

Mr Stephen J Sherman, *Chairman*
IVSC Standards Board
International Valuation Standards Council
1 King Street
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Email: commentletters@ivsc.org

28 February 2014

Dear Mr Sherman

Exposure Draft: Credit and Debit Valuation Adjustments

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Valuation Standards Council's Standards Board ('the IVSC's') Exposure Draft *Credit and Debit Valuation Adjustments* ('the exposure draft').

We have not responded to the specific questions in the exposure draft as we consider many of the questions are aimed largely at valuations practitioners. Our primary interest as auditors is how this paper interacts with the fair value measurement requirements as set out in International Financial Reporting Standards (IFRSs) and U.S. Generally Accepted Accounting Practice (US GAAP) between which the requirements for fair value measurement of credit risk are converged.

In this respect, our concern is that the primary purpose or objective of the exposure draft is not clear. The exposure draft provides a reasonably well written summary of the approach of large financial institutions to Credit Valuation Adjustments (CVA)/ Debit Valuation Adjustments (DVA), but the paper is not clear in what context this is relevant. As noted in the Scope and Purpose section of the exposure draft and under the headings 'CVA and DVA in Financial Reporting' and 'CVA and DVA in Regulatory Capital', valuations may be undertaken for a variety of purposes and valuations performed for each purpose may justifiably be different. For example, regulatory reporting may require prudential adjustments that would not be included in a valuation for financial reporting purposes. 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.

We also question who will be the primary beneficiary of a finalised paper. 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 Funding Value Adjustments (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.

If you have any questions concerning our comments, please contact Veronica Poole or Andrew Spooner in London at +44 20 7007 0884 or +44 20 7007 0204 respectively.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V Poole', is positioned above the typed name.

Veronica Poole
Global IFRS Leader