Expert Group on Financial Information CEBS 2009 25 rev2

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Assessment of measures taken with respect to the issues raised in the CEBS June 2008 Valuation report

I. Introduction

In its June 2008 report on issues relating to the valuation of complex and illiquid instruments CEBS announced that it would carefully monitor how accounting and auditing standard setters and institutions address the issues raised in the report and re-assess developments in this area.

This commitment has already been reflected in part in the joint statement which the 3L3 Committees published in October 2008 on the latest developments in accounting. As part of that statement CEBS, together with CESR and CEIOPS, confirmed the importance of a number of additional issues that should be considered further.

Subsequently, CEBS has been explicitly called upon through the EU work plan following the G20 declaration and action plan to provide input in the form of a follow-up to its June 2008 report on valuation, with a position paper to be produced by 31 March 2009. The work plan suggests that CEBS assesses the progress made on the issues raised in its report. In addition CEBS was asked to assess how the measures have been implemented.

The present note provides a discussion of the measures and developments observed since the publication of the CEBS June 2008 report. The appendix contains an overview of the issues raised in the CEBS report and a detailed discussion of the follow-up measures for each of these issues as well as the related assessment.

II. Organisation of the report

When discussing the issues in the appendix and the related follow-up actions or measures it is worthwhile distinguishing, as was the case in the CEBS report, between those aimed at standard setters and those aimed at institutions.

While the assessment of progress regarding the former can be based on relatively straightforward observation, the evaluation of the progress made on the issues addressed to institutions is more complex and is based on input from supervisors gathered in the exercise of their supervisory functions or in the course of discussions with the industry in general.

The table also shows that for the issues addressed to standard setters, and in particular to the IASB, many have been taken up and actively worked on. Assessing whether or not the actions and measures and their implementation are satisfactory is an important part of the objective of the present exercise and has been achieved by means of exchanges between CEBS members during the first quarter of 2009.

III. Main findings

A. Issues to be addressed by the IASB/ IAASB

As previously mentioned many of the issues raised in the June 2008 Valuation report addressed to the IASB have been taken up to a greater or lesser extent. The assessment nevertheless shows some variation as to whether the follow-up measures are considered to be complete. To assist readers, the issues and the related follow-up actions have been differentiated by the extent to which they have been addressed:

1. Issues addressed, but clarifications required;

This seems especially to be the case for issues (1), (2) and (3) of the appendix, which generally ask for more specific *guidance on the use of fair values and modelling techniques*. While the educational guidance issued by the IASB Expert Advisory Panel addresses most of the points, it misses out on a few specific aspects as set out in the appendix. CEBS is of the view that these should be further addressed.

In addition it is felt that the standing of the educational guidance should be elevated. In particular it is felt that the statements issued by the FASB are clearer in that respect. It is suggested that the IASB addresses these points as part of its project on Fair Value Measurement and also raises the issues with the Financial Crisis Advisory Group.

Issues (4) and (5), which called for further *guidance around the possibilities to classify (or reclassify) certain instruments*, have been largely clarified by the October 2008 amendments to IAS 39 (and IFRS 7). The recent publication of the amendments to IFRIC 9 and IAS 39 (March 2009) clarifies the question of reclassification of structured instruments that contain of embedded derivatives , although the publication has not addressed whether the IFRS treatment is in line with US GAAP.

2*. Issues unaddressed, further follow-up announced:*

There are a number of issues where follow-up has been announced but the measures that have been taken so far do not address the points made by CEBS. This is notably the case for issue (6) asking the IASB for *changes to the impairment measurement rules for available for sale assets*. That said, the IASB has issued an exposure draft concerning enhanced disclosures for investments in debt securities in IFRS 7, but that document was not supported by most stakeholders and the IASB has decided not to proceed with it.

Although the IASB has aimed to address issue (6) partly through the proposed additional disclosures requirements for investments in debt securities, CEBS reiterated in its comment letter on the proposed ED that the IASB should change the measurement aspect of impairment for available for sale debt securities. CEBS urges the IASB to address this issue urgently and will follow very closely any developments in this area, whether in the short run or as part of a longer-term project on impairment which the IASB has recently announced.

3*. Issues unaddressed, outlook unclear:*

There are also issues that have so far not been addressed at all and where it is unclear what the intended follow-up will be. This especially seems to be the case for issues (7) and (8) - albeit to a lesser extent for the latter – which both aim at obtaining further clarity on wider valuation-related issues.

Issue (7) calls for *consistency with regard to the treatment of Day 1 profits and losses* while issue (8) calls for *convergence regarding the determination of the effect of own credit risk and related disclosures*.

While it has been noted that the IASB intends to issue an Invitation to Comment on the topic of Credit Standing in early 2009, CEBS is not convinced that these efforts will clarify how the effect should be determined. CEBS therefore urges the IASB to address both issues as part of its Fair Value Measurement project

4. Issues addressed, final assessment pending

Issues (11) and (13) have been addressed but the final assessment depends on further work to be carried out by the standard setters.

This is in particular the case for issue (11) which is related to *transparency and disclosure*. The points raised by CEBS in this context have to be assessed against the proposals the IASB made as part of its October 2008 proposed amendments to IFRS 7. The CEBS comment letter suggested that these efforts are only partly satisfactory, which is why it was suggested that the IASB should further address this issue. A first preliminary analysis of the recently published Amendments to IFRS 7 *Improving Disclosures about Financial Instruments* suggests that this is not entirely the case.

Issue (13) on the other hand relates to the efforts of the IAASB to provide further *guidance for the area of auditing fair values*. With the publication by the IAASB of the audit practice alert and the announcement of further possible guidance, CEBS will continue to closely monitor this area.

B. Issues to be addressed by the institutions and others

5. Assessment pending

Issues (9) and (12) are aimed at institutions. While the latter deals with *institutions' disclosures and transparency*, the former addresses a whole set of *issues to be addressed by institutions, ranging from valuation practices to risk management and governance issues*. Issues (10) and (14) are respectively addressed at EU institutions and at the audit profession.

The assessment of the follow-up on issue (12) is covered by the Transparency work that CEBS has committed to carry out in the first half of 2009. CEBS will come up with further proposals for measures, if necessary, once the different parts of its work have been completed.

For the assessment of issue (9) CEBS relied on the experiences and information that supervisors gathered in the past months as part of their supervisory responsibilities and in discussions with the banking industry.

The responses[1] indicate that some level of improvement has been observed for most of the issues raised in the valuation report, even though to a varying

[1] In considering these main findings it should be borne in mind that institutions have been affected differently by the global financial crisis. Similarly not all institutions were

degree. Progress and improvements have been observed in particular for the following:

- issues related to classification aspects: (9) iv) (as per the appendix);
- issues related to the process of making investment and business decisions as well as risk management: (9) viii) and x); and
- issues relating to transparency: (9) ix) where further work is ongoing.

Despite the developments observed on these issues, the responses also indicate that further efforts could be made and should be encouraged by supervisors.

Further progress and improvements have to be made on the following:

- issues related to valuation methodologies and processes: (9) i), ii), iii) and v);
- issues arising from wider valuation- related aspects (impairment and fair value option): (9) vi) and vii).

In particular it is felt that efforts have to be made to ensure that all these issues are adequately addressed across countries and institutions. Supervisors should therefore engage in a dialogue with the industry to further promote these issues.

Issue (10) specifically deals with the extension of the application of the prudent valuation guidance from the trading book to the banking book.

Finally issue (14) requests the audit profession to work with their clients on providing meaningful disclosures. Depending on the outcome on issue (12), CEBS could engage in further discussions with audit firms on this topic.

IV. Conclusions

Generally speaking the assessment suggests that so far most issues raised by CEBS in its June 2008 Valuation report have not as yet been fully addressed. In particular this is the case with the issues addressed to standard setters, specifically the IASB.

As regards issues addressed to the IASB, CEBS concluded that:

- the issues of greatest relevance that the IASB should deal with are:
  - address impairment measurement issues for available-for-sale assets - although CEBS acknowledges that a comprehensive review of accounting for impairment is taking place,
  - achieve consistency with regard to the treatment of Day 1 profits and losses; and
  - reach convergence regarding the determination of the effect of own credit risk and related disclosures.
- progress has been made as regards guidance on the measurement of fair values and modelling techniques, although there are still a number of particular aspects of valuations that require further clarification;

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directly – or indirectly - concerned by the issues raised in the CEBS valuation report and accordingly by the findings of this report. The findings moreover have to be considered with due care and should not necessarily be seen as entirely representative.

- further clarifications should also be provided on the consistency of IFRS and US GAAP with respect to the reclassification of structured instruments containing embedded derivatives (especially synthetic CDOs).

As concerns issues raised to institutions, CEBS – rather similarly - concluded that:

- progress and improvements have been observed for the classification (and re-classification) of complex and illiquid financial instruments and, more generally, for issues relating to the process of making investment and business decisions as well as risk management;
- further efforts should be encouraged with respect to banks' valuation methodologies and processes and regarding wider valuation-related aspects such as impairment measurement and the application of the fair value option.

There are also a number of areas that CEBS continues to monitor or to work on, including:

- transparency and disclosure: where CEBS is not only assessing banks' disclosures – a first report based on the 2008 preliminary year-end reports will be available at the end of March – but also closely monitoring any developments at IASB level;
- auditing fair values: where CEBS will continue to monitor closely the work of the IAASB in developing, where necessary, further guidance .

Furthermore, CEBS urges institutions to achieve further progress in the areas identified above, and encourages its members to engage in a dialogue with banks to evaluate whether the steps taken are sufficient. Similarly CEBS would encourage standard-setters to engage in a more systematic and intensive exchange with supervisors and regulators in order to ensure that prudential concerns are addressed.

Appendix

A. Challenges for the valuation of complex or illiquid financial instruments			
	Issues to be addressed by the IASB (from the June CEBS report)	***Reaction / status***	***Assessment***
Valuation guidance			
(1) *(2)* *(3)*	- *The IASB to clarify the circumstances and criteria under which institutions should resort to modelling techniques and to provide further guidance on what can be considered to be active markets and what constitute observable inputs.* - *The IASB to issue guidance to improve the consistency of the classification of fair values between the different hierarchy levels across institutions. In particular the guidance should clarify under which conditions:* o *valuations that rely solely on primary market transactions for similar instruments can be used in the context of the classification of fair values in the hierarchy ; and* o *consensus pricing services (and quotations from brokers when not supported by actual trades) can be used as input to the fair valuation process and for purposes of classification into the fair value hierarchy.* - *The IASB to clarify the list of factors that should be considered as input to valuation techniques in the application guidance to IAS 39 (AG82). Factors needing further consideration include counterparty risk, liquidity risk and model risk. The IASB should in this context also clarify the approach to unit of account in IAS 39.*	The IASB published educational guidance on the application of fair value measurement when markets become inactive. This guidance comprises a summary document prepared by IASB staff and the final report of the expert advisory panel established in response to the requests from the FSF to consider this issue. It takes into consideration and is consistent with recent documents issued by the US Financial Accounting Standards Board (FASB) on 10 October and by the Office of the Chief Accountant of the US Securities and Exchange Commission (SEC) and FASB staff on 30 September. (1) The sections 'Evaluating available market information' (p. 16-24) and 'Using models' (p. 25-29) elaborate on the circumstances and criteria under which institutions should resort to modelling techniques and provide guidance on what can be considered to be active markets / observable inputs. (2) Previous sections and especially the section 'Applying the fair value measurement objective' (p. 9-12) aim at improving the consistency of the classification of fair values between the different hierarchy levels. While the guidance includes some directions for the use of consensus pricing services (p. 19-23) it does not seem to explicitly address whether valuations that solely rely on primary market transactions for similar instruments can be used in the context of the classification of fair values in the hierarchy. (3) The sections 'Using models', 'Valuation adjustments' (p.29) clarifiy the list of factors that should be considered (including those listed by CEBS in its June 2008 report). The guidance does however not address whether in considering these factors entities have to use an item-by-item approach or whether the valuation could be made on the basis of a portfolio. That may be because clarification might require changes to the IAS 39 AG (specifically AG 72 & AG 82).	*CEBS recognises that progress has been made with the publication of the educational guidance.* *At the same time, CEBS is of the view that, as discussed before, the guidance should be further clarified with regard to the use of primary market transactions for similar instruments and should also explicitly address others (e.g. the question of whether the consideration of factors under (3) has to be under an item-by-item approach).* *Moreover the IASB should consider how to elevate the standing of the educational guidance as well as issuing clear statements such as those published by the FASB staff. The fair value measurement project seems to be an appropriate vehicle for addressing this. In addition these issues should be addressed by the Financial Crisis Advisory Group.*

Reclassification issues			
(4)	*- The IASB to clarify whether it is possible to classify exposures intended for securitisation or syndication elsewhere than into the trading category when securitisation or syndication does not occur.*	Both issues (4 and 5) have been addressed by the IASB, albeit indirectly, with its October 2008 amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets.* On the other hand it is not clear that the IASB has addressed a related issue briefly mentioned in the June 2008 Valuation report, which refers to the possibility of reclassifying structured instruments that contain embedded derivatives. The European Commission addressed this issue in its October 2008 statement. The recent publication of the amendments to IFRIC 9 and IAS 39 (March 2009) clarifies the question of reclassification of structured instruments with embedded derivatives, although it has not been addressed whether the IFRS treatment for such instruments (namely synthetic CDOs) is in line with US GAAP.	*To be addressed by the IASB and FASB.*
(5)	*- In the same way it should be clarified whether it is possible to reclassify loan positions from the loans and receivables category to the AFS category and vice versa.*		
Wider valuation-related issues			
(6)	*- The IASB to examine possible changes to the impairment rules for available for sale assets.*	The December 2008 ED Investments in Debt Instruments proposes to introduce disclosures in this respect. In its comment letter CEBS questions the added value of the proposed disclosures on their own and instead suggests changing the measurement of impairment for AFS debt instruments and introducing related disclosures. While CEBS notes that the boards have announced that they will address the whole question of impairment as part of an urgent broader project in 2009 ([read more]), it is felt that this issue should be dealt with urgently. In that context CEBS also notes that the SEC's Study on Mark-to-Market Accounting contains a recommendation (#4) for readdressing the accounting for financial assets impairment.	*CEBS urges the IASB to address the impairment measurement issue urgently and will closely monitor developments in this area over the near and longer term.*
(7)	*- The IASB to clarify the accounting provisions with regard to the treatment of Day 1 profits and losses to ensure consistency in this respect.*	Issue (7) has not yet been addressed even though the topic is currently under consideration by the Board as part of the Fair Value Measurement project (December 2008 IASB Update). The IASB should not modify the IAS 39 treatment unless that is the conclusion after full debate and due process. In that context it should be noted that in July 2008 CEBS had raised the accounting treatment of Day 1 profits with the European Commission for consideration in the EU Roundtable for the consistent application of IFRS, with the view to analysing whether this issue could be put on the IFRIC agenda. Currently it is not clear whether the EU Roundtable will convene again	*While stakeholders benefit from disclosures in this area, CEBS nonetheless urges the IASB to address this issue urgently as part of the Fair Value Measurement project.*

(8)	- *The IASB to clarify the accounting provisions to ensure consistency with regard to the determination of the effect of own credit risk and to enhance disclosures on own credit risk for liabilities held for trading.*	Issue (8) has been discussed in the educational guidance on the application of fair value measurement when markets become inactive prepared by the IASB Expert Advisory Panel even though it is not felt that this is enough to ensure consistent calculation. CEBS also notes that the issue is currently under consideration by the Board. It appears from the recent Board meetings that an invitation to comment will be issued by the IASB in early 2009. It is however not clear whether these efforts will result in clarifications of how the effect should be determined. It should also be noted that the SEC report includes a recommendation (# 3) for the FASB to consider additional guidance on how the impact of a change in credit risk on the value of an asset or liability should be estimated. In the main text the SEC recommends that the FASB assesses whether the incorporation of a company's own credit risk in the measurement of liabilities provides decision-useful information to investors, including whether sufficient transparency is provided currently in practice.	*CEBS urges the IASB to consider whether further guidance on calculation methods as well as further disclosures would be appropriate.*

	Issues to be addressed by institutions	***Reaction / status***	***Assessment***
Issues related to institutions' valuation models			
(9)	*i) Institutions to devote sufficient resources, both in terms of quality and quantity, to model approval and review, independent price verification and stress testing, as well as to internal control units. Consistent and rigorous valuation practices should be applied throughout the banking group.*	Members mentioned that the question of resources depends on the size of the financial institutions as well as on the significance of the products under consideration for institutions' risk profiles and it seems that often for larger, more directly concerned, institutions improvements have been made. These improvements mostly relate to valuation processes and methodologies for exotic products. Some also reported a strengthening of independent price verification and internal control units. In some cases these resource improvements also refer to system enhancements.	*Improvements have been made although they do not seem to cover all aspects or all institutions.*
	ii) On a regular basis, institutions to assess the need to develop back-up valuation models for complex and potentially illiquid instruments.	Some members reported that there is as yet no use of back-up valuation models even though there is increased resort to mark-to–model valuations during the crisis.	*Additional follow-up should be made.*
	iii) Institutions to enhance their risk management practices, notably as regards the incorporation of all appropriate risk factors in valuation practices.	Most respondents reported improvements in this area through reviews of methodologies and specific risk assessments. At the same time it was mentioned that in some cases institutions have switched to own valuation models following the publication of the IASB's Fair value guidance and that these models value instruments only on the basis of discounted cash flows, without	*Improvements have been made although they do not seem to apply across the board. The issue should be followed up and further improvements should be*

		taking into account e.g. liquidity and credit risk aspects. It was also reported that institutions increasingly resort to valuation services.	*encouraged.*
	iv) Institutions to enhance their policies and procedures as regards the initial classification of financial instruments into an accounting category, being mindful of the strict reclassification rules that exist in IAS 39. Notably, accounting classification should not be used with the view to achieving a particular capital treatment if this is disconnected from the business intent of the institution.	Members indicated that currently there is a focus on reclassification rather than 'initial classifications'. Some noted in this context initiatives at national level aiming at developing best practice recommendations that promote a high level of management awareness of the classification/reclassification issue. Additionally it was mentioned that for some institutions there was room for improving processes and controls around the classification of certain transactions (notably instruments with embedded derivatives).	*Improvements have been made although it is unclear whether they apply broadly. In some areas (such as the treatment of embedded derivatives) additional follow-up seems necessary so that it will be important to monitor developments at the IASB level. .*
	v) Institutions to apply the same valuation processes and diligence when valuing financial instruments irrespective of the accounting categories that they have been allocated to or whether the fair values are purely used for disclosure.	Most respondents indicated that institutions seem to apply the same process and methodologies to all transactions, irrespective of accounting considerations. At the same time some mentioned that the valuation frequency in some cases differs as a result of the accounting treatment. It was however also mentioned that in some cases the level of controls for is not the same for all assets (e.g. AFS as they do not impact profit or loss).	*Improvements have been made even though in some cases it seems as if further improvements could be made.*
	vi) Institutions to ensure rigorous implementation of the impairment rules for instruments that are classified as available for sale and to ensure that the deterioration of assets' credit quality is reflected on a timely basis in institutions' financial statements and regulatory capital.	Some members noted that the importance of this issue has been reiterated to institutions. Others indicated that the measurement differences for impairment between (and even within) the different accounting categories are a cause of problems. It was also mentioned that in some cases it was observed that the impairment assessment was not always correctly carried out (e.g. in the sense that impairment of AFS equity instruments did not always take into account prolonged declines in value below cost). One member indicated that guidance on this has been provided.	*The issue should be followed up and improvements should be encouraged. In addition it will be important to monitor developments at the IASB level.*
	vii) Institutions to create awareness in the market that in the event of an improvement in market conditions previously recorded gains stemming from financial liabilities designated at fair value attributable to changes in institutions' own credit risk will be absorbed by corresponding losses.	Some respondents indicated that awareness of the effect of a possible upswing has been improved through increased disclosures, even though it was noted that the information is not detailed.	*The issue should be followed up and improvements should be encouraged.*

	viii) Institutions to apply sound criteria for investment and business decisions and to diligently analyse the related underlying risks and characteristics of a transaction prior to engaging in it. In the absence of appropriate information that would complicate the valuation of the position in times of stress, it is expected that institutions will refrain from engaging in these transactions.	Some respondents have indicated that institutions seem to increasingly refrain from transactions where risks cannot be properly assessed or even discontinue activities. Others reported the strengthening of governance and approval processes as well as reviews of the functioning of 'New Products Committees'.	*Improvements have been made.*
	ix) The EU industry associations to continue their efforts to ensure that investors obtain all relevant information with respect to complex financial instruments (especially as regards structured products and securitisation activities).	Some respondents indicate that disclosures continue to be a focal point for industry associations and regulators. The guidance issued by the industry associations in December 2008 for Pillar 3 disclosures on securitization transactions bears witness to this. Some members also indicated that they referred institutions to the CEBS good practice disclosures and/or to the FSF recommendations.	*Improvements have been made although further follow-up is necessary (and ongoing consideration by means of the work on Transparency).*
	x) Institutions to pay due attention to both net and gross exposures in managing their risks and to adequately take into account correlation and concentration risks when 'hedging' exposures.	A number of respondents have indicated that they observed improvements in this area.	*Improvements have been made.*
	Issues to be addressed by the EU institutions	***Reaction / status***	***Assessment***
Application of prudent valuation principles			
(10)	*- Directive 2006/48/CE to be amended to ensure that the 'prudent valuation methods', 'valuation adjustments and reserves' and 'standards for less liquid positions' sections of Directive 2006/49/CE, Annex VII, part B apply to all positions, whether in the regulatory trading book or in the banking book.*	The draft CRD does not address this issue.	*Issue (10) to be considered*

B. Transparency on valuation practices and methodologies as well as related uncertainty			
	Issues to be addressed by the IASB (from the June CEBS report)	***Reaction / status***	***Assessment***
Enhanced disclosures			
(11)	*- The IASB to review IFRS 7 in the light of the current developments and to consider in particular the incorporation of quantitative disclosures on fair values determined under each of the different levels of the fair value hierarchy, as well as quantitative disclosures on stress scenarios reflecting the sensitivity and uncertainty of valuations.*	In October 2008 the IASB issued an ED with proposed amendments to financial instruments disclosures. CEBS commented on this ED and suggested further consideration of the point made in its June report. In addition CEBS suggested that the IASB considers how the educational guidance issued in October, which provides ample guidance for enhanced disclosures about financial instruments when markets are no longer active and about fair value measurement, could be incorporated into IFRS 7. In this context it should also be noted that the latter guidance does not seem to address the issue of quantitative disclosures on stress scenarios reflecting the sensitivity and uncertainty of valuations A first preliminary analysis of the recently published Amendments to IFRS 7 Improving Disclosures about Financial Instruments suggests that that not all of the points have been taken into account. While the final amendments incorporate some of the guidance, other issues have not been addressed.	*CEBS will closely monitor developments in this area.*
	Issues to be addressed by institutions	***Reaction / status***	***Assessment***
Enhanced disclosures			
(12)	*- Institutions to enhance their disclosures on fair values and on valuation techniques by providing information on:* *o financial instruments to which fair values are applied;* *o treatment of Day 1 profits (including quantitative information);* *o use of the fair value option (including its conditions for use) and related amounts (with appropriate breakdowns);* *o the fair value hierarchy, including a breakdown of all exposures measured at fair value by*	Issue (12) is to be analysed in the context of the 2009 work on Transparency. The outcome of this work, which will be delivered in two steps (due by March and June) will determine the need for further measures	*To be assessed in due course.*

	different levels of the fair value hierarchy, with a breakdown between cash and derivative instruments and disclosures on migrations between the different levels; o *a description of modelling techniques and of the instruments to which they are applied, in particular:* o *valuation processes, including the assumptions and input factors institutions use in modelling techniques;* o *the type of adjustments applied to reflect model risk and other valuation uncertainties;* o *sensitivity of fair values; and* o *stress scenarios.*		

C) Auditing of fair value estimates:			
	Issues to be addressed by the IAASB (from the June CEBS report)	***Reaction / status***	***Assessment***
Guidance for the auditing of fair values			
(13)	- *The IAASB to pursue its efforts regarding the consideration of lessons learned during the market turmoil through consultation with audit firms, audit oversight bodies and relevant regulators.* *Based on these consultations, the IAASB should enhance its audit guidance on implementing the revised ISA 540, where necessary, on valuations of financial instruments derived from models, and the related disclosures. Such enhancements would moreover assist in improving audit quality, which is critical to market confidence.* *CEBS could contribute to these consultations by holding a round-table with audit firms which covers the issues that have arisen, and the lessons to be learned, in the audit of valuation and disclosure of financial instruments where there are illiquid markets.*	*In October, the IAASB staff issued a practice alert entitled Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment. The alert was developed following consultation with the IAASB's Task Force on Fair Value Auditing Guidance, which is considering the need for new or modified guidance in the light of current marketplace issues.* *The alert aims to highlight areas within the International Standards on Auditing (ISAs) that are particularly relevant to the audit of fair value estimates in times of market uncertainty.* *It directs auditors to the recently revised ISA 540 (Revised and Redrafted), Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, which is effective for audits of financial statements for periods beginning on or after December 15, 2009 but includes useful guidance to auditors planning their 2008 engagements.* *The Task Force on Fair Value Auditing Guidance is exploring whether and how any further auditing guidance should be developed. As part of that process, it is undertaking consultations and discussions with relevant stakeholders on the subject (e.g. on consensus pricing services; third party fund valuations).*	*CEBS will continue to monitor developments in this area, and will input and feedback as appropriate.*

	Issues to be addressed by audit firms (from the June CEBS report)	***Reaction / status***	***Assessment***
Assessment of disclosures			
(14)	*- Audit firms to work with their banking clients to ensure that their disclosures around these valuations are clear and meaningful on the methodology used for valuation of financial instruments and the uncertainty around those valuations.*	Depending on the outcome of the transparency assessment, the Auditing Subgroup could consider engaging in discussions with audit firms on this topic.	*To be considered in due course*