



Lincoln International Valuations & Opinions Group

Introduction to International Valuation Standards Council

Proposed Financial Instruments Standards – IVS 500

2023 June 27

Speakers



Larry Levine

Managing Director

Lincoln Valuations & Opinions Group

Board Member

International Valuation Standards Council – Financial Instruments Board



Doug Summa

Vice Chairman – Financial Instruments Board

International Valuation Standards Council



Lucas Weiss

Director

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Seconded to

International Valuation Standards Council – Financial Instruments Board

Lincoln's International, Integrated Platform Drives Results

420+ bankers in Americas

250+ bankers in Europe

30+ bankers in Asia

2022 Summary

- 355+ completed assignments worldwide
- 51% of M&A transactions with strategic acquirers
- 38% of M&A transactions were cross-border

Globally integrated across **20+** offices and **700+** professionals worldwide

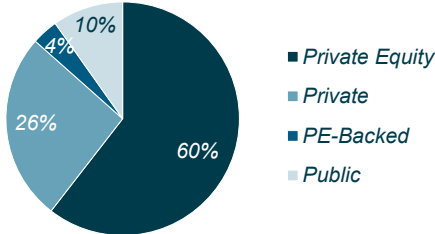
Connected professionals aligned for client success

Deep industry and product expertise and relationships

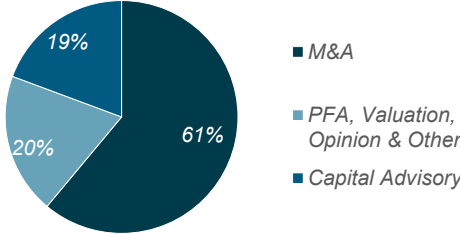
Strategic advice with thoughtful execution



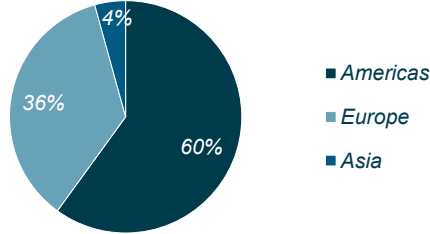
2022 Client Type; All Transactions



2022 Transaction Type



2022 Bankers by Geography



Lincoln's Valuations & Opinions Group

Lincoln's experienced team of professionals is highly active...

4,750+

Portfolio Valuations per Quarter

400+

Years of Senior Banker Experience

160bn+

Quarterly Securities Valued ⁽¹⁾

140+

Alternative Asset Manager Clients

50+

Transaction Opinions ⁽²⁾

Senior Attention, Institutional Focus and Experienced Execution Team

Investment Banking Service and Delivery Model with Superior Execution

Transaction Experience and Real Time Knowledge of Capital Markets

Technical Expertise Valuing Private, Illiquid and Complex Investments and Structures

Significant Experience Communicating with all Stakeholders

Differentiated Service Model and Private Market Insights Driven by Best-In-Class Technology Platform

Private Equity, Investment Grade, Private Credit and Complex Financial Instruments

...providing a comprehensive range of Valuations and Opinions services

Portfolio Valuations	Complex Financial Instruments	Transaction Opinions	Valuation Advisory
<ul style="list-style-type: none"> Provided daily, weekly, monthly, quarterly, semiannually, and/or annually Offers positive assurance, range of values, and point estimates Flexible deliverable, including both short and standard-form reporting Consult on internally prepared valuations Review of valuation policies and procedures Data analytics and benchmarking analyses 	<ul style="list-style-type: none"> Pool and / or loan level valuations CECL advisory services Litigation / expert testimony Loss modeling services Model review and advisory Portfolio analytics and stress-testing Pre-acquisition portfolio analysis Risk retention valuation services Underwriting due diligence services 	<ul style="list-style-type: none"> Buy- or sell-side M&A going-private transactions Cross-fund / related party transactions Recapitalizations (majority / minority) Special situations (i.e., debt exchanges) Bond indenture affiliate party covenants Stock buyback / redemption transactions Spin-offs / split-off 	<ul style="list-style-type: none"> Asset and portfolio stress-testing Strategic planning Estate / gift tax planning Litigation / expert testimony Stock compensation Debt capacity analysis Business combinations Goodwill and intangibles

(1) As of Q4 2022

(2) In 2022

Objectives

- 1** Explain the **mission** of the International Valuation Standards Council (IVSC)
- 2** **Introduce** the recent draft International Valuation Standards (IVS) 500 – **Financial instruments Standard**
- 3** The IVSC has requested **comments on the draft International Valuation Standards** by July 28th

Who is the IVSC?



**INTERNATIONAL
VALUATION
STANDARDS
COUNCIL**

The International Valuation Standards Council (IVSC), is a London-based, non-profit organization that establishes global valuation standards.

Mission:

Enhance the quality and credibility of valuation practices worldwide. This is achieved by:

1

Creating robust International Valuation Standards (IVS) providing for consistency, transparency, and comparability in valuations, globally.

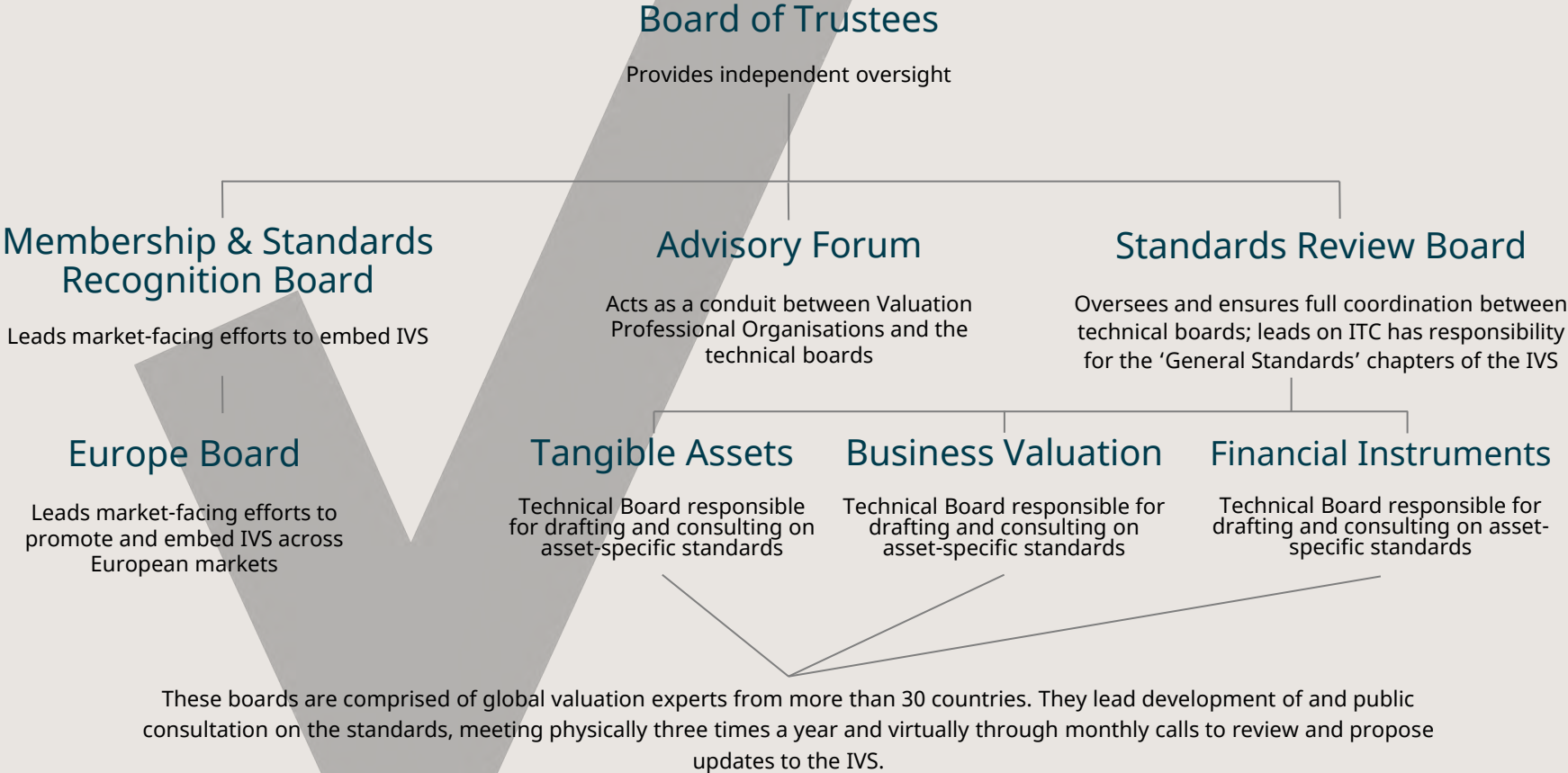
2

Encourage the adoption of IVS by valuation professionals and users of valuations.

3

Collaborate with Valuation Professional Organizations (VPOs) across the globe.

IVSC Organization



Relationship between IOSCO and IVSC



- The International Organization of Securities Commissions (“IOSCO”) is an international body of the world's securities regulators and is recognized as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation.
- IOSCO and the IVSC, in October 2022, executed a Statement of Cooperation whereby both organizations endeavor to enhance their collaboration with the aim of identifying approaches to promote high quality valuation practices.
- Among other areas of agreement, IOSCO will:
 - Gain an understanding of the IVSs, with the aim of assessing whether they address valuation risk areas as identified by securities regulators.
 - Provide input to the IVSC on proposed amendments to IVSs and developments that are relevant to valuations used for financial reporting and assist in identifying emerging issues concerning valuations.

IVSC Enhancement Project



Rapidly expanding global markets and global valuation needs



Changes caused by technology and the abundance of available data sources



Increased use of specialists and service providers



Increased demand by stakeholders, including financial institutions, investors, and regulators, for clarity related to valuation process and the management of valuation risk.



Additional demands on valuation professionals to address:

- new types of assets or liabilities,
 - the impact of illiquid financial instruments due to the growth of the private capital markets, and
 - the application of valuations into areas such as environmental, social and governance (ESG).
-

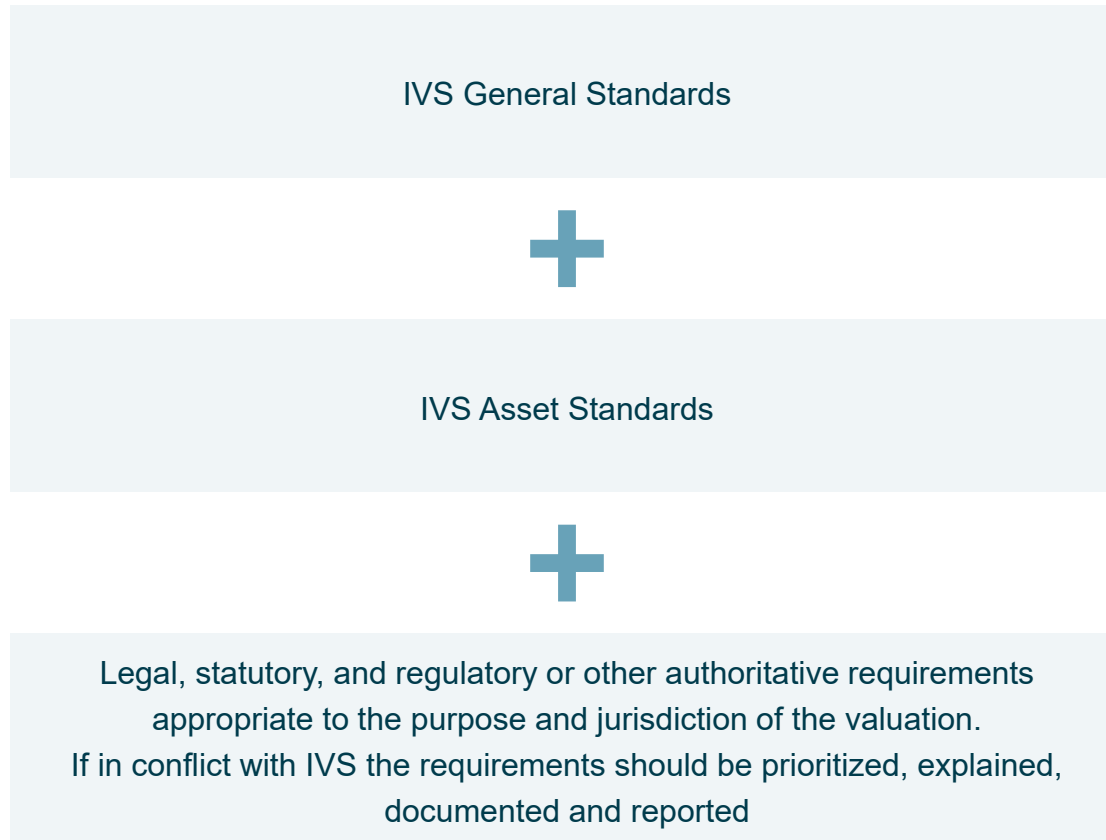
Overview of IVSC Standards



- Principle based (i.e., not rules based like GAAP)
- Applies to the valuation of all asset and liabilities
- Applies to any use of a valuation (e.g., financial, tax and regulatory reporting)
- Designed to parallel the flow of a valuation process
- Describes General Standards (to be applied to all valuations) and Asset Standards (to be applied to specific types of valuations; e.g., financial instruments, business valuations and tangible and intangible assets and liabilities)
- Creates a valuation framework
- Provides information as to standards that are required for all valuations as well as additional requirements for more complex and/or significant valuations
- For a valuation to be compliant it must meet the requirements of the IVSC General Standards and the relevant Asset Standards

IVS Compliance Hierarchy

Compliance hierarchy – Compliance is a Function of:



Any other deviations would render the valuation not compliant with IVS.

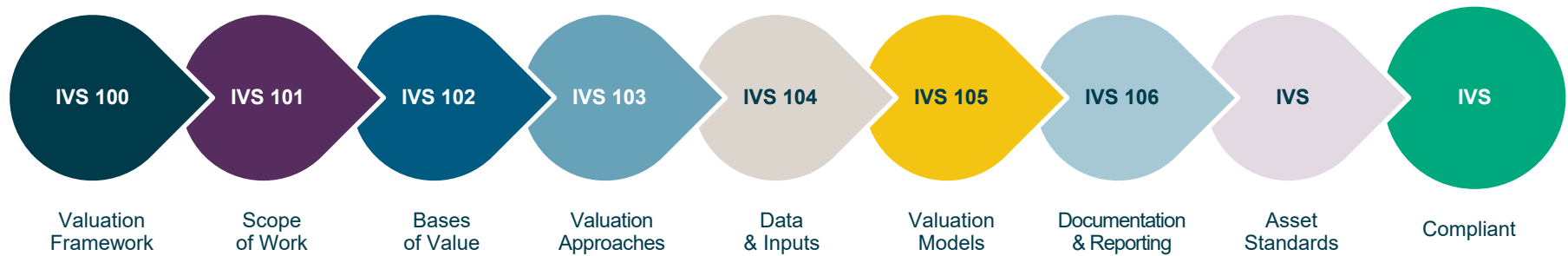
IVS Valuation Process

Applies to all asset classes.

Describes key processes to which we believe we need to have standards.

Clarifies the connection between the IVS General Standards and Asset Standards.

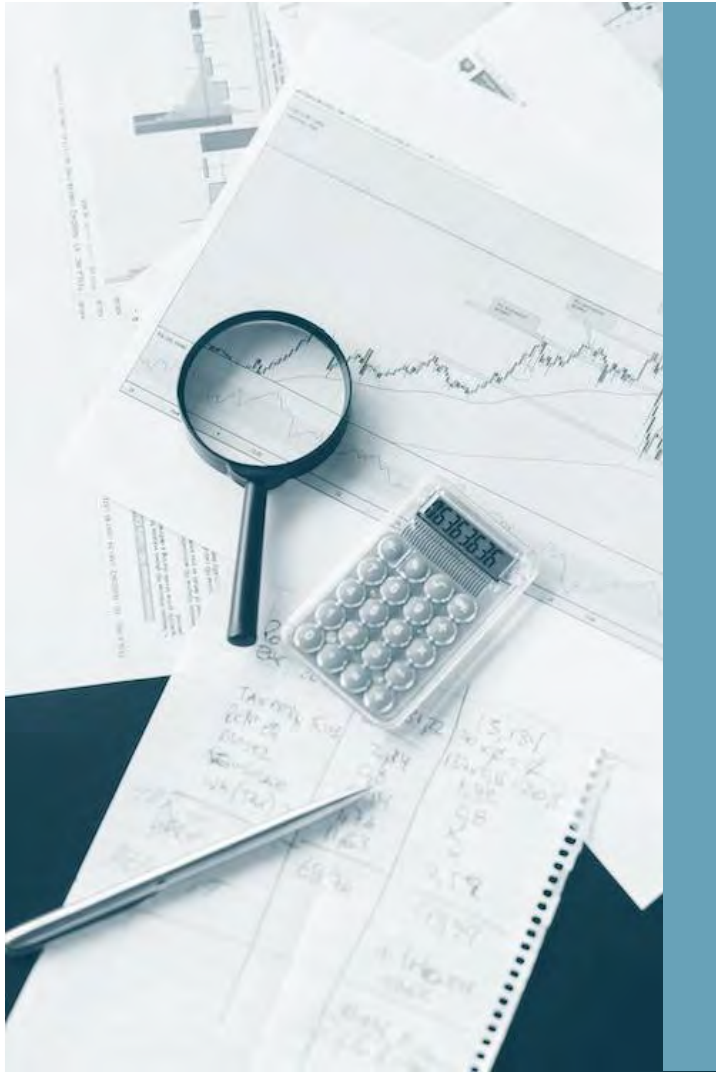
Provides flexibility for inclusion of additional Asset Standards.



Relationship of IVS General and Asset Standards



Enhancements to IVS 500 – Financial Instruments



▪ Unlike other VPO standards:

- It is global in perspective. Relevant for an entity located in a developed country and within an emerging market
- Addresses the relationship between the valuer, the client and the user
- It does not state how to do a valuation but rather what process should be followed

▪ Relevant for:

- All sizes of firms throughout the world
- Level 1, level 2 and level 3 securities
- One financial instrument as well as a portfolio
- One time and recurring (i.e., daily) valuations
- Internal and external valuation specialists and service organizations

▪ Must be applied in all valuations of financial instruments including financial, tax and regulatory reporting

IVS 500 – Areas of Focus

The 4 Core Principles of IVS 500 – Financial Instruments



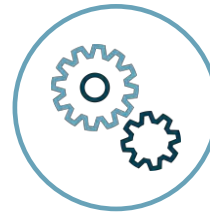
GOVERNANCE

- A process that enables the valuer to fulfill their obligations.
- Includes a review and challenge process.
- Enable a bias free and independent valuation process.



DATA AND INPUTS

- Dependent on the structure and liquidity of the financial instrument.
- Data and inputs may include observable market data but may also incorporate the use of: (a) proxies; and, (b) judgment.



METHODS AND MODELS

- A method is a specific technique, within a valuation approach, to develop a value.
- A model is a quantitative implementation of a valuation method in whole or in part that converts input data into outputs used in the development of a value.



QUALITY CONTROL

- For instruments of high valuation risk, the level of quality control and documentation required will be significantly greater than that required for valuations with low valuation risk.

Summary of Key Attributes

Attribute	Data and Inputs	Methods and Models	Governance and Quality Control
Accuracy	Free from error and bias	Error free and valued consistent with the valuation's objectives	Valuations are prepared in a manner that is bias-free and objective; values are similarly free from error and bias while reflecting the financial instrument's characteristics
Appropriateness	Relevant for the financial instrument	Suitable for the financial instrument given market conditions	Result in values that are relevant to the users of the valuation
Completeness	Based on the financial instrument's attributes	Addresses all features of the financial instrument	Valuation processes are consistently followed
Observability	Information is obtainable and visible to market participants	Reflect market conditions as of the valuation date	The review process affirms that the valuation reflects market conditions as of the valuation date
Timeliness	Reflect valuation date market conditions	The method and model is appropriate based on market conditions as of the valuation date	Controls executed in a time frame that enables effective remediation of issues without impacting the timeliness of the reported valuation
Transparent	Information traced to their origin	Understand how the valuation model works and any inherent limitations are disclosed	All persons preparing and relying on the valuation model understand how the valuation model works and its limitations
Documentation	To ensure the valuation produces a value consistent with the intended use in a transparent manner while identifying significant valuation risks based on the use of selected data	Addresses alternate valuation methods considered, rationale for model(s) selected, model validation, recalculation and back testing	Identify Include all relevant communications, assessment of risks, degree of judgment used, and quality control and governance procedures followed, review and challenge process, and the basis for conclusions reached

Key Take-Aways



The valuation process, including **quality controls**, must ensure that values developed are appropriate based on the requirements of the users needs, intended use, basis of value and the financial instrument being valued, while managing valuation risk.



The **valuation process may vary** due to the data available, the model used, and the complexity and significance of the financial instrument being valued.



Professional judgements made during the valuation must be **transparent and documented**



Quality controls should include a degree of **independent review and challenge**. Review and challenge should assess the professional judgements made during the valuation and in determining the value



The valuation process, including quality controls, must be **reassessed over time** since financial instruments and the environment in which they can change

Key dates



Comments can be submitted in the following ways:



Email
aaronsohn@ivsc.org



Online
<https://www.ivsc.org/>



Link to PDF
[Exposure Draft PDF](#)



Questions?

Appendix

Appendix 1



Governance

Appendix 2



Data and Inputs

Appendix 3



Methods and Models

Appendix 4



Quality Control





Governance

APPENDIX 1 - IVS 500

The governance framework should:

- Define roles and responsibilities of each party in the valuation
- Identify responsible parties, including quality control, review and challenge, with sufficient capabilities and resources to fulfil their responsibilities
- Provide for escalation, and remediation procedures
- Consider:
 - basis of value,
 - types and extent of valuation risk
 - type of data, inputs, methods and models to perform the valuation
 - documentation requirements
 - timeline and frequency
- The responsibility for the performance of individual processes within the valuation may vary depending on an organization's structure.
 - Regardless, responsibilities must be documented and reviewed periodically to ensure accountability for the execution of the valuation.
- A critical component of the valuation process starts a progression which allows for the initial valuation conclusion to be evaluated in a manner maximizing an independent and bias-free fair value conclusion.
- In instances where the valuation is not approved, the valuation should:
 - evaluate the information obtained from the review process,
 - modify the valuation as deemed appropriate, and,
 - submit the valuation for re-review.



Data and Inputs

APPENDIX 2 - IVS 500

- Data and inputs should be assessed for objectivity, and procedures performed to determine any limitations, assumptions or bias.
 - The valuer and the review process must apply professional skepticism and evaluate the valuation in a bias free manner.
- The use of factual information should be maximized but valuations may include the need for professional judgment and analysis in order to complete the valuation.
- The characteristics of the selected data must be fully understood by the valuer and throughout the review process.
- The valuation may include observable market data such as stock prices and yields from liquid debt and equity markets; however, it may also require the use of information and assumptions that require adjustments.



Methods and Models

APPENDIX 3 - IVS 500

- A model is a quantitative implementation of a method in whole or in part that converts input data into outputs used in the development of a value. A model may rely on other models to derive its inputs or adjust its outputs.
- For a valuation model to be appropriate, it must be suitable for the intended use of the valuation with suitable inputs as of the valuation date.
- The use of valuation models inherently presents valuation risk. Valuation risk may arise due to:
 - fundamentally incorrect models; or,
 - misapplication of models.
- The potential for error in valuation models necessitates the importance of a comprehensive process around valuation model development and quality control.



Methods and Models – continued

APPENDIX 3 - IVS 500

- A valuation model may not capture all the qualitative and quantitative variables that impact value.
 - Maximizing the quality of the information and assumptions will reduce estimation uncertainty but cannot reduce exposure to information that is difficult to capture in a valuation model.
 - Assumptions and limitations must be transparent to all parties involved in the valuation.
 - As the amount of relevant information omitted from the valuation increases, the potential for valuation risk and measurement error increases.
- Models should be tested and validated prior to use and over time.
- Qualitative information and professional judgment must be evaluated, including the logic, amount of professional judgment, and types of information used, to establish the conceptual soundness of the model.
 - The validation process must ensure that qualitative and professional judgment assessments are conducted in an appropriate and systematic manner, are supported, and documented.



Quality Control

APPENDIX 4 - IVS 500

- Quality controls must be implemented to address the valuation risk throughout the entire valuation process. The nature and extent of the quality control process depends on the nature and complexity of the valuation.
- Quality controls must be appropriately designed, executed and documented in a manner that is commensurate with the level of valuation risk and affirms the completeness and integrity of the valuation process.
- Procedures should be designed to validate that the valuation processes are performed consistently in compliance with IVS and allow for the assessment of the valuation and the resulting value.
- Valuation risk must be mitigated through the implementation of robust quality controls.
- Quality controls should include a degree of independent review and challenge. Review and challenge should assess the professional judgments made during the valuation and in determining the value.
- Quality controls should be reassessed over time since financial instruments and the environment in which they can change.
- The review process should ensure that the valuation is appropriate based on the requirements of the users needs, intended use, basis of value and the financial instrument being valued.

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