

CSFI

CENTRE FOR THE STUDY OF FINANCIAL INNOVATION

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Marking to model... Is it the root of the CDO problem? Does it have a future? A round-table discussion with John Hitchins (PwC), Richard Thorpe (FSA), Michael Thomas (Alliance & Leicester), Gavin Francis (IASB) and Jennifer Hughes (Financial Times). To be held Monday, June 2, 2008, from 12:30-2:15pm

An unintended consequence of the growth of the CDO/CLO market, and of high-octane structured finance more generally, is an increasing reliance on synthetic pricing. Sexy and complex products seldom have a natural market price – and, since many are intended to be held to maturity, the issue arises as to how they should be valued on the holding institution's books. The answer seems to be through complex mathematical models that may well be as impenetrable to regulators, accountants and senior managers as they are to the average PPE graduate. Unfortunately, as the recent financial upheaval illustrates, such *ersatz* prices may have little or nothing in common with the prices that could be achieved in a distress sale.

We know all this. But what are the consequences? And what are the alternatives? And how sympathetic (or otherwise) are the regulators and the auditors? These are difficult issues, and I am very pleased that my colleague Jane Fuller (herself a dab hand in this arcane area) has been able to put together a pukka panel:

- John Hitchins is the leader of PwC's UK banking and capital markets practice.
- Richard Thorpe is auditing and accounting sector leader and head of capital adequacy policy at the FSA. He also represents the FSA in IOSCO and CESRfin.
- Michael Thomas is director of group risk at the Alliance & Leicester.
- Gavin Francis is a director of the IASB, which he joined in 2005 following a career in investment banking. His primary responsibility at the IASB is the reporting of financial instruments.
- Jennifer Hughes is financial correspondent at the *Financial Times*, covering accountancy and financial regulation.

Heavy stuff; light touch. If you or a colleague would like to join us for what I am sure will be an important discussion, would you please let us know by emailing carla@csfi.org.uk or by phoning the Centre (020 7493 0173). As usual, wine and sandwiches will be provided.

Sincerely yours,

Andrew Hilton

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