RICS | the mark of property professionalism worldwide | Americas

January 10, 2011

Chris Thorne
Chairman
International Valuation Standards Council

Re: International Valuation Standards Council September 2010 Discussion Paper Valuation Uncertainty

Comments by RICS Americas – Valuation Council

Dear Mr. Thorne:

Thank you for this opportunity to provide comment on the International Valuation Standards Council's September 2010 Discussion Paper on Valuation Uncertainty.

We appreciate the work of the International Valuation Council, especially the obvious effort and thought dedicated to this very significant topic.

We are aware of the 14 December 2010 comments submitted by the Royal Institution of Chartered Surveyors' Valuation Professional Group. These comments express our support of the RICS' Valuation Professional Group comments regarding Paragraphs 34 – 38 and the responses to specific questions posed in the IVSC's Discussion Paper, and provide our regional perspective and suggestions on a few specific areas. Our team of reviewers included experts from each property discipline.

General Comment:

We fully support the response by the RICS Valuation Professional Group regarding Paragraphs 34 – 38 and the responses to the specific questions posed in the IVSC's Discussion Paper.

Acknowledging it may be possible to quantify, by calculation, the uncertainty (variance or confidence level) in a value opinion for fungible and publically traded assets (i.e., publicly traded, unrestricted stocks or commodities), we see more harm than benefit in an attempt to quantify valuation uncertainty when the asset being valued does not have those characteristics.

We are mindful that the physical, economic, and ownership characteristics of an asset materially affect its value and, perhaps more significantly, the standard of value and the objective (intended use) of the value opinion materially affect the scope of work and content of communications appropriate in a specific instruction (assignment).

INVESTOR IN PEOPLE

Royal Institution
of Chartered Surveyors

60 East 42nd Street
Suite 2918
New York, NY 10165
USA

t +1 212 847 7400
f +1 212 847 7401
e ricsamericas@rics.org

ricsamericas.org

NEW YORK • LONDON • BRUSSELS • DUBAI • NEW DELHI • HONG KONG • BEIJING • SYDNEY

Whether in the context of Fair Value for financial reporting, Fair Value for uses other than financial reporting, or market value – When the physical, economic, and/or ownership circumstances of an asset are specific to the asset itself (i.e., unique, not fungible) the notion that the valuer can predict and quantify the variance in price over time or even at a point in time with confidence is unreasonable. Further, and perhaps more serious, presenting a quantified estimate (calculation) of potential variance gives false comfort and may indeed mislead a user – We have already seen where highly sophisticated calculations applied to tranches created in the MBS sector of the finance industry, each tranche "rated" for risk by highly regarded entities, were used to imply risk levels that proved unreliable. We do not favor implementing similar schemes in the valuation profession.

With regard to guidance that may be provided in future writings in a market context, we urge the IVSC to take particular note of the third paragraph in the RICS Response regarding the need to clearly distinguish between uncertainty that arises due to an issue directly related to, or inherent in, the asset versus uncertainty that impacts on the market for the asset. We believe it critical to distinguish between these different sources of uncertainty when providing guidance on how to identify and explain their impact on a value opinion.

Specific Areas:

Jurisdiction and Scope of Standards – There are standards for the valuation of many types of assets that are generally accepted in a particular geographic region within the RICS Americas' area – whether they are nationally-adopted standards or those of a professional organization. Our comments reflect the presence of such standards while recognizing the Discussion Paper was prompted primarily by the citations appearing in Paragraphs 2.1 – 2.4, all of which focus on valuation for financial reporting.

Context of Guidance – In our reading of the Discussion Paper we were not always certain about the context, even in some instances when a context was offered – eg, in Paragraph 6 the reference is to "market value" but given the financial community citations (Paragraphs 2.1 – 2.4) the major concern regarding value uncertainty is in financial reporting.

The standard of value may well be "market value" if the object (subject) of the valuation is a tangible asset that serves as security (collateral) for a financial instrument but if the instrument itself is the object of a valuation for use in financial reporting the proper "type" or "standard" of value is "fair value" – not "market value". Similarly, when the assignment/instruction is to provide an opinion of value for use by the owner of the asset/s in other scenarios (e.g., fairness opinions, insurance, etc., but not for securitized lending or financial reporting) the standard of value might not be market value. This situation highlights the need to be very specific about the context in the labels used in a description and consistent with those terms in the guidance.

Royal Institution
of Chartered Surveyors

60 East 42nd Street
Suite 2918
New York, NY 10165
USA

t +1 212 847 7400
f +1 212 847 7401
e ricsamericas@rics.org

ricsamericas.org

Preliminary Conclusions – While we fully agree with the endorsement of Paragraphs 34 – 38, as expressed in the RICS Response, within the IVSC's Discussion Paper we would add comments regarding the text in Paragraphs 35 and 37 –

Paragraph 35 – Regarding the second sentence. The focus here is on the identity and experience of the person making the judgment. Of at least equal importance in affecting the third party's degree of confidence is the scope of work (extent of research and extent of analysis) used in the valuation. We urge the IVSC to consider including guidance on how to minimize valuation uncertainty by employing a scope of work in developing the value opinion that reflects the intended use of the opinion and complexity of the asset/s valued.

Paragraph 37 – While we agree in general terms with the Preliminary Conclusion, we urge the IVSC to consider the position that expressing a quantitative measure of uncertainty is more fitting to underlying analyses, such as a discounted cash flow (DCF) indication, than to a value opinion drawn from the underlying analyses – we view quantifying valuation uncertainty in respect to a value opinion as not appropriate. However, providing an explanation of variance or the impact of assumptions in respect to computations, as in a DCF, is appropriate but the valuer must then be very clear about the conditions that drove the decision to apply whichever assumptions were used in the computation. In the instance of a DCF indication, the potential for material effect on the DCF output driven by the underlying assumptions should be explained.

As always, we appreciate this opportunity to comment and hopefully contribute to the work of the IVSC.

Sincerely yours,

Bruce B. Bingham, FRICS, FASA
Executive Director, Capstone Valuation Services, LLC
Chairman, RICS Americas Valuation Council