



International Valuation Standards Council E-Newsletter

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IVSC Annual Report 2012 -2013

We are delighted to bring you the IVSC Annual Report 2012-2013. The report provides a formal overview of the IVSC's activities, together with audited financial statements. We also reflect upon and illustrate the development of the IVSC in the five years since its restructuring, and look forward to the future under the Chairmanship of Sir David Tweedie.

The IVSC is available in a digital format and can be accessed [directly here](#). Alternatively please get in touch with [Marianne Tissier](#) if you would like to request a hard copy.



Guidance on credit/debit valuation adjustments released

Following a project to identify and promote best practice, the International Valuation Standards Council (IVSC) has issued draft guidance for calculating credit and debit valuation adjustments (CVA/DVA).

The guidance follows the increasing adoption of International Financial Reporting Standards (IFRS) around the world, which has led to a requirement for banks and other financial institutions to make credit and debit valuation adjustments to reflect changes in their credit status.

This requirement has controversially resulted in some banks showing increased profits after a decline in their credit rating because the value of their liabilities has reduced. The accounting requirement has also brought into question how adjustments for changes in the credit worthiness of counterparties should be made when valuing assets and liabilities. This is a particular problem for holdings of derivatives and other financial instruments that have to be recorded at their current value on the balance sheet.

The IVSC's guidance explores these issues and suggests best practice for calculating the adjustments.

Chris Thorne, IVSC Technical Director, comments:

"Because a derivative can change from being an asset to a liability or vice versa during its term, the proper reflection of changes in the credit rating of both counterparties can be a significant challenge. Our aim is to improve consistency in the way these valuation adjustments are carried out."

While the challenge of credit and debit valuation adjustments is a key issue for banks and other financial institutions who both invest and deal in derivatives, it is also of concern for any company

that invests in derivatives. For example, manufacturing companies may hold derivatives to hedge against fluctuations in exchange rates or commodity prices.

Chris Thorne explains:

“The large banks have highly specialised teams and invested in sophisticated systems to calculate valuation adjustments. However, for companies for whom derivatives are not a core activity there is a real need for guidance on this issue.”

A copy of the draft guidance, Credit and Debit Valuation Adjustments, is available [here](#) from the IVSC website. Comments are invited before 28 February 2014.

IVSC Chairman, Sir David Tweedie, appointed to PCAOB Standing Advisory Group

The IVSC welcomes the announcement today that its Chairman, Sir David Tweedie, has been appointed as a member of the Standing Advisory Group of the US Public Company Accounting Oversight Board (PCAOB) for a three year term, beginning in January 2014.

One of the most frequently identified findings from PCAOB inspection reports are instances where auditors appear not to have complied with PCAOB auditing standards relating to fair value measurements of financial instruments, impairment of goodwill, indefinite-lived intangible assets, and other long-lived assets. The frequency with which these issues are encountered demonstrate how difficult it is to audit these areas.

Commenting on his appointment, Sir David said:

“Today, the balance sheets of an increasing number of companies are dominated by valuation estimates, rather than ‘solid numbers’. As a result the valuation process used by management, and the auditor’s review thereof, has had to evolve with management ultimately relying increasingly on outside valuation specialists, requiring auditors to gain a better understanding of the assumptions and methodologies employed by these specialists. I look forward to contributing to ensuring that the process by which important valuations are established and audited is one that can be trusted.”

IVSC Advisory Forum Working Group

The work of the IVSC Advisory Forum is led by the Forum’s Working Group. John Martin, representing the Australian Property Institute, chairs the Advisory Forum and its Working Group. Other members of the Working Group are elected by the Advisory Forum. At the meeting in Tokyo in November, the following were re-elected to the Working Group:

- Anthony Aaron, American Society of Appraisers
- David Bunton, The Appraisal Foundation
- K K Chiu, Hong Kong Institute of Surveyors
- Ben Elder, RICS
- Eleanor Joy, Canadian Institute of Chartered Business Valuators
- Paul Olscamp, Appraisal Institute of Canada
- Leslie Sellers, Appraisal Institute
- Leandro Escobar Torres, Asociación Profesional de Sociadades de Valoración

The following two new members were elected to the Working Group at the November meeting:

- Menhai Chen, China Appraisal Society

- Gilles de Courcel, Fédération Française des Experts en Evaluation

Dates for the diary

27 March 2014

– Professional Board Meeting, *London*

28 March 2014

– Standards Board Meeting, *London*

26 June 2014

– Professional Board Meeting, *London*

30 June 2014

– Standards Board Meeting, *London*

20-24 October 2014 , *Toronto*

- Annual General Meeting
- Advisory Forum
- Professional Board
- Standards Board

Meetings of the Professional Board and Standards Board are open to observers subject to prior registration. Registrations can be made via the IVSC website a month in advance of the meetings and are subject to space being available.

Conferences

OIV Business Valuation Conference

The presentations from the Business Valuation Conference organised by IVSC sponsor, Organismo Italiano di Valutazione (OIV), in November 2013 are available [here](#) on their website.

IVSC Professional Board members, Mauro Bini and Chris Mercer, and the IVSC Technical Director, Chris Thorne, all spoke at the conference.

Singapore

Sir David Tweedie will speak at the inaugural Business Valuation Conference organised by new IVSC member, the Institute of Valuers and Appraisers of Singapore (IVAS), that is to take place on 24-25 March 2014. Further details will be published when available.

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