

June 2, 2021

International Valuation Standards Council
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Dear Board Members:

Harvest Investments, Ltd. appreciates the opportunity to comment on the IVS 500 Exposure Draft (ED). As a valuation firm with more than 25 years of experience in financial reporting, we are very pleased that the IVSC is addressing standards for the valuation of financial instruments, as clarity and consistency in this area benefits all stakeholders. We would like to express our gratitude for the work the Financial Instruments Board did in preparing this draft, which reflects a substantial undertaking given the complexities of valuing financial instruments.

In this letter, we respond to several of the IVSC Financial Instrument Board's questions that relate to our practical experiences and observations as a securities valuation firm. We hope that the Board finds our comments useful, and we apologize for our slight delay in sending them.

Question 1: Objective

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.

Harvest Investments supports the proposed objective "to outline the principles that will enable an entity to arrive at a fit-for-purpose valuation of financial instruments." To strengthen this objective, Harvest recommends that IVS 500 align with current International Valuation Standards or reference an "organization" rather than an "entity." The phrase "entity perspective", is not defined in the ED but presumed to be a global bank or other large financial organization. The "entity perspective" excludes many other types of organizations that value financial instruments.

To include all valuers of financial instruments globally, the standard and its terminology should be applicable and comprehensible regardless of organizational structure. For example, unlike large financial institutions,

many organizations do not have Boards of Directors or internally sourced data. , As the primary goal of the IVSC is to build confidence in valuations by producing standards that can be universally adopted, IVS 500 must be relevant to all valuers of financial instruments. Alternately, we suggest adding this paragraph from the ED to the beginning of the standard to enhance clarity:

The aim of the Standard is to outline the principles that will enable an entity to arrive at a fit-for-purpose valuation of financial instruments. It is the entity that is ultimately responsible for arriving at any such valuation, be it for financial reporting, prudential reporting, or other purpose. In designing the relevant processes and functions, an entity may outsource parts of the valuation exercise to external vendors. These outsourced activities could be performed by individual valuers or by entities providing expert valuation services or the data needed for the valuations. Any such delegation, however, does not absolve the entity of its ultimate responsibility for the valuation. Consequently, the Standard is designed from an entity perspective. In the event an entity outsources any valuation-related functions or processes externally it must ensure that they all comply with IVS 500 Financial Instruments in the same way as it would for all internal functions and processes utilized in arriving at a fit-for-purpose valuation of financial instruments.

Question 2: Objective

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.

The objective of the exposure draft is to provide standards for a “fit-for-purpose” valuation. , Harvest supports broadening the use of the standard beyond fair value, but Harvest prefers an objective that aligns with fair value and that is consistent with all IVS standards. Rather than create a new term, we suggest describing the basis of value, a concept used in IVS and other standards, this would increase clarity.

Valuations of financial instruments differ from other valuations because they are tied intrinsically to data from the financial markets. Financial instrument valuations derive from the most observable market data available at valuation date, and global valuation standards share this fundamental principle. Whether the standard is developed for a “fit-for purpose” value, a fair value, or most other basis of values, the core principles must remain the same.

Harvest believes that using current financial instrument valuation terms and guidance would strengthen the comprehensibility of several sections of the ED. . For example, data types should be listed hierarchically, with market trading first and judgement-based data (when no market information is available) last. In addition, the ED should address governance principles/objectives rather than roles that do not exist within all organizations.

Question 3: Scope and Conclusions

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.

While these instruments could be incorporated into a principles-based standard for the valuation of financial instruments, Harvest does not have a strong opinion regarding these exceptions.

Question 4: Definitions

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.

Harvest agrees with the proposed definitions.

Question 5: Definitions

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.

Harvest agrees with the definitions of valuation risk and valuation uncertainty. However, we are concerned by the term “valuation risk appetite” and the implied relationship between valuation risk appetite and proportionality. Unequivocally, IVS must require all valuers across all organizations to apply the same valuation principles and proportionate valuation rigor when valuing the same or similar instruments. Rigor should be proportionally related to the valuation risk of the instrument, not the “risk appetite” of the owner or organization.

Question 6: Governance

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.

Harvest agrees with these proposals, as principles of governance and controls are imperative in the development of dependable valuation methodologies. However, Harvest finds the governance roles too limiting, overly prescriptive, and irrelevant to many potential users of IVS 500. As mentioned in Question #2, many of the roles do not apply to all organizations that value financial instruments. To remedy this, we suggest: 1) omitting the roles and instead listing the tasks/principles as they appear in the ED (assessing, monitoring, etc.), and 2) beginning with management functions, as strong valuation methodologies start from the top.

Question 7: Data

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.

Harvest agrees and finds the continuum table effective for explaining the hierarchical approach to selecting the highest quality data for use in financial instrument valuations.

Question 8: Types of Data

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.

Harvest finds this section of the ED somewhat unclear. To eliminate confusion, Harvest prefers that IVS 500 follow the hierarchical approaches of FASB ASC 820 /IFRS 13, which are already clear to valuers globally. In addition, the data descriptions should be ordered based on observability of the data in the marketplace, beginning with transaction data and ending with judgement-based data.

In particular, Harvest finds the judgement-based data section confusing and does not understand referring to it as “proxy data.” Also, the concepts in this section are inconsistent. For example, 60.6.6.3 states “proxy data

should only be used if there is a lack of market, transaction, and indicative data.” 60.6.6.4 then instructs the valuer to ensure evidential similarity, such as “type of instrument, sector or nature of the underlying asset, the currency of denomination, issuing amount, term, market conditions...credit risk, contingent payments or other optionality, and any peculiarities or restrictions relevant to the instrument.” Harvest recommends clarifying these contradictory suggestions to avoid confusion for valuers.

Harvest agrees with the importance of addressing comparability when considering related market data. However, this type of assessment must include market, transaction, and indicative data. Therefore, we suggest incorporating this concept into market data or another section of IVS 500.

Question 9: Controls

Paragraphs 60.7.1 to 60.7.6 outline the principles for controlling and aggregating data across an organization. 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.

Harvest agrees with these principles and suggests adding independent price verification to the control standards.

We thank the Board for its time and attention. Should the Board have any questions or wish to discuss our comments and suggestions in more detail, we encourage its members to contact our Executive Director of Global Valuations, Susan DuRoss, at 312-823-7051.

Kind regards,

Harvest Investments, Ltd.