



Fair Value Pricing



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AS ASSISTANT VICE PRESIDENT OF FUND ACCOUNTING, PAUL HAS THE OVERALL RESPONSIBILITY FOR THE TEAM MANAGING THE FUND VALUATIONS PROCESSING ACTIVITIES. PAUL HAS OVER 22 YEARS OF INDUSTRY EXPERIENCE AND MANAGES A TEAM OF OVER 65 INDIVIDUALS.

When the price of a security isn't readily available, fund managers are able to estimate the value of a security within a fund. This process is called fair value pricing or fair valuation.

Fair valuation can be applied by some firms on a daily basis. This occurs commonly to adjust the closing price of foreign securities trading in markets that have normal closing times prior to the fund's valuation time - for example, Canadian securities linked to instruments on the London Stock Exchange.

Fair value pricing is also applicable when an extraordinary market event occurs. For instance, this can take place when a market or price becomes unexpectedly unavailable or is unavailable for an extended period. A recent example of an unanticipated market event is when Japan declared a 10-day national holiday to celebrate the succession of Japan's new Emperor. This led to the Japanese markets being closed for an extended period of time.

Where clients obtain fair value pricing

Many clients subscribe to a fair value pricing service offered by industry pricing vendors such as the Intercontinental Exchange (ICE) or the Investment Technology Group (ITG). These services typically utilize a number of observable inputs such as futures, or American Depository Receipt (ADR) prices to estimate the impact on foreign market securities prices of market events occurring between the local closing exchanges time and the fund's valuation time.

CIBC Mellon works in collaboration with clients around their fair value elections. When an extraordinary event is identified, CIBC Mellon and its team assess the potential impact to funds and works together with clients, pricing vendors, and Canadian industry stakeholders such as the Investment Funds Institute of Canada (IFIC). By way of context, IFIC helps provide consistent guidance to all Canadian Investment fund market participants.

For example, during the lead up to the Japanese market closure, CIBC Mellon actively participated in industry discussions to help understand how and what the industry planned to do during the market closure. CIBC Mellon also reviewed fund securities holdings to identify Japanese security holdings and flag those potential exposures to clients.

In the process of considering market events likely to impact clients, CIBC Mellon works proactively to make our clients aware of some of the potential considerations and address their intentions regarding applying a fair value pricing methodology for their funds.



Fair value pricing questions for clients to consider

As clients consider whether and how to use fair value solutions, a few questions may be relevant to raise within their organization, such as:

- When would your firm make use of fair value pricing?
- Which methodologies for fair value pricing would you put in place? For example, would you price securities based on the last close prices until the markets reopen (stale-dated price)
- Do you have a pricing vendor? How do you select one?
- How would you identify or use a proxy to estimate the approximate market movements?
- How do you consider the relevant exposures and what role might those play in your decision? For example, in the case of the Japanese market closure, some clients opted to calculate fair valuation by using the market movement of the Nikkei 225 futures index, while other clients with low exposures opted to stale price Japanese solutions.

The team here at CIBC Mellon is keen to support clients as they navigate decisions around fair valuation and other operational considerations. Regardless of how clients access the right decision for their funds, it is important to provide CIBC Mellon with clear written instructions and to document their decisions appropriately within their own control environments.



To learn more, please do not hesitate to contact your relationship manager or service provider.

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