April 20, 2021

International Valuation Standards Council
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Dear Board Members:

The IVSC FI Exploratory Financial Reporting Working Group (the "Working Group") was formed to identify areas within the practice of determining the fair value of financial instruments as governed by IFRS 13/ASC 820 that may require further exploration by the IVSC. The Working Group's aim is to identify current best practices, as well as areas that require improvement, and share these conclusions with the IVSC Financial Instruments Board to advance the general goal of ensuring reliable, appropriate, and globally accepted valuation measurements of financial instruments in all contexts.

The following are our comments to the IVSC FI 500 exposure draft. We recognize and appreciate this large undertaking and the detail provided regarding the valuation of financial instruments. Overall, the Working Group finds the new standard to be well-written, clear, and concise. However, in the course of the Working Group's review, we noted that the concepts of governance and data control are not limited to the valuation of financial instruments and should incorporated in the overall IVS standards.

As the Exploratory Financial Reporting Working Group, a central focus of our comments is to ensure that IVS 500 does not conflict with other current financial reporting standards and preclude adoption. Therefore, it is essential that the IVS 500 clearly states which types of valuations the standard should be applied and that the requirements for each type of valuation be clearly met. We would like IVS 500 to address how this standard will apply to valuations such as an amortized cost approach, AFS fair values under CECL, and financial reporting standards that require highest level inputs to be used in an orderly fashion.

Question 1: Objective

Do you agree with the proposed objective? Why or why not? If you agree with only parts of the proposed objectives, please specify what you agree and disagree with. If you disagree with the proposal, please explain what you propose instead and why.

Based on our review of the exposure draft of IVS 500: Financial Instruments, the Working Group agrees with the description of the proposed objective. In the course of our review, we found that the description of an entity, particularly regarding the ability of an entity to outsource parts of the valuation exercise to a third-party valuation expert, which is discussed in the third paragraph of the introduction to IVS 500 exposure draft, provided useful context for the proposed IVS 500. The Working Group believes it would be helpful to incorporate this discussion elsewhere in the proposed standard, particularly with respect to the use of third-party data in the valuation of financial instruments.

As indicated earlier in our response, the Working Group believes that while the concepts of governance and data control as presented in the exposure draft are useful to financial instruments, these concepts also play an important role in all valuations and should be included in IVS 100-105.

Question 2: Objective

The Exposure Draft is focused on the requirements that have to be met for two elements, Governance, and Data, of the proposed standard in order for an entity to arrive at a fit-for-purpose valuation of financial instruments. Do you agree that the requirements are clear, complete and provide adequate guidance to ensure compliance? Why or why not? If you agree with only parts of the requirements, please specify what you agree and disagree with. If you disagree with the requirements, please explain what you propose instead and why. If you think the requirements are incomplete, please explain what you propose should be included and why.

Based on our review of the proposed language in the exposure draft, the Working Group believes that the requirements are clear, complete, and provide adequate guidance.

Question 3: Scope

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

The scope in the exposure draft as currently draft appears to be intended to be applicable to all measurements of financial instruments, including both fair value and amortized cost. Assuming our interpretation of the scope language is correct, and this is the intended description of the scope of the proposed standard, the Working Group believes that application of this guidance to amortized cost may not necessarily be a proportionate response. If the intention of the scope is meant to apply to valuations under a fair value standard, we suggest that language be revised to be more explicit to avoid any misinterpretation.

Regarding the exclusions presented in the proposed scope, we believe that many of these instruments may indeed be considered financial instruments. With this in mind, some of the standards (given that they are principles based) could still apply to these instruments. We believe it would be preferable to state that valuations of these specific instruments are covered elsewhere rather than simply listing exceptions. Directing the reader to the valuation standard(s) that cover these exceptions would be a helpful addition and would be a helpful reference. Within the context of the proposed scope, the language could be re-worded to state which instruments are out of scope of IVS 500 as they are included <u>in the scope</u> of a different standard, providing a reference to where guidance for the excluded instrument(s) can be found in IVS.

Question 4: Definitions

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

The definition of a fit-for-purpose valuation states that the valuation is in performed compliance with the requirements of this proposed standard. The implication being that the proposed standard applies to all types of valuations. As discussed in our earlier responses, the Working Group believes that there may be certain types of valuations where this guidance may not be a proportionate response to valuation methodologies for amortized cost, AFS fair value under CECL, etc. We believe that clarification in this section would be assist in the reader's understanding of the proposed standard.

Question 5: Definitions

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Based on the Working Group's review of the proposed language, we agree with the definition of *valuation risk* and *valuation uncertainty.* However, we have some concerns regarding *valuation risk appetite* and *proportionality*.

Valuation risk appetite, as defined in the proposed standard, is the level of risk an entity is prepared to accept. Based on our review, it is not clear why this term has been introduced in the exposure draft and how *valuation risk appetite* differs from materiality. The Working Group believes that further clarification of this term and concept is necessary in the revised IVS 500, as it is unclear whether this term addresses the overall risk appetite of an entity within the context of a portfolio of investments or if this concept is meant to address the entity's level of comfort around potential errors within a valuation analysis. Presuming *valuation risk appetite refers to* the latter, the Working Group can conceive of situations where different entities could have varying levels of risk appetite for the same investments, which could lead to differences in valuation rigor, tolerance for uncertainty of inputs, and documentation incorporated in each entity's valuation exercise. We believe that the IVS standards should strengthen the standardization of the valuation exercise rather than producing discrepancies in practice and resultant prices. The Working Group encourages removal or clarification of this topic to ensure consistent standardization of practice.

In the proposed standard, *proportionality* is defined as the amount of effort needed to arrive at a fit for purpose valuation. The working group had several concerns regarding this definition and concept. First, because it is not clear how proportionality fits within the context of a fit-for-purpose valuation, this definition could become a "slippery slope," allowing entities to shortcut valuations of potentially risky instruments, impacting all stakeholders. Further, we are concerned that proportionality is not scalable and could potentially conflict with materiality, thus over-riding existing accounting standards. Lastly, as discussed in our earlier responses, we believe that the definition of fit for purpose valuation may not be a proportionate response to valuation standards for amortized cost, AFS under CECL, etc.

Question 6: Governance

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Generally, the Working Group agrees with the processes and principles related to proposals related to governance and controls. However, we believe that there were some concepts where we believe the language could be more fully developed to aid in clarity for the reader.

Regarding the concept of economic soundness presented in section 50.7, under our interpretation of the proposed language we presume this definition relates to a fit-for-purpose valuation. However, we believe that more clarity or examples in the context of this concept would be helpful. In the course of our review, we noted that section 60.7 provides a more detailed description of these concepts. It would be helpful to provide this more detailed discussion in this section.

In section 50.2, which describes roles and responsibilities associated with a valuation exercise, the group believes that it would be more appropriate to begin with a discussion of the roles of management/the Board in the context of the valuation exercise since they are ultimately responsible for the valuation conclusions.

Question 7: Data

Do you agree with the principles outlined in paras 60.5.1 to 60.5.3 regarding the development of a data taxonomy? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Based on our review of the exposure draft, we agree with the proposed language. We believe that it would be helpful for the reader to have the description of the types of data presented in

60.6 better correlate with the discussion of a data taxonomy in this section to avoid any confusion.

Question 8: Types of Data

Paras 60.6.2 to 60.6.8 outline the specific requirements for the datatypes listed above. Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

The Working Group generally agrees with the data types listed in the exposure draft. However, for financial reporting a 'fit for purpose' valuation may require prioritization of highest-level inputs in an orderly fashion. We believe it would aid in the reader's understanding if the various data types could be better aligned (or ordered) consistent with the chart in section 60.5.1, which characterizes the deficiencies of available data compared with theoretically perfect data.

Question 9: Controls of Data Aggregation and Management

Paragraphs 60.7.1 to 60.7.6 outline the principles for controlling and aggregating data across an organization. Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

The Working Group agrees with the principles presented in the exposure draft for the purposes of controlling and aggregating data.

In closing, the Working Group would like to thank the FI Board for its consideration of our comments.

Sincerely,

IVSC FI Exploratory Financial Reporting Working Group

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