ICBS round table on:

VALUATION, PROVISIONING AND RISK DISCLOSURE

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CNMV
Comisión Nacional del Mercado de Valores

FAIR VALUE MEASUREMENT

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I) FAIR-VALUE DEBATE

- Fair value: an element which provides relevance and homogeneity to financial statements

- ...within a set of accounting principles which are arguably not yet perfect:

  – Heterogeneous measurement principles for:

    - financial and non financial assets
    - financial assets and liabilities
    - different types of financial assets and liabilities
    - financial assets and liabilities held for different purposes

- ...partly due to the lack of a comprehensive conceptual framework

- ...and, above all, to the need of pragmatism

  - Technical difficulties to calculate fair value (real assets, non-traded financial instruments)
  - Avoid (apparently) counter-intuitive outcomes (financial liabilities)
  - Limit (excessive) volatility of income statements (a.f.s., h.t.m.)

But, has proved broadly robust in the financial turmoil

- Most effects in banks' trading books (no reasonable alternative)
- Arguments on excessive procyclicality of accounting principles are somewhat exaggerated
  - Fair values are procyclical
  - But, do not lead by themselves to destabilising spirals
  - If, something, accurate measurement contributes to limit excessive risk taking
- Check, instead the role of:
  - Market practices (stop-loss strategies, margin calls)
  - Capital regulation

II) FAIR-VALUE MEASUREMENT

Although, of course, some improvements may be necessary. Among others

- Additional guidance on valuation of financial instruments
- More comprehensive disclosures on valuation techniques
- And, posibly, rethink priority of simplification fair-value project

GUIDANCE ON VALUATION

- Contributions of BCBS, CEBS, CEIOPS, CESR, GPPC, EVP-IASB
- Problems identified
  - Reluctance to use market prices
  - Difficulties to select the right valuation techniques
  - Insufficient disclosures

- What can be done on measurement?
  - Clarify measurement principles
    - Primacy of market information
  - Contribute to sound valuation policies
    - Proper internal valuation procedures
    - Consistency across time and across instruments
    - Importance of own assesement of inputs and techniques
    - Calibrate models against observable data

- What can be done on transparency?
  - Help preparers fill the gap between
    - a general overall principle:

      "Disclose information that enables users of its financial statements to evaluate...

      ...the significance of financial instruments for its financial position and performance (IFRS 7. 7)

      ...the nature and extent of risks arising from financial instruments (IFRS 7.31)"
    - and a limited set of detailed minimum requirements

CNMV COMISIÓN NACIONAL DEL MERCADO DE VALORES

- <u>Instruments</u>

1) Change standards 2) Provide new general interpretations	IASB / IFRIC
3) Monitor internal procedures and valuation policies 4) Provide references and identify good practices	SUPERVISORS / ENFORCERS

- Much more of 3) and 4) than 1) and 2)