IVS 500

Financial Instruments

Exposure Draft

Issued: 11 December 2020
Comments Due: 19 April 2021
### IVS 500 Financial Instruments Exposure Draft: Objective

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.

**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 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.
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.
**IVS 500 Financial Instruments Exposure Draft: 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.

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.
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

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.
### IVS 500 Financial Instruments Exposure Draft: Data

For the purposes of this Exposure Draft, data is considered to be 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.
**Question 8:** Paras 60.6.2 to 60.6.8 outline the specific requirements for the data-types 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.

**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.

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