



European Banking Authority

April 16, 2024

RE: Consultation on Regulatory Technical Standards on prudent valuation

The International Private Equity and Venture Capital Valuation Board (IPEV Board) appreciates and welcomes the opportunity to respond to the Consultation Paper on the Amending Regulatory Technical Standards on Prudent Valuation. The IPEV Valuation Guidelines are a basis for driving robust and consistent valuation estimates for private investments in compliance with International Financial Reporting Standards (IFRS), specifically IFRS 13. There is great importance for the private equity investment community to be able to obtain and rely on consistently determined fair value estimates. Fair Value Measurement is a subject area where preparers, users, auditors and valuers face challenges in both estimating and understanding true measures of value.

The IPEV Board is responsible for maintaining and updating the IPEV Valuation Guidelines, launched in March 2005 and which were last revised in December 2022 (available at www.privateequityvaluation.com). The IPEV Valuation Guidelines provide the private equity industry with best practice in consistently estimating the fair value of investments compliant with IFRS and US GAAP. Valuation guidelines are used by the private equity and venture capital industry for valuing private investments and provide a framework for fund managers and investors to monitor the value of existing investments.

The IPEV Valuation Guidelines, embraced by a multitude of private equity and venture capital associations globally, serve as a cornerstone in the valuation processes of professional and institutional investors. Many institutional investors not only accept but insist on the inclusion of the IPEV Guidelines in their Limited Partnership Agreements, often stipulating them as the sole accepted approach to valuation. This insistence underscores their commitment to standardized and transparent valuation practices, which are essential for informed decision-making within the investment landscape.

Based on our reading of the Consultation Paper, we believe that there is a mischaracterization of the rigor and reliability applied when estimating fair value by many managers in the private investment industry. We fully support the EBA in your goal to provide proper guidance with respect to prudent valuation. We object to the use of the fall-back approach for difficult to value assets based solely on the flawed premise that private investments cannot be corroborated with any observable market data. The private investment industry has taken significant strides to ensure reliability and consistency when valuing private investments. It is misleading to characterize the multi-trillion Euro private investment market as unreliable.

Specific Concerns

Paragraph 44 of the consultation paper states: *Contrary to the valuation of listed equities where quoted prices are available to stakeholders, the valuation of unlisted equities held at fair value cannot be corroborated with any observable market data in many instances. In addition, accounting standards leave room for institutions on how to value those positions. Footnote 7 to this paragraph states: IFRS13 mentions the usage of the income approach or the market approach as valuation techniques when observable prices are not available for these positions.*

IFRS 13 does much more than mention the income approach or the market approach. IFRS 13 requires the use of the income approach or the market approach (and in limited circumstances the replacement cost approach) and encourages the use of multiple approaches. The IPEV Guidelines provide specific guidance on applying these approaches. Both the income and the market approaches incorporate observable market data along with unobservable data to determine fair value based on market participant perspectives as to what would be received in an orderly transaction as of the measurement date (valuation date).

Of course, there are some managers who have a less robust process than others, however the accounting standard is clear, and the private equity industry as a whole has substantially improved the rigor of their valuation processes by implementing guidance such as that provided by IPEV. It is misleading to imply that private assets are somehow substandard just because they do not trade frequently. Informed judgment is required to value private assets. There is an established rigorous framework to value such assets and when applied this framework provides valuation results which are consistent, objective and reliable for the financial reporting needs of managers and investors alike.

We strongly encourage the EBA to modify its approach to and bias against private investments. Private investments represent a significant and growing segment of the economy and provide capital for innovation and economic growth. It would be counterproductive for the EBA through its rulemaking to inadvertently taint a segment of the economy which is providing returns to pension beneficiaries, and other investors, and growth capital for young, developing and established companies.

We appreciate the opportunity to provide the EBA with our feedback. We would be pleased to discuss any questions you may have with you.

Please direct specific questions to Paul Cunningham, Chairman of the IPEV Board (pcunningham@heliosllp.com) or Martin Bresson, Secretary of the IPEV Board (contact@privateequityvaluation.com).

Very truly yours,



Paul Cunningham

Chairman, The International Private Equity and Venture Capital Valuation Board

The International Private Equity and Venture Capital Valuation Guidelines

The International Private Equity and Venture Capital Valuation Guidelines ([IPEV Guidelines](#)) were launched in March 2005 and were last revised in December 2022. Application of the IPVE Guidelines allows greater comparability across the industry and for consistency with IFRS and US GAAP accounting principles. Valuation guidelines are used by the private equity and venture capital industry for valuing private equity investments and provide a framework for fund managers and investors to monitor the value of existing investments. The IPEV Guidelines are based on the overall principle of 'fair value' in order to be consistent with IFRS and US GAAP.

The International Private Equity and Venture Capital Valuation Board ([IPEV Board](#)) reports and is accountable to a general assembly composed of all the endorsing associations to manage the evolution of the guidelines going forward. The IPEV Guidelines have been endorsed globally by more than 40 national and regional trade associations.

For more information: <http://www.privateequityvaluation.com>.