



Asset Management's Valuation Webinar Series

Fair Value Implication on Financial Instruments

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Speaker Slide



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Global Atmosphere and Credit Market

Francisco Jimenez

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Global Atmosphere

- 1 Sanctions have been applied to Main institution in Russia
- 2 Western countries have frozen the assets of Russia's central bank to stop it using its \$630bn of foreign currency reserves
- 3 Some Russian banks are being removed from the international financial messaging system Swift, which is used to transfer money across borders
- 4 Russia's President Putin has said he will make "unfriendly" nations pay for their imports of Russian gas in roubles
- 5 Main pricing vendor has discontinued the fair value calculation of rouble- denominated securities due to the lack of data available

Credit Risk

1

The Russian finance ministry said earlier that it had sent funds to cover \$117 million in coupon payments on two dollar-denominated sovereign bonds.

2

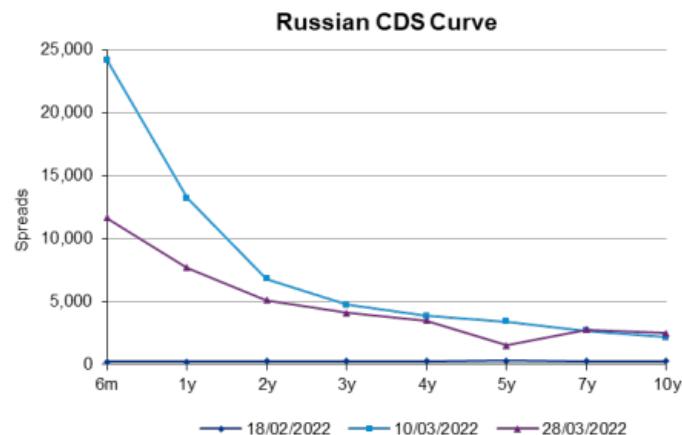
Another \$615 million in coupons this month while on April 4, a hefty \$2 billion bond must be repaid. In total, more than \$4.5 billion in coupons and maturities are due by year-end.

3

Main Credit rating agencies has downgraded the rating of Russia due to possible challenge in the repayment of the debt denominated in a foreign currency

4

The exposure to Russian securities, It is not just in the actual fixed income notes. It can be also in the collateral of securitized instruments



Source of data: Bloomberg

Credit Risk - Fair Value Implications

	There are some considerations of observability of CDS spreads due to the reduction of quotation	
	Significant unobservable adjustments to reflect all the restrictions in place, and high pricing uncertainty	
	Consideration if fair values models are able to handle current quotations including high upfront payments	
	XVA adjustment to dominate the instruments	



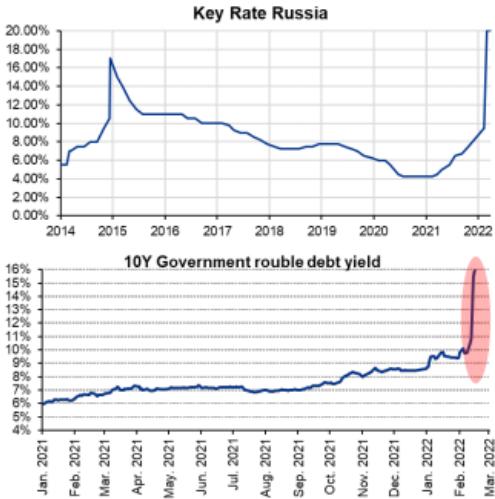
Bonds and Interest Rate Markets and Commodities Markets

Cristina Compadre

Financial Instruments Associate Director
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Bonds and Interest Rate Markets

- **Russia's Central Bank** increased the country's key interest rate from 9.5% to 20%
- **Russian bond yields (OFZs)** soar as market reopens after Ukraine invasion
- Most instruments are expected to have a high **probability of default** for assets originating from Russia and Ukraine
- Russia was able to make the **117M dollar payment**



Fair Value Implications

01

No observable market data → Fair Value Hierarchy classification

02

Pricing Uncertainty → Fair Valuation Calculation

03

Bid-Ask spreads increased → Liquidity decreased

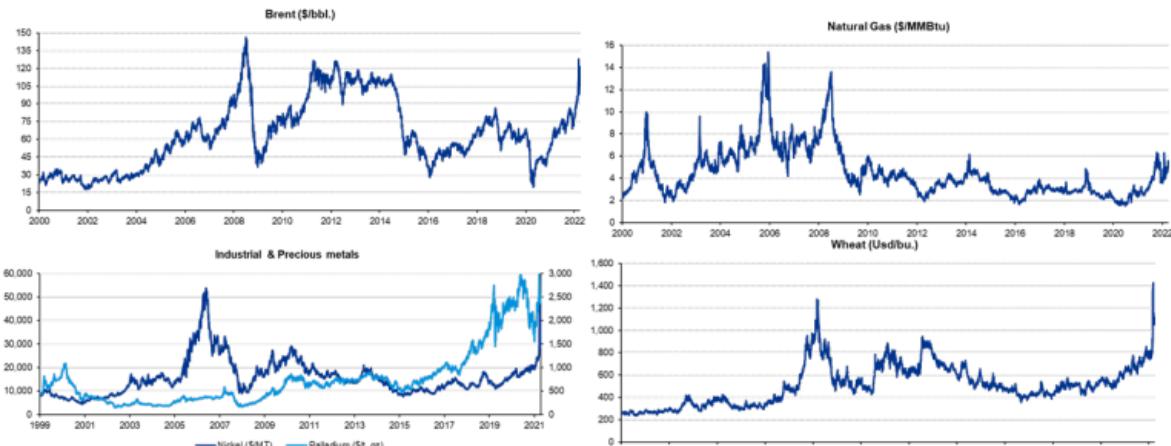
04

↑ Impairments, ↓ economic hedges and ↑ credit risk

Source of data: Bloomberg

Commodities Markets

- Russia accounts for over 10% of global supply of **diamonds, platinum and gold**, while Russia and Ukraine combined account for in the region of 35% of EU-27 **steel** imports
- Palladium** is the most exposed commodity, with Russia accounting for around 45% of total global production
- Significant increases in the commodity prices, especially in energy products such as **oil** and **natural gas** or **nickel** and **wheat**



Fair Value Implications

01

Increased volatility – Valuation considerations

02

Uncertainty – Increased default risk & disruption in the supply chain

03

Volatility & uncertainty – Levelling considerations

04

Increased complexities in hedge accounting

Source of data: Bloomberg



Foreign Exchange and Equity Market

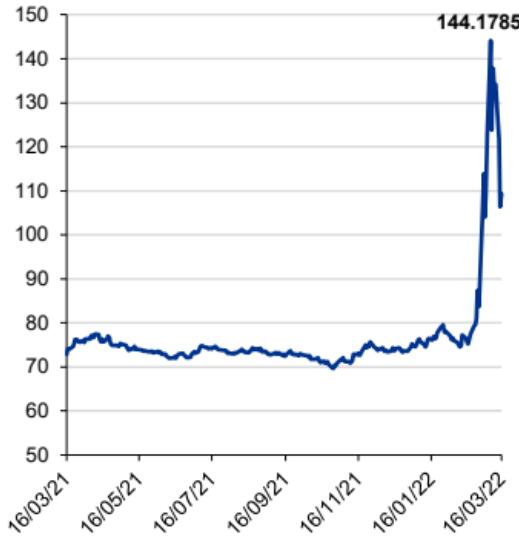
Ni Zhong

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Foreign Exchange Market

- ❑ As one of the world's largest producers in oil, the Russian Rouble, was hit significantly. Ukrainian Hryvnia experienced a similar drop
- ❑ US Dollar kept its role as a safe haven asset and appreciated slightly against its monetary counterparts
- ❑ Dollar - Rouble reached a record level on 7 March given fears over ban on Russian crude oil imports. Rouble regained some of its values over the past weeks
- ❑ The Euro was impacted strongly and reached its lowest level in almost two years against Dollar early March

USD-RUB FX Spot Rate



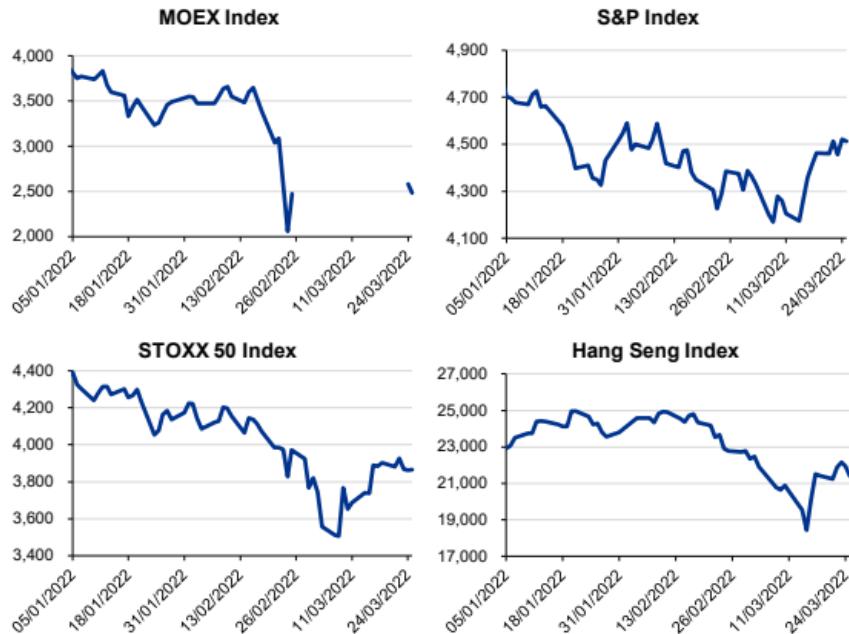
Source of data: Bloomberg

Foreign Exchange - Fair Value Implications

	Hedging against FX instruments could be challenging	
	Increased volatility in the FX market leads to model considerations	
	Increased FX risks associated with certain financial instruments (e.g. Options)	
	Timely review and analysis on valuation models	

Equity Market

- 1 Astonishing market value destructions observed for Russian equities early March, with leading banks and oil giants decreasing to penny stocks
- 2 Moscow stock market reopens following 3 weeks suspension, Russian shares and indices rose significantly intraday
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- 4 Cboe VIX index showed fluctuation in the general market in the past few weeks, signalling uncertainties in market volatility



Source of data: Bloomberg

Equity - Fair Value Implications

	Scarce trading provides limited market data to derive the value for equities	
	In valuation adjustments for equities, restrictions and market volatility would need to be considered	
	Change in Fair Value Hierarchy need be evaluated	
	Increased volatility and decreased liquidity given geographical regions	



Questions & Answers

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