IRAIF
IREFI

Brussel, 7 januari 2014

MEDEDELING AAN DE ERKENDE REVISOREN
MEDEDELING 2014-2

Geachte Confrater

Betreft: Gebruik door Belgische financiële instellingen van "fair value"-waarderingen in hun geconsolideerde jaarrekening opgesteld in overeenstemming met de IFRS-normen

Deze mededeling werd opgesteld naar aanleiding van de brief van de Nationale Bank van België (de "NBB") van 30 juli 2013 aangaande het gebruik door de Belgische financiële instellingen van "fair value"-waarderingen in hun geconsolideerde jaarrekening (en prudentiële rapportering) opgesteld in overeenstemming met de IFRS-normen[1].

Deze brief werd door de NBB gericht aan de instellingen en hun erkende revisoren naar aanleiding van een transversale bevraging[2] over het gebruik van "fair value"-waarderingen.

Teneinde een consistente controleaanpak te bevorderen en beseffend dat de waardering van financiële instrumenten in een markt die weinig of niet actief is een complexe aangelegenheid is en een belangrijke mate van oordeelsvorming vereist, nodigt de brief van de NBB ons uit de aandacht van de erkende revisoren te vestigen op de beoordeling van het actieve (of inactieve) karakter van de markten, en het gebruik van modellen in weinig of niet actieve markten.

Daarom, wanneer een instelling gebruik maakt van een waardering op basis van modellen, wordt van de erkend revisor verwacht bijzonder kritisch te zijn bij de beoordeling in het bijzonder van de omstandigheden en de kenmerken die geleid hebben tot de inactiviteit van de markt. Nuttige aanwijzingen aangaande de door de erkend revisor uit te voeren werkzaamheden zijn opgenomen in International Auditing Practice Note IAPN 1000,

---

[1] Deze briefwisseling van de NBB is niet de eerste briefwisseling van de prudentiële toezichthouder aangaande dit onderwerp. Zo heeft de CBFA op 25 mei 2009 Mededeling CBFA_2009_23 uitgebracht aangaande « De problematiek van de waardering van activa verhandeld op inactieve markten ». Deze mededeling legt aan aantal voorwaarden op inzake het gebruik van "mark-to-model"-waarderingen door verzekeringsondernemingen in het kader van de waardering van de dekkingswaarden (en vooral de strikte naleving van de IFRS vereisten in dit domein). Gezien het bestaan van deze briefwisseling van de CBFA aan de verzekeringsondernemingen werd het schrijven van 30 juli 2013 enkel gericht aan de financiële instellingen. Wij zijn echter van oordeel dat de lezing van deze brief eveneens van nut is voor de erkende revisoren van de verzekeringsondernemingen.

[2] Deze transversale bevraging betrof de behandeling van schuldinstrumenten (obligaties) in de verslaggeving per 30 juni 2012, dus voor de inwerkingtreding van IFRS 13 (zie uittreksel Bijlage 1).

Institut des Réviseurs Agréés pour les Institutions Financières
Institut Royal
Union professionnelle reconnue

Instituut van de Revisoren Erkend voor de Financiële Instellingen
Koninklijk Instituut
Wettig erkende beroepsvereniging

Bld E. Jacqmainlaan 135/1 – Brussel B-1000 Bruxelles – Tel. : 02/512.51.36 – Fax. 02/512.78.86

« Special considerations in auditing Financial instruments », van december 2011[3]. In bijlage 2, worden enkele relevante passages van deze nota hernomen.
Indien de erkend revisor bij de uitvoering van zijn werkzaamheden elementen vaststelt die kunnen aanzien worden als zijnde incoherent of bijzonder en die het weinig of niet actieve karakter van de markt of de redelijkheid van de "fair value"-waardering van een gegeven financieel instrument in vraag kunnen stellen, kan hij genoodzaakt zijn zijn werkprogramma uit te breiden, bijkomende analyses uit te voeren en de conclusies te trekken die zich eventueel opdringen.

Dit zou het geval kunnen zijn indien volgende situaties zich voordoen:

- het gebruik van verschillende "fair value"-waarderingen in de IFRS jaarrekening en de interne rapporteringen (bijvoorbeeld, een verschillende "fair value"-waardering voor de rapportering naar de groep en de lokale financiële verslaggeving, of een verschillende "fair value"-waardering voor de financiële verslaggeving en het risicobeheer ...);
- het opnemen van activa die verhandeld worden op een weinig of niet actieve markt als liquide activa (tabel 90.31);
- het gebruik, voor eenzelfde effect, van verschillende "fair value"-waarderingen door verschillende entiteiten van de groep, of door de ICB's die door de groep worden beheerd; en
- het voornemen van de instelling om een deel van deze effecten te verkopen tegen een prijs die lager is dan de "modelprijs".

Indien de effecten die gewaardeerd worden gebruik makend van modellen een niet onbelangrijk deel uitmaken van de activa van de instelling, of indien de verschillen tussen de "fair value"-waarderingen bekomen door middel van een model "level 3" en de prijzen vastgesteld op de weinig of niet actieve markt belangrijk zijn, bevelen wij de erkend revisor aan:

- bijzondere aandacht te schenken aan de toelichtingen die vereist zijn overeenkomstig IFRS 13. Hij dient er onder meer op toe te zien dat deze toelichtingen de lezers (met inbegrip van de NBB) toelaten te begrijpen welk type van effecten opgenomen zijn in "level 3";
- dit punt, overeenkomstig de vereisten van de ISA's, onder de aandacht te brengen van de personen die belast zijn met het toezicht op de instelling (in het bijzonder, het auditcomité, indien een dergelijk comité werd opgericht) als zijnde een belangrijk domein waarvoor de directie een beoordeling heeft dienen te maken;
- voor wat de rapportering aangaande de financiële situatie per einde boekjaar ter attentie van de NBB betreft, in hun verslag de voornaamste uitgevoerde werkzaamheden en de vastgestelde bevindingen toe te lichten. In dit verband bevelen wij de erkende revisoren aan hun controleaanpak toe te lichten aangaande de analyse van de belangrijkste elementen waaronder met name het inactieve karakter van de markt, de diepte van de markt, de methodiek voor het callibreren van de geobserveerde prijzen, de aanpassingen ter dekking van het modelrisico, de interne procedures ter validatie van de waardering.

  Indien deze informatie reeds is opgenomen in andere documenten waarvan een kopie werd overgemaakt aan de NBB (bijvoorbeeld de presentatie aan het auditcomité), is het niet meer vereist deze in extenso te hernemen in het verslag aan de NBB (een verwijzing naar deze documenten lijkt ons evenwel gepast).

[3] IAPN 1000 is bijgevoegd in bijlage bij Omzendbrief 2012/06 van het Instituut van de Bedrijfsrevisoren van 18 juni 2012.

IRAIF
IREFI

Deze problematiek is in het bijzonder belangrijk in het kader van de afsluiting per 31 december 2013 ingevolge onder meer (a) de eerste toepassing van IFRS 13 en (b) de "balance sheet assessment" oefening die door de Europese Centrale Bank wordt uitgevoerd.

* * * *

Aarzel niet contact met mij of een ander bestuurslid van het IREFI op te nemen, mocht u vragen hebben aangaande deze mededeling.

Frank Verhaegen
Voorzitter

IRAIF IREFI

Bijlage 1 – Uittreksel norm IFRS 13 Fair Value Measurement

62 The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

64 (...)After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (eg the price for a similar asset or liability) at the measurement date.

87 Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

88 Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (eg when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs B37–B47).

89 An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (eg an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

B38 If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (eg there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (eg when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).

B41 Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (ie not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.

B42 Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgement. An entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

IRAIF IREFI

Bijlage 2 – Uittreksel nota IAPN 1000, Special Considerations in Auditing Financial Instruments

49.Depending on the circumstances, matters that the entity may address when establishing or validating a model for a financial instrument include whether:

- The model is validated prior to usage, with periodic reviews to ensure it is still suitable for its intended use. The entity's validation process may include evaluation of:
  - The methodology's theoretical soundness and mathematical integrity, including the appropriateness of parameters and sensitivities.
  - The consistency and completeness of the model's inputs with market practices, and whether the appropriate inputs are available for use in the model.
- (...)
- The model is appropriately changed or adjusted on a timely basis for changes in market conditions.
- The model is periodically calibrated, reviewed and tested for validity by a separate and objective function. Doing so is a means of ensuring that the model's output is a **fair representation of the value that marketplace participants would ascribe to a financial instrument**.
- The model maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.
- Adjustments are made to the output of the model to reflect the **assumptions marketplace participants would use in similar circumstances**.
- The model is adequately documented, including the model's intended applications and limitations and its key parameters, required data, results of any validation analysis performed and any adjustments made to the output of the model.

72.Application of professional skepticism is required in all circumstances, and the need for professional skepticism increases with the complexity of financial instruments, for example with regard to:

- Evaluating whether sufficient appropriate audit evidence has been obtained, which can be particularly challenging when models are used or in determining if markets are inactive.
- Evaluating management's judgments, and the potential for management bias, in applying the entity's applicable financial reporting framework, in particular management's choice of valuation techniques, use of assumptions in valuation techniques, and addressing circumstances in which the auditor's judgments and management's judgments differ.
- Drawing conclusions based on the audit evidence obtained, for example assessing the reasonableness of valuations prepared by management's experts and evaluating whether disclosures in the financial statements achieve fair presentation.

79.Accordingly, auditing financial instruments may require the involvement of one or more experts or specialists, for example, in the areas of:

- (...)
- Assisting the engagement team gather evidence to support management's valuations or to develop a point estimate or range, especially when fair value is determined by a complex model; when markets are inactive and data and assumptions are difficult to obtain; when unobservable inputs are used; or when management has used an expert.

84.Management's responsibility for the preparation of the financial statements includes applying the requirements of the applicable financial reporting framework to the valuation of financial instruments. ISA 540 requires the auditor to obtain an understanding of how management makes accounting estimates and the data on which accounting estimates are based. Management's approach to valuation also takes into account the selection of an appropriate valuation methodology and the level of the evidence expected to be available. To meet the objective of a fair value measurement, an entity develops a valuation methodology to measure the fair value of financial instruments that considers all relevant market information that is available. A thorough understanding of the financial instrument being valued allows an entity to identify and evaluate the relevant market information available about identical or similar instruments that should be incorporated into the valuation methodology.

108.In accordance with ISA 540, the auditor considers the entity's valuation policies and methodology for data and assumptions used in the valuation methodology. In many cases, the applicable financial reporting framework does not prescribe the valuation methodology. When this is the case, matters that may be relevant to the auditor's understanding of how management values financial instruments include, for example:

- (...)
- Which models may give rise to the greatest risk of material misstatement;
- (...)
- Whether there is a greater risk of material misstatement because management has internally developed a model to be used to value financial instruments or is departing from a valuation technique commonly used to value the particular financial instrument;
- (...)
- Whether there are indicators of management bias in selecting the valuation technique to be used.

109.When evaluating whether the valuation techniques used by an entity are appropriate in the circumstances, and whether controls over valuation techniques are in place, the factors considered by the auditor may include:

- Whether the valuation techniques are commonly used by other market participants and have been previously demonstrated to provide a reliable estimate of prices obtained from market transactions;
- Whether the valuation techniques operate as intended and there are no flaws in their design, particularly under extreme conditions, and whether they have been objectively validated. Indicators of flaws include inconsistent movements relative to benchmarks;
- (...)
- How the valuation techniques are calibrated to the market, including the sensitivity of the valuation techniques to changes in variables;
- Whether market variables and assumptions are used consistently and whether new conditions justify a change in the valuation techniques, market variables or assumptions used;
- (...)
- The organizational structure, such as the existence of an internal department responsible for developing models to value certain instruments, particularly where level 3 inputs are involved. For example, a model development function that is involved in assisting in pricing deals is less objective than one which is functionally and organizationally segregated from the front office; and
- The competence and objectivity of those responsible for the development and application of the valuation techniques, including management's relative experience with particular models that may be newly developed.

The auditor (or auditor's expert) may also independently develop one or more valuation techniques to compare its output with that of the valuation techniques used by management.

113.The susceptibility to management bias, whether intentional or unintentional, increases with the subjectivity of the valuation and the degree of measurement uncertainty. For example, management may tend to ignore observable marketplace assumptions or data and instead use their own internally-developed model if the model yields more favorable results. Even without fraudulent intent, there may be a natural temptation to bias judgments towards the most favorable end of what may be a wide spectrum, rather than the point in the spectrum that might be considered to be most consistent with the applicable financial reporting framework. Changing the valuation technique from period to period without a clear and appropriate reason for doing so may also be an indicator of management bias. Although some form of management bias is inherent in subjective decisions relating to the valuation of financial instruments, when there is intention to mislead, management bias is fraudulent in nature.

126.Where there is a lack of observable external evidence, it is particularly important that those charged with governance have been appropriately engaged to understand the subjectivity of management's valuations and the evidence that has been obtained to support these valuations. In such cases, it may be necessary for the auditor to evaluate whether there has been a thorough review and consideration of the issues, including any documentation, at all appropriate management levels within the entity, including with those charged with governance.

127.When markets become inactive or dislocated, or inputs are unobservable, management's valuations may be more judgmental and less verifiable and, as result, may be less reliable. In such circumstances, the auditor may test the model by a combination of testing controls operated by the entity, evaluating the design and operation of the model, testing the assumptions and data used in the model, and comparing its output to a point estimate or range developed by the auditor or to other third-party valuation techniques.

145.In some cases, auditors may be required, or may consider it appropriate, to communicate directly with regulators or prudential supervisors, in addition to those charged with governance, regarding matters relating to financial instruments. Such communication may be useful throughout the audit. For example, in some jurisdictions, banking regulators seek to cooperate with auditors to share information about the operation and application of controls over financial instrument activities, challenges in valuing financial instruments in inactive markets, and compliance with regulations. This coordination may be helpful to the auditor in identifying risks of material misstatement.