



Mr Harvey J Goldschmid
Mr Hans Hoogervorst
Co-chairs Financial Crisis Advisory Group
c/o Mr Adam van Eperen
Financial Accounting
410 Merritt 7, P.O Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO.

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Dear Sirs

The role of valuation standards during the financial crisis.

The International Valuation Standards Council ("IVSC") is mindful of and extremely interested in the work of the Financial Crisis Advisory Group ("FCAG"). It is for this and other reasons expressed below, that we write to you at this time.

Fair value, or "mark to market" accounting has been identified by many as an important, and in some cases, a major contributor to the global financial crisis. Although the IVSC does not agree with those who criticise the principle of accounting for assets and liabilities at current value, it does recognise there is a need to ensure improved valuation procedures, and where values are relied on for investment decisions, effective regulation of the valuation process.

Much of the debate has focused on valuations required under financial reporting standards issued by either the FASB or the IASB. Moreover, the IVSC acknowledges that recommendations as to how these standards may need to be improved is the primary focus of the FCAG. We are nevertheless concerned, that in these times of crisis in the financial sector, it would be easy to lose sight of the necessity for valuations for many other commercial purposes. These range from assisting buyers and sellers undertaking due diligence in transactions, through assisting lenders to understand the value of assets offered or held as security, to support for the pricing of asset backed investment products.

IVSC values its developing dialogue with IASB and FASB on valuation issues arising under their respective financial reporting standards. We confess as well, that the IVSC has been critical of some of the existing standards which have ambiguous valuation requirements. In turn it has been difficult for IVSC to formulate and provide clear guidance to valuers tasked with producing these valuations. The IVSC is therefore broadly supportive of the steps taken to bring greater clarity to the valuation objectives of financial reports, firstly by the FASB in FAS 157, and secondly by IASB in its anticipated Exposure Draft on Fair Value Measurement.

IVSC is deeply concerned however, that many see valuation as merely an extension of accounting. The Leaders' Statement issued following the G20 summit in London at the beginning of this month calls on the accounting standard setters to "improve standards on valuation and provisioning". While provisioning is clearly an accounting function, valuation has a much wider application and is at the root of much economic decision making.

This is the latest example of external pressure on the accounting standard setters to become involved in valuation issues. The recent FSP 157 – 4 issued by the FASB was an attempt to respond to a request by the SEC to produce guidance on how to identify an inactive market and when sales may therefore be forced. Although the Board pulled back from the over simplistic "two step" process originally proposed, and now recognises that good valuation depends upon proper analysis and weighing of the factual matrix in any situation, this may not satisfy those who were and likely still are expecting instruction on how value should be calculated as an entry in a financial statement.

The role of the accounting standard setters should be to decide when fair value measurements are appropriate, and then to clarify the assumptions as to the conditions under which the hypothetical transfer of the asset would have taken place. Those assumptions would include whether the asset is to be sold as part of a transfer of the whole or part of the business, whether it is sold independently of the continuing business or whether it is sold on a stand alone basis or in combination with similar or complimentary assets. Until these matters are determined, the valuation process cannot begin.

Proper valuation relies on research, analysis and judgement. If accounting standards start to contain instructions on how to compute value, there is significant risk that the exercise of proper judgement will be compromised. Markets are dynamic. As a consequence, the most appropriate valuation approach will not always remain constant, even for similar assets. Rules which appear rational and constructive in one context can prove irrational and obstructive in another.

The real risk of accounting standards containing instructions on how to value is that they could undermine the objective of fair value accounting, the very one they are meant to support. If the instructions fail to keep step with valuation techniques used by market participants in the real world, the market will perceive there are two types of value; the "real" value and the "accounts" value. The advantages of fair value accounting over historic cost would therefore be eroded or disappear entirely.

As an experienced valuation standard setter, the IVSC realises that even it cannot produce prescriptive rules telling valuers how they must value. Occasionally we can identify procedures that would normally be inappropriate, but rarely can we categorically state that any specific approach would normally be correct. The approach that will arrive at the right valuation will depend upon the facts of each situation and cannot be prescribed by a central authority. It is because valuation is not a strict mathematical exercise and is dependent on judgement that we recognise credibility depends as much on adopting processes that ensure independence and transparency of reporting as it does on technique.

The IVSC intends to develop and maintain the International Valuation Standards, and ensure they are relevant to the entire spectrum of economic decisions for which they may be required. This includes valuation for financial reporting and the IVSC looks forward to cooperating with accounting standard setters to this end.

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The current focus of debate is on the valuation of financial assets and liabilities. From the IVSC's involvement to date, it appears many of the problems experienced in the valuation of financial products are common to valuation problems associated with other asset classes. Common problems or issues do not however imply similar attributes, valuation techniques or implications. Accordingly, and in order to give work in this area the impetus required, the IVSC Board of Trustees has appointed an advisory group of experts involved in the valuation financial instruments. This group's first task is to report on the valuation issues and problems experienced in the sector with the intention of enabling the Board of Trustees to identify and prioritise projects at its meeting in June 2009.

Historically, the IVSC served as a forum for numerous valuation professional associations to share their experiences, problems and insights. Much of this history was in an era of multiple markets. This era has ended and along with it, multiple stand alone markets. In today's global market, the IVSC hopes to provide the sometimes disparate elements of the valuation profession with a global forum. It is in this environment and in this way that the IVSC intends to contribute to the discussions, collaborative plans and eventual outcomes of the accounting standards setters.

We therefore urge the FACG to give serious consideration to articulating and supporting the necessary distinction that must be made between accounting and valuation. The IVSC also believes that once formalized, the distinction between accounting and valuation will lead to ensuring that the respective standards compliment one another in the future.

Sincerely,



Brad Wagar
Chairman, International Valuation Professional Board



Chris Thorne
Chairman, International Valuation Standards Board

Cc Bob Herz, Chairman FASB
Sir David Tweedie, Chairman IASB