



Risk Retention – Valuation Service

Independent valuation services for collateral managers and sponsors

KEY STATS

4,000+

Illiquid debt / unlisted equity valuations per quarter

10,000 +

CLO, CDO, and TruPS priced daily

1.3m+

Securitized Bonds priced daily

100,000+

GSAC bonds priced daily

1.1m+

Municipal bond prices daily

6,400+

Loan facilities priced daily

In December 2016, the “Final Rule” implementing the credit risk retention requirements of section 941 of the Dodd-Frank Act became effective. The rule requires securitization sponsors to retain at least 5% percent of the credit risk of the assets collateralizing the asset-backed securities (“ABS”) issuance. If a Sponsor elects to hold its risk retention through an Eligible Horizontal Residual Interest, (“EHRI”), such EHRI must represent a “Fair Value” of at least 5% of the valuation of the ABS interests in accordance with GAAP.

IHS Markit provides sponsors of asset-backed securities with an independent, fully-integrated solution for addressing the credit risk retention regulation. Our solution brings together our powerful loan and fixed income pricing data with our illiquid investment valuation services to offer our clients a fully-integrated valuation solution.

Through the combination of our pricing data and our valuations services, we offer an end-to-end valuation solution for a full range of assets. Our granular loan-level data, robust securitized pricing system, and our experienced evaluators give IHS Markit high-quality inputs for determining fair value. Our Securitized Bond pricing service is a trusted source for daily pricing on over 1.3 million bonds including CLO, CMBS, RMBS, and ABS securities. Our Private Equity service offers valuations for unlisted CLO equity and other illiquid assets, with transparent inputs and processes. This service can meet the needs of sponsors of broadly syndicated CLOs and other asset-backed products that opt to hold the EHRI or an eligible “L-shape” retention.

Consistency

Standardized valuation methods and reports enable customers to obtain independence in support of their equity valuation upon issuance.

Transparency

Valuation methods, key inputs and assumptions are reviewed with customers and made available to support disclosure requirements and audit reviews.

Efficiency

Automated processes streamline data gathering and the distribution of results, reducing the need to manage complex information flows.

Flexibility

Customizable valuation updates for customers leading up to securitizations, along with the ability to add pricing coverage thereafter..

Cost Effectiveness

Our transparent inputs and integrated valuations systems eliminate the need to re-audit the prices from our loan pricing service.

We provide a range of valuation services for participants in the alternative investment market that adhere to the Fair Valuation Standards as defined in ASC 820 of US GAAP, IFRS 13 and the IPEV Guidelines. We have global coverage and can provide valuations across all market sectors.

Credit & Illiquid Debt:

Using a hierarchy of valuation techniques, we provide illiquid debt valuations for investments throughout the capital structure. We conduct coverage analysis to determine whether the debt is distressed. If the debt is covered, we use a discounted cash flow approach to value the instrument. If the investment is impaired, other methods are considered such as an enterprise value waterfall method, net recovery or asset liquidation analysis to estimate fair value and allocate it along the priority of claims.

Private Equity:

We provide objective valuations of private corporations using a comparables approach from a database of public company financial information. Income attribution reports, which allocate enterprise value across the company's capital structure or among SPVs in the investment hierarchy, are also available. We provide valuations for venture, growth and buyout stage companies, going-concern valuations and restructured equity with preference shares, convertible shares, common shares and equity options. Using IHS Markit's OTC valuations, we also prepare employee stock option valuations.

Equity Option Pricing:

We value equity options using the Black-Scholes model to estimate the price variance of financial instruments over time in determining the price of an option. The model incorporates five key variables: option strike price, current stock price, duration, risk free rate and volatility of the underlying stock.

Credit Risk Ratings:

We provide Basel III-compliant credit scores for unrated debt instruments derived from quantitative and qualitative techniques. An internal ratings based approach is used to meet capital requirements and to categorize exposure into broad, qualitatively differentiated layers of risk.

Assurance Reviews:

We perform positive or negative assurance reviews for valuations performed by our clients. Methodology reviews can be performed to assess valuation processes against industry standards.

Risk and Performance Reporting:

Risk-adjusted fund and portfolio performance reporting shows relative returns and risk-adjusted returns with peer composite return and market-cap comparisons. These reports enable managers and investors to monitor investment performance and quickly identify outliers for review.

Credit Portfolio Valuations:

We leverage our securitized products pricing platform to incorporate observable market assumptions such as pricing, CPR, CDR, severity and recovery lag to risk-adjust private credit portfolio cash flows under various assumptions and determine fair value for portfolios of loans, including whole loans.

Integrated Solution:

We leverage our loan curves and bond curves bucketed by industry, sector, geography, loan type (i.e. broadly syndicated, middle market and covenant-lite, etc.) to determine appropriate discount rates. We also leverage our Portfolio Valuations service and OTC derivatives pricing for model inputs including volatility assumptions.

More information on IHS Markit products and services

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