

# Initial Fair Value Methodology

## August 2023





# Meteor Asset Management Initial Fair Value Assessment Methodology

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## Introduction

Since 2006, Meteor has been providing customers with high quality structured products alongside an unrivalled customer service proposition. As part of our commitment to continue delivering value for money to our customers, we have developed a methodology for assessing the fair value of a product before it hits our shelves. We call this our “Initial Fair Value Assessment” (IFVA) and it incorporates key elements that customers are likely to consider. We evaluate the potential **performance** of a product, the **quality of service** a customer is expected to receive, any **limitations** that might impair fair value, the level of **costs** incurred, and if the product’s fair value is at risk for customers with certain **vulnerability** characteristics. The following sections expand on each of these factors and the metrics used to evaluate them.

## Performance

Every product we design, goes through a rigorous quantitative assessment process that is regularly reviewed and amended as necessary. As of the date of this document, we run the following:

- ▶ Regulation standard product simulation
- ▶ Industry standard product simulation
- ▶ Historical simulation
- ▶ Independent quantitative credit risk analysis
- ▶ Generic credit risk analysis

Our analysis is subsequently compared with any supplementary information we receive from our issuing banks to ensure consistency of product design and distribution strategy. For the purposes of the IFVA, we take these tests into consideration and generate an overall score based on how it performs on a **value for money** basis, how it performs under **adverse conditions** and the strength of the **counterparty**.

## Quality of Service

What sets us apart from our competitors is our in-house administration services. Our offering integrates the whole customer journey from product discovery, through the application process, ongoing monitoring, post servicing and beyond. Having insight and control of the entirety of the service proposition puts us in the unique position of being able to provide customers with fair value directly. To assess quality of service, we have focussed on gauging metrics that contribute to the quality of Customer Support and Customer Understanding.

For Customer Support, we track a variety of service level standards across **client reporting, new business** and **post-servicing**. In addition, we also consider our **complaints** record as part of the quality of service we deliver.

For Customer Understanding, we consider two factors, one that incorporates direct customer feedback and another which indirectly implies understanding. Our **online customer survey** provides direct affirmation that customers have an online platform that adequately supports understanding. We also track the proportion of applications made with **professional financial advice**, implicitly affirming understanding of products by the very nature of the onward distributor’s responsibility to their customers.

## Limitations

As part of a fair value assessment, we would be remiss if we did not consider any product or service limitations. These factors, however, are often circumstantial. For example, restricting distribution to a certain customer group may be a consequence of the product’s higher relative level of complexity that makes it only appropriate for advanced investors. The considerations become especially obtuse when factoring in product features. A cap on investment returns for example, is a limitation, but it often serves the end customer positively by



providing a higher, and known, potential investment return at the outset than what is likely by providing uncapped investment returns. Nonetheless, we consider potential **liquidity** limitations, **tax** implications and **distribution** restrictions as part of this analysis. These metrics are considered in context so as to not result in false positives that suggest there is a risk to fair value when there is not and vice-versa.

## Costs

A crucial consideration for customers is the costs they pay to enter, maintain, and exit an investment product. In assessing fair value, we think it important to collect data on charges within the industry and to compare them to what we charge our customers. A fair value analysis, however, is more complex than simple face value absolute monetary amounts and industry averages. After all, it may be the case that the industry as a whole is overcharging (although this is highly unlikely due to intense competition). A holistic point of view is, therefore, needed to gauge whether charges are justifiable for the benefits a customer is expected to receive. For example, a firm may take higher charges because they provide a premium level of service.

We consider the following metrics:

- ▶ **Initial costs** versus marketplace averages
- ▶ Internal costs **benchmarking within product types**
- ▶ **Ongoing costs** versus marketplace averages
- ▶ **Incidental costs** versus marketplace averages
- ▶ Expected onward **distributor costs**

Our assessment only considers the expected costs that we are aware of. If onward distributors charge additional costs, they must ensure that these costs will not adversely impact the overall fair value of the product for customers.

## Vulnerability

The final factor in our analysis is a consideration of fair value in the perspective of customers with potential characteristics of vulnerability. This is particularly challenging given all the possible characteristics of the population. With this in mind, we have identified four characteristics that warrant particular attention given the nature of some of our products. The following lists these four with non-comprehensive examples of how each characteristic may ultimately lead to impaired fair value.

We consider the following metrics:

- ▶ The **elderly** could die during the term of a product before being able to see the benefits of said product
- ▶ The **digitally averse** may be unable to access the full range of online services available to them
- ▶ Those **suffering a bereavement** may have sudden and significant financial commitments
- ▶ Those **suffering an income shock** may have sudden and significant financial commitments

We utilise our customer data to identify whether there may be a material risk of a proportion of our customers having one or more of these characteristics of vulnerability.



## Overall Assessment

In designing an overall assessment, we wanted to be simple, direct, and clear. The conclusion is made available to intermediaries and financial advisers. Our presentation for a product that has been concluded to be expected to provide fair value, is as follows:

### OVERALL ASSESSMENT

Based on our Initial Fair Value Assessment, this product is expected to provide fair value to customers for a reasonably foreseeable period.

*Our assessment only considers the expected costs that we are aware of. If onward distributors charge additional costs, they must ensure that these costs will not adversely impact the overall fair value of the product for customers.*

A product that does not meet our fair value requirement is not accompanied by a statement as it would not be authorised to proceed.

To summarise, we evaluate the potential **performance** of a product, the **quality of service** a customer is expected to receive, any **limitations** that might impair fair value, the level of **costs** incurred, and if the product's fair value is at risk for customers with certain **vulnerability** characteristics. An overall headline assessment is then produced based on all these inputs. This initial fair value assessment is produced at the product design stage, ahead of any trading decision or marketing of the product to ensure products with a high risk of not providing fair value are not progressed. The assessment conclusion is disseminated to onward distributors. Customers can request to see the results of the IFVA of any product via their financial adviser, investment platform or from us directly. Although we share the outcome of the IFVA, in line with the FCA guidance, we will not be sharing the actual detail contained in the assessments as these contain commercially sensitive data.



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