February 14, 2013

Sent via email to commentletters@ivsc.org

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

Dear Sirs:

Re: Comments on IVSC Exposure Draft – Valuation Uncertainty

THE CANADIAN INSTITUTE of
CHARTERED
BUSINESS
VALUATORS™

The Canadian Institute of Chartered Business Valuators (CICBV) is pleased to provide our comments on the above noted IVSV Exposure Draft concerning a Technical Information Paper (TIP) on Valuation Uncertainty.

Responses to Questions posed in the Exposure Draft

Question 1
The proposed TIP defines valuaiton uncertainty at para 7.

Do you agree with this definition? If not, how do you think that it could be improved?

> **CICBV Response**
> The definition as proposed in para 7 appears to be reasonable, but it would be good to include some more clarity on market uncertainty (i.e. that it would need to involve events that are material).

Question 2
Various prudential regulatory authorities either have or are contemplating introducing disclosure requirements for assets that are deemed to be subject to "valuation uncertainty" and to apply different risk weightings to these in capital adequacy regulations for banks and other financial institutions. The Board has decided to exclude prudential valuation adjustments for valuation

uncertainty from the scope of this guidance. The reason is that the IVSC is only concerned with proper valuation practice, not with how valuations are then used by the recipient in complying with other standards, laws or regulations.

Do you agree with the Board's decision to exclude prudential valuation adjustments for valuation uncertainty from the scope of this guidance?

CICBV Response

Yes, prudential valuation adjustments for valuation uncertainty should be excluded from this guidance because these adjustments are based partly on politics and not on the market participant values of the amount.

Question 3

The proposed TIP provides guidance on the distinction between valuation uncertainty as defined in the paper and risk, in particular between market uncertainty and market risk. It was clear from comments received on the Discussion Paper and made elsewhere that the concepts are regularly confused. Some believe that the brief explanation of market risk in paras 16 and 17 is not needed given the focus of the paper is on uncertainty rather than risk. Others consider that the inclusion of a brief illustration of market risk helps readers understand the distinction between this and market uncertainty.

Which of these views do you support?

CICBV Response

The inclusion of a brief illustration of market risk to avoid confusion is supported.

Question 4

The paper identifies three main sources of valuation uncertainty, model uncertainty and input uncertainty.

Do you agree that these three categories represent the main sources or causes of valuation uncertainty as defined? If not please explain why, and in particular identify any other source of uncertainty that is not mentioned.

CICBV Response

Yes, the three main sources of valuation uncertainty (market uncertainty, model uncertainty & input uncertainty) should capture the main sources or causes of valuation uncertainty as defined. However, there needs to be more discussion around capturing situations where historical or anticipated relationships aid in defining inputs breakdown or are no longer applicable (i.e. shale gas development and anticipating natural gas prices – this development significantly changed the dynamics of the industry).

Question 5
The proposed guidance indicates that because market uncertainty arises when the impact of events on value is unknown it is identifiable but not measureable. In contrast, model and input uncertainty can be both observable and measureable.

Do you agree with this position?

CICBV Response
Agreed – it would be very difficult to quantify market uncertainty and any measure would be purely speculative i.e. the impact would not be known until the market has reacted / stabilized at a later date. But it would be identifiable and could be qualitatively discussed.

Question 6
The requirement in IVS 103 is to disclose any material uncertainty that affects the valuation. Paras 29 – 39 of the proposed TIP provide guidance on identifying when uncertainty is material, with reference to the requirement in IFRS 13 for valuations for financial reporting and more general guidance where valuations are for other purposes.

Do you find the guidance on materiality to be helpful? Are there any improvements or other considerations that you would suggest be included?

CICBV Response
The concept of material or significant can often be a grey area when it relates to valuing assets and liabilities. For financial reporting purposes the concept of materiality is often confused with what might be deemed significant or material from a valuation stand point (i.e. outside of an acceptable tolerable value range may not coincide with the financial reporting concept of materiality). Therefore, something in this regard should be included, such as “Given the judgments inherent in any value conclusion, it is generally accepted for any valuation conclusion to be stated as reasonable within an acceptable tolerable value range. Any uncertainty that affects the valuation outside of this acceptable range would be deemed to have a material or significant impact. It is important to note that a material or significant difference in this context may not be consistent with materiality from a financial reporting perspective.”

Question 7
Para 42 sets out matters this is recommended be included in qualitative disclosure of uncertainty.

Do you agree that this identifies the matters that should be included in a disclosure of uncertainty? If not please indicate any additional matters that you consider should be included or any matters mentioned that should be excluded.

CICBV Response
In the case of model or input uncertainty, in addition to a description of why the selected models or inputs were used, it would also be beneficial to have a description of the valuation techniques and inputs used (as is not explicitly stated).

Question 8
Para 47 suggests that model and input uncertainty may be more readily measurable for financial instruments that for other types of asset.

Do you have experience of quantitative measures of valuation uncertainty for tangible or intangible assets being disclosed in reports? If so please indicate the types of asset and the techniques used to quantify the uncertainty.

CICBV Response
Quantitative measures of valuation uncertainty for tangible or intangible assets being disclosed in valuation reports include:

- Commodity reserve valuations (different price decks are possible);
- Power plant assets (different merchant curves or power curves are possible);
- Impacts of different variability in utilization due to unforeseen events (refineries, power plant asset valuations).

Techniques used to quantify uncertainty include sensitivities using different assumptions and providing ranges in value (high/mid/low).

Question 9
Para 51 sets out proposed principles for quantitative measures of uncertainty.

Do you agree with this list? If not please indicate any additional principles that you believe should be included or any listed that you believe are inappropriate.

CICBV Response
The impact on value of possible alternatives or other information sources (i.e. forecast vs. historical relationships) should be included.

Question 10
It is proposed that the final TIP will include a few simple illustrative examples of uncertainty disclosures to assist readers understanding how the guidance may be applied in practice. The Board has decided not to develop these until it has received comments on the principles in this draft. The Annexe to this draft contains an indication of situations for which examples are being considered.

Do you agree with the Board's proposal to include illustrative examples of typical disclosures? If so, please indicate the situation for which you consider an example would be most useful.

If you have an example of either a disclosure or measurement of valuation uncertainty that you would like the Board to consider for inclusion in the final paper, please include this with your response.

CICBV Response
Illustrative examples of typical disclosures that would have the most impact on value conclusion should be included as this section is vague and needs clarification.

Situations where illustrative examples would be most helpful include the following:

- Different forward price curves (oil & gas reserve engineers, power curves, refining crack spreads);
- Different long-term growth rates assumptions;
- Different capex assumptions;
- Different utilization assumptions;
- Different penetration rates or development costs (IP valuations);

We hope that this submission is helpful to you. If you have any questions regarding our comments, please do not hesitate to contact Robert H. Boulton, CA, CBV, CICBV Director, Education and Standards.

Yours truly,

Barbara Morton, CA, CBV
Chair, Professional Practice and Standards Committee