

Producer Price Indexes for Financial Services

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Overview

- Investment Banking and Securities Dealing
NAICS 523110
- Securities Brokerage
NAICS 523120
- Portfolio Management
NAICS 523920

NAICS 523110 PPI Industry Indexes

523110	Investment banking and securities dealing
5231102	Dealer transactions
523110201	Dealer transactions, equity securities
523110202	Dealer transactions, debt securities and all other trading
5231103	Investment banking services
5231104	Other securities dealing services

Debt Securities Dealing

- In the initial collection period, a specific traded security is selected
- The features of the security are held fixed:
 - ▶ Type of issue
 - ▶ Credit rating
 - ▶ Term to maturity
- Each repricing period, the respondent provides the spread that is quoted for the most similar security with the same credit rating and term to maturity
- One of the most difficult areas for PPI to measure through voluntary direct sampling – currently investigating alternative sources of data

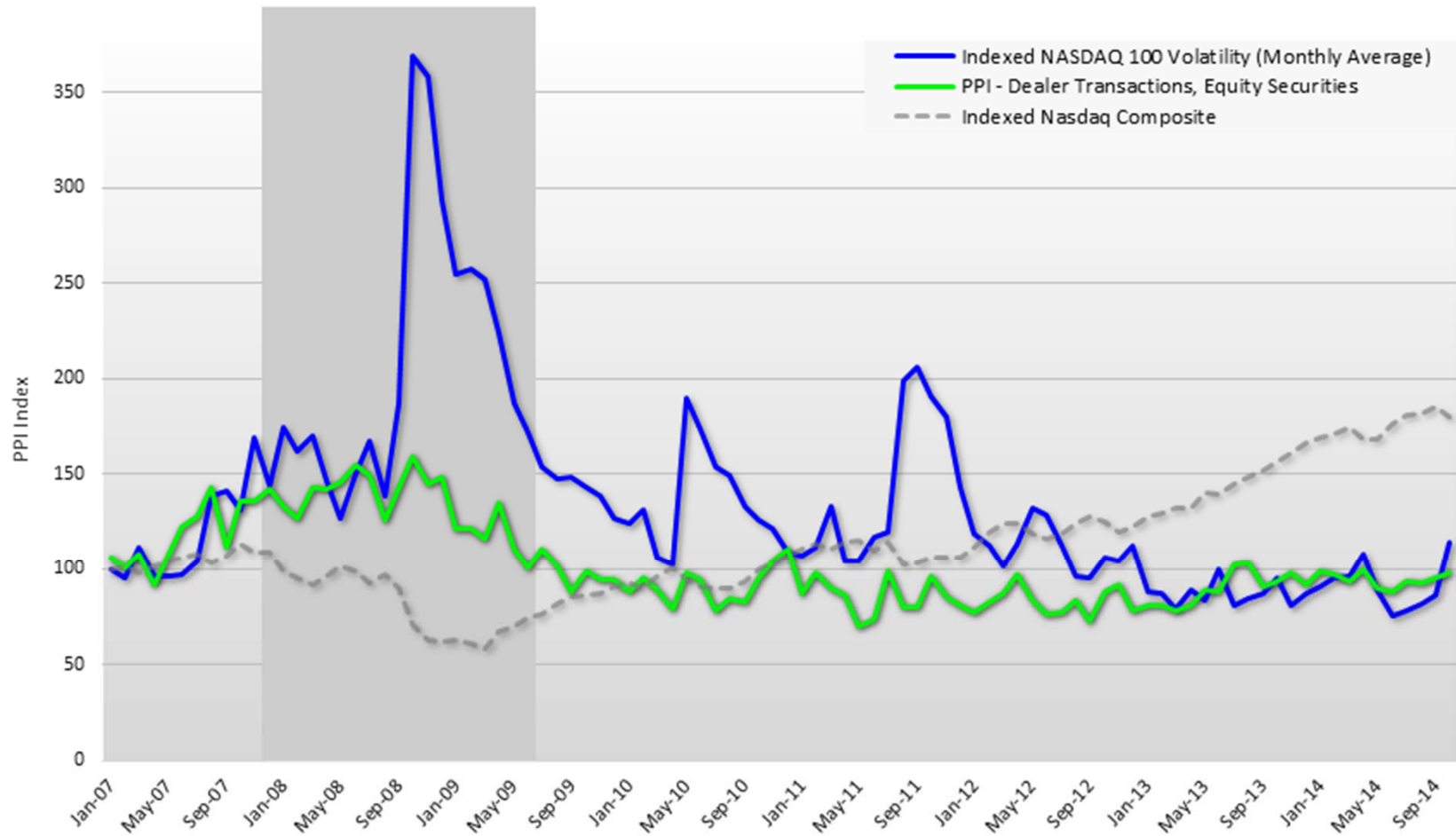
Derivative Securities Dealing

- Currency and commodity derivatives are excluded
 - ▶ Classified in NAICS 523130, Commodities Contract Dealing
 - ▶ NAICS 523130 is not currently covered by PPI
- Options dealing
 - ▶ A put or call option for a specified security with a specified time to expiry and degree of moneyness is selected
 - e.g. third closest out of the money 3 month call on MSFT
 - ▶ Each repricing period, the respondent provides the spread that is quoted for the same type of option with the same characteristics
- Similar methods used for forwards, futures, and swaps
 - ▶ With forward rate agreements and interest rate swaps, bid-ask rate spreads are applied to escalated notional values

Equity Securities Dealing

- All equity spread data is collected directly from the major stock exchanges
- Prices are average volume-weighted spreads for all equities traded on 3 specified days each month

Equity Securities Dealing



Investment Banking

- ▶ Prices charged for M&A advisory and underwriting transactions are based on value of deal
 - Deals are highly customized and are not repeated
 - PPI escalates the value of the deal in a given transaction to account for changes in the valuation of constant quality equity or debt

▶ Example:

VALUE OF OFFERING:	\$5,000,000	← This value is escalated
FEE PERCENTAGE:	12%	
TOTAL FEE:	\$ 600,000	

Investment Banking

- ▶ Value of M&A deals and equity underwriting transactions are escalated by Wilshire 5000 index
 - Most comprehensive reflection of how U.S. equities are valued in the market at a given point in time
 - Average deal value data more reflective of changes in the *kinds* of deals occurring in different periods
- ▶ Value of debt underwriting transactions are escalated by Barclays Aggregate Bond Index
 - Reflects changes in debt valuations over time

Pricing Example – Investment Banking

Example:

Initial Collection Period – 09/13

VALUE OF M&A DEAL:	\$20,000,000
FEE %:	1%
TOTAL FEE:	\$ 200,000

Future Repricing Period– 09/14

Respondent reports no change in fee, Wilshire 5000 up 10% YOY

VALUE OF M&A DEAL:	\$22,000,000
FEE %:	1%
TOTAL FEE:	\$ 220,000

Other Securities Dealing Services

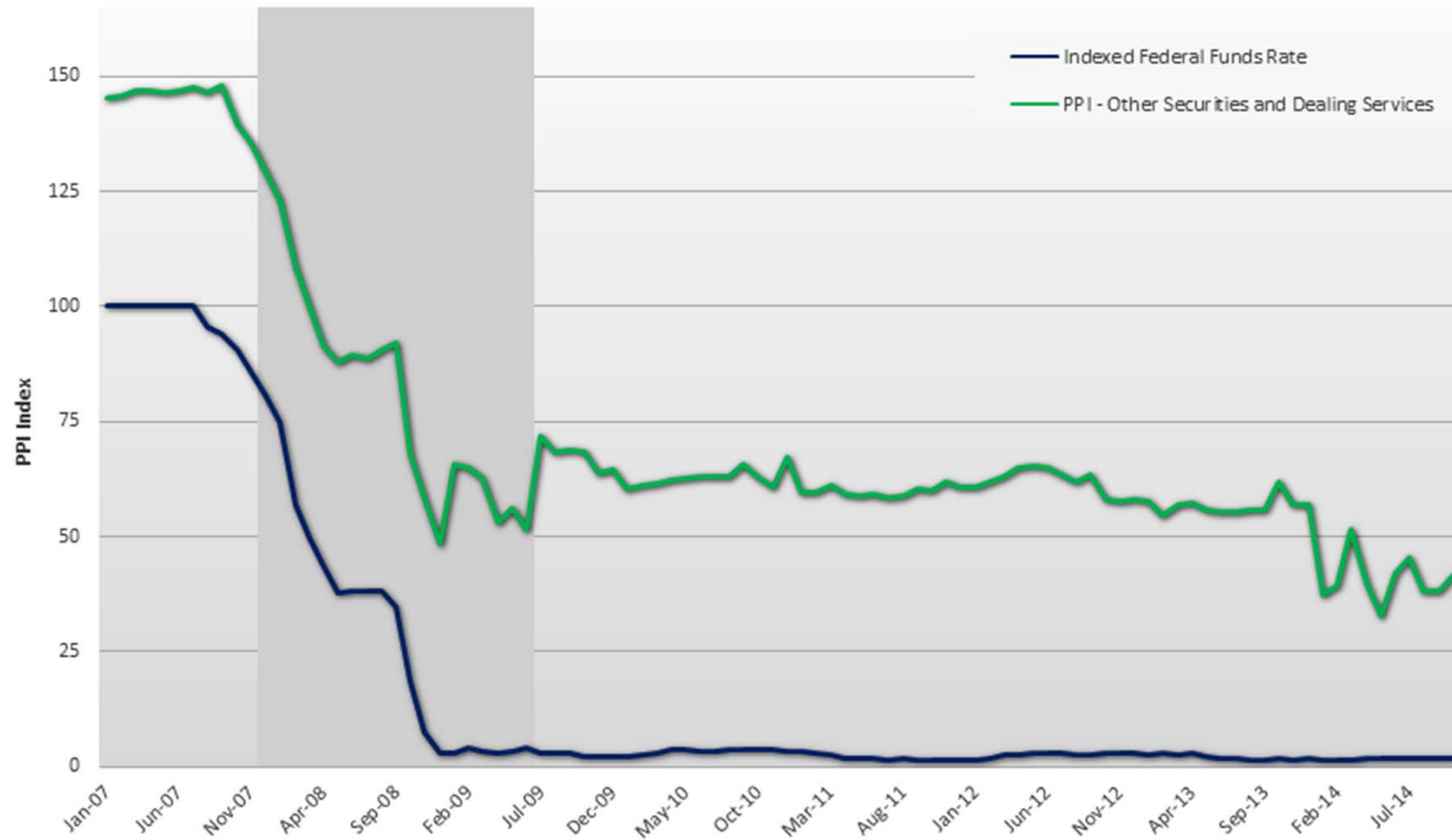
- Dollar value of interest on securities loans and reverse repurchase agreements
- The principal / collateral in these transactions is escalated by the GDP Chained Price Index
 - ▶ Reflects basic changes in time value of money

Example

Reverse repurchase agreement. Client: other securities dealer.
Overnight repo. Treasury security.

Value of assets/securities traded	\$100,000,000
Repo interest rate:	2%
Term (Days/360):	1/360
Total fee:	\$5,555.55

PPI Other Securities Dealing Services vs. Fed Funds Rate



NAICS 523120 PPI Industry Indexes

523120	Securities brokerage
5231201	Brokerage services
523120101	Brokerage services, exchange-listed equities
523120102	Brokerage services, all other securities
5231204	Other securities related services including margin lending and mutual fund sales

NAICS 523120 Pricing Methodology

- Securities brokerage
 - ▶ Value based commissions (% of traded value of security)
 - ▶ Flat fee per share or per trade
- Other securities related services
 - ▶ Margin loans – dollar value of interest
 - ▶ Mutual fund sales and distribution - loads and 12b-1 fees
 - % of fund net asset value

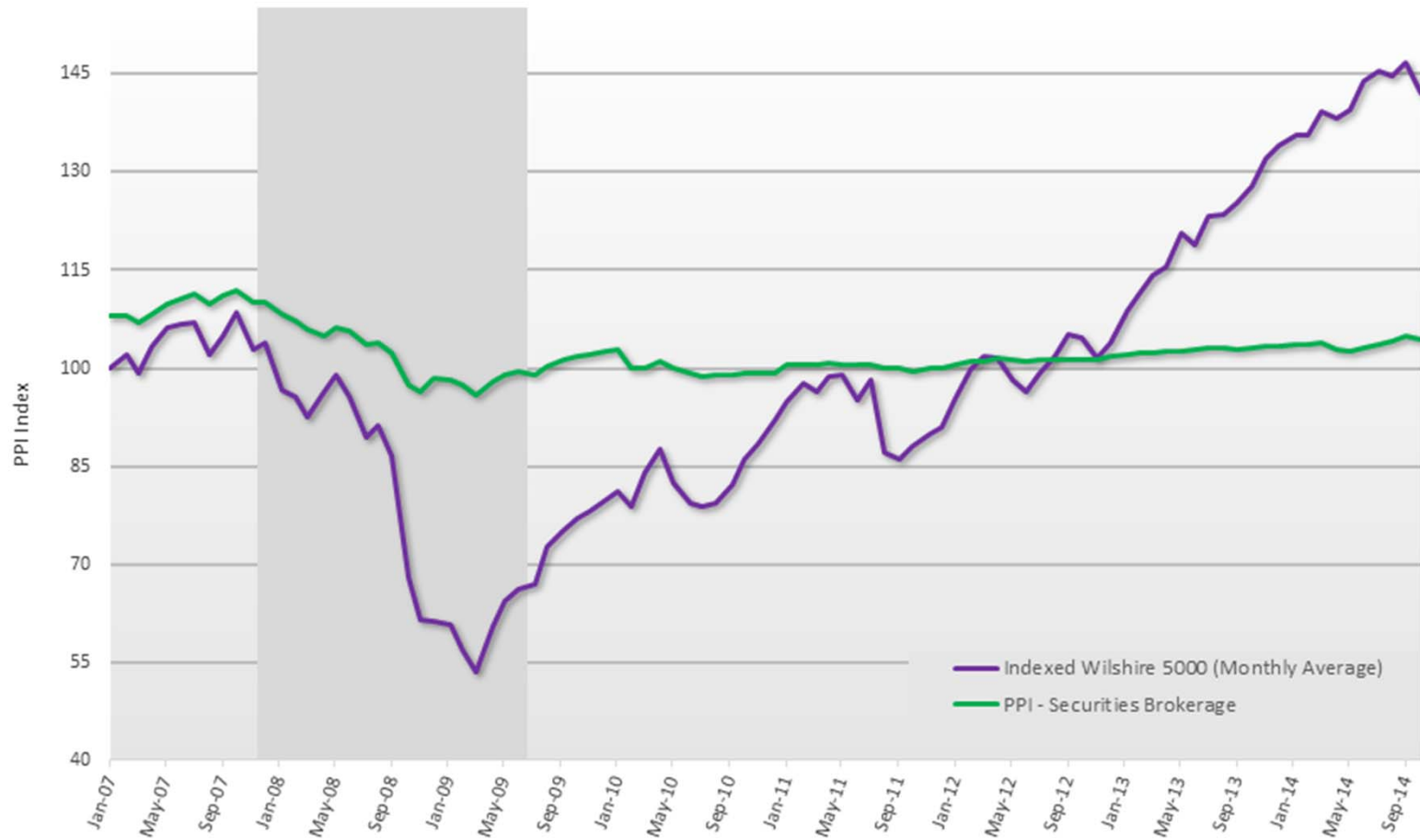
Pricing Example – Value Based Commission

- Respondents update current share price and % commission fee

EXAMPLE: Sale of 1,000 Shares of Stock XYZ

NUMBER OF SHARES:	1,000
SHARE PRICE:	\$10
SUBTOTAL:	\$10,000
COMMISSION:	5%
TOTAL COMMISSION:	\$500

PPI Brokerage Services Index vs. Indexed DJ Wilshire 5000



NAICS 523920 PPI Industry Indexes

523920	Portfolio management
5239201	Mutual fund and ETF management
5239202	Private portfolio management

Additional detailed indexes by type of funds is currently under review for publication in the future

- ▶ Equity funds
- ▶ Bond funds
- ▶ Money market funds
- ▶ Other funds (including balanced & target date funds)

Industry includes only discretionary fund management

NAICS 523920 Pricing Methodology

- Prices are calculated by multiplying the assets under management (AUM) in a fund by the percentage management fee charged
- Changes in AUM caused by investment returns are reflected as price changes
- Changes in AUM caused by capital flows (fund redemptions and contributions) are excluded from the calculation

Pricing Example

- Respondents submit their rates of return and current management fee rates for each pricing period

- Example:

Previous assets under management: \$1,000,000

Submitted rate of return: 5%

Escalated assets under management: \$1,050,000

Submitted management fee: 10 basis points

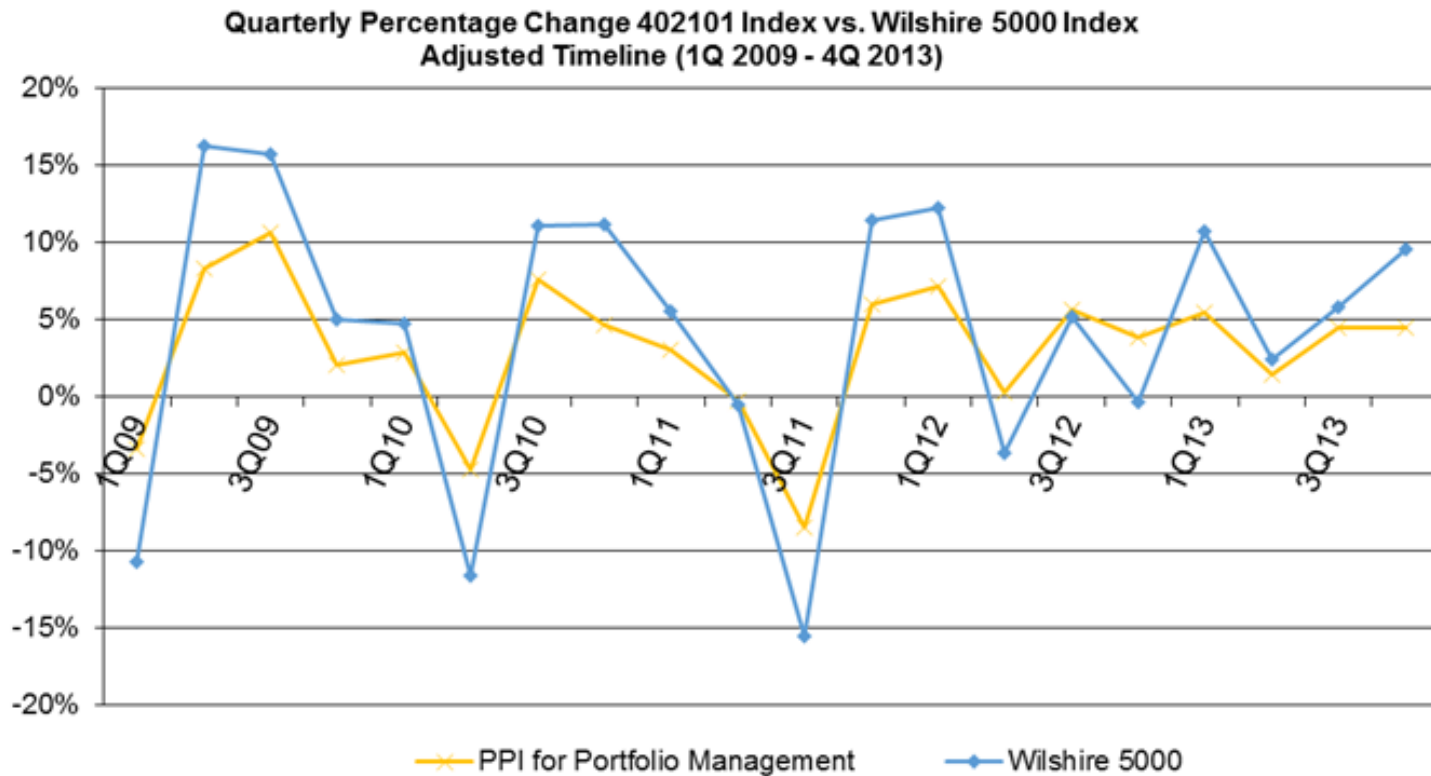
$$\text{Price: } \$1,000,000.00 * (1 + 0.05) * 0.001 = \$1,050.00$$

*Note that escalated AUM is not actual AUM (effects of capital flows excluded)

Index Note – Lagged Data

- The index is comprised of respondents that submit data on either a monthly or quarterly schedule (some private portfolio RORs are only calculated and made available quarterly)
- There is a one month lag reflected in all reported prices
- Example: October PPI index reflects September data for monthly respondents and 3rd quarter data for quarterly respondents

PPI for Portfolio Management vs. Wilshire 5000 Index



PPI Coverage

Finance Industries Currently Covered by PPI

Commercial Banking
Savings Institutions
Investment Banking and Securities Dealing
Securities Brokerage
Portfolio Management
Investment Advice

Finance Industries Currently NOT Covered by PPI

Credit Unions
Other Depository Credit Intermediation
Credit Card Issuing
Sales Financing
Other Nondepository Credit Intermediation
Mortgage and Nonmortgage Loan Brokers
Financial Transactions Processing, Reserve, and Clearinghouse Activities
Other Activities Related to Credit Intermediation
Commodity Contracts Dealing
Commodity Contracts Brokerage
Securities and Commodity Exchanges
Miscellaneous Intermediation
All Other Financial Investment Activities

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