Refinitiv's Evaluated Pricing Service and Fair Value Reporting

Introduction

The adoption of the Fair Value Standard IASB IFRS 13 and the US equivalent, FASB ASC 820, has tightened disclosure reporting rules and placed greater emphasis on pricing transparency.

In conjunction with ASC 820, IFRS 13 established a framework for defining and measuring fair value and set up disclosure requirements on the fair value measurement.

Under IFRS 13 (and ASC 820) **fair value is defined as the price received to sell the asset, in an orderly transaction, between market participants at the measurement date** (i.e. an exit price). The sale takes place in the principal market that the asset is normally sold where market participants (buyer or seller) must be knowledgeable, able to transact and not forced to transact.

To improve consistency and comparability in fair value measurements and related disclosures, the Fair Value Standard established a hierarchy that categorizes the inputs aligned to valuation techniques into three levels, where the highest priority is given to unadjusted quoted prices in active markets for identical assets and the lowest priority to unobservable market inputs. This leveling process undertaken by financial institutions is a key component of the disclosure requirements.

Refinitiv's Evaluated Pricing Service evaluates securities in a way which is compatible with Fair Value Standards. **Transparency into valuation techniques, market data, market conditions and regional differences used to derive an evaluated price has become as important as the price itself.**

Why Evaluated Pricing by Refinitiv

Refinitiv's Evaluated Pricing Service (EPS) is an independent, global evaluated pricing source covering over 2.6 million fixed income securities, derivatives and bank loans. Global coverage spans all major financial markets, and prices are available at multiple times daily. EPS evaluations are designed to support asset managers, custodian banks, mutual fund administrators and risk managers.

Evaluated pricing is an assessment at a specific time of the fair market value of a financial instrument. The assessment is consistent with the accounting guidelines outlined in IFRS 13 (and ASC 820), and takes into account the following for each security:

- Dealer quotes, trade prices and the new issue market
- Inherent risk and assumptions including credit, prepayment, industry, market and liquidity risk
- Terms and conditions
- Prices of comparable instruments by the same issuer, or issuers of similar industry sector

IFRS 13 Key considerations

In evaluating securities, EPS aggregates best available information from its extensive data sources and market contacts. When adopting IFRS 13 fair value techniques there are key considerations:

- Valuation Methodology
  EPS applies a methodology that is consistent with market standards. Direct and comparable market prices are sourced daily from a wide network of market-making participants
- Coverage
  EPS is a global operation and has access to core and local markets. Its wide network of data sources allows coverage at global scale, for liquid and illiquid markets
- Independent Pricing
  EPS does not originate, issue or trade securities, and hence, has no vested interest. Refinitiv maintains its independence to perform the daily evaluation process
- Transparency and Reporting Requirements
  Refinitiv's Evaluated Price Score, Pricing Recipes and a wealth of reference data are available to the user for bespoke analyses. The extent to which this information and content is incorporated into your leveling procedures is at the discretion of your firm or auditor. The Evaluated Price Score incorporates market color in Refinitiv's evaluated price and it is designed to help you meet the regulatory and disclosure reporting requirements. It gives you the insights you need into fair value measurements
- Access to Expertise
  Direct access to professional evaluators who are experienced in their respective asset classes and apply consistent and transparent pricing methodologies also benefits our customers

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