

WHAT IS MY ENTITY EXPOSURE?

Mark Basch, Senior Business Analyst, Interactive Data Pricing and Reference Data, Inc.

The turbulence in the global financial markets over the last 18 months has heightened awareness about the risk management practices of financial institutions around the world. Firms are focusing on many types of risk, including liquidity, market, and operational risk in addition to traditional portfolio metrics. But of the myriad risks faced by firms, one of the most basic has proved to be one of the most challenging – identifying exposure to a given entity.

On the surface, identifying risks related to your exposure to a given entity would seem to be a fairly straightforward process. But, this risk goes far beyond direct investments in the securities of a company, as it can include credit default swaps on the entity, trades where the entity is a counterparty, or potential lost revenue if the company was a client and they were to go out of business. In addition, you need to account for dealings with affiliates of the entity.

The significant impact of failing to understand your firm's exposure to an entity received added attention during the credit crisis of late 2008, when firms struggled to identify their exposure to Bear Stearns and Lehman Brothers. Through discussions with different financial institutions, we became aware that it took some firms more than six weeks to identify all of their exposure to Bear Stearns and/or Lehman, which made it challenging to make effective business decisions without knowing just how much of the firm's capital was at risk.

Unfortunately, knowing that you have a problem understanding your exposure doesn't immediately enable you to solve the problem. And with a substantial amount of entity information being proprietary to a specific firm, how can a risk management professional implement an automated, repeatable process that cuts back on manual efforts and errors?

To get started, a risk management professional can identify those components of entity exposure that can be subject to an automated process. The security exposure component has one key characteristic that makes it an excellent target for automation.

This characteristic is the use of standard identifiers, such as CUSIP® and SEDOL®, for the vast majority of equity and debt securities. These standard identifiers allow for the creation of a pre-defined map that links the security to its issuer.

Imagine you are asked to identify your exposure to Bank of America with respect to a portfolio of financial securities that looks like this:

Security ID	Issuer	Description	Amount (\$ Mil)
AAAA01	BANK OF AMERICA CORPORATION	CALL SR FLT 09	\$ 100
BBB02	BANK ONE CORP	SB NT 5.25%13	\$ 25
CCCC03	BANKAMERICA INSTL CAP	CAP SEC-A 144A26	\$ 50
DDDD04	CAPITAL ONE BK	MTN BE FR 5.75%091510	\$ 25
EEEE05	CITIGROUP FDG INC	CURR LKD 144A 10	\$ 10
FFFF06	CORESTATES CAP III	PSTH FLT ACRD 27	\$ 35
GGGG07	COUNTRYWIDE HOME LOANS	MTN BE FR 4.125%091509	\$ 10
HHHH08	FLEETBOSTON FINL CORP	JR SUB DB 8.8%30	\$ 20
IIII09	JPMORGAN CHASE & CO	NT MSCIEAFE 10	\$ 75
JJJJ10	MBNA CORP	SR MTN BE FR 5%050410	\$ 100
LLLL11	MERRILL LYNCH & CO	NT LKD 144A 12	\$ 20
MMMM12	NATIONSBANK CORP	JR SB DEF INT 26	\$ 5
NNNN13	NORTH FORK BAN-CORPORATION INC	SB NT 144A 12	\$ 15
OOOO14	WACHOVIA BANK	MTN BE VR CALL 032740	\$ 10
PPPP15	WELLS FARGO & CO	SR NT FLT 144A09	\$ 20

A quick look at these names reveals some that are immediately recognizable as Bank of America obligations. You also may recognize entities that were recently purchased by Bank of America, such as Countrywide Home Loans and Merrill Lynch. However, due to the myriad of mergers, acquisitions and name changes that have occurred over the last decade or longer, many of the original issuer names may no longer bear any resemblance to the current obligor. Without business entity data, you would be forced to research each one of these names on a case-by-case basis to find out what happened to the issuing company. This is a manual and time consuming process that needs to be done every time you add a new security to your portfolio.

With Interactive Data's Business Entity Service,SM this process can be automated. In order to effectively identify your exposure, you need to understand the current ultimate parent of each issuer. Using business entity data, you can access the D-U-N-S[®] identifier and name of the ultimate parent.

Business entity data can help you classify the Bank of America obligations like this:

Security ID	Issuer	Amount (\$ Mil)	Ultimate Parent D-U-N-S	Ultimate Parent Name
AAAA01	BANK OF AMERICA CORPORATION	\$ 100	055169452	Bank of America Corporation
BBB02	BANK ONE CORP	\$ 25	047675947	JPMorgan Chase & Co.
CCCC03	BANKAMERICA INSTL CAP	\$ 50	055169452	Bank of America Corporation
DDDD04	CAPITAL ONE BK	\$ 25	878185453	Capital One Financial Corporation
EEEE05	CITIGROUP FDG INC	\$ 10	197329691	Citigroup Inc.
FFFF06	CORESTATES CAP III	\$ 35	006962435	Wells Fargo & Company
GGGG07	COUNTRYWIDE HOME LOANS	\$ 10	055169452	Bank of America Corporation
HHHH08	FLEETBOSTON FINL CORP	\$ 20	055169452	Bank of America Corporation
IIII09	JPMORGAN CHASE & CO	\$ 75	047675947	JPMorgan Chase & Co.
JJJJ10	MBNA CORP	\$ 100	055169452	Bank of America Corporation
LLLL11	MERRILL LYNCH & CO	\$ 20	055169452	Bank of America Corporation
MMMM12	NATIONSBANK CORP	\$ 5	055169452	Bank of America Corporation
NNNN13	NORTH FORK BANCORPORATION INC	\$ 15	878185453	Capital One Financial Corporation
OOOO14	WACHOVIA BANK	\$ 10	006962435	Wells Fargo & Company
PPPP15	WELLS FARGO & CO	\$ 20	006962435	Wells Fargo & Company

At this point, your exposure to Bank of America securities in the portfolio can be easily identified and calculated.

Security ID	Issuer	Amount (\$ Mil)	Ultimate Parent D-U-N-S	Ultimate Parent Name
AAAA01	BANK OF AMERICA CORPORATION	\$ 100	055169452	Bank of America Corporation
CCCC03	BANKAMERICA INSTL CAP	\$ 50	055169452	Bank of America Corporation
GGGG07	COUNTRYWIDE HOME LOANS	\$ 10	055169452	Bank of America Corporation
HHHH08	FLEETBOSTON FINL CORP	\$ 20	055169452	Bank of America Corporation
JJJJ10	MBNA CORP	\$ 100	055169452	Bank of America Corporation
LLLL11	MERRILL LYNCH & CO	\$ 20	055169452	Bank of America Corporation
MMMM12	NATIONSBANK CORP	\$ 5	055169452	Bank of America Corporation

Total Exposure = \$305 Million

This example helps demonstrate the value of Interactive Data's Business Entity Service. By identifying the ultimate parent we were able to identify and calculate the exposure to a given entity for a sample portfolio. While we used a small portfolio in this example, the same process would apply no matter the size. This service allows for the automation of a manual process, greatly reducing the time involved. Given the increasing complexity of the financial markets, the demands on risk managers' time will only grow. With tools like the Business Entity Service, more resources can be dedicated to other aspects of risk analysis that are less suited for automation, such as analyzing counterparty or client exposure.

About Interactive Data's Business Entity Service

Interactive Data has aligned itself with the major specialist counterparty data providers to offer a Business Entity Service that combines its own broad range of security-level reference data. The service establishes relationships between issues, issuers and parent entities and maps them directly to a customer's securities of interest on a daily basis.





Limitations

This document is provided for informational purposes only. The information contained in this document is subject to change without notice and does not constitute any form of warranty, representation, or undertaking. Nothing herein should in any way be deemed to alter the legal rights and obligations contained in agreements between Interactive Data Pricing and Reference Data, Inc. and/or affiliates and their clients relating to any of the products or services described herein. Interactive Data Pricing and Reference Data, Inc. does not provide legal, tax, accounting, or other professional advice. Clients should consult with an attorney, tax, or accounting professional regarding any specific legal, tax, or accounting situation.

Interactive Data Pricing and Reference Data makes no warranties whatsoever, either express or implied, as to merchantability, fitness for a particular purpose, or any other matter. Without limiting the foregoing, Interactive Data Pricing and Reference Data makes no representation or warranty that any data or information (including but not limited to evaluations) supplied to or by it are complete or free from errors, omissions, or defects.

Interactive DataSM and the Interactive Data logo are service marks of Interactive Data Corporation, and registered service marks in Australia, European Community, Germany, Japan, Korea, New Zealand, Switzerland, and Taiwan. Business Entity ServiceSM is a service mark of Interactive Data Pricing and Reference Data, Inc. Other products, services, or company names mentioned herein are the property of, and may be the service mark or trademark of, their respective owners.

Amsterdam ■ Bedford ■ Boston ■ Chicago ■ Cologne ■ Dubai ■ Dublin ■ Fort Lauderdale ■ Frankfurt ■ Geneva ■ Glasgow ■ Helsinki ■ Hong Kong ■ Houston ■ Irvine ■ Jersey, CI
London ■ Luxembourg ■ Madrid ■ Melbourne ■ Milan ■ Minneapolis ■ New York ■ Paris ■ Rome ■ San Francisco ■ Santa Monica ■ Singapore ■ Sydney ■ Tokyo ■ Zurich

Interactive Data Pricing and Reference Data, Inc.

32 Crosby Drive
Bedford, MA 01730
Tel: +1 781 687 8800
Fax: +1 781 687 8289

10 Post Office Square
8 North
Boston, MA 02109
Tel: +1 617 426 0400
Fax: +1 617 423 2230

100 William Street
17th Floor
New York, NY 10038
Tel: +1 212 771 6500
Fax: +1 212 771 6987

2 North LaSalle Street
Suite 1807
Chicago, IL 60602
Tel: +1 312 641 1528
Fax: +1 312 641 6399