Agenda Item 10

IVSC STANDARDS BOARD

Board meeting 28 March 2014

CREDIT AND DEBIT VALUATION ADJUSTMENTS

The Board is invited to discuss the attached analysis of the comment letters received on the Exposure Draft issued in December 2013 and the recommendations for changes to be considered in developing the final paper.

Summary Report on Responses to Exposure Draft on Credit and Debit Valuation Adjustments

1. The Board issued an Exposure Draft on 1 December 2013 that sought respondents' comments on a number of issues which the Board had identified as a result of the input from the expert working group. The comment period closed on 28 February 2013.

2. 12 comment letters were received. The types of respondent can be categorised as follows:

Valuation & Consulting Firms	6
Professional Bodies	5
Banks	1
Individuals	0

3. The comment letters are displayed on the IVSC web site. Annexed is a table summarising the responses, in particular the answers to the questions asked in the Exposure Draft. Not all comments are referenced. The purpose of this summary is to identify common themes.

4. The responses to the questions in the Exposure Draft are analysed below.

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1. Do you agree that the proposed scope is appropriate? If you disagree, please indicate changes that you would recommend.

Yes	No	n.a.
5	5	2

There was an even split in respect to this issue amongst respondents. The primary assertion of those who answered No was that the target audience needs to be refined as many found the scope did not necessarily apply to the document in its current form. Many believe that the draft is written with large financial entities in mind, which in turn were viewed by respondents as the least in need of guidance. There were many comments to this effect which recommended that the scope of the document be reworked in order to make it clear who the intended target audience is and how readers adapt their methods to take account of differences that arise between calculating CVA and DVA for financial reporting, regulatory, and internal management purposes.

Many also found the singular reference to US GAAP in the introduction as confusing. Some read this to mean that the document only related to IFRS, which was not the Board's intention. On a similar note many of the auditing companies mentioned that there were several methods discussed within the paper which would not be appropriate to use when valuing a financial instrument under IFRS and the guidance should be amended to make this clear..

2. Do you agree with these definitions? If you consider an alternative or additional definition is appropriate then please provide this in your response.

Yes	No	n.a.
5	5	2

The majority of respondents were happy with the definitions provided. Some made a few suggestions for refinements and it was asked that a definition of CDS be provided. Of those respondents who made more detailed suggestions most, if not all, made these suggestions based on differences between those promulgated by other bodies and the IVSC. Definitions promulgated by IFRS and Basel were quoted by several respondents who noted that they differed to those detailed in this exposure draft.

3. Do you believe that other methods should be considered in addition to the Monte Carlo, such as binomial and trinomial trees?

Yes	No	n.a.
6	3	3

The majority of respondents believe the exposure draft would be improved by considering other methods in addition to the Monte Carlo. That being said, the majority agree that a Monte Carlo methodology is almost always the preferred option. Most respondents agreed that the IVSC should not promote one process only and therefore it was appropriate that the alternative methods be discussed as well, although not necessarily in detail. Many questioned whether the Monte Carlo would be too complex or computationally demanding for some entities and derivative holdings. As such there was a common theme that in the interests of entities with smaller derivatives activity it was appropriate to cover other methodologies and if possible to do so in a less technical way with worked examples, perhaps appearing in an appendix (similar arguments are discussed later in question 7).

4. Do you believe that netting sets have been discussed to an appropriate level of detail?

Yes	No	n.a.
6	2	4

The majority of respondents were happy with the level of detail used in the exposure draft's discussion of netting sets. A few pointed out that there were some inconsistencies between the method discussed in this draft and what is admissible as part of a valuation for financial reporting purposes. They suggested that this aspect be explored in a revised version of the paper so that readers are aware that netting sets must be treated in a particular way to comply with accounting standards.

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5. Do you consider that there is a need for the IVSC to augment this with more specific guidance on governance and controls in the financial sector?

Yes	No	n.a.
0	6	6

No respondents consider there is a need for the IVSC to augment the current Code of Ethical Principles for Professional Valuers with more specific guidance on governance and controls in the financial sector. The focus of the exposure draft should be on aspects of the valuation, one reason given was that this was the remit of professional standard setters rather than the IVSC.

6. Do you consider that there is a particular issue or issues that arise when considering a suitable governance and control protocol for calculating CVA or DVA that does not otherwise give rise to concern?

Yes	No	n.a.
0	4	8

No respondents consider there to be a particular issue or issues that arise when considering a suitable governance and control protocol for calculating CVA or DVA. One respondent suggested that para 81 – 82 be reconsidered as presently this states that CVA and DVA calculations should not be open to influence from other areas of an organization. However they argue that in order to have an effective control system it is imperative that other areas of an organization are able to hold others to account amend calculations if necessary. A few respondents also argued that governance and control procedures must be appropriate for the entity in question, however did not elaborate on how this could be achieved.

7. Do you agree that it is appropriate to suggest that entities with less complex or smaller derivative holdings in relation to their overall business should adopt less complex methodology, or instead should all entities be expected to implement equally rigorous methodology?

Yes	No	n.a.
8	3	1

The majority of respondents believe it is sensible for a distinction to be made between the valuation methodology utilised by different entities and for different derivatives. Most agreed with the draft's current philosophy, which is that entities adopt a more complex methodology as the size or materiality of their derivative transactions increases. That being said, many believe that this distinction can be made clearer. For example, many believe that the draft only distinguishes between firms based on the size of their derivatives operations, whilst they would argue that materiality is much more relevant. A contrary view was also expressed which is that there can only be one level of best practice and that encouraging other entities to follow simplified processes creates a tiered system that can never truly be described as "best practice". Another view was that entities will adopt simplified processes over best practice in an attempt to save money.

8. Does the discussion about the cost of funding contribute to the objectives of the TIP outlined in the "Scope and Purpose" section on p3?

Yes	No	n.a.
6	4	2

Most respondents believe that by addressing FVA the exposure draft better meets the objectives of its scope and purpose. Those that disagreed largely believe that as the debate is still ongoing amongst practitioners and academics it would be hasty of the IVSC to address the topic and may lead to confusion amongst readers. However, they were not in the majority and most believe it is entirely appropriate to discuss FVA.

9. Given the current debate in this area, do you believe it is appropriate for this TIP to outline the main issues, or should this be removed altogether until there is greater consensus?

Yes	No	n.a.
5	5	2

This question was divisive amongst respondents and closely linked to question 8. Those who responded in the affirmative believe that the IVSC can help to drive the debate forward by discussing the main principles behind FVA and how it interacts with CVA and DVA calculations. Those that disagree with this line of argument do so, on the whole, because of the developing nature of this debate. There was some concern that the IVSC was looking to establish best practice for the calculation of FVA which most would consider premature. It would be fair to say that there was little to no support for the exposure draft to be extended to discuss current best practice, as most agree this is yet to be determined. However many respondents, including those who disagreed with the inclusion of a discussion of FVA believe that it would be appropriate for the IVSC to develop a project on FVA for future publication. One respondent went so far as to argue that the IVSC could help to build consensus in this area and drive the debate forward.

10. With this in mind, are there any key principles that have been omitted or not fully explained?

Yes	No	n.a.
5	3	4

Five respondents suggested improvements and possible omissions that could be considered for a final draft. Additionally many respondents provided helpful "general comments" which do not directly address a question asked, these are detailed in the summary of comment letters below.

It was pointed out by several respondents that several parts of the draft only refer to CVA when the principle can in fact be applied to DVA as well. This use of shorthand maybe confusing for some readers and this use of language should either clarified.

Basel regulations are mentioned several times throughout the paper. Unlike accounting standards which apply to a wide range of entities, these only apply to regulated financial entities. As such it was suggested that remarks relating to Basel regulations be confined to one section of the paper only.

Several respondents pointed out that the paper refers to “large financial entities” several times throughout the paper, but that this term is not defined. This leaves room for interpretation and potentially confusion amongst readers. It was suggested that this term be defined so that it is clear exactly who the IVSC are referring to when this term is used.

Finally a few respondents questioned whether the discussion on hedging CVA is appropriate for the exposure draft. They explained that the paper currently reads as if to imply that if an entity intends to hedge an exposure will affect its valuation method used. They disagree with this implication and believe that the decision to hedge an exposure should have no bearing on the valuation process.

General Observations:

The paper was generally well received by respondents. The majority of responses were supportive of the current structure and design of the paper. In addition there was considerable constructive feedback, ranging from presentational considerations to detailed recommendations for refinements.

One of the key observations by respondents was that there was not enough clarity over the purpose and intentions of the draft, ie how is the guidance intended to be used and what is its status? It was observed by more than one respondent that the draft in its current form appears to be written from the point of view of a large financial entity; however this constituency was identified as having the most sophisticated systems and being least in need of guidance.

On a similar note many respondents believe that smaller entities, especially non-financials, would benefit from a more comprehensive explanation of some principles concerning CVA and DVA, most notably in the "practical application" section would benefit from more explanation, for example through worked examples in the practical applications section.

Many of the respondents were familiar with international accounting standards and referenced regulatory regimes such as Basel III. Several pointed out that the exposure draft could point out that it may be prudent and best practice to adopt differing valuation methods dependent upon the purpose of the CVA and DVA calculation eg, the same methodology cannot necessarily be used for internal management, financial reporting and regulatory purposes.

Staff Recommendations for Board:

To reflect the comments received on the Exposure Draft it is suggested that the Board consider the following:

1. The Introduction needs to have a much stronger indication of the purpose of the paper, its status in relation to the other IVSs and the requirements and principles that it is intended to support. Most adverse comments stemmed from readers not understanding the context of the paper rather than challenging the technical content.

2. That instead of distinguishing between the complexity of the methods that are appropriate by reference to the type of business or the number of derivatives or transactions, the discussion should focus on the materiality of the positions that are affected by either CVA or DVA adjustments. In many respects this is the key section of the paper as it guides different types of entities towards adopting different solutions. Much of the rest is just a technical exposition without any particular guidance on what to do.

3. Expand the explanation that CVA & DVA will sometimes need to be calculated in different ways, depending upon the purpose of the valuation eg, internal management, financial reporting and for regulatory purposes.

4. Consider whether definitions should be converged with those used by other organisations such as IASB and BCBS. If they cannot be converged, then explain why – (eg because the IVSC is issuing guidance on valuation practice only and is not interpreting either financial reporting or capital adequacy requirements that may have discrete and differing objectives)

5. While prescription has to be avoided, the information in the paper needs to be related more directly to either solving the problem of which method of calculating the appropriate adjustment is to be preferred in different situations (thus reducing diversity) or on compliance with disclosure requirements in the IVSs (thus increasing transparency). The technical information is currently presented in a vacuum, ie it may be correct but it needs to be clearer what it is for.

Summary of Comment Letters

001	Barclays (Global)	1	No. US GAAP is mentioned in intro along with IFRS, but is then not mentioned again. Suggest ensuring the draft is relevant to both and not just IFRS. Need to clarify target audience.
		2	No. Do not believe fair and market value definitions are compatible for IFRS users, suggest explaining the differences. Also suggested changing definition of market value to avoid use of "prudently". Also suggested that a definition be added for larger financial entities, perhaps along the lines of the entity segmentations used in the "Practical Application" section.
		3	Yes. Modelling section is not detailed enough to provide detailed guidance of its application, suggest generalising the discussion to make it less technical and more accessible to a wider audience. Suggest that the Monte Carlo may be too costly and complex to implement for smaller entities, therefore would suggest expanding the section for entities with a lower volume of derivative transactions. Suggest either deleting Black Scholes formula from para 92 or providing more information about the valuation drivers and their relevance to CVA/DVA.
		4	Yes.
		5	No view expressed. Supportive of due process and consultation if changes are proposed.
		6	No view expressed. Sees the control framework as something that needs to be appropriate for the entity and the derivative they hold.
		7	Yes. The method applied should be scaled to the sophistication of the entity and the financial instruments they hold. Especially true for the smallest entities where the cost/benefit analysis is unlikely to be positive. Believes it would be unfortunate if smaller entities believe they are expected to implement such a rigorous system. Suggest expanding area that discusses smaller entities options and including worked examples of them in an appendix.
		8	Yes. Should not pre-empt industry, as still no consensus.
		9	Yes. Depth of discussion will depend on purpose of document. If for informational purposes, detailed discussion is appropriate; if for guidance then the inclusion of a detailed discussion may create confusion.
		10	Yes. Large section of paper only refers to CVA and not DVA. If it is considered that statements for CVA could be equally applied for DVA then a statement to that effect should be made. Paper mentions Basell III several times, believes that this should be confined to one chapter only or an appendix as this is not relevant to non-regulated entities.
			<u>General Comments:</u> Target audience should be clarified, appears to be aimed at large financials but important to consider other users too. Not clear how guidance should be applied – clarify objective of paper. Application should be scaled to size of entity, suggest

			an appendix with simple worked examples for smaller entities. FVA discussion should refer to lack of consensus in industry.
002	Chatham Financial (USA)	1	No. Remove FVA.
		2	Yes. Typo on DVA definition.
		3	Yes. Trinomial trees can fully capture netting and collateral arrangements, as well as the path dependencies of option and structured instruments; thus enable a comprehensive depiction of potential future exposures, and often tend to be less computationally intensive to implement.
		4	Yes.
		5	n.a.
		6	n.a.
		7	No. Do not agree, as it is not specified what constitutes a smaller or less complex derivative holding and also because even smaller or less complex derivatives can have a significant impact on an entity's operations. Suggest instead that an entity's choice of valuation methodology should be proportionate to the materiality of the fair value of the derivatives to their financial position and results of operations. If an entity determines that there is a material impact on their financial position then they adopt the more robust methodology, otherwise utilize simpler approaches if immaterial.
		8	No. Does not currently provide enough guidance for readers to determine whether it will impact them. Instead of providing guidance on this issue, recommend removal and conduct further research aimed at reaching a conclusion on the extent to which such information should be made a part of the guidance.
		9	No. Remove as there is too little consensus. Alternatively note that FVA represents an emerging valuation concept that is subject to ongoing discussion and debate, and that currently there is no industry consensus on whether or how it should be calculated. Would like to work with the IVSC on FVA and believes the IVSC can be helpful in this area, however they believe this may be more productive in a separate project after more research has been conducted.
		10	No.
003	EY (Global)	1	No. Add comments clarifying that not all approaches outlined in the TIP are appropriate for valuations for financial reporting purposes.
		2	No. If possible should look to reduce differences between accounting and valuation standards definitions. Comments on specific definitions detailed in letter.
		3	Yes. For reasons outlined in general comments believe that additional models should be allowed, although not necessarily discussed in the paper itself.
		4	No. The discussion of netting agreements and collateral could be confusing when the measurement of derivatives is for financial reporting purposes. Believe that the references to hedging, in particular para 39 are beyond the scope of the

			paper.
		5	n.a.
		6	n.a.
		7	Yes. However the paper should acknowledge that other approaches may be acceptable and not be too prescriptive when it comes to the simpler methodologies.
		8	No.
		9	No. Recommend removal. Discussion is confusing and does not help to further the debate. Should not address before there are widely helds views on the topic.
		10	Yes. Detailed list of selected omissions, some materials and others that lead to implications. Various suggestions for deletions and rephrasing.
			General Comments
			All comments are generally in respect of valuations prepared for financial reporting purposes.
			The paper does a good job of outlining the concepts, however points out that many of the entities that would use such approaches i.e., large financial institutions and dealers already understand CVA and DVA and have systems in-place and/or have established a framework. Would therefore encourage the IVSC to focus on providing additional application guidance focused on entities that would apply less sophisticated methods.
			Acknowledge that the draft TIP is not focussed solely on financial reporting, however some methodologies in the ED would not necessarily be acceptable when derivatives are being measured at fair value for financial reporting purposes. Therefore, we believe it is important that the final technical information paper explicitly state that methodologies, other than those described, may exist and may be appropriate to use under different frameworks.
			Believes some discussions on accounting standards, In some instances are not consistent with our understanding or could potentially be misleading without further guidance. Make specific recommendations for how to avoid this in letter.
			Recommends the cross-referencing and convergence of similar terms between the IVSs and IFRSs.
004	ISDA (Global)	1	No. Appears to focus only on IFRS users, US GAAP is mentioned in para 4 but never again. Should either be clarified that is for IFRS only or US GAAP should be used more.
		2	No. Fair and market value have different definitions; more should be done to reconcile the difference. The term “prudently” may be confusing due to differing use in accountancy and regulatory regimes. Large financial entities should either be defined more clearly or the wording used in para 85 should be used. Basis and wrong-way-risk definitions could be improved. More suggestions in annex.

		3	No. Tree models have very limited application.
		4	Yes.
		5	No view expressed. Supportive of due process and consultation if changes are proposed.
		6	No view expressed. Sees the control framework as something that needs to be appropriate for the entity and the derivative they hold.
		7	Yes. Method applied should be scaled to the sophistication of the entity and the financial instruments they hold. Especially true for the smallest entities where the cost/benefit analysis is unlikely to be positive. Suggest expanding area that discusses smaller entities options and including worked examples of them in an appendix. Also believe that ED guidance should be a statement of principles valid for all approaches regardless of sophistication, rather than in its current form of a discussion of particular approaches.
		8	Yes.
		9	Yes. Practice around the inclusion and calculation of FVA is continuing to evolve and there is currently no industry consensus on how it should be calculated. Believe the ED should not pre-empt industry decisions and be mindful of the developing nature of this topic. Believe section lacks clarity and should be improved.
		10	n.a.
			<u>General Comments</u> Areas of the draft are too detailed, better for the IVSC to give greater emphasis to identifying the principles expected to be applied by the valuation practice, and less emphasis on detailed application guidance and preferred methods. The audience of the paper is not clear, paras 85-96 address entities large and small; however the overall paper appears to be geared towards larger financial institutions. Sections discussing Basel III may be confusing for non-financial entities, perhaps should be presented separately and not throughout. A comment should be added within the practical application section that stipulates that applications should be scaled according to the sophistication of the entity and the financial instruments it holds. The paper regularly refers to CVA only; further elaboration on DVA may be helpful. Some repetition, eg Monte Carlo is mentioned is discussed in paras 23 and 24, and then again in 61.
005	RICS (International)	1	Yes.
		2	Yes. Add CDS definition in addition to existing CCDS one.
		3	Yes. Use of one method over another depends on the specific application and level of problem solving required. Valuer should have sufficient knowledge and experience to carry out the valuation and as a result should be confident of

			the method to be used. The choice of method is a matter of judgement according to the particular facts and circumstances of the valuation.
		4	Yes.
		5	No.
		6	No.
		7	Yes. Agree in principle, must be determined by the facts and circumstances. It is not necessarily wise to generalise, and could imply a two tier market where the relevant market value is automatically influenced by the size of the entity.
		8	Yes.
		9	No. Remove until there is greater consensus arising from the current debate.
		10	No.
006	Finance & Treasury Association (Australia)	1	n.a.
		2	n.a.
		3	n.a.
		4	n.a.
		5	n.a.
		6	n.a.
		7	Yes. Would be very useful for the IVSC to provide guidance that illustrates how simplified methods could be used to achieve a valuation adjustment which approximates more complex methods, and yet is robust enough in order to facilitate compliance with IFRS 13. In addition it would also be helpful to produce high level guidance explaining the conceptual theory behind CVA and DVA, in order to assist management in non-financial corporations to explain in layman's terms what the adjustments represent to audit committees and board of directors.
		8	n.a.
		9	n.a.
		10	n.a.
			<u>General Comments</u> Answers relate to financial reporting only. CVA/DVA calculations are causing issues in respect to hedge accounting and values reported do not necessarily match the realisable value of a derivative if terminated before maturity.
007	Deloitte (Global)	1	n.a.
		2	n.a.
		3	n.a.
		4	n.a.
		5	n.a.

		6	n.a.
		7	n.a.
		8	n.a.
		9	n.a.
		10	n.a.
			<u>General Comments</u> Primary interest as auditors is how this paper interacts with the fair value measurement requirements in IFRS & US GAAP. Primary purpose or objective of the exposure draft is not clear. Summarises approach of large financial institutions to CVA/DVA) but it is not clear in what context this is relevant. As noted throughout the paper valuations may be undertaken for a variety of purposes and valuations performed for each purpose may justifiably be different. To the extent that these objectives differ and are not clearly acknowledged in describing a methodology that might be applied this could lead to confusion. We believe that any guidance that is issued by the IVSC should clearly state the valuation objective and that this objective should be valuation for financial reporting purposes, whilst acknowledging that valuation for other purposes exist, e.g. those for risk management and regulatory reporting, and may result in the application of different valuation approaches. Not clear who the beneficiaries of a finalised paper will be. Our experience is that large financial institutions have complex and well developed approaches to calculating CVA and DVA because of their large derivatives portfolios and therefore the paper will be of limited use to them. For those large financial institutions the debate has moved onto whether entity specific funding costs drive derivative pricing and therefore whether and how should it be included as a FVA in determining fair valuations for various purposes. Non-financial institutions with less complex derivatives portfolios, in our view, would benefit from educational material on credit risk adjustments as they have less experience and less sophisticated credit risk management than large financial institutions, yet we feel the exposure draft is not targeted at them and therefore those that could benefit most from education material will not do so.
008	KPMG (Global)	1	Yes. Suggest appending “on derivative instruments” to the current draft’s title. Disagree with statement in para 7 that other instruments held at fair value are not discussed by the paper, but follow a similar process. In practice there is usually a simpler process to follow, eg the credit spread on a debt instrument.
		2	No. Propose refinements to the definitions of CVA, DVA, basis risk, EPE, ENE and one-way collateral agreements.
		3	Yes. The Monte Carlo is frequently, however it can also be used to determine inputs for another model, such as a binomial tree or semi-analytical method. The TIP should not

			mandate one method only and should also be careful about the use of the expression Monte Carlo, considering that it can be used in conjunction with other methods.
		4	Yes. However, description is not necessarily consistent with accounting standards, see general comments for more detail. Believe it should be discussed whether all trades with a counterparty are considered in the netting set or only those in a particular portfolio. Also believe that related collateral should be discussed as well.
		5	No. Do not believe that the TIP should include more specific guidance on these issues. Do not believe that it is the IVSC's role to address these issues as it is not part of the objective of the IVSC.
		6	No. Disagree with para 81 – 82 where it argues that there should not be interference from other areas of a firm with competing priorities. Believes several functions should have influence over the calculation – including appropriate oversight and validation by control functions that are independent of the front office.
		7	No. Should not suggest methodologies that are not best practice, as this would be inconsistent with the scope of the TIP. However, suggest removing paragraphs 93–96 from the TIP and replacing them with a general statement that an entity should consider materiality in determining the methodologies to apply and that in some cases using less complex methodologies than those illustrated as best practice may be appropriate if the entity determines that this would not give rise to a material difference. In addition, it may be helpful to note that different entities may have access to different sources of pricing information and may have access to different markets, and the availability and reliability of inputs, as well as the pricing practices of participants in the relevant market, may also be factors in determining the appropriate methodology to use.
		8	No. Issues as to the appropriateness and calculation of FVA in the determination of fair values have been the subject of debate. There are a number of different views and no consensus. The text included in the ED would not reduce diversity in practice and is unlikely to be influential.
		9	No. Remove and replace with a brief statement noting the following: the cost of funding is an area of debate; there is no consensus at this stage; but regardless of the method used, it is important to avoid or correct any double-counting between FVA and DVA or CVA. Publication of a future TIP may be appropriate once the debate has moved on.
		10	Yes. Expressed in general comments and appendix. <u>General comments</u> Guidance on CVA/DVA is given at the portfolio level. Under accounting standards this is only possible in limited circumstances. Therefore the valuation, including the determination of CVA and DVA, should be made at the instrument level rather than at the counterparty level. Believe

			that this issue should be specifically identified to explain that the determination of CVA and DVA for accounting purposes should be consistent with the unit of measurement applied under the applicable accounting framework. Significant details of the exceptions are contained within the letter. Do not agree with current presentation of hedging CVA/DVA. Believe it should be separated from the valuation as it currently implies that the inputs used in a valuation will vary according to whether or not the entity plans to hedge the exposure. Also believe that the underlying reasons behind changes in CVA/DVA exposures is not explained well enough and should be expanded, as well as issues encountered when hedging. Historical default rates are considered acceptable in some circumstances by the ED. They believe these should never be used where other inputs that are market observable could be used instead. Included a detailed appendix of specific comments on the draft.
009	PwC (Global)	1	Believe that it is unclear what valuation standard is being interpreted and that the scope of the paper should be clear as to who the audience is intended to be and the purpose of the paper.
		2	Yes. Pointed out a typo and asked to include definition of CDS.
		3	No view expressed. TIP focus should focus on the merits, limitations, and degree of precision of each model only without stating which is most appropriate.
		4	Yes. Should emphasise the importance of legal analysis into the enforceability of any netting agreement (discussed in para 25).
		5	No. Not the appropriate place to address governance and controls.
		6	No. See response to Q5.
		7	Disagree with premise that approach depends on size or level of sophistication..
		8	No.
		9	No. Remove and consider in future TIP.
		10	Yes. Refer to general comments in covering letter which include: • Clarification of valuation standard to which guidance relates. • Needs to have greater recognition of needs of corporates – not just financial institutions. Those views should be solicited. • TIP should avoid dictating or prescribing which model or technique for a given user. • Should include statement that users should not use paper for specific application guidance for IFRS or any other standard

010	Duff & Phelps (Global)	1	Yes. However as all uses of CVA/DVA are identified: management information; financial reporting; and regulatory capital calculation, they believe it would need to address the differences amongst the various frameworks/requirements. Para 82 states that ideally the same CVA/DVA process will be used with small adjustments for each purpose, therefore propose that one of these purposes is used as an anchor and the differences between that and others are explained throughout.
		2	No. Typo identified and pointed out that the definitions do not match those used by Basel, they believe this demonstrates the need for a differential approach in discussing the CVA/DVA estimation for various purposes.
		3	No. Believe Monte Carlo should be used in all but the simplest cases. The use of other numerical methods (e.g., trees, finite difference, Fourier methods or quadrature) is only applicable in the valuation of the underlying derivatives, the results of which are 'plugged into' the Monte Carlo. Therefore, the TIP could mention other methods, but only in the context of their use as tools to evaluate a derivative contract's potential future value. Should provide further clarification on para 92 and when the B-S can be used instead. Also should consider whether only the size and complexity of derivative operations is the main determinant of the choice of method. Recommend a "practical expedient" for estimating CVA/DVA.
		4	n.a.
		5	No. Do not believe this should be the topic of a TIP. Also to the extent that this pertains to valuers, this would be the remit of professional standards, rather than the IVS and its related best practices guidance.
		6	n.a.
		7	Yes. Comments to question 3 also relevant here.
		8	Yes.
		9	Yes. Guidance should address the financial reporting aspects as well. Specifically, on this issue, we believe the working group should conduct an outreach as part of this project to try and build consensus around the FVA issue, or present alternatives with supporting reasoning. This would be consistent with one of the TIP's objectives, as stated in the Introduction, which is "to assist valuation and risk professionals by identifying principles of best practice." We understand that recently certain banks have observed an "industry migration" to incorporating FVAs as part of valuations for financial reporting and that these adjustments can be significant. Clearly there is diversity in practice and best practices guidance is by its nature intended to reduce such diversity without being mandatory.
		10	n.a. <u>General comments</u> The scope and purpose of the document is to provide a "one size fits all" approach to CVA/DVA calculations. As each use

			has its own intricacies, suggest using one of these purposes as an “anchor” and then explaining the differences between that and other uses as they arise. Suggest a narrower target group, so that the appropriate level of depth can be achieved. At the moment is difficult to provide a draft at the appropriate level for all parties. For financial reporting applications the draft does not address how to select or derive market participant assumptions. Recommend that guidance be enhanced to make it more suited to meeting or being more consistent with IFRS valuation and reporting requirements. For regulatory capital requirements applications would be helpful to set forth a discussion about whether and how calculations for this purpose should follow any particular framework. One of the objectives of the paper is to identify best practice, however often many approaches are discussed without identification of what would be best practice. Would be helpful if there is further elaboration on the simpler alternatives available for corporate entities that may have a limited number of derivatives that are used to hedge interest rate or foreign exchange risk in their business. Hope that the Board and working group can make an effort to build consensus on FVA as this is needed. Specific comments on miscellaneous areas of the paper are provided in the last 3 pages of the letter
011	CICBV (Canada)	1	Yes.
		2	Yes. Typo spotted.
		3	Yes. The Monte Carlo method is robust, however believe that other methods such as tree based approaches can also be effectively used to estimate CVA and DVA under certain circumstances. There is the risk that a reader may assume there is a presumed bias or mandate to use one particular method over another.
		4	No view expressed. Believe there should be discussion around netting sets as it relates to whether all trades with a particular counterparty be considered or whether it be by relevant asset classes, eg IFRS 13 does not allow a counterparty to net loans with derivative assets and liabilities if it isn’t already measured at fair value.
		5	No. Believe the paper should focus on the valuation and determination aspects of CVA and DVA given the current objectives of the IVSC rather than on governance and controls.
		6	No.
		7	Yes. Pros and cons to a less complex methodology. Introducing a simpler methodology could represent a practical alternative to an unnecessarily complicated calculation, however it does not address the issue of by whom and when should it be used. May cause confusion amongst readers as to where the line should be drawn between utilizing each approach and without specifically identifying what entities

			should be applying which approach, the concept of best practice becomes blurred. The danger of providing a simplified alternative to a more rigorous methodology is the adoption of that alternative simply for the basis of cost minimization. Believe the adoption of a simplified approach makes most sense when the conclusion of such calculation does not result in a materially different answer then had a best practice method been used. To clarify, the materiality should be considered in reference to what the calculation is intended for (i.e. managing risk, financial reporting, capital calculation, etc.).
		8	Yes. Believe that FVA as mentioned in the TIP is an important and significant consideration in the calculation of CVA and DVA. Given the current discussions and debates currently taking place, believe it is beneficial to highlight this particular issue as it will have an impact to the methodology as it currently exists.
		9	Yes. As there is no general consensus on FVA, believe it is important to have an unbiased discussion around the issues at hand (as has been done), it may also be beneficial to provide a potential view on them. Describing the challenges around cost of funding is important; however, rationale for taking one position over another is what will add value to a practitioner's understanding and implementation process. When the issue of funding cost is eventually resolved or a generally accepted best practice is established, the IVSC may consider updating or reissuing this TIP given the significance of its impact.
		10	Yes. It may be beneficial to have a discussion around the symmetry of CVA and DVA between two counterparties in the context of fair value. As active CVA desks are become more common amongst major financial institutions, this will no doubt impact the way CVA is managed and derivatives priced. This could complicate the way bank counterparties perceive fair value from their perspective (given the lack of transparency of bank's portfolios) when trying to determine fair value (inclusive of CVA/DVA) at a future mark date.
012	FFEE (France)	1	Yes.
		2	Yes.
		3	No. At this stage MC seems the most common method used for xVA calculations. Once the TIP for Derivatives valuations is finalised, it could be used as a reference.
		4	No. Needs more detail in particular on: how to deal with net exposure with fully / partially / non collateralised deals; manage with complex CSAs: multi-currency, multi-asset, asymmetric collateral arrangements, and physical collateral; Carefully watching events on collateral: callability, early termination, break clauses, recouponing; and requirement for having a central transaction repository
		5	No.
		6	n.a.
		7	Yes. Methodology should be adapted to complexity and materiality, however equal rigor between entities should be expected to determine the appropriate methodology and to

			control its results.
		8	Yes.
		9	Yes. Believe FVA is important to discuss alongside CVA and DVA and cannot be ignored even if a clear consensus has not yet been reached.
		10	No. View document as very good and very useful. As mentioned earlier, think the section about netting and collateral could be a little bit more detailed.