each coupon date, with a pre-specified call delay, after an -initial lock-out period. The associated swap has a receive side of 3M Euribor less a specified spread.

Model Selection

Four factor Brace-Gatarek-Musiela forward rate model is used for pricing. A forward Monte Carlo simulation is performed to determine the distribution of the future coupon values within the model. After this a backward pricing loop is performed to determine the value of the call option on the structure.

Calibration Strategy

Model calibrated to diagonal swaptions, ATM caplets and a smoothed historical matrix of observed correlations between EUR forward rates.

Primary Sensitivities

EUR Yield curve
EUR Cap volatilities
EUR Into the tail swaption volatilities

The dependence of each coupon on previous coupons gives rise to a large sensitivity to the correlations between the various forward rates evolved in the model. In order to fit the historical correlation matrix and all of the required input market volatilities with good accuracy, four distinct driving factors are required.

Secondary Sensitivities

Model implied cap and swaption volatility skews

Market Data Required

EUR Swap curve
Swaption cube
Cap grid
Historical Euribor settings
Appropriate credit spreads for issuer

■ Interactive Data

Interactive Data delivers evaluations for approximately 2.8 million fixed income and international equity issues every day, including valuations for a range of alternative investments such as credit default swaps (CDSs), interest rate swaps (IRSs), and bank loans. Services include:

- Evaluations of global fixed income instruments including corporates; high yields; governments and agencies; securitized debt issues such as ABSs, CMBSs, and CMOs; US municipal securities; hybrid securities; and money market securities
- Valuations for IRSs, single name CDSs, CDS index trades, and bank loans (CDS and bank loan valuations provided by Markit Group Limited)
- Fair Value Information Services for international equities, options, and index futures
- Intra-day indicative valuations for equity and fixed income ETFs and ETNs
- Risk analytics data from Interactive Data's Fixed Income Analytics business

Interactive Data's teams of experienced evaluators incorporate available transaction data, credit quality information, and perceived market movements into the evaluated pricing applications and models for fixed income securities.

■ Prism Valuation

Founded in 2006, Prism Valuation provides services that replicate the pricing and risk analysis capabilities of a structured products dealer, with an emphasis on hard-to-value assets. Their valuation philosophy is built on three pillars "People – Data – Models".

A series of strategic data partnerships provide the underlying market data required to calibrate valuation models:

- Interactive Data for access to exchange-traded equity and derivatives data, corporate action information, fund data, and over 2.8 million fixed income and international equity evaluations
- ICAP, one of the world's premier interdealer brokers, for underlying market data including generally hard-to-obtain market data and private data
- GFI, a leading interdealer broker for credit data

The underlying modeling framework is based on numerical models from NumeriX, one of the foremost global providers of cross asset pricing and risk analytics for exotic derivatives and structured products. Using this foundation, Prism Valuation's quantitative analysts develop and extensively test appropriate structured product valuation engines.

About Interactive Data

Interactive Data Corporation (NYSE: IDC) is a leading global provider of financial market data, analytics and related solutions to financial institutions, active traders and individual investors. The Company's businesses supply real-time market data, time-sensitive pricing, evaluations and reference data for millions of securities traded around the world, including hard-to-value instruments. Many of the world's best-known financial service and software companies subscribe to the Company's services in support of their trading, analysis, portfolio management and valuation activities. Interactive Data, headquartered in Bedford, Mass., has approximately 2,400 employees in offices located throughout North America, Europe, Asia and Australia.

Interactive Data's Pricing and Reference Data business provides global securities pricing, evaluations and reference data designed to support financial institutions' and investment funds' pricing activities, securities operations, research and portfolio management. Interactive Data collects, edits, maintains and delivers data on more than 6 million securities, including daily evaluations for approximately 2.8 million fixed income and international equity issues. Interactive Data specializes in 'hard-to-get' information and evaluates many 'hard-to-value' instruments. Pricing, evaluations and reference data are provided in the U.S. through Interactive Data Pricing and Reference Data, Inc. and internationally through Interactive Data (Europe) Ltd. and Interactive Data (Australia) Pty Ltd.

For more information about Interactive Data and its businesses, please visit www.interactivedata.com.

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