



22 December 2010

International Valuations Standards Council  
41 Moorgate  
LONDON EC2R 6PP  
United Kingdom  
By email: [ivsc@ivsc.org](mailto:ivsc@ivsc.org)

Dear Sirs,

**Comments on Discussion Paper - Valuation uncertainty**

Thank you for the opportunity for The Institute of Chartered Accountants in Australia (the Institute) to provide comments on your Valuation Uncertainty Discussion Paper.

The Institute is the professional body representing Chartered Accountants in Australia. Our reach extends to more than 66,000 of today's and tomorrow's business leaders, representing some 54,000 Chartered Accountants and 12,000 of Australia's best accounting graduates who are currently enrolled in our world class postgraduate program. Our members work in diverse roles across commerce and industry, academia, government and public practice throughout Australia and in 109 countries around the world.

In general, we consider that in all cases, valuations should be provided as a range reflecting the degree of valuation uncertainty. These ranges should be supported by a qualitative and, where possible, quantitative rationales together with qualitative disclosure of general nature of valuation uncertainty. Furthermore, we consider it would be helpful to standardise the definition of what a valuation range is meant to convey to the user of the report.

Detailed comments on the discussion paper are set out in the Appendix to this letter. These were prepared by the Institute's Business Valuation Special Interest Group (BVSIG), a special interest group whose members are most affected by the issues in the Discussion Paper.

In July 2005, the Institute established the Business Valuation Special Interest Group for the benefit of the Institute, members and stakeholders, including regulators and the community. The BVSIG currently has approximately 1,000 members working in the field of business valuation. The group's aims including the promotion of improved standards in the areas of business valuation, as well as improving the profile, connectivity and education of business valuation practitioners in Australia. The BVSIG is represented in most states and nationally.

Should you have any questions in relation to the matters discussed in the attached document, please contact Richard Stewart, Chair, BVSIG on +61282668839.

Yours sincerely,

Lee White  
Executive General Manager, Members  
The Institute of Chartered Accountants in Australia

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## Valuation Uncertainty

We agree that all valuations are subject to uncertainty. The range of uncertainty in our view extends from:

- On the low end: Highly liquid and low volatility assets trading in mature and well informed markets, such as US treasury paper. In these cases, it would be unlikely that a valuation as envisaged by the IVS would be required in practice.
- At the other extreme: Illiquid, volatile and uncertain assets, trading in immature and asymmetrically informed markets, often with skewed distributions of value outcomes. Examples include art works, pre-feasibility mineral developments, or early stage business ventures.

In taking this perspective, we consider that the bifurcation of market risk and valuation uncertainty as contemplated in the discussion paper is not a helpful separation in practice.

Furthermore, in practice it is common to express valuation opinions as a range reflecting the uncertainties described above. We consider it would be helpful to clarify, in your guidance, what information valuation ranges are expected to convey.

For example, in a market valuation, does the range reflect the price at which the Valuer expects a transaction would be concluded in, say, 7 out of 10 occasions under the market assumptions adopted in the valuation?

To illustrate the impact of this, we are aware of property valuations in this jurisdiction where the Valuers have been held by the Courts to be negligent if a concluded transaction price is more than 10% of the mid-point of their value estimate.

We consider that this approach by the Courts does not appropriately reflect the uncertainties in Valuations, and additional clarity in International Valuation Standards would be helpful in resolving this confusion.

**1** Do you agree that it is only when material, or abnormal, uncertainty attaches to a valuation on a specific time or date that that specific disclosure is necessary when the valuation is reported? If not please explain why you consider that an uncertainty statement should be provided in all cases.

## Response

We do not agree that disclosure is required only in unusual situations, as we consider that all valuations provided by Valuers in practice are subject to some uncertainty.

In our view, all valuation conclusions should be expressed as a range. The supporting methodology, assumptions and calculations should make it clear how the range is determined. Best practice already suggests that all material assumptions and the rationale behind those assumptions be disclosed. As noted above, the basis by which Valuers determine the range would benefit from definition and standardization to make it clear to the reader of a valuation report what a valuation range means.

General uncertainty statements should also be conveyed in all cases, so that users do not regard the valuation as equivalent to a certain fact.



**2** Do you believe that the Board has identified all major sources and types of material valuation uncertainty? If not please identify what additional causes of uncertainty exist and how often you encounter these in practice.

### Response

Yes, subject to the bifurcation issue described in the introduction to this appendix, we consider that the Board has identified all major uncertainties.

**3** Do you agree with the Board's conclusion that an explanation of any abnormal uncertainty identified and an explanation of the impact this has on the valuation ( a qualitative statement) is more helpful to users in understanding the valuation than a purely numeric expression of the range of possible values created by the uncertainty (a quantitative statement)?

### Response

No, we do not agree that qualitative descriptions are more helpful. As noted above, the conclusion or supporting calculations should be expressed as a range, which subject to the definitional clarity suggested above, we consider the most useful disclosure.

Again, general discussion of the basis of valuation uncertainty would be also useful in all cases, but of less use than the quantitative range.

Where the range is abnormal further disclosure should be required with respect to the reasons for the additional uncertainty.

In addition, if the value is expected to be volatile (subject to an abnormal level of change) that should be disclosed together with the reasons.

**4** Do you think the IVSB should include an explicit requirement in the proposed IVS 105, Valuation Reporting, to disclose any material uncertainty or is the principle that requires valuation reports not to be ambiguous or misleading sufficient?

### Response

Yes, the standards should include specific disclosure requirements as follows:

- The general nature of valuation uncertainty
- The range of value outcomes and the basis for that range
- A description of the sources of uncertainty, and if practical, the quantitative range of uncertainty that exist around key valuation assumptions.

**5** Do you consider that there are cases where a qualitative statement of the causes and impact of uncertainty on the valuation is inadequate and should be either augmented or replaced by a quantitative statement? If so please

- a. state the circumstances and assets classes where you believe that quantitative statements are more helpful to users and,
- b. provide a brief explanation or example of the type of quantitative statement that you believe would be useful.



### Response

Yes, we consider that a qualitative statement would be insufficient in all cases. As noted above we believe that all valuation conclusions or supporting calculations should be stated as a range which indicates the degree of uncertainty, supplemented by qualitative discussion regarding the nature of valuation uncertainty in general and the specific uncertainties relevant to the subject asset.

**6** Do you consider that it would be helpful if IVSC developed guidance on methods for making a quantitative disclosure of uncertainty under specific circumstances? If so please indicate the circumstances and any methods that you either use or encounter in your market.

### Response

No, we consider it would be helpful if the IVSC developed the guidance on quantitative disclosure in all cases.

In this market, the range of values is typically determined heuristically, or occasionally on the basis of Monte Carlo analysis.

As noted above, the basis for the valuation range would benefit from some definition and standardization across markets. This would benefit both users of valuation reports and Valuers. It would be within the context of these definitions that methodological guidance would be helpful.