

Collateralized Debt Obligations (CDO) Valuation
FMA Practitioner Demand Driven Academic Research Initiative (PDDARI)
Securities Industry and Financial Markets Association (SIFMA)¹
Request for Academic Research

Scope of Work

The CDO valuation research project would be a discussion of major CDO valuation approaches (i.e. how a CDO is valued) for both synthetic and cash CDOs and cover the spectrum of debt tranches and equity and across collateral types. Also, consider models to quantify illiquidity discounts for large blocks to be traded. While the project would be to concentrate the discussion on valuation, you may note or refer to other topics as background (such as various structures, types, rating agency tests), but would be not expected nor obligated to address the other topics.

The broad objective would be to be neutral, factual, objective, credible and authoritative but not endorse any specific approach and oriented to practitioners rather than to an academic audience.

Specifically, preference would be for the research to be directed to three sets of audiences and objectives:

1. Educational. Sufficiently technical for the informed lay person and market participant, especially the buy-side, who have some experience with CDO products. It is not to be written to the most technical and experienced set of market participants.
2. Regulators and Customers to enhance their understanding why alternative approaches and assumptions may result in varying (mark to market) valuations ; and
3. Investment bankers and dealers, to provide an objective and authoritative background piece when the question arises, for example, as to why different firms may arrive at different market valuation opinions.

The report would describe the valuation approaches, which may include addressing strengths and limitations of the approaches, and detailed quantitative examples. Examples to illustrate would be helpful.

¹ For additional information, contact Steve Davidson, SIFMA Vice-President of Research at sdavidson@sifma.org .