

24 December 2010

Mr Chris Thorne  
Chairman  
International Valuation Standards Board  
41 Moorgate  
LONDON EC2R 6PP  
UNITED KINGDOM

## Discussion Paper on Valuation Uncertainty

Dear Sir

Thank you for the opportunity to comment on the Discussion Paper on valuation uncertainty. This response is on behalf of the global Ernst & Young organisation which as well as providing accounting, audit and tax services, includes professionals who provide valuations of businesses, property, plant & equipment, financial instruments and intangible assets.

This response to the International Valuation Standards Board's Discussion Paper should be read in the context of valuation reports, not financial reporting. Ernst & Young has provided a separate response to the International Accounting Standards Board and the Financial Accounting Standards Board with respect to their exposure draft on Measurement Uncertainty Analysis Disclosure for Fair Value Measurements.

With the exception of valuations of assets for which there is an active market of identical assets, all valuations are subject to uncertainty. Accordingly, the use of both qualitative and quantitative information is useful for users of the valuation. Best practice would be to express the valuation results as a range supported by appropriate assumptions disclosed in the report. Where, a single point estimate is required, or common practice for an asset class or jurisdiction, the supporting calculations should provide a range. Transparency regarding key assumptions is critical and on certain occasions a qualitative statement around particular unusual or uncertain circumstances (eg the recent debt crisis) would be the best way to inform users of valuations.

Where the asset being valued is subject to an abnormal level of uncertainty or volatility the nature of the uncertainty or volatility and the reasons for them should be disclosed.

Should you have any questions please contact me on +61 2 9248 4616.

Yours faithfully

A handwritten signature in black ink, appearing to read 'John E Gibson', written in a cursive style.

John E Gibson  
Partner - Valuation and Business Modelling

## RESPONSE TO QUESTIONS

**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

All valuations are subject to some uncertainty. Where there are active markets in identical assets a valuation is not required. Whilst we recognise it is common practice to report many valuations as point estimates in many situations we believe it would be preferable for valuation conclusions or their supporting calculations to be expressed as a range. Transparency regarding key assumptions is critical and on certain occasions a qualitative statement around particular unusual or uncertain circumstances (eg the recent debt crisis) would be the best way to inform users of valuations. The supporting methodology, assumptions and calculations should make it clear how the range is determined. When this range is within normal parameters for an asset of its type no further disclosure should be required. . Where, a single point estimate is required, or common practice for an asset class or jurisdiction, the supporting calculations should provide a range.

We recognise that a range of values does not, per se, reflect the level of uncertainty, nor does it provide minimum or maximum values. Nevertheless it may provide insight regarding the risks to the user of the valuation.

We consider that an uncertainty statement should be provided in all cases where there is material or abnormal uncertainty that has been recognised by valuers in the valuation report so as to enhance transparency. We understand that an assessment as to whether 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.

**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

**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**

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. As noted above the conclusion or supporting calculations should be expressed as a range which is the most useful disclosure. While we believe that quantitative disclosure is most useful qualitative disclosure should also be encouraged. Where the range is abnormally large further disclosure should be required with respect to the reasons. 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 a specific requirement.

**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**

As noted above we believe that all valuation conclusions or supporting calculations should be stated as a range which indicates the degree of uncertainty. While we believe that quantitative disclosure is most useful qualitative disclosure should also be encouraged. Where the range is abnormally large further disclosure should be required with respect to the reasons. 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.

**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, refer to the above.