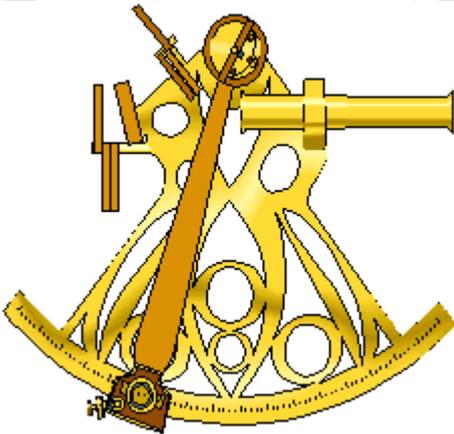


Structured Product (Toxic or Impaired) Asset Pricing and Valuation Theoretical & Applied Modelling References BLUEPRINTS (ABBU)

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Tuesday, 31 March 2009 | Risk - Research



This is all part of the 'Theory Forge' (or theoretical framework) which I have been initiating recently. Our publications work (we think) by explaining more fully our theoretical point of view & our specific approach to quantitative analytics in risk management and finance. The content is mostly taken from the higher level theoretical background with which we approach specific client engagements.

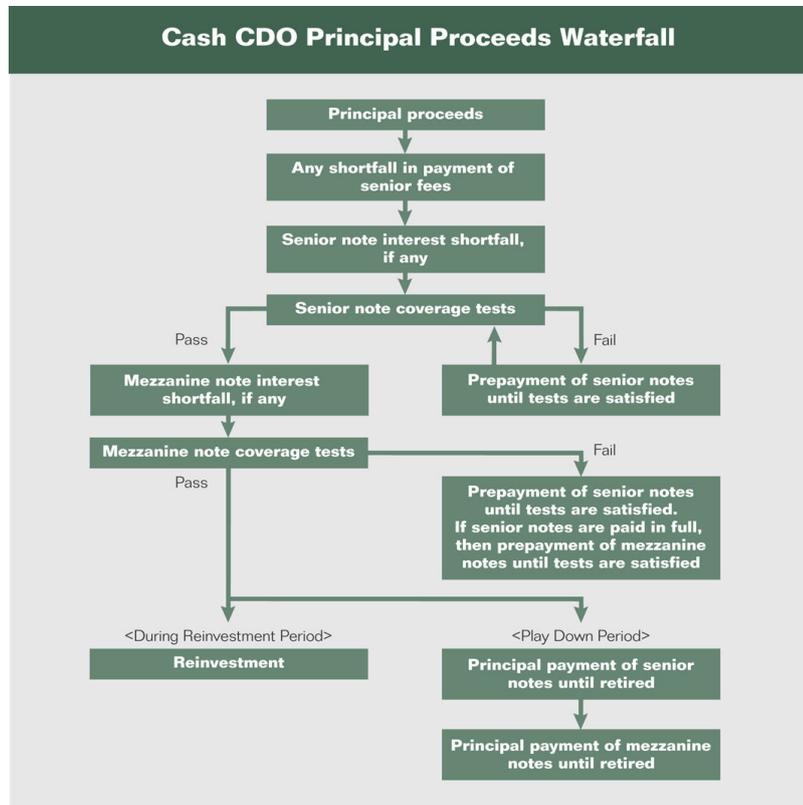
[THE THEORY FORGE](#) ^[1]

A paper which explains how we approach the valuation of complex structured instruments (those 'products' which have become toxic, since they are so hard to value), the paper also explains what the modelling process is and the software toolsets, in terms of R packages, which we envisage as required are.

Our "blue paper") is an exposition on the latest publications about fair value / economic value

of structured credit instruments, which sets out theoretical foundations to be considered by any team considering the process review and we comment on forecast assumptions, recent trends including in related markets, available here;

[Structured Product \(Impaired Asset\) Pricing and Valuation](#) [2]



If one is engaged in a process to consider the fair or market or 'economic' value of Structured Products (Collateralized Debt Obligations (CDOs) etc) which is the challenge of the moment, right now; then this set of references could contribute to a lighthouse theory framework for you in beginning to establish an empirical or quantitative environment to meet this requirement. These 'structured assets' are by definition 'Level 3' in IFRS7 terms and thus the valuation philosophy of 'mark to model' must apply since no active reference market for such securities exists in anyway globally. The question is what is the optimum model? This has to be a model defined by practitioners (academic, supervisory or market participants) & in the public domain. Optimally by following one of the theoretical approaches referenced below precisely and by attempting to avoid too much fusion of aspects of preferred approaches since that way leads to "yet another CDO pricing model". We have enough already, from the so elegant they are aesthetic to the simply bonkers (or whacky for our US colleagues). Going the track of 'your special CDO pricing model' takes you further and further and further from transparency and towards a form of solipsism, if Wittgenstein's famous logic is properly understood. Since the current failure of our market-games is a function of a form of solipsism, that is not a route to take. Finally these theoretical approaches to Structured Product valuation are applicable whether the assets are regarded as impaired or not, since in large part the concept of 'impaired-ness' is a function of the lack of existing market pricing reference frameworks and thus a kind of voodoo psychology around these assets right now, driven by apocryphal assumptions of the value of underlying model variables.

Structured Product (Toxic or Impaired) Asset Pricing and Valuation Theoretical & Applied Modelling References BLUEPRINTS

[2]

✘ Tags: [ABS](#) [4], [bad bank](#) [5], [Basel II](#) [6], [Basel III](#) [7], [Fair Value](#) [8], [Impairment](#) [9], [John Angus Morrison](#) [10], [MBS](#) [11], [quant](#) [12], [Structured Products](#) [13], [Toxic Assets](#) [14], [Transparency](#) [15]

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Links:

[1] <http://www.asymptotix.eu/node/128>

[2] <http://www.asymptotix.eu/sppv.pdf>

[3] <http://asymptotix.disqus.com/?url=http%3A%2F%2Fwww.asymptotix.eu%2Fcontent%2Fstructured-product-toxic-or-impaired-asset-pricing-and-valuation-theoretical-applied-modelli>

[4] <http://www.asymptotix.eu/category/topics/abs>

[5] <http://www.asymptotix.eu/category/topics/bad-bank>

[6] <http://www.asymptotix.eu/category/topics/basel-ii>

[7] <http://www.asymptotix.eu/category/tags/basel-iii>

[8] <http://www.asymptotix.eu/category/topics/fair-value>

[9] <http://www.asymptotix.eu/category/topics/impairment>

[10] <http://www.asymptotix.eu/category/tags/john-angus-morrison>

[11] <http://www.asymptotix.eu/category/topics/mbs>

[12] <http://www.asymptotix.eu/category/topics/quant>

[13] <http://www.asymptotix.eu/category/topics/structured-products>

[14] <http://www.asymptotix.eu/category/topics/toxic-assets>

[15] <http://www.asymptotix.eu/category/topics/transparency>