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February 5, 2013

Mr. Steven J. Sherman, Chairman
Standards Board
International Valuation Standards Council
41 Moorgate
London EC2R 6PP
United Kingdom
CommentLetters@ivsc.org

RE: Request for Comments on the Exposure Draft "Valuation Uncertainty" date November 16, 2012

Dear Mr. Sherman:

Thank you for the opportunity to comment on the Exposure Draft "Valuation Uncertainty." On behalf of the Appraisal Institute, the Appraisal Standards and Guidance Committee ("ASGC") submits the following responses to the questions you posed in your request for comment dated November 16, 2012.

We agree that this topic is important and timely in the wake of the recent financial crises experienced around the world. When lack of market information or market volatility materially impact the valuer's ability to form an opinion of value, it becomes imperative for the valuer to make the user of the valuation aware of the issues through discussion and disclosure.

Prior to providing responses to your specific questions, the Appraisal Institute ASGC wishes to offer the following general observations:

1. We suggest that clarity would be improved by including the terms "market uncertainty," "model uncertainty" and "input uncertainty" in the Definitions portion (#5) of the TIP. These terms have specific meaning as used in the TIP. Also, the phrase "material uncertainty" is used and perhaps should be defined; the concept of "materiality" is more clearly addressed in accountancy than in valuation.
2. The heading for item #11 is "Causes of Uncertainty." We suggest clarity would be improved by changing it to "Causes of Valuation Uncertainty" (since valuation uncertainty is the title of the TIP.)
3. In item #12, we find the phrase "at the valuation date" to be confusing and suggest that it be stricken.

Question 1:
The proposed TIP defines valuation uncertainty at para 7. Do you agree with this definition? If not, how do you think that it could be improved?

> **Response:**
> The Appraisal Institute ASGC agrees with the definition as proposed, but suggest the phrase "in a significant material manner" be added.

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?

> **Response:**
> The Appraisal Institute ASGC agrees with this decision. Moreover, we are concerned that such weightings might be used to measure valuer performance, which would be inappropriate.

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 that 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?

> **Response:**
> The Appraisal Institute ASGC believes that the distinction is unnecessary as the focus should be on market uncertainty. Market uncertainty manifests when there is limited to no relevant or reliable data on which to base conclusions. Nevertheless, if the IVSC desires to maintain the distinction, then the illustration in paragraph 17 is helpful for the sake of understanding the difference between market uncertainty and market risk.

Question 4:

The paper identifies three main sources of valuation uncertainty: market 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.

Response:

The Appraisal Institute ASGC believes that the subcategories named above represent an appropriate breakdown of elements of uncertainty. The Appraisal Institute ASGC, however, does not see them as direct sources or causes of uncertainty. Sources or causes are the result of limited or a lack of market information or data. For example, with respect to model uncertainty, in an unstable market the valuer may be in a quandary in trying to decide who the typical buyer for an asset may be. Such uncertainty could extend to whether an income or sales analysis is the more appropriate model for valuation. The source or cause for the uncertainty is whether or not the typical buyer in a market is an investor or an owner user. The direct source or cause is not the model in and of itself, but rather is the marketplace; valuation uncertainty increases as markets become more imperfect (less certain).

In terms of input uncertainty, the input is not the source or cause. For instance, due to market instability and or data limitations, the valuer may be uncertain as to what discount rate should be used in a discounted cash flow (DCF) analysis. The valuer could be experiencing conflicting feedback from investors relative to their motivations. Again, similar to the model uncertainty, the input is not the source or cause. The direct cause is the lack of clarity in the market, and we suggest this concept be added.

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?

Response:

The Appraisal Institute ASGC believes that an impact on value may be identifiable but not measurable at a given point in time. Timing could be critical here as well. For instance, when an unforeseen profound event occurs, impact on valuation could be identifiable in one direction or another, but it may not be measurable. Still, the impact may be measurable in fairly short order. In addition, the impact may fluctuate significantly from one point in time to another.

Similarly, model and input uncertainty could certainly manifest and be observable. Its measurability however, would still likely be in debate. A valuer might look at scenario or sensitivity analysis as an illustration of uncertainty and a best case or worst case type of outcome. Nonetheless, the uncertainty, by its very nature, is not particularly measurable.

The important element of concern is that the uncertainty is identified. Quantitatively measuring the impact may not be possible or desirable. Qualitative support and discussion is of the issue is what is important.

We also suggest you consider including the recommendation that these situations might be best addressed if the valuer presents the conclusion as range of value, rather than as a single point value.

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?

Response:

The Appraisal Institute ASGC agrees that the valuation report should set out a clear and accurate description of any material uncertainty that directly affects the valuation. We also agree that it is important to decide if the uncertainty is truly of a material nature. Albeit, the Appraisal Institute ASGC disagrees that the purpose of the valuation and or whether or not it is a matter of relevance should be a determinant of disclosing a clear and accurate description of material uncertainty.

Question 7:

Para 42 sets out matters that it is recommended be included in a qualitative disclosure of uncertainty.

Do you agree that this identifies the matters that should normally 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.

Response:

The Appraisal Institute ASGC agrees with paragraph 42.

Question 8:
Para 47 suggests that model and input uncertainty may be more readily measureable for financial instruments than 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.

Response:
The Appraisal Institute ASGC does not have familiarity with specific quantitative measures being disclosed in reports for of valuation for financial instruments. It is agreed that uncertainty may be more measurable for financial instruments due to the fact that the markets for such are perhaps more organized and the product types more homogenous than real estate.

In the case of real estate investments, elements of tangible personal property (such as FF&E) and intangible assets (such as business value) could be present in the valuation of a hotel, for example. By their very nature, imbedded in a real estate oriented business operation, such elements may add to the complexity of the assignment. Relative to the entire going concern, there could be market, model or input uncertainty or some combination thereof. So, a quantitative measurement may not be very feasible or desirable. Again, referring back to Question #5 response, a qualitative expression of uncertainty, if material, would be desirable for the overall going concern.

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.

Response:
Notwithstanding the Appraisal Institute ASGC's position that valuation uncertainty should not be required to be quantified, but rather identified, the Appraisal Institute ASGC essentially agrees with the bullet points of paragraph 51.

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.

> **Response:**
> The Appraisal Institute ASGC is not in favor of illustrative examples in a TIP particularly with respect to item #2, which is of a quantitative nature and would constitute methodology as opposed to standards. Sample disclosures of a qualitative nature, as noted in items #1 and #3, would be acceptable and perhaps useful.

We trust that you will find our comments accommodating. Please do not hesitate to contact me if you have any questions regarding these comments.

Sincerely,

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