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International Valuation Standards Board
41 Moorgate
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10 January 2011

Dear Sirs

Re: Discussion Paper for Valuation Uncertainty

We are responding to your invitation to comment on the above discussion paper on behalf of PricewaterhouseCoopers.

Following consultation with several members of the PricewaterhouseCoopers network of firms, this response summarises their views. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. PricewaterhouseCoopers appreciates the opportunity to provide comments on the discussion paper. We have in this letter outlined our general comments with regards to the specific matters outlined in the discussion paper and then summarise our overall view.

Scope and Purpose of Discussion Paper

We are unsure as to the exact scope and purpose for the paper and it is not clear how the International Valuation Standards Board (IVSB) intends for this paper to be applied. For example, whether the intention is for this paper and any associated guidance to be applied to all types of valuations or only to valuations for financial reporting purposes.

As noted in the discussion paper, the IASB has recently issued an exposure draft in relation to Measurement Uncertainty Disclosure for Fair Value Measurement. It is not clear what dialogue the IVSB is having with the IASB with regards to this matter and whether the board is proposing to provide implementation guidance on those potential new disclosure requirements relating to valuation uncertainty, or if it is considering providing best-practice for disclosure in valuation reports more generally along with best-practice on possible methods for estimating a quantitative measure of uncertainty.

If the IVSB intends for its guidance to apply to valuations undertaken for financial reporting purposes then we believe it is important that input is sought from the IASB on how the valuation profession can provide meaningful, additional guidance for valuers to help implement any of the disclosure requirements arising in the fair value measurement standard. The Board should consider waiting until the final text of the Fair Value Measurement standard has been issued although we do understand that the IASB has decided to do further analysis on the operationality of a measurement uncertainty analysis disclosure and will not include this in the Fair Value Measurement Standard at this stage.

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The Nature of Valuation Uncertainty

Paragraph 4 of the discussion paper states that a valuation is: "an estimate of the most probable of a range of possible outcomes based on the assumptions made in the valuation process." We would not necessarily have limited a valuation to only the most probable outcome as often an expected value, which is the mean of the probability-weighted outcomes, would be appropriate.

Paragraph 5 states that firstly valuation uncertainty that falls within the range of what would be expected by market participants is immaterial and, secondly, users should not be concerned with "normal" uncertainty. Thus the conclusion is that only "abnormal" uncertainty is material, of concern to users, and worthy of communication by valuers to the users of a valuation. We believe that whilst there is no question that abnormal uncertainty is important, there may be reasons to communicate the extent of normal uncertainty as users may find it helpful in certain circumstances. In addition, if the terms 'normal' and 'abnormal' uncertainty were intended to be used in any formal guidance then we believe they would need to be explained further as they may be interpreted differently by valuers or users of the valuation.

Valuation uncertainty versus market risk

We agree with the need to distinguish between valuation uncertainty and market risk.

Sources of valuation uncertainty

The paper outlines in paragraph 12, certain principles of valuation uncertainty. We question whether the 'status of the valuer' as noted in paragraph 12.1 should be included as a principle as we believe this to be more of an issue related to ethics and the valuer's ability to accept the engagement in the first place. We are unsure as to how in practice, if a valuer is not sufficiently experienced, this uncertainty would be addressed in any disclosure.

The second source of uncertainty in paragraph 12.2 within the discussion paper is noted as 'scope of work'. It seems that a general disclaimer on any scope limitations is simply good valuation practice and including valuation uncertainty disclosures regarding those limitations may not be practical. We believe that this might also more usefully be addressed by professional standards for the valuation profession and valuation reporting standards.

We agree with 'market uncertainty' as outlined in paragraph 12.3 as being an important source of uncertainty. We consider that the two other sources noted, 'model uncertainty' (paragraph 12.4) and 'input uncertainty' (paragraph 12.5), will for the most part relate to valuations where level 3 inputs have been applied but nonetheless are sources of uncertainty.

Paragraph 14 notes that correlations between uncertainty factors are likely to exist as causes of valuation uncertainty are not mutually exclusive and that correlation should be considered as part of the valuation process. Taking into account correlation between unobservable inputs may be difficult (and costly) to implement in practice particularly where level 3 inputs have been applied. There is a need to consider whether this will also provide meaningful disclosure for certain types of valuation or will be meaningful from a financial reporting perspective if reporting takes place at a higher, aggregated level.

Measuring Uncertainty

We agree that quantifying valuation uncertainty is not simply a need to quantify the worst case scenario as noted in paragraph 19. We believe it might be helpful for further guidance to be provided as to where in the 'central areas' the disclosure should be made and also some acknowledgement that there may be circumstances where the probability of the tail of the

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distribution occurring may be great enough to make it an appropriate consideration for disclosure (i.e. due to a skewed distribution).

We would also note that in the context of the interdependence or correlation of significant inputs, without proper consideration of such relationships, the degree of uncertainty may be underestimated as well as overestimated.

IASB Proposals

Paragraphs 26-33 in the discussion paper comment on the IASB exposure draft Measurement Uncertainty Analysis Disclosure for Fair Value Measurement and considers disclosure in the context of level 3 inputs. The Board note that it is inappropriate to assume that material uncertainty only affects assets valued in Level 3. We would agree with this and also note that there is already a requirement in IFRS 7 (paragraphs 25-30) and IAS 1 (paragraphs 125-133) for additional disclosure where there might be significant uncertainty and that the IAS1 requirement would include values determined using level 1 or 2 inputs.

Preliminary Conclusions in IVSB Discussion Paper

Paragraph 35 refers to disclosure of the name of the valuer and of the control procedures in place to avoid bias, being more important in building users' confidence in valuations than any illustration of the effect of using different valuation assumptions. The Board should be mindful that in practice, the identity of the valuer is not always disclosed to third parties. It is important that the Board clarifies the exact purpose of any guidance that it seeks to give in respect of valuation uncertainty. Avoiding bias and providing an independent view seem to form part of the professional ethics that a valuer should consider and is a slightly separate issue to the matter of valuation uncertainty and how best to disclose the impact of uncertainty.

It is not clear what the Board has in mind when it refers to disclosure of control procedures in paragraph 35 to avoid any bias or excessive subjectivity. Unless there is substantive infrastructure governing the valuation profession then there is unlikely to be any appropriate incentive for valuers not to potentially introduce bias into their valuations or manufacture results.

We are not sure what the Board means by "scoring" uncertainty as outlined in paragraph 38. We believe the fundamental point that any guidance should focus on is what disclosure is required to address the uncertainty, as outlined in paragraph 37. We believe that for any guidance to be meaningful or provide additional insight to the issue, it must consider the level and type of disclosure that valuers should provide to address the relevant types of uncertainty.

Summary

We do not believe that the exact purpose of this paper is clear currently nor how the Board intend for this to be applied in practice and to which types of valuations. If the intention is that any guidance provided by the IVSB will include implementation guidance relating to valuations for financial reporting purposes then input from the IASB and consistency with the requirements of any relevant standards (e.g. Fair Value Measurement Standard) will be paramount. We would recommend that any proposed formal guidance is addressed as an exposure draft so that the valuation profession and other relevant stakeholders, including users, are able to comment in detail.

We do agree that there is a need to give users of valuations sufficient information, whether it is provided qualitatively or quantitatively, to be able to understand the appropriate risks around the valuation. However, whilst this paper provides a useful summary of some of the key issues and discussion already in existence including the IASB exposure draft on valuation uncertainty, we do not believe that it provides in its current form sufficient additional information or practical guidance for a valuer or indeed a user of a valuation.

Furthermore, as outlined earlier, we do not believe that the sources of uncertainty currently outlined in the discussion paper are all principle sources of uncertainty and some are better covered by professional standards, ethical guidelines for the profession or general valuation reporting standards.

If you have any questions on the content of this letter, please do not hesitate to contact Andreas Mackenstedt, PwC Global Valuations Leader (+49 69 9585 5704), Peter Clokey, UK Valuations partner (+44 20 7804 5557) or John Hitchins, PwC Global Chief Accountant, (+44 20 7804 2497).

Yours faithfully,

PricewaterhouseCoopers LLP.

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