Questions for Respondents

1. To what extend is the scope of revisions to IVS 500 as outlined appropriate?

The FI Board intends to prioritize the following topics for inclusion within future edition of the IVS or associated general guidance to the industry:

**Communication, Escalation and Resolution**

**Governance**

**Data and Data Integrity**

**Valuation Adjustments**

**IBOR replacement**

**Model Validation**

**Model Risk Management**

**IVS 500 Revisions** - current scope includes:

- Bases of Value
- Valuation Approaches and Methods
  - Market Approach
  - Income Approach
  - Cost Approach
- Special Consideration for Financial Instruments
- Valuation Inputs
- Credit Risk Adjustments
- Liquidity and Market Activity
- Valuation Control and Objectivity

**CS Response:**

We are generally in agreement with the scope, and would recommend the prioritization of Governance. We believe common standards for valuation governance is the foundation for the remediation and resolution of all other valuation issues. Under the Governance umbrella, we would like to suggest to include Value in Resolution and Resolution and Recovery Planning to the agenda.

Separately, for the monitoring and standardization of evolving industry practices, we would recommend a mechanism for the industry to suggest future topics for potential survey or “Invitation to Comment” on an on-going basis.
2. Should IVS 500 keep the current definition of financial instrument? If not, should the definition be removed or revised? If revised, what should the definition be?

Current Definition of Financial Instruments: A financial instrument is a contract that creates rights or obligations between specified parties to receive or pay cash or other financial consideration. Such instruments include but are not limited to, derivatives or other contingent instruments, hybrid instruments, fixed income, structured products and equity instruments. A financial instrument can also be created through the combination of other financial instruments in a portfolio to achieve a specific net financial outcome.

CS Response: We recommend the alignment, or simply reference to the FASB definition of financial instruments.

Master Glossary - Financial Instrument

Click to open document in a browser

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:

1. To deliver cash or another financial instrument to a second entity

2. To exchange other financial instruments on potentially unfavorable terms with the second entity.

b. Conveys to that second entity a contractual right either:

1. To receive cash or another financial instrument from the first entity

2. To exchange other financial instruments on potentially favorable terms with the first entity.
Questions for Respondents

3. When considering guidance on governance as it applies to financial instruments, to what extent should detail be provided?

**Current Principles for Governance:** A set of overarching principles used to guide the valuation of financial instruments regardless of measurement objective. This includes guidance on roles and responsibilities of management and others, the segregation of duties and independence, as well as the assessment of valuation risk and escalations through the chain of command.

**CS Response:** We are generally in agreement with the principles for guidance on valuation governance and would make the following recommendations for consideration:

- We believe it is important to differentiate and specify the cross-functional roles and responsibilities in the valuation governance process, particularly the responsibility of non-Finance functions to collaboratively challenge valuation results and protocols.
- While we recognize the importance of best judgement with respective to the assessment of valuation risks and escalations, sample criteria and minimum standards would be helpful in standardizing best practice and continuous improvements.
- Fundamentally, frequency of marking and price testing should be explicitly discussed.
Questions for Respondents

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?

CS Response: We believe data validation and the usage of pricing data is a critical topic to be addressed. We recommend the following focus areas for future guidance:

- Minimum standards for consensus data providers to provide transparency on the quality of the data aggregated
- Encourage increase in consensus bid/offer submissions
- Differentiating requirements on input vs. output pricing
- Monitoring of the impact of unused available data
Questions for Respondents

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?

**CS Response:** We expect broad principals of best practice as prescriptive requirements may be overly onerous to implement in addition to pre-existing regulatory standards such as the Federal Reserve Supervisory Guidance on Model Risk Management (SR 11-7). We recommend examples to demonstrate how principals may be applied in practice, and references to the relevant regulatory standards.

We recommend model developers and model validators to be fully involved in the model validation and management discussions / working groups.

With regards to XVA, we recommend a survey for industry practice / recommended practice, specifically on the application of Own Credit Adjustment (OCA), Capital Valuation Adjustment (KVA) and Margin Valuation Adjustment (MVA), as well as the valuation of uncollateralized derivatives.

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?

**CS Response:** We recommend principle based guidance given the established SOX requirements. As controls are generally dependent on the respective processes that may be unique to each institution and its infrastructure, we do not expect prescriptive details on controls. Examples to demonstrate sound control environment under different scenarios may be useful.
Questions for Respondents

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

CS Response: We would like to request for further clarification on the following sections of the current IVS 500:

- 20.6 (a) All market data used or considered as an input into the valuation process must be understood and, as necessary, validated. **CS comment:** we recommend to revise “as necessary” to “when applicable” since there may be market data that the valuer cannot fully validate. Additionally we recommend the alignment to existing regulatory guidance (e.g., SEC)

- 20.6 (d) When possible, multiple valuation approaches are preferred. If differences in value occur between the valuation approaches, the value must explain and document the differences in value. **CS Comment:** We would like to request for clarifications on scenarios where the parallel execution of multiple valuation approaches (Market Approach, Income Approach, Cost Approach, as prescribed) may be preferred. We foresee such practice to be operationally cumbersome, with questionable benefits. We believe the appropriate forum of each firm designated to resolve product specific valuation issues should agree on the valuation approach.

- 100.1 Understanding the credit risk is often an important aspect of valuing a financial instrument and most importantly the issuer. Some of the common factors that need to be considered in establishing and measuring credit risk include the following...(b) The valuer also needs to be able to differentiate between the credit risk of the instrument and the credit risk of the issuer and/or counterparty. Generally, the credit risk of the issuer or counterparty does not consider specific collateral related to the instrument. **CS Comment:** We would like to request for clarification on how this principle would be applied to derivatives, specifically when the CSA would be factored in (sequentially) in the overall valuation and valuation adjustment process.

- 120 The control environment consists of the internal governance and control procedures that are in place with the objective of increasing the confidence of those who may rely on the valuation in the valuation process and conclusion. Where an external valuer is placing reliance upon an internally performed valuation, the external valuer must consider the adequacy and independence of the valuation control environment. **CS Comment:** We would like to request for clarification on the term “external valuer” in the context of a bank with its own FO valuer and independent valuation verification function.
Questions for Respondents

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

**CS Response:** We have not implemented IVS 500. Based on preliminary review of the current standards, we believe our practice is largely consistent with the valuation principles stated.

9. Would your organization like to contribute to this process? If so, who would you nominate to be considered?

**CS Response:** N/A - CS is part of the FI Board