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12-1-2007

### **AIG Email from Cenci to Cassano regarding PWC Year-End Evaluation**

Diane Cenci

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**Subject:** 3.30pm Year End Valuation Approach - Diane Cenci & William Kolbert  
**Location:** halo  
**Start:** 12/6/2007 10:30:00 AM  
**End:** 12/6/2007 11:30:00 AM  
**Recurrence:** (none)

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**From:** Cenci, Diane  
**Sent:** Wednesday, December 05, 2007 7:32 PM  
**To:** Cassano, Joseph  
**Cc:** Kolbert, William; Whitty, Caroline  
**Subject:** Meeting Tomorrow

Joe

We have meeting scheduled for tomorrow to discuss year end valuation approach. I am attaching a list of questions/procedures PwC will be looking to perform at year end as a basis for our discussion.

Speak with you tomorrow.

Regards  
Diane

## Population under evaluation (as at 3Q07)

		Portfolio as of September 30, 2007	
	Asset Class	No. of Trades	AIGFP Exposure (USD billions)
<b>CORPORATE</b>	Corp Debt - Arbitrage	44	\$95
	Bank Loans / SME Loans	54	\$199
<b>REG CAP</b>	RMBS	36	\$141
	ABS - Term Protection	103	\$72
<b>MULTISECTOR</b>	ABS - 2a7	16	\$6
	<b>TOTAL</b>	<b>253</b>	<b>\$513</b>

**1. Model validation**

- 1.1. Review the model chosen as the primary model
  - 1.1.1. Does the model capture "CDO<sup>2</sup>" characteristics if applicable
  - 1.1.2. How does it treat the cash flows at the "inner" level
  - 1.1.3. How do the credit enhancements get captured by the model and calculated
- 1.2. Review the model validation work being done by Jean-Michel Fayolle
- 1.3. Review sensitivities etc. to inputs
- 1.4. Applicability of BET model for Super Senior transactions
- 1.5. Applicability of other models e.g. Gaussian Copula, relative value to indices
- 1.6. Model integrity
  - 1.6.1. Test controls over access to models
  - 1.6.2. Validate if model is based in Atlas environment
- 1.7. Applicability of BET model for Horizon / Combs transactions

**2. "Market" Inputs**

- 2.1. Test support for "observable" market inputs where obtained
  - 2.1.1. JPMC spread data
  - 2.1.2. ABX calibration data
  - 2.1.3. Weighted Average Life ("WAL")
  - 2.1.4. Ratings
  - 2.1.5. Discount rates
  - 2.1.6. Recovery rates
- 2.2. Evaluate existence of CDS vs. Cash spread differentials
- 2.3. Evaluate other information used for pricing purposes

**3. Transactions inputs - including underlying collateral**

- 3.1. Test trade bookings - tie back sample of transactions to bibles and to Lewis summary reports (key dates, notional amounts etc.)
- 3.2. Look through each transaction to the underlying collateral and categorisation
  - 3.2.1. Test nature of underlying collateral, and categorisation into 5 portfolios
  - 3.2.2. Test vintage of underlying collateral
  - 3.2.3. Evaluate "CDO of ABS" for "squared" type structures, and evaluation of underlying collateral
- 3.3. Test monitoring of actual performance of underlying collateral
- 3.4. Test extent and nature of cancellation features
- 3.5. Evaluate waterfall and credit enhancements provisions

**4. Assumptions and Extrapolated Inputs**

- 4.1. Test support for "extrapolated" market inputs where obtained
  - 4.1.1. JPMC spread data -
  - 4.1.2. ABX calibration data
  - 4.1.3. Extrapolation of WAL, ratings for reference obligations not obtained
- 4.2. Evaluate ability to apply "Market Premium" considerations (especially relevant on Regulatory Capital trades with no calculated DEL loss assumptions)
- 4.3. Evaluate transactions not priced in A, D & E portfolios due to data constraints
- 4.4. Evaluate vintage scaling where applicable
- 4.5. Evaluate potential to calibrate to recent transactions
- 4.6. Evaluate treatment of credit enhancement features

**5. Collateral discussions**

- 5.1. Documentation and analysis of collateral call discussions
- 5.2. Basis for calculation of collateral amounts
  - 5.2.1. Cash versus CDS spreads
  - 5.2.2. Thresholds (e.g. 4% trigger below which collateral not required)
  - 5.2.3. Amount to be provided (notional percentage versus fair value)
- 5.3. Review range and outcomes of collateral discussions with **all** counterparties
  - 5.3.1. Obtain agreements and all other documentation with counterparties for review
  - 5.3.2. Evaluate if additional procedures are required including interactions with counterparties
- 5.4. Documentation and evaluation of collateral call amounts as an indicator of fair value

**6. Other questions & assumptions**

- 6.1. Review EITF 02-3 guidance - highly sceptical of recording gains and losses on a one way market
- 6.2. Is all new business being written being done only in regulatory capital book
- 6.3. Evaluation of regulatory capital transactions
  - 6.3.1. Evaluation of inputs availability
- 6.4. Completeness of population
  - 6.4.1. Horizon transactions
  - 6.4.2. Combs transactions
  - 6.4.3. Other structures
- 6.5. Evaluation of new transactions, terminations and any other valuation data points
- 6.6. Analysis of any other counterparty information, modelling approaches etc where possible
- 6.7. Evaluate if any of the information affects other areas e.g. AFS valuation
- 6.8. Evaluate completeness of disclosures