

MALAYSIAN ASSOCIATION OF ASSET MANAGERS

Appendix 1: Guidelines for the Portfolio Valuation of Debt Securities

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MALAYSIAN ASSOCIATION OF ASSET MANAGERS

PERSATUAN PENGURUS ASET MALAYSIA

Appendix 1: Guidelines for the Portfolio Valuation of Debt Securities

1 Purpose

1. The purpose of this guideline is to assist asset managers to practise high standards in the valuation of debt securities including Islamic debt securities (hereinafter generically referred to as debt securities).
2. Paragraph 6.5 of MAAM 's Code of Conduct requires that
“ ...
6.5 Except as agreed otherwise in writing by the client a member should:
 - (a) review the performance of each client's account against any previously agreed benchmark, either in writing to the client or by way of meeting, at least twice a year;
 - (b) **provide written portfolio valuations** to the client at least as regularly as provided in the Client Agreement. The report should as minimum, include the following:
 - (i) the date at which the report is made;
 - (ii) the contents and value of the client portfolio at that date including income received;
 - (iii) movements in the value of the client portfolio;

- (iv) any open positions in relation to derivative transactions.
- ...”.

Therefore this Guideline provides the necessary assistance to the manager to “provide written portfolio valuations” particularly with respect to the valuation of debt securities.

3. The issue of these Guidelines is also intended to address the inconsistency in the pricing and valuation of debt securities among participants in the debt markets.
4. The Sub-Committee intends to monitor developments in the market for reviewing its set of “Criteria for Selection of Source” which would then be applied to the review of the “List of Acceptable Sources”.
5. The Sub-Committee envisages that List of Sources below will be replaced by a single reporting agency source.
6. We recognise that not all participants are required to report their transactions:

For example the following trades are not reported:

- ✍ OTC transactions such as those between life insurance companies or those between asset management firms;

Accordingly, MAAM shall be encouraging the Securities Commission to require all participants to report transactions in debt securities to BNM for inclusion in their BIDS.

2 List of Sources

1. Members should obtain prices or valuations of debt securities in their client portfolios for the purpose of valuing their clients’ portfolios from the list of sources mentioned in “List of Acceptable Sources” below.

a) Classes of securities affected

1. This guideline prescribes the portfolio valuation of the following classes of debt securities including Islamic debt securities:

- a) Whose maturities extend up to 90 days

b) Whose maturities extend over 90 days

c) Which are in default

b) List of Acceptable Sources

1. Price and Valuation from the following are an acceptable source

i) Reporting agencies

a) Bloomberg

b) Reuters

ii) BNM BIDS

iii) Financial Institutions (-FIs) regulated by BNM

1. If an asset manager is related to a FI that supplies price and valuation data then not more than one of the data suppliers can be from the related firm.

2. The following FIs regulated by BNM are acceptable as sources:

a) Commercial banks

b) Merchant banks

c) Discount houses

d) Money brokers

iv) Licensed Dealers

1. All quotes given by Licensed Dealers will be used to value the debt securities. Licensed Dealers include stockbrokers.

- v) Stockbrokers
- vi) Custodians as source

3 Methodology

- i) Required

1. Debt securities with maturities beyond 90 days

These Guidelines **require** as a minimum, the collection of 3 local time end of day quotes, in which case the input to the portfolio will be the direct average of these three data and depending on whether interest is receivable, accrued interest should be included as well.

2. Debt Securities in **default**

Debt Securities in **default** shall be valued as follows:

- a) As for debt securities in default, there has to be a minimum of one quote from 2b) List of Acceptable Sources and that the quote is filed for audit purposes as to who gave the quote and when the quote was given.
- b) If there is absolutely no quote from any of the sources in 2b) List of Acceptable Sources, then the price of the debt security in default will be recorded as “no quote” and must be marked to zero.

3. Debt securities with maturities up to 90 days

Amortization valuation method will be applied to:

- a) Cash and cash equivalents with maturities up to 90 days; and
- b) Money market instruments with maturities up to 90 days

- ii) Tabulation of Data collected

1. The Sub-Committee recommends the collection of 3 quotes, calculating the average of the 3 quotes to obtain the input value to the portfolio as per Table 1 Sample Table of End of Day Market below)

Table 1 Sample Table of End of Day Market Price

Bid Yields	Arab Bank	Merchant	Amanah Butler	Citibank	Average
30 April 2001					
1 May 2001					

4 Records to be maintained

a) By asset manager - accounts/settlement department

1. Original fax sheets of price and valuation data from the sources must be filed.
2. If data is received by e-mail, it must be printed, date stamped and filed.
3. This will provide a trail for audit purposes.
4. The function above will be carried out by the accounts/settlement department to ensure separation of duties from fund managers to avoid manipulation of quotes.

5 Marketing materials

1. Managers, who plan to advertise the claim that they comply with this best practice, will of course need to comply with the requirements in this guideline.
2. The claim can only be used in relation to a portfolio if the asset manager's firm has adopted these Guidelines on a firm-wide basis.
3. Where the performance of a client's portfolio is compared against the firm's composite or benchmark, the composite/benchmark must also comply with these guidelines.
4. Firms may only use the claim "Complies with MAAM best practice since <some past date>" in relation to the firm's valuation policies and once used, the same claim and the same date must appear in all subsequent compliant advertising material.

6 Interpretation

Prices refer to the price at which ownership is cleared in an actual market transaction.

Valuation refers to an estimate of a security's value or indicative quote usually relying on a generally accepted basis or theory of valuation.

7 Practice Note

Criteria for Selection of Source

1. The criteria for selecting sources depends on the manager's plans to either prepare for a future claim of compliance with this Guideline or a claim in the near future, say after issue of this Guideline:
2. If the manager plans to prepare for a future claim of compliance the source must:
 - a) "be active" in a large proportion of the universe of debt securities
 - b) "be active" in a large proportion of actual transactions
3. If the manager intends to claim compliance on a historical basis to support a presentation of historical performance
 - ✍ Then the manager must possess a historical record for say a minimum of three years for most of the debt securities in the portfolio.
 - ✍ If the manager does not possess historical record and intends to claim compliance for a historical performance then the source must have appropriate historical records to provide the manager with the necessary price and valuation data.
4. The composition of the sources should be consistent over time.