

15 September 2012

IVSC
41 Moorgate
London EC2R
United Kingdom

Submitted via CommentLetters@ivsc.org

Re: **Exposure Draft: The role of the Professional Valuer in the Audit Process**

Dear Sir/Madam:

Markit¹ is pleased to submit the following comments to the International Valuation Standards Council (“**IVSC**”) in response to its Exposure Draft on “The Role of the Professional Valuer in the Audit Process” (the “**Exposure Draft**” or “Guide”) prepared by the IVSC’s Professional Board (the “**Board**”).

Introduction

Markit is a provider of financial information services to the global financial markets, offering independent data, valuations, risk analytics, and related services across regions, asset classes and financial instruments. Our products and services are used by a large number of market participants to reduce risk, increase transparency, and improve the operational efficiency in their financial markets activities. As part of our services, we provide a large variety of clients with valuations for financial instruments across regions and products with a focus on products that trade over-the-counter and are hard to value.²

Given our role in providing valuations and our experience in working with auditors on a regular basis in this context, we welcome the publication of the Exposure Draft and we appreciate the opportunity to provide the IVSC with our comments. We believe that, given the increasing level of regulation in the area of valuations,³ it will be important for the IVSC to clearly define the responsibilities of the valuer and the data that is required to support a valuation. We generally feel that the content of the Exposure Draft is appropriate and helpful in this respect. That said, please find below our comments in relation to the questions asked in the Exposure Draft.

Comments

1. Expert roles

The Board identified two principal areas where professional valuers may need guidance on the role of the auditor and the audit process.⁴ The Exposure Draft asked whether these are the only two roles in respect of

¹ Markit is a financial information services company with over 2,700 employees in Europe, North America, and Asia Pacific. The company provides independent data and valuations for financial products across all asset classes in order to reduce risk and improve operational efficiency. Please see www.markit.com for additional information.

² Markit’s Portfolio Valuations service currently provides around 70,000 swap valuations per day to its clients that include the leading fund administrators and investment managers. We provide valuations for individual swaps and SB swaps across all asset classes, including exotic products, as well as CCP settlement prices for credit default swaps and credit indices.

³ For example as part of the AIFM directive. Directive 2011/61/EC of the European Parliament and of the Council on Alternative Investment Fund Managers. 8 June 2011.

⁴ The first would be when acting as an auditor’s expert; the second when acting for an entity in providing valuations that will be included in a financial statement that will be subject to audit.

which valuers need guidance on audit procedures or whether any additional role could be identified. It also asked whether the distinction between the two roles is clearly explained.

We agree with the IVSC that an expert can be appointed by either the auditor (to assist in their audit of financial statements) or by the management of the company (to prepare valuations for inclusion in financial statements). We believe that in either case the valuer should provide the same information to support the valuation.

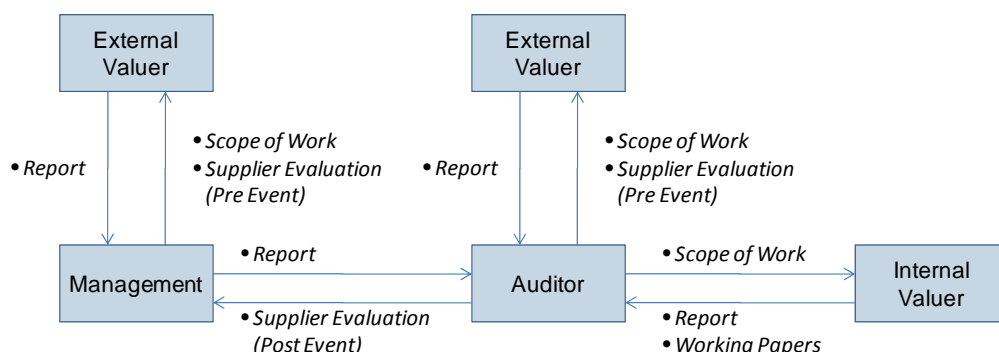
2. Internal / external expert for auditor

Paragraph 15 provides an extract from ISA 620 which explains that an auditor’s expert may be either internal (i.e. a partner or member of staff in the auditor’s firm or of a network firm) or external. The draft Guide proposes that no distinction is necessary between these roles, and that the guidance provided is applicable to both situations. The Exposure Draft asked whether a distinction can be drawn between these roles and whether any additional guidance specific to each role should be provided.

We believe that, in respect to the audit documentation, one needs to distinguish between an internal auditor’s expert and an external auditor’s expert:

- An internal auditor’s expert will be considered to be part of the engagement team and should therefore be required to accept direction from the auditor. Additionally, their working papers will form part of the audit documentation.
- In contrast, an external auditor’s expert should not take instruction from the auditor as the scope of work defines their responsibilities, and their working papers do not form part of the audit documentation. We believe that, in both cases, the expert must confirm the items that are listed in paragraph 21 / IVS 101 2 (a) “Identification And Status Of The Valuer.”

Please find below some additional details regarding the work and reporting flows for valuations prepared by internal and external valuers, whether engaged by management or by an auditor.



3. Auditor’s expert to accept direction from the auditor

In the section “Planning the Assignment” the proposed guidance recommends close liaison between the valuer and the auditor. It further recommends that a valuer who is appointed as an auditor’s expert should regard itself as a member of the auditor’s team and be prepared to accept direction from the auditor. The Board stated that it is aware of the fact that some professional valuers believe that close liaison with a client, whether it be an auditor or not, may threaten their independence and objectivity. The Board does not consider this to be the case given that both the auditor and any experts the auditor appoints are required to provide an independent and objective view of the reasonableness of the valuation measurements provided by the entity’s management. The Exposure Draft asked whether readers support the Board’s view, and

whether there were any examples of how a professional valuer's objectivity may be compromised through close cooperation with an auditor when acting as an auditor's expert.

We believe that it is necessary for the auditor and the auditor's expert to agree the scope of work, including the supporting information that will be needed by the auditor in order for the auditor to meet the requirements of ISA 620. The IVSC recommends that the "auditor's expert should regard themselves as a member of the auditors team and be prepared to accept direction from the auditor." However, we believe that outside the agreed to scope of work, if the auditor's expert was to accept direction, it might indeed threaten the expert's independence and objectivity. If the external auditor's expert has a SSAE16 / ISAE3402 certification for their valuation process we would not expect them to be in a position to take direction from an auditor (except as agreed in the scope of work).

4. Guidance issued by other organisations

The Exposure Draft indicates that, in case that a professional valuer follows the IVSs and any relevant Technical Information Papers or other guidance issued by the IVSC or other organisations, it assists the auditor in verifying that the work is performed in accordance with applicable standards. The Board included a reference to "other organisations" in recognition that the IVSC is not the exclusive provider of valuation guidance, and that guidance issued by other organisations may be accepted by consensus under certain circumstances. However, one might assume that an unqualified reference to "other organisations" may mandate the use of guidance that is inconsistent with IVSC pronouncements and seems to encourage, rather than reduce, diversity. The Exposure Draft asked whether reference should be made to the existence of other organizations' guidance or other pronouncements in this Guide, and whether some qualification or limitation should be provided, or whether a list of other organizations deemed to issue appropriate valuation guidance should be included.

We agree with the IVSC that there are numerous organizations that issue guidance with regards to a valuation, although this guidance will often be specific to particular asset types and/or jurisdictions. We therefore believe that the reference to "other organisations" in paragraph 25 should stand. Although this may not reduce the diversity of requirements for professional valuers, we believe that the IVSC will need to acknowledge that it is not the exclusive provider of valuation guidance and that professional valuers are (and will be) required to comply with many applicable standards.

5. Scope of work

The section "Scope of Work" indicates that a valuer acting as an auditor's expert may only be required to review aspects of a valuation provided by either management or a valuer appointed by management. IVS 101 "Scope of Work" allows significant flexibility in defining the extent of investigation and valuation advice to be provided. If any of the report contents specified in IVS 103 are not required those excluded just need to be identified in the scope of work document. The Exposure Draft asked whether the guidance provided in the "Scope of Work" section for a valuer undertaking a limited review of a reporting entity's valuation when acting as an auditor's expert is sufficient, and whether any aspects merit further attention.

We believe that, in principle, IVS 103 "Reporting" should apply to all work that is performed by a valuer. However, some of the report contents may not be required in cases where a review of methods, models and assumptions is requested and a valuation is not required. In these cases sections IVS 103 5 (f) "Valuation Date" and IVS 103 5 (m) "Amount Of The Valuation Or Valuations" will not be required. We therefore believe that the scope of work should specify the level of detail required for the other sections of the report, especially IVS 103 5 (l) "Valuation Approach And Reasoning".

6. Resources – Appendix 1

Appendix 1 “Resources” of the Exposure Draft contains a list of other documents that are relevant to this guidance and provide further reading on this topic. The IVSC asked whether there are any other relevant and useful documents that should be included.

As stated in our response to Question 4, we believe that the IVSC will need to acknowledge that there are many organisations that issue valuation guidance of some kind. While these might often be specific to particular asset types and/or applicable in specific jurisdictions valuers must take into account and comply with any and all of the standards that are relevant to them. We believe it is therefore worth noting in Appendix 1 “Resources” that other standards may apply.

7. Global application

The Exposure Draft stated that “the proposed guidance is intended to be capable of global application across different jurisdictions. The intention is to focus on broadly applicable principles and to avoid detailed descriptions of aspects of either the role of the auditor or a valuer involved in the audit process.” It asked whether the guidance contains an appropriate level of detail for a global audience, and whether more or less detail should be required, or there were any omissions that are material.

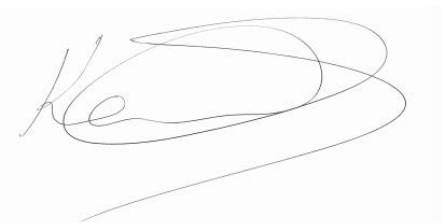
We understand the challenges that are involved when creating a harmonized global guidance. We believe that the IVSC has provided a level of detail that would allow the guidance to be applicable across jurisdictions. However, we also believe that the following technical changes to the proposed language could further clarify the recommendations of the Exposure Draft:

- In paragraph 36 the IVSC states that “...a valuation is not required and therefore IVS 103 is not applicable.” In order to create consistency with paragraph 27 we would recommend changing the language to “... a valuation is not required and, therefore, not all of the items of IVS 103 are applicable.”
- Paragraph 45 documents current practice. The open-ended nature of this obligation raises concerns about the additional costs that might be incurred by a valuer following completion of a valuation report. We therefore suggest that IVS 101 2 “Requirements” be extended to include a sub-section that defines how valuation queries should be handled. It should further specify any compensation that might be due to the valuer for providing this service.

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We appreciate the opportunity to comment on IVSC’s Exposure Draft, “The Role of the Professional valuer in the Audit Process”, and we thank IVSC for considering our comments. In the event you may have any questions, please do not hesitate to contact the undersigned or Colin Southall at colin.southall@markit.com.

Yours sincerely



Kevin Gould
President
Markit North America, Inc.