Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through email (CommentLetters@ivsc.org)

24 December 2010

International Valuation Standards Council
41 Moorgate
London EC2R 6PP
United Kingdom

Dear Sir,

IVSC Discussion Paper *Valuation Uncertainty*

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Discussion Paper (DP). Our responses to the questions raised in your Discussion Paper are set out in the Appendix for your consideration.

We support the IVSC's efforts to improve the transparency and disclosures on valuation uncertainty. We believe the use of quantitative and qualitative information is useful for users of the valuation. Quantitatively, it would be appropriate to include the valuation results as a range supported by assumptions used in the report. Unless a single point estimate is required, the supporting calculations should provide a range. Qualitatively, we generally agree with the conclusion sets out in the Discussion Paper that for disclosure of material uncertainty to be useful it will normally require a commentary on the nature and causes of uncertainty.

We consider that an uncertainty statement should be provided in all cases stating whether there is material or abnormal uncertainty that has been recognized by valuers in the valuation report. We understand that an assessment as to whether there is material or abnormal uncertainty is a matter of professional judgment and the judgment on the materiality of uncertainty will depend upon the purpose and the context of the valuation. We agree with the current approach adopted by the IVSC not to provide bright-line rules on materiality. However, we believe that some sort of implementation guidance should be developed by the IVSC on the extent of the information that should be included in the uncertainty statement to make it useful, such as the nature of uncertainty, the level that is normal or abnormal for the market and the asset involved, the necessary assumptions that have been made in the valuation and how this is reflected in the reported valuation.

In June 2010, the IASB issued an exposure draft on "Measurement Uncertainty Analysis Disclosure for Fair Value Measurements" which sets out a proposal to require disclosure of a "measurement uncertainty analysis" of the inputs used to measure fair value in Level 3 in the financial statements. We have previously expressed our concerns that the proposed disclosure requirements as currently written in the IASB exposure draft will be difficult for financial statement preparers to operationalize. We consider the proposal only provides information on possible different values but does not provide information about how the correlation of relevant unobservable inputs has

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influenced the disclosed fair value. We recommend that the IASB works closely with the IVSC to consider qualitative disclosure alternatives.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/WC/jn

Encl.

Hong Kong Institute of CPAs

Comments on the IVSC Discussion Paper *Valuation Uncertainty*

<u>Question 1</u>

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.

We consider that an uncertainty statement should be provided in all cases stating whether there is material or abnormal uncertainty that has been recognized by valuers in the valuation report so as to enhance transparency. Such a statement would be applicable for valuation conclusions or their supporting calculations presented in a range outside of their normal parameters. We understand that an assessment as to whether there is material or abnormal uncertainty or whether presented in a range outside of normal parameters is a matter of professional judgment and the judgment on the materiality of uncertainty will depend upon the purpose and the context of the valuation. We agree with the current approach adopted by the IVSC not to provide bright-line rules on materiality. However, we believe that some sort of implementation guidance should be developed by the IVSC, which includes discussion on factors that would be considered in determining whether there is material or abnormal uncertainty and provides illustrative examples based on different circumstances and market conditions.

<u>Question 2</u>

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.

We agree that status of valuer, scope of work, market uncertainty, model uncertainty and input uncertainty are the major sources and types of material valuation uncertainty.

<u>Question 3</u>

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)?

We agree with the Board's conclusion that a purely numeric illustration will not result in a better understanding of the valuation by the user without accompanying a suitable supporting explanation. We believe it would be more helpful for users to understand the nature or extent of the uncertainty, the level that is normal or abnormal for the market and the asset involved, the necessary methodology, assumptions and calculations that have been made in the valuation including the range of such valuation if applicable, and how this is reflected in the reported valuation. We suggest the IVSB should develop guidance on disclosures required in valuation reports on valuation uncertainty.

Question 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?

Consistent with Question 1, we agree that the IVSB should include an explicit requirement in the standard to disclose any material uncertainty.

Question 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.

We agree with the conclusion of the IVSB that a quantitative measure of valuation uncertainty including a range to indicate the degree of uncertainty should be of more benefit to users of financial statements if this data were considered in the context of a suitable explanatory statement that identifies the source of uncertainty and impact they had on the valuation process. Therefore we believe that a qualitative statement should be prepared in all cases whenever a quantitative assessment is presented.

Under IFRS, it is generally considered that valuation uncertainty is of particular concern if "unobservable inputs" are used in the valuation. Nevertheless, we believe that it would be useful for the IVSB to develop guidance to explain that uncertainty not only affects assets and liabilities valued in Level 3, it can and does arise at all levels of the IASB's valuation hierarchy. We agree with the comments stated in paragraph 30 of the Discussion Paper that material uncertainty may still arise in Level 1.

Question 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.

We believe that valuation standards need to be principles-based in order that they can be applied by the practitioner with a proper consideration of all the relevant factors. However, we aware that more practical implementation guidance would be welcomed by emerging economies such as China as those entities might find it difficult to apply the principles in practice due to the immaturity of the market and the assessment of its regulatory risk.

- **End -**