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Assessing fair value practices: Basel Committee issues consultative paper

28 November 2008

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The Basel Committee on Banking Supervision today issued the consultative paper: *Supervisory guidance for assessing banks' financial instrument fair value practices*. The paper provides guidance to banks and banking supervisors to strengthen valuation processes for financial instruments.

Nout Wellink, Chairman of the Basel Committee on Banking Supervision and President of the Netherlands Bank, noted that this work "is part of a broader effort by the Committee to strengthen firm-wide risk management practices. This guidance will help supervisors assess the rigour of banks' valuation processes and promote improvements in risk management and control practices."

The guidance supports one of the key recommendations for enhancing transparency and valuation set out in the April 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*.

The main principles in the Basel Committee guidance include:

- strong valuation governance processes;
- use of reliable inputs and diverse information sources;
- independent verification and validation processes;
- communication of valuation uncertainty to internal and external stakeholders;
- consistency in valuation practices for risk management and reporting; and
- strong supervisory oversight around bank valuation practices.

Comments on the paper are invited and should be submitted by e-mail to: baselcommittee@bis.org by 6 February 2009. Alternatively, comments may be sent to the Secretariat of the Basel Committee on Banking Supervision, Bank for International Settlements, CH-4002 Basel, Switzerland.