International Valuation Standards Council ("IVSC")
20 St Dunstan's Hill
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United Kingdom

April 19, 2021

Dear Sir or Madam

IVS 500 Financial Instruments: Exposure Draft 2020

PricewaterhouseCoopers is pleased to respond to the IVSC's invitation to comment on IVS 500 Financial Instruments: Exposure Draft 2020 (the "ED"). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the ED.

We support the IVSC's efforts to revise IVS 500 and improve the relevance and reliability of financial instrument valuations. While we support the revision, we suggest that the IVSC provide transition guidance to the revised standard.

We note that the IVSC FI Board has decided to publish its proposals in stages and that the ED only covers the Governance and Data aspects of valuations. While we generally agree that the proposals for Governance and Data, we believe the FI Board should review these proposals comprehensively once the Models and Methods, and Controls and Reporting sections are issued, given the interconnected nature of these areas. A holistic review, in our view, is needed to ensure the cohesiveness of the proposals, and is also key to the achievement of the goal of fit-for-purpose valuations of financial instruments.

Furthermore, while this ED has been written to provide guidance for financial instruments valuations, we believe that there is a need to harmonize the standards between financial instruments and non-financial instruments valuations, as many of the concepts in the ED have general applicability to valuations of both financial and non-financial instruments.

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We note that a number of concepts have been introduced in the ED to describe the processes relating to the development and controls surrounding financial instrument valuations. While many of these concepts may be similar to existing concepts in accounting, tax and regulatory requirements, we agree that alignment between accounting and regulatory requirements is not a prerequisite, since the underlying objectives of these requirements may differ. Nonetheless, it is key that there is no contradiction between the requirements.

We agree with the ED that the focus of the proposals should be the entity and the objective of building trust in valuations. While this focus differs from that in the other IVSC standards, we agree that such a focus is appropriate for financial instruments because of the need for clear roles and responsibilities within the entity to achieve the overarching goal of fit for purpose valuations. We note, however, that in the development of financial instrument valuations there are a number of parties outside of the entity who may be involved in the process, including data providers, vendor model developers and valuation firms. We therefore believe that a critical component of the roles and responsibilities is appropriate oversight and diligence of the parties outside the entity.

The ED is designed to cover almost all financial instruments across a wide number of use cases. Given the complexity and breadth of the potential issues related to the valuation of financial instruments, we suggest that the FI Board provide additional examples that provide guidance on both the processes for normal conditions as well as for unusual conditions such as significant market disruptions or economic crises. The examples would, in our mind, assist entities in the practical application of the principles.

Finally, we note that the ED is designed to cover all types of entities that hold or issue financial instruments that need to be valued. We agree that a consistent framework for all entities is appropriate. Nonetheless, we believe that varying levels of effort will be needed to get to a fit-for-purpose valuation depending on the complexity and liquidity of the financial instrument and the level of precision needed in the valuation. We therefore suggest that the IVSC provide additional guidance on how an entity should address the level of effort required for valuations and oversight, in light of the entity's assessment of valuation risk and valuation uncertainty.

Our answers to the specific questions in the ED are included in the Appendix.

If you have any questions on this letter, please contact Henry Daubeney, Global Chief Accountant or Dan Sullivan, US Financial Markets Practice Leader.

Yours faithfully

PricewaterhouseCoopers

Appendix

Objective:

As outlined in this introduction, the objective of IVS 500 Financial Instruments is to establish principles that will enable entities to derive fit-for-purpose valuations of financial instruments in all market conditions and circumstances, and for whatever purpose it is required, including for financial, tax and regulatory reporting.

Question 1: 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.

Response: Other than as described in the remainder of our response, we agree with the proposed objective of IVS 500 and the principles-based approach is appropriate.

Question 2: The Exposure Draft is focused on the requirements that have to be met for two elements, Governance, and Data, of the proposed standard 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.

Response: We agree with the principles-based approach and understand why the IVSC is proposing guidance on only the two elements, Governance, and Data, at this time. However, as noted in our cover letter, we believe a holistic review is needed, once the remaining elements are complete, to ensure the principles satisfy the objectives of IVS 500, due to the interconnectedness of the elements.

We agree that entities need to develop their own unique guidance to ensure compliance. In our view, the broad level of detail in the ED will lead entities to develop their own unique approach to meet the principles and objectives of IVS 500, even within the same industry. This may result in entities asserting compliance in different ways and we believe the IVSC should ensure that the principles are transformable in a way that compliance can be asserted through the governance structure as outlined in IVS 500, including documentation.

Scope:

Para 20.1 outlines the scope of application of IVS 500 Financial Instruments. In arriving at the proposed scope, the FI Board focused on limiting the application of IVS 500 to only those instruments intended by the Board and on ensuring, as far as possible, that all definitions are clear to avoid ambiguity in practice. In addition, in order to avoid overlaps with extant IVS requirements and the inclusion of instruments that could potentially meet the definition of a financial instrument but are not valued as such within the scope of IVS 500, the FI Board has proposed a number of exceptions to the scope requirements in IVS 500 as outlined in para 20.1 of this Exposure Draft.

Question 3: 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.

Response: We agree that the scope is appropriate where the underlying framework for which the 'fit for purpose' valuation is prepared does not have its own scope and definition of a financial instrument. However, where the underlying framework for which the valuation is prepared does have its own scope and definition of a financial instrument (for example IFRS), that should be used instead to determine the scope of the applicability of this standard.

Definitions:

Paras 30.1 to 30.5 provide definitions for the purpose of applying IVS 500 Financial Instruments. More specifically they define: fit-for-purpose valuations financial assets financial liabilities; and equity instruments.

Question 4: 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.

Response: As noted in our response to question 3 above, we believe that where the underlying framework (for example IFRS 9) for which the 'fit for purpose' valuation is prepared has a definition of a financial instrument, that definition should be used to determine the scope of the applicability of this standard. Where such a framework does not have a definition of a financial instrument, the definition of a financial instrument as set out in this standard should be considered to evaluate the applicability of this standard. Assuming the underlying framework definitions are used to the extent applicable, we believe 30.3(d) and 30.4(b) should be deleted from the definitions because the concept of settling a contract with own shares can be quite complex to interpret in practice, and, as currently drafted, the definition is not fully in line with IAS 32.

In paras 30.6 to 30.8, valuation uncertainty and valuation risk are defined for the purposes of IVS 500 Financial Instruments. This Exposure Draft uses valuation risk to set proportionality parameters (para 30.9) that determine the level of effort and the nature and extent of processes and controls needed in order to arrive at a fit-for-purpose valuation of a financial instrument. The objective of the FI Board in outlining the above concept is to enable constituents to evaluate in a consistent manner the extent and rigour of the processes necessary to ensure a fit-for-purpose valuation of financial instruments given the requirement for which it is needed, market conditions and other circumstances prevailing at the valuation date

Question 5: 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.

Response: We agree with the proposals for defining valuation uncertainty and valuation risk, as well as the use of valuation risk to make decisions set to proportionality parameters. However, the principles could benefit from more guidance on how entities should consider approaches to define, measure and report valuation risk and proportionality, including the frequency and measurement of valuation risk and proportionality. In addition, the principles could benefit from a description of the overlaps / interplay to other risks pertaining to valuation risk, including market risk, credit risk, model and operational risks to allow the entity to measure, monitor and manage each of these risks appropriately.

Governance:

The Exposure Draft provides guidance on the processes that entities should follow to ensure proper governance around financial instrument valuations. The guidance requires that a valuation process should be: systematic, consistently applied, economically sound; and controlled IVS 500 Financial Instruments Exposure Draft 8 In order for the valuation process to meet the above objectives it should require: ownership accountability transparency consistency review and challenge diversity; and documentation.

Question 6: 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.

Response: We agree with the general principles proposed in the ED. It is important that a strong governance framework be in place to determine fit-for-purpose valuation, effectively challenge these fit-for-purpose valuations, ensure the process is operating as intended and provide senior management oversight and board level transparency into the process. As we have commented in other sections, it would be important to review this in conjunction with sections related to controls, models and methodologies.

Consideration could be given to more definitively articulate that the challenge of the "process" vs the challenge of "valuations" may not be a sequential process for every reporting cycle and can occur at different points in time and may report to differing parties (e.g. CRO vs CFO).

Consideration could be given to the level of detail expected in Management and Board reporting of methodologies, models, reliance on third parties, and the impact of current market conditions on the development and challenge process on a periodic basis. This could be accomplished by providing a section designated to *Management and Board Reporting*.

Governance over third party data and pricing vendors will likely be relevant at various stages and should be clarified in the final ED. For example, data used by the developer, challenger or accessor may be from different sources and third parties and require some level of diligence by different parties. When providing subsequent drafts, it may be helpful to designate a section to the *Use of Third Parties*.

Data:

For the purposes of this Exposure Draft, data is any input to a process undertaken to arrive at a fit-for-purpose valuation. Firstly, the section on data outlines the principles for creating a data taxonomy or dictionary to categorise, assess and control all data that is used in valuations. Secondly, the specific requirements that need to be met for the following data types are outlined: internally sourced data market data transaction data model-based/indicative market data judgement-based data; historical data; and performance data The section further describes the controls necessary for aggregating and managing data in an organisation and how the concept of proportionality applies in determining the requirements concerning the use of data

Question 7: 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.

Response: We agree with the principals of the aspects of data, however, the categories of static, dynamic and performance data could be enhanced with specific use cases or subcategories. For example, the distinction between static contractual terms and static model parameters will have different fit-for-purpose valuation characteristics**.**

Consideration could also be made to expand the data categories to distinguish between trade and market data, for example: trade static (particular contractual terms of the trade etc.); market static (calendars, settlement conventions etc.); market dynamic (prices, values etc.); model parameters (parameters which might be set for the particular trade or model, these could be static and dynamic); performance data.

Question 8: 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.

Response: In general we agree with the specific requirements for the data-types, however the listing of the data categories is difficult to follow and, in our view, the high level of detail is inconsistent with the principles based approach applied to other sections within the Data element. The IVSC could consider a less granular approach to categorize the data types, that aligns with the principles-based approach.

Question 9: Paragraphs 60.7.1 to 60.7.6 outline the principles for controlling and aggregating data across an organisation. 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.

Response: We agree with the principles of controlling and aggregating data, however as mentioned previously a holistic review once the remaining elements are complete, is needed to ensure that these principles satisfy the objective of IVS 500, due to the interconnectedness of the elements.