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## Revaluation Services For OTC Derivatives See Heavy Demand

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CHICAGO -(Dow Jones)- Companies providing revaluation services for over-the-counter derivatives expect strong growth in 2009, despite the regulator-driven push to move business onto exchanges.

Investors and regulators are making efforts to secure independent valuations for the complex and often-illiquid assets, some of which sparked the credit crunch after banks' internal models struggled or failed amid extreme market volatility.

A raft of specialist revaluation firms - such as FastVal, SuperDerivatives and Pricing Partners - use proprietary models alongside dealer contributions and market data to determine values for OTC derivatives on interest rates, credit, equity, foreign exchange and other asset classes.

While the strategy often mirrors the models used by the sell side, the services tout their neutrality and maintain they provide a valuable second opinion and a check against prices provided by dealer banks.

The banks also trade such derivatives themselves, raising conflict-of-interest issues in a climate of heightened counterparty risk that has starved some institutions of liquidity.

"It's a growing business for us," said Paul Compton, head of product management for SunGard Alternative Investments, which runs FastVal. "Generally, it's true that people are less tolerant of counterparty valuations than previously."

While the business has enjoyed steady growth as the OTC market expanded, Compton and other executives said business started to boom following the mid-September bankruptcy filing by Lehman Brothers Holdings (LEHMQ), which triggered a scramble by its counterparties to assess the failed bank's liabilities.

New York-based SuperDerivatives last week reported that demand for its own revaluation business more than tripled over the past year.

The extreme market volatility has been a key factor driving this growth as firms struggle to get a clear view of their balance sheets, according to SuperDerivatives Senior Vice President Chris Zingo.

Government efforts to bail out banks and other financial institutions have also played a central role. Zingo said top-tier banks have called in SuperDerivatives to review profit-and-loss statements, a condition of their accessing federal bailout funds.

Fincad, a Vancouver-based derivatives analytics software company, has done a "significant" number of revaluation licensing deals with some of the banks that have signed up for U.S. assistance, said President and Chief Executive Bob Park.

Despite massive layoffs and cost cuts, Park said, Fincad's deals with the banks remain intact. "We've signed new ones, in fact," he said.

The boom in revaluation comes despite a recent drop in OTC trading as banks and hedge funds scale back trading and seek to minimize counterparty risk. The Bank for International Settlements last month reported that the volume of outstanding multi-name credit default swap contracts fell 6.5% in the first half of 2008, the first decline recorded since BIS began publishing CDS statistics in 2004.

Revaluation providers also face an exchange industry targeting OTC markets as volume growth slows in many of its existing products.

The \$33 trillion credit derivatives market is the current battleground, as such exchanges as NYSE Euronext (NYSE), CME Group Inc. (CME), IntercontinentalExchange Inc. (ICE) and Deutsche Boerse's (DB1.XE) Eurex unit compete to launch clearing platforms for credit-default swaps. Most plan to eventually trade the instruments as well, which would provide price discovery and transparency currently lacking in the market.

Eric Benhamou, chief executive of Paris-based revaluation firm Pricing Partners, said that even if exchanges do succeed in bringing some OTC derivatives onto their platforms, plenty of business will continue over the counter due to demand for highly customized products.

Meanwhile, exchanges are looking to get into the business themselves. On Wednesday, Benhamou announced a deal with Prime Source, a valuation-focused subsidiary of NYSE Euronext, that will see Pricing Partners' services distributed through the Prime Source platform, expanding the company's reach to new markets and regions.

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