

Structured credit and derivative transaction reviews

PwC's Structured Finance Group (SFG) can help you make sure that you capture and accurately represent the structured finance and complex derivative contracts you hold within your financial and risk systems.



Structured credit and derivative transaction reviews

PwC's Structured Finance Group (SFG) can help you make sure that you capture and accurately represent the structured finance and complex derivative contracts you hold within your financial and risk systems. Much of our recent work in this area has resulted from significant P&L 'popping out' and catching all by surprise.

Investors and issuers are increasingly focused on ensuring that all of the underlying risk in structured instruments and complex derivatives is fully captured within financial, risk and regulatory reporting systems. For some banks, this has resulted in material operational issues being identified.

This is an area that has seen increasing regulatory focus, with regulators asking institutions to demonstrate the completeness of populations across the business, the appropriateness of risk reporting and financial control processes, and whether these are appropriate in light of current strategies.

PwC can help you understand and mitigate the risk in your books, and have an excellent track record of helping our clients to do so.

Who we are

The SFG at PwC is a dedicated team of securitisation and structured finance specialists. We bring to bear detailed knowledge of individual industries and expertise in specific types of asset pools, based on our extensive client base, and offer a wide range of services to investment banks and other investors who would like to gain assurance that there are 'no surprises' in their holdings of structured credit and derivative transactions.

The portfolios we review are frequently managed cross border and therefore our teams are drawn from the territories relevant to the trades.

Structured credit transaction reviews

Recent reviews of structured credit and derivatives books performed by the SFG have allowed us to develop unparalleled expertise in identifying errors and anomalies in structured credit transactions, structured notes and exotic derivative positions, which allows us to rapidly target and address issues in our clients' portfolios.

With the developments in the credit derivative and structured credit market in the late 1990's there was significant product innovation, while systems, controls and legal documents struggled to keep up.

It was not at all uncommon in these types of books for transactions to be 'forced' into the systems and for certain elements of the transactions to be either monitored offline or not booked on the grounds of materiality or remoteness, at the time of booking.

With the developments in the credit derivative and structured credit market in the late 1990's there was significant product innovation, while systems, controls and legal documents struggled to keep up.

Since then, whilst there has been some investment in better infrastructure, there remains a significant degree of offline activity to mitigate risks arising from system weaknesses, particularly where structured notes and derivatives populations are not managed as a single business with common architecture, processes or objectives.

Typical issues

When conducting reviews we have identified a wide range of issues and underlying causes. We also understand the wider impacts of these, such as for capital and treasury management and the impact for wider stakeholders. We use this experience to rapidly target, identify and assess key risk

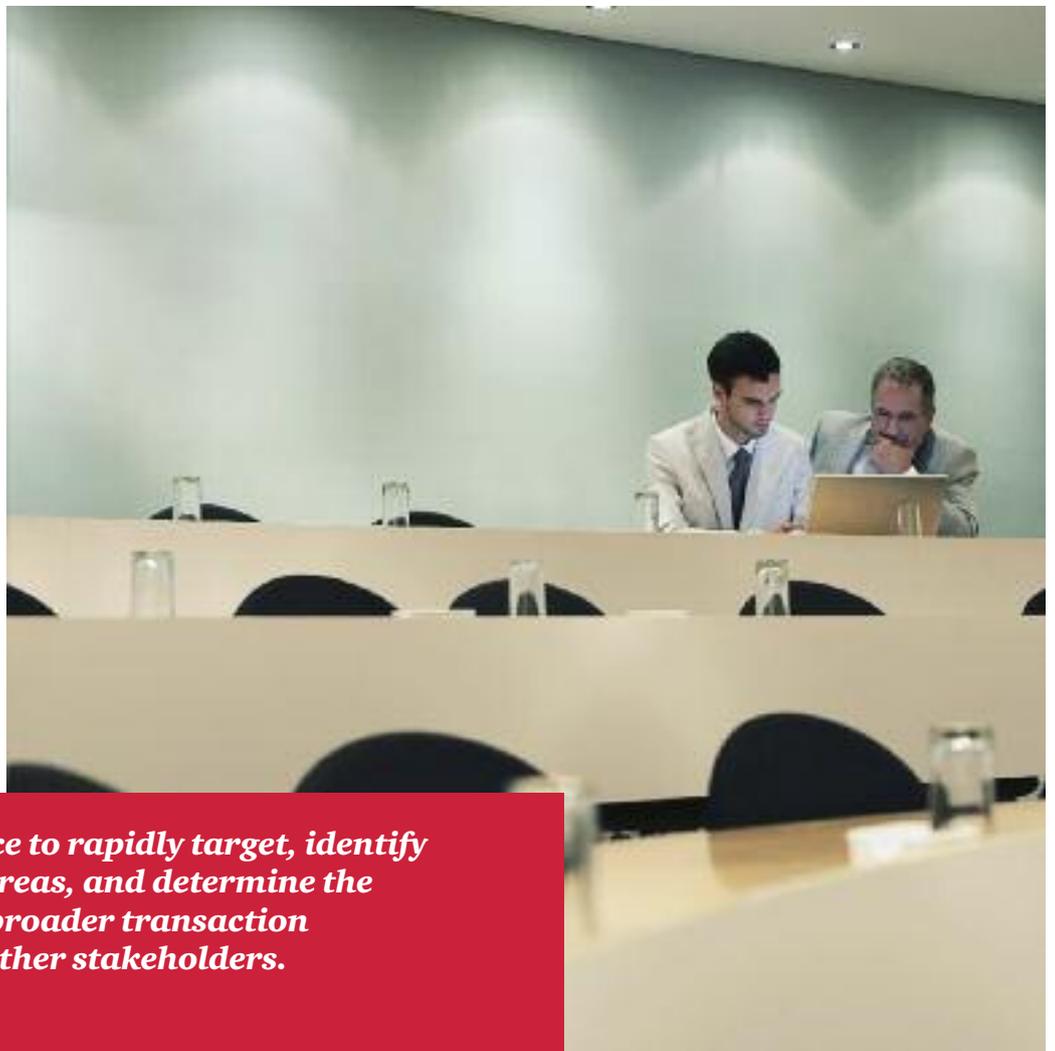
areas, and determine the implications on the broader transaction population and for other business areas.

The issues we normally identify in our reviews include:

Market risk

- Booking errors on basic and complex trade economics
- Dynamic trade characteristics not being represented
- Collateral risk not being subject to enterprise wide surveillance
- Trade lifecycle events including maturities being ignored





We use this experience to rapidly target, identify and assess key risk areas, and determine the implications on the broader transaction population and for other stakeholders.

Model risk

- Inappropriate valuation models and model inputs
- Lack of data integrity
- System limitations and reliance on offline inputs

Operational risk

- Trade events and corporate actions not being monitored
- Over-reliance on poorly controlled spreadsheets
- Key person risk

Legal risk

- Executed contracts missing
- Drafting errors and inconsistencies
- Incorrectly recorded counterparties

Many of which were a surprise to our clients who did not have an accurate picture of the level of risk they were exposed to in these areas.

We can help you to understand whether you share these risks, assess their impact and deal with them.

Contacts

To discuss any of the issues raised in more detail, please speak to your usual PwC contact or one of our structured finance leadership team listed below:

Global & European



Peter Jeffrey
+44 (0)20 7212 5214
peter.c.jeffrey@uk.pwc.com

UK



James Hewer
+44 (0)20 7804 9605
james.hewer@uk.pwc.com

Australia



Colin Heath
+61 (2) 8266 1124
colin.heath@au.pwc.com

Americas



Frank Serravalli
+1 646 471 2669
frank.serravalli@us.pwc.com



David Lukach
+1 646 471 3150
david.m.lukach@us.pwc.com

www.pwc.com/securitisation

© 2012 PwC. All rights reserved. Not for further distribution without the permission of PwC. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.