September 27, 2019

International Valuation Standards Council
1 King Street
LONDON EC2V 8AU
United Kingdom

Dear Board Members:

This letter is in response to IVSC Financial Instruments Invitation to Comment issued in August 2019 (IVS Financial Instruments Agenda Consultation 2019).

The American Institute of CPAs (AICPA) is the world's largest member association representing the CPA profession, with more than 429,000 members in 122 countries, and a history of serving the public interest since 1887. It is also important to point out that our constituency actually exceeds that number because, under various US state accountancy laws, AICPA professional standards also encompass practicing CPAs who are not AICPA members.

AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, nonprofit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent and drives professional ethics and competency development to advance the vitality, relevance and quality of the profession.

The Forensic and Valuation Services Executive Committee (FVSEC) is a senior technical committee of the AICPA. The FVSEC is empowered to issue forensic and valuation standards for our members and to comment on forensic and valuation-related topics on behalf of the AICPA. In 2007, the AICPA issued Statement on Standards for Valuation Services No. 1, currently referred to as VS section 100 in the AICPA Professional Library.
This letter presents our comments with regard to your consultation paper including responses to certain questions for respondents.

**Primary Concern**

The AICPA is dedicated to promoting competence, quality, consistency, and transparency in the performance, documentation, and reporting of fair value measurements for financial instruments. The FVSEC believes that in order to encourage adoption of IVS 500 and ensure the standard establishes requirements that result in outcomes similar to these goals, the IVSC Standards Review Board should draft IVS 500 so that the standard

- meets or exceeds the requirements of existing standards that are prevalent in established markets (e.g., U.S. GAAP, IFRS). When there are instances where IVS 500 addresses similar or the same topics as existing standards, the requirements of the IVS 500 standard must be consistent with existing standards or detail reasons for deviations, and
- requires valuations of financial instruments be performed and reported using fair value and encourage, but not require, application of the guidance within the standard to other measurement objectives.

Upon careful consideration of the IVS Agenda Consultation, the FVSEC believes that proposing IVS 500 applies “regardless of the measurement objective” (page 11 bullet ‘c’ of the IVS FI Agenda Consultation 2019) will introduce inconsistencies in the application and interpretation of the standard across all markets and jurisdictions. The FVSEC believes this, in turn, will discourage the use and adoption of the standard.

The FVSEC believes fair value results in the best estimate of value and is the only measurement objective that has been broadly adopted in the global markets. If the IVSC Standards Review Board decides to incorporate fair value into IVS 500, the FVSEC believes the standard will provide clear and established guidance on how to apply fair value which will not only encourage adoption but will also facilitate enforcement.

**External Assistance with Valuations**

The FVSEC believes that size of the institute or firm should not be referenced in IVS 500.

The FVSEC shares concerns about institutions or firms with insufficient internal resources performing valuations that they may not be qualified to do. The FVSEC
strongly believes that institutions or firms that estimate the value of financial instruments must retain professionals with the appropriate level of experience, independence and objectivity to perform the valuations. The FVSEC also believes that evaluating the competency of the professionals doing the work should be the primary assessment when determining whether to perform a valuation rather than making a decision based on the size of the institute or firm.

The size of the institute or firm may or may not indicate whether it has sufficient resources to perform a particular valuation. Even if there is expertise inside an institution, external valuations may be required, for example, to comply with rules or regulations relating to independence.

**Question 1: To what extent is the scope of revisions to IVS 500 as outlined above appropriate?**

The FVSEC agrees that the scope of revisions to IVS 500 is appropriate as long as the revisions:

- include and focus on fair value as the primary measurement objective or basis of value to measure financial instruments, and
- meet or exceed the requirements of existing standards that are prevalent in established markets (e.g., U.S. GAAP, IFRS). When there are instances where revisions to IVS 500 address similar or the same topics as existing standards, the revisions must be consistent with existing standards or detail reasons for deviations.

The FVSEC believes that the primary goal of the IVSC Standards Review Board should be aligning IVS 500 with existing fair value standards and that any departure from fair value be well-explained.

**Question 2: Should IVS 500 keep the current definition of a financial instrument? If not, should the definition be removed or revised? If revised, what should the definition be?**

The FVSEC believes that including a definition of a financial instrument is critical to IVS 500. The FVSEC recommends the IVS Standards Review Board works toward convergence on the definition of a financial instrument with other definitions that other standard setters have codified (e.g., FASB, IASB). The IFRS Conceptual Framework, in addition to the existing codified definitions, would be a good place to start when developing the definition.
The FVSEC believes listing examples of financial instruments in the definition must be avoided. The definition should be broad enough to potentially cover new financial instruments developed as a result of financial innovation. Even though the definition does not include examples of financial instruments, the IVSC Standards Review Board should evaluate the efficacy of the definition by testing it to assess whether existing financial instruments are covered by the definition. The FVSEC suggests the FI Board create an internal list of financial instruments that can be used to determine whether the definition is sufficiently broad and be continuously updated based on new products in the market. The initial internal list might include some or all of the following or additional items:

- currency,
- current and future ownership interest and derivatives thereof,
- instruments traded in capital markets or equity markets in both public and private markets,
- instruments easily traded and instruments that are illiquid,
- hybrid financial instruments,
- fixed income instruments,
- fixed debt instruments, and
- equity.

**Question 3: When considering guidance on governance as it applies to financial instruments, to what extent should detail be provided on the areas outlined in the previous section: management and others roles and responsibilities, segregation of duties, and valuation risk and escalations through the chain of command?**

The FVSEC believes that clearly defined roles, responsibilities, and segregation of duties is critical to effective governance over the measurement process of financial instruments. The FVSEC recommends that IVS 500 require incorporation of processes that i) include independence and segregation of duties appropriate to the measurement objective, ii) establish effective valuation risk assessments and escalation protocols, and iii) apply the appropriate balance of internal and external resources.

The FVSEC believes these criteria can be achieved through the guidance that is principles-based and not prescriptive.

In addition, the FVSEC recognizes that management is ultimately responsible for the valuations being reported. The FVSEC recommends that IVS 500 should clearly define the roles of management, preparers, and auditors and, where applicable, reference other relevant authoritative standards. Each group of professionals plays an integral part in
the valuation, financial reporting, and mitigating associated risk related to the fair value of a financial instrument. The FVSEC believes it is essential to have appropriate procedures, controls and escalation processes in place, and that the documentation is clear, complete and able to be understood, verified, and audited.

**Question 4: When considering guidance on data as it applies to financial instruments, to what extent should IVS standards address measuring the quality of data, exercising judgement in the use of data, and producing valuations when insufficient data are available?**

The FVSEC believes that guidance on data as it applies to financial instruments is very important to include in IVS 500. The FVSEC agrees that the guidance should be principles-based. If the IVSC Standards Review Board elects to incorporate guidance on data as it applies to financial instruments, the FVSEC recommends the guidance should require i) knowledge about the type of data being used, and ii) proper documentation about the sources of data.

**Knowledge About the Type of Data Being Used.** The FVSEC recognizes that data comes in many different forms and can be developed using a range of inputs from active market activity to proprietary financial models. Regarding data that is used in the valuation of financial instruments, the FVSEC recommends that IVS 500 requires an understanding of where the data came from, requires skepticism with regards to how it was compiled, and establishes different thresholds of analyses depending on the observability of the inputs used in compiling the data (i.e., active market inputs require less analysis, unobservable inputs require more analysis).

**Proper Documentation About the Sources of Data.** The FVSEC believes that in order for IVS 500 to be an effective and enforceable standard, the users of the valuation should have as much transparency as possible into the types of data used in the valuation, especially when the data has been developed using professional judgment and other unobservable inputs. The FVSEC recommends that IVS 500 require adequate documentation around data that is used to value financial instruments so that preparers, auditors, and other end users of the valuation are aware of the strengths as well as the limitations of the data used and relied on. The FVSEC recommends guidance on reporting about data be consistent with the Financial Instruments Performance Framework (FIPF) published by the AICPA (see paragraphs 2.20, 2.22, 2.23, 2.37, 2.38, 2.43(b), and 2.50(p)).
Question 5: When considering guidance on methods and models as it applies to financial instruments, to what extent should details be provided regarding how methods and models are selected, validated and risk managed? To what degree should the evolving market practices, such as XVAs, be addressed?

The FVSEC recommends that IVS 500 provide principles-based guidance on models that remains relevant as markets evolve.

The FVSEC believes that in order for IVS 500 to be an effective and enforceable standard, the users of the valuation should have as much transparency as possible into why the methods were selected and the types of models used in the valuation, especially when the methods and models require the application of professional judgment and the use of other unobservable inputs. The FVSEC recommends that IVS 500 require adequate documentation around why the selected methods and models were used to value financial instruments, which includes information on how the models are validated and risk managed, so that preparers, auditors, and other end users of the valuation are aware of the strengths as well as the limitations of the methods and models used in the valuation. FVSEC recommends guidance on reporting about data be consistent with the FIPF (see paragraphs 2.7-2.12 and 2.19.2).

Evolving market practices, such as XVAs, are better addressed outside IVS 500. Practices that are evolving are often applied differently across the industry. Using a particular approach that is not widely accepted may be justified by a particular view while a different view would justify a different approach. Requiring an explanation for the application of a particular practice is important because of the possible divergence of opinion. The FVSEC thinks that including XVAs in IVS 500 would result in a standard that is outdated too quickly.

Question 6: When considering guidance on controls as it applies to financial instruments, to what extent should the IVS detail controls needed for the end-to-end valuation process?

The FVSEC believes controls on the valuation process are important; however, the FVSEC recommends that any guidance on controls as it applies to financial instruments should be principles-based. The FVSEC believes that principles-based guidance will allow for an entity to develop controls that are effective within its valuation process regardless of types of valuations that are done or the size of the firm.
The FVSEC recommends that IVS 500 not include the phrase ‘end-to-end’. The FVSEC believes the phrase is colloquial and lacks a clear definition which may lead to divergence in how this is interpreted. If the phrase “end-to-end” is used in IVS 500, the FVSEC requests that it be defined.

Question 7: Are there additional gaps in the standards that need to be addressed? If so, what are they?

The FVSEC believes there is a gap in reporting requirements. The FVSEC recommends guidance consistent with the Financial Instruments Performance Framework (FIPF) published by the AICPA. The focus of reporting should be on inputs and not the details of the model. Reporting requirements must be principles-based and require reporting to be transparent and complete.

Question 8: Do you use IVS 500 today? If so, how is it used?

The AICPA is a member of the IVSC; however, the AICPA has not adopted the IVS at this time.

Question 9: Would your organisation like to contribute to this process? If so, who would you nominate to be considered?

The AICPA appreciates the opportunity to be involved in this process and is represented on the board by a technical adviser.

Finally, we thank the Board for its consideration of our comments and for its continued service to the valuation profession.

Very truly yours,

Annette M. Stalker, CPA/CFF
Chair, AICPA Forensic and Valuation Services Executive Committee