



Ms. Rohini Tendulkar
International Organization of Securities Commissions (IOSCO)
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Spain

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Dear Ms Tendulkar

Task Force on Cross Border Regulation – Comments on Consultation Report CR09/2014

The IVSC welcomes the opportunity to comment on the proposed Principles set out in the above Consultation Report.

The IVSC is an independent, not-for-profit, private sector organisation formed with the objective of strengthening worldwide valuation practice in the public interest. It achieves this objective by:

- Developing high quality international standards and supporting their adoption and use;
- Facilitating collaboration and cooperation among its member organisations;
- Collaborating and cooperating with other international organisations; and
- Serving as the international voice for the valuation profession

The membership of IVSC comprises over sixty professional valuation bodies from more than fifty countries. The IVSC also receives financial and logistical support from a number of the global valuation firms, a number of banks and from the major accounting global networks.

Firstly we applaud this initiative by IOSCO. The IVSC's focus is purely on valuation. The focus of the Task Force is obviously much wider and concerned with all regulation of the securities and derivatives markets, including trading, products and those involved in the markets. However, valuation is an essential component of these markets. Among other things, valuations are used to support new issuances, mergers and acquisitions, measuring the performance of investments and financial reporting.

From our perspective there is a plethora of nationally or regionally generated regulations that affect the way in which valuations are undertaken for various purposes in the financial markets. Many of these have been introduced in recent years, for example those issued by the European Supervisory Authorities. Some of these regulations are well expressed and can be easily understood and applied by market participants. Others are not as well thought through and are proving problematic to implement. However, the overriding concern is the lack of cross border consistency. Many of the differences between jurisdictions are unintentional and often the result of a lack of coordination or recognition that there are internationally accepted industry norms that could be referenced. However, the result is increased costs of compliance and loss of market efficiency, one of the problems of the current lack of harmonisation acknowledged by the Task Force on page 43 of the Consultation Report.

Our principal comment on the Consultation Report is that it has given insufficient recognition to the contribution that private sector bodies can make to enabling greater harmonisation of cross border regulation. Among the successes the report goes on to identify is the harmonisation of performance reporting standards for asset managers. This harmonisation has come about because of acceptance of the Global Investment Performance Standards (GIPS) issued by a private sector body, the CFA Institute. Although the report indicates that industry participants still identify differences in accounting standards as an impediment to cross border transactions, this is primarily due to a lack of political or regulatory will to enforce adoption of a single set of global standards. Over 130 countries currently require or permit the use of IFRS and while there do remain some notable exceptions, such as the USA, this also demonstrates the role that a private sector body such as the IASB can play in creating standards that are widely recognised across borders.

The private sector has a capability of collaborating across borders in a way that can rarely be achieved by national regulators. A suitably constituted standard setter is able to identify and promulgate globally accepted or acceptable principles. Because its focus is on technical solutions rather than policy objectives it can arrive at its conclusions independently of national political considerations. Each jurisdiction remains in control of the decision as to when the standards apply and for arrangements for monitoring and enforcing compliance, but standards creation at a global level can only be realistically be achieved by private sector bodies.

We therefore recommend that the Task Force consider specifically identifying collaboration with private sector bodies and specifically the use of globally developed standards by suitably constituted private sector bodies as a means of improving the effectiveness of cross border regulation.

The IVSC has produced a Policy Paper that sets out the role which the valuation profession can play in enabling global regulatory convergence and the benefits that this can bring. A copy of this is annexed to this letter.

Yours sincerely

A handwritten signature in black ink, appearing to be 'C G Thorne', with a stylized flourish at the end.

C G Thorne
Technical Director

Enc – Policy Paper



GLOBAL REGULATORY CONVERGENCE AND THE VALUATION PROFESSION

With many corporations and financial institutions now operating globally, convergence of the diverse systems of national regulation of the financial markets is essential for both effective regulation and to facilitate economic growth. Consistent and effective regulation is important in promoting the comparability of financial information, minimising the effects of systemic economic risks, and helping to create a level playing field for international competition. For the valuation profession, regulatory convergence includes the global adoption and implementation of high-quality internationally accepted standards for the undertaking and reporting of those valuations that are relied upon by investors and regulators of the global financial markets.

Introduction

1. Global regulatory convergence is critical for the evolution of a sound, global financial system. To embrace the benefits and manage the risks of belonging to a global economy, nations need to consider the importance of consistent principles, measurements, and reporting with respect to financial information used in decision making. Global regulatory convergence is best achieved by requiring a levelling of standards to those generally accepted as representing best practice in any particular sector, thus creating a level playing field for international competition. Establishing consistent and appropriate regulation around the globe is also vitally important given the increasing systemic importance and interconnectivity of many industries.
2. Achieving global regulatory convergence may assist in providing solutions to problems highlighted by the global financial crisis of 2008, and contribute to greater economic certainty and financial stability. It requires the support of a broad range of key stakeholders - for example, politicians, governments, regulatory bodies, and valuation professional organisations - at the national and international levels.

The Public Interest

3. Valuation is a vital component of much financial information that is relied on by investors or otherwise used to support decisions in the financial markets. This includes financial reporting, managing the solvency of financial institutions, supporting lending or other investment decisions and the pricing of units in collective investment schemes.
4. The IVSC considers the public interest is best served where there is consistent adoption and implementation of high-quality, internationally accepted standards in the preparation and presentation of valuations. Among many things, this will contribute to promoting the comparability of financial information, minimising the effects of systemic economic risks, and helping to create a level playing field for international competition.

5. While global regulatory convergence provides numerous public interest benefits, the IVSC recognises that consideration must be given to the diversity of entities that require regulation and of differences in the factors that influence specific markets or other operating environments. This means that a “one-size-fits-all” regulatory approach may not always be suitable in all jurisdictions. This is reflected in the IVSC’s approach to standard setting which is to produce a limited number of high level, principle based requirements but support these with guidance on how these principles can be applied to different types of asset or liability and for different valuation purposes.

The Valuation Profession

6. The valuation profession can contribute to global regulatory convergence by:
- *developing high-quality, internationally accepted standards,*
 - *promoting the consistent adoption and implementation of such standards by national bodies (eg, governments, institutions, and regulatory organisations), recognising that the legal environments in some jurisdictions may necessitate some modification of the internationally accepted standards or supplemental material to deal with matters of purely national concern; and*
 - *the establishment of regulatory arrangements for valuers that are globally consistent and are based on cooperation and mutual recognition.*
7. The IVSC considers that there should be globally consistent adoption and implementation of standards for the undertaking and reporting of valuation assignments and of professional standards for the competency and ethical conduct for valuation professionals undertaking those assignments.

Benefits of Global Regulatory Convergence

8. There are numerous benefits to be derived from global regulatory convergence for the valuation profession; most notably with respect to the efficient and effective functioning and stability of global capital and debt markets. Global regulatory convergence contributes to:
- Improving the comparability of financial information:- consistent valuation practices support the transparency and credibility of valuation measurements in financial reporting in the global context, increases potential mobility of capital across national borders, and provides decision makers (investors, financial institutions, credit rating agencies, governments, regulators and individuals) with consistently high-quality, reliable information with which to make more informed investment, resource, and policy decisions.
 - Improving the auditability of financial statements:- the adoption and use of globally consistent valuation standards provides auditors with clear benchmarks to indicate whether valuations included in financial statements are reasonably founded.
 - Reducing the effects of systemic risks:- global convergence of standards contributes to minimising uncertainties, and reducing the threats of behaviour such as investor over-confidence, extreme risk-aversion, and/or irrational behaviour that can arise. Uncertainty and the behaviour it encourages potentially heighten systemic risks in globally interconnected markets and sectors (eg, banking, securities, and insurance), especially where they are not properly identified and mitigated.
 - Reducing information costs:- the consistent adoption and implementation of high-quality internationally accepted valuation standards across the globe means that multinational companies can measure assets and liabilities based in different countries consistently, thus

reducing the cost of preparing financial statements and obviating the need for reconciling different valuation approaches.

- Decreasing opportunities for regulatory arbitrage:- global regulatory convergence aims to limit the differences limit the opportunity “regulatory arbitrage.” If valuations are not produced consistently across borders it increases the opportunities for apparent pricing differentials based not on economic fundamentals but caused by different valuation practices.
- Providing an underpinning for a global regulatory system:- the global financial and sovereign debt crises have highlighted the important need for nations, and international cooperative arrangements such as the G-20, to develop global solutions to address global issues. Regulatory convergence is a means by which to facilitate intergovernmental cooperation, greater institutional linkages, and international policy integration.
- Providing additional benefits for developing and emerging economies:- Countries with developing and emerging economies that are looking to establish a robust framework of standards and regulatory arrangements, may not always be in a position to develop their own high-quality standards. Such countries benefit from being able to adopt and implement high-quality, internationally accepted standards that have been developed and issued by internationally recognised standard setters.

Impediments and Challenges

9. There are several challenges and impediments to achieving global regulatory convergence. Overcoming these challenges requires:

- The consistent adoption and implementation of standards that provides for limited modifications, based on the need to address legal requirements within the local environment. The addition of more stringent requirements (“gold-plating”), and “carve-outs” from the standards, should be discouraged. It is important that those people relying on valuations have a clear understanding of the basis on which they have been prepared and the key assumptions made.
- Continued momentum to seek global outcomes - governments and politicians must be encouraged to continue to strive for global solutions. Progress toward global solutions risks being derailed: (i) by inconsistent and/or unilateral decision making, including reforms that have extra-territorial impacts; and (ii) by politicians taking a national - rather than global - view of critical economic issues. This has the potential to promote greater uncertainty and create opportunities for regulatory arbitrage.
- Appropriate arrangements for international bodies - arrangements must be established to ensure that international regulatory organisations that have key responsibilities in the global environment (eg, the Financial Stability Board [FSB], the International Organisation of Securities Commissions [IOSCO], and international standard setters) function effectively.¹ They must: (i) have clearly defined mandates; (ii) be adequately resourced and have necessary capacity; and (iii) strive for international cooperation and coordination, including the establishment of consistent regulatory arrangements across all nations, where possible, as well as mutual recognition of robust regulatory arrangements between jurisdictions (eg, for matters such as oversight and inspection of auditors of public interest entities.)

¹ This includes international bodies representing regulators, as well as public and private sector standard setters.

- Recognition that countries are at different stages of development:
 - Regulatory arrangements that are appropriate for developed economies and mature markets may need to be modified, or introduced according to a different timeline, for developing and emerging markets. Furthermore, the assistance required - in terms of resources, training, skills, and expertise- may be greater for developing and emerging nations. For the adoption and implementation of standards, this includes relevant implementation guidance and other tools.
 - In developed economies and mature markets, there are potentially many impediments that make global regulatory convergence difficult to achieve. These stem from a number of areas, including the legal and regulatory environment, contractual requirements, and enforcement arrangements. Costs associated with changing existing laws, and entrenched systems and arrangements, may be substantial but need to be considered in light of the longer-term benefits of global consistency and outcomes. Furthermore, it suggests that complete one-time convergence may not be possible in all jurisdictions and that a staged approach over a longer period of time might be necessary.

The Role and Work of the IVSC

10. The IVSC aims to promote and advance the global regulatory convergence agenda in several ways. The IVSC promotes global regulatory convergence through:
 - The development of high-quality, internationally accepted valuation standards by an independent standard-setting board;
 - Its adoption and implementation support activities, and
 - Active engagement with valuation professional bodies in membership to promote consistent competency and ethical standards.

High-Quality, Internationally-Accepted Standards

11. Acting in the public interest, the IVSC produces both standards for valuation and professional standards for the valuers who provide valuations.
12. The IVSC Standards Board produces the International Valuation Standards which consist of a set of globally accepted principle based requirements for the undertaking and reporting of valuation assignments, supported by guidance and additional information to aid the consistent application of those requirements to different types of asset or for different valuation purposes.
13. The International Valuation Standards are kept under regular review and there is an active programme to develop the standards into asset classes where there is currently either evidence of inconsistent practice or where there is a an absence of standards at present. An example is the current major focus on the development of valuation standards for financial instruments, where in spite of the systemic significance of the valuations placed on many products there are currently no globally recognised standards for these valuations. The standards are set following an open process including public consultation and outreach to relevant affected parties.
14. The IVSC Professional Board is responsible for developing the valuation profession globally. To this end it develops resources to assist the creation and development of valuation professional bodies in

territories or sectors where there are none at present. It has issued a code of ethical principles that contains fundamental principles of behaviour that must be included in any code of conduct issued by a member professional body. The Board is developing professional standards that will create common benchmarks for the education, accreditation and lifelong learning of valuers provided by the IVSC member bodies. Developing a stronger valuation profession that has comparable standards of competency and ethical conduct around the world will also contribute to improving the consistent delivery of high quality valuation.

Adoption and Implementation Support

15. The IVSC plays an important role as a driver and facilitator of the adoption and implementation of standards. A primary objective of the IVSC is to ensure that standards it develops are widely adopted and implemented, and enable professional valuers worldwide to provide services of consistently high quality in the public interest. The IVSC encourages and facilitates collaboration among valuation professional organisations, regulators, firms, practitioners, international development agencies, and other stakeholders to achieve this goal. Also, in meeting this objective, implementation guidance and tools are developed and issued by the standard-setting boards.

Promotion of consistent competency and ethical standards by IVSC member bodies.

16. The IVSC member bodies have important roles to play in advancing global regulatory convergence in the valuation profession:
 - By complying with the membership obligation to advance the adoption and implementation of the International Valuation Standards;
 - By acting to regulate individual valuers - whether in terms of self-regulation of the profession, or performing shared regulatory responsibilities with government and promoting the benefits of the adoption and implementation of high-quality, internationally accepted standards;
 - Through their relationships with governments and regulators, in promoting the benefits of the adoption and implementation of high-quality, internationally accepted standards, and globally consistent licensing, registration, and oversight arrangements for professional valuers; and
 - When they operate in developed economies, have many years of experience, and receive due respect for their position, assisting members and associates in developing and emerging economies to understand and implement the standards issued by the IVSC.

This Policy Paper has been prepared by the IVSC. The approved text of this Policy Paper is published in the English language. For further information, please email: contact@ivsc.org

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