International Valuation Standards Board
41 Moorgate
London
EC2R 6PP

15 February 2013

Dear Sirs

Re: Exposure Draft on Valuation Uncertainty

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

Following consultation with several partners from firms which are 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 and then, as requested in the ED, responded to the specific questions for comment in Appendix A.

Scope and purpose of the Technical Information Paper

As drafted, there is a risk that the guidance within the paper might be interpreted as suggesting that additional disclosure in valuation reports might act as a substitute for the valuer applying judgment to address the impact of uncertain inputs on the value conclusion. In our view, this would be an unhelpful interpretation and we would suggest that the paper clarifies that the application of judgment is inherent in any valuation exercise, and that disclosure cannot take the place of thorough analysis, particularly where there is uncertainty relating to inputs.

We also suggest that the circumstances in which this paper should be applied be clarified. While such disclosures are helpful in certain compliance-based valuations (e.g. financial reporting) they may be detrimental in other circumstances such as valuations involving disputes. We continue to hold the view that the IVSB should structure its standards and guidance around the nature of the valuation exercise (e.g., compliance, advocacy or advisory) and believe this paper is a clear example of why that approach would be helpful.

We suggest that the guidance regarding materiality assessments be eliminated from this paper and instead addressed in a standard. Materiality considerations in a valuation report impact all judgements underlying the value conclusions, not just those relating to uncertainties.

We have also noted that the difference between valuation uncertainty and uncertainty risk is not clear in the paper. Both appear to relate to the risk of a valuation differing from a simultaneous actual trade and we would therefore recommend that references to uncertainty risk are removed.

If you have any questions on the content of this letter, please do not hesitate to contact John Glynn, PwC US and Global Valuations partner (Tel +1 646 471 8402) or Romil Radia, UK Valuations partner on (Tel +44 20 7804 7899).

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix A: Response to the questions in the exposure draft

1.) **Do you agree with the definition of valuation uncertainty? If not, how do you think it could be improved**

The definition of valuation uncertainty used in the ED appears reasonable.

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

It is helpful that the Board has maintained the distinction between this paper and Prudent Valuation standards applied by regulators such as the UK FSA. The FSA's prudent valuation standards are designed to meet specific regulatory objectives and are not necessarily appropriate for other circumstances – for instance, prudence is not a concept that is aligned with the requirements of accounting fair value. We would therefore caution against seeking to reference these standards as guidance for valuation practitioners generally.

3.) **Inclusion of distinction between market uncertainty and market risk in the paper**

We agree with the need to distinguish between these two concepts.

4.) **Do you agree that these three (market uncertainty, model uncertainty and input uncertainty) represent the main sources of valuation uncertainty as defined? If not please explain why, and in particular identify any other sources of uncertainty that is not mentioned**

We feel that this depends on the type of valuation being performed. Arriving at a market value necessarily requires the use of inputs that reflect current market conditions. As a result, we feel that market uncertainty and input uncertainty are one and the same. The use of inputs from uncertain or volatile markets is comprehensively covered in the IASB Expert Advisory Panel's October 2008 paper on "measuring and disclosing the fair value of financial instruments in markets that are no longer active". Therefore, it is not clear to us that providing further guidance on market or input uncertainty is helpful.

5.) **Do you agree that because market uncertainty arises when the impact of events on a value is unknown it is identifiable but not measurable? In contrast model and input uncertainty are both observable and measureable?**

See response to Question 4.

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

There is a risk that the commentary on materiality overlaps with existing guidance to auditors and financial statement preparers under International Auditing Standards or International Financial Reporting Standards. To avoid the risk of confusion here it would be appropriate to note that the discussion in the paper is not intended to supplement guidance to auditors or financial statement preparers as it applies only to valuation reports.

The topic could also be dealt with more succinctly by removing references to the IFRS 13 fair value hierarchy in this section as this topic is discussed in detail within IFRS 13.

It would be sufficient to note that whether or not uncertainty is material will be a matter of judgement for the valuer. In assessing whether uncertainty is material, the valuer will typically have regard for the purpose of the valuation, the users of the valuation and market circumstances. Assessment of the implications of uncertainty also requires an assessment of the potential for different valuations to alter the decisions of users of the valuation. For example, if a valuation has a significant amount of headroom above a level that would cause a user to act differently, although there may indeed be significant uncertainty, it may be possible to conclude that this is not material to the outcome. This kind of assessment forms a normal part of the sensitivity analysis that we would expect a professional valuer to consider in performing their analysis.

In our view, the judgement over the materiality of uncertainty should not be made formulaic as the appropriateness of analysis and disclosure in each case is a matter of professional judgement for the valuer.

7.) **Do you agree that the matters set out in para 42 should normally be included in disclosure of uncertainty? If not please indicate any additional matters that you consider should be included or any matters mentioned that should be excluded?**

A 'one size fits all' approach is unlikely to work in all valuation contexts and guidance should therefore be structured differently depending on the end user of the report. Requiring disclosure in a financial reporting context may make sense but a different approach is likely to be needed for other valuations, for instance those conducted in the context of a dispute or a consulting assignment.

8.) **Do you have any 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 techniques used to identify the uncertainty?**

Quantitative disclosure is required by IFRS 13. For instance, a private equity fund typically determines the fair value of unlisted securities by using valuation techniques, such as earnings multiples, and sometimes other discounted cash flow and net asset based techniques. These valuation methodologies incorporate a variety of variables, inputs and assumptions. IFRS 13 requires the fund to determine the key risk variables and inputs used in the valuation methodologies and provide sensitivity analysis for reasonably possible changes in these variables.

9.) **Para 51 sets out the proposed principles for quantitative measures of uncertainty. Do you agree with this list? If not please indicate any additional principals that you believe are appropriate.**

Para 51 mentions fair value. We feel that uncertainty does not only apply in fair value analysis but also other types of valuation.

Care needs to be taken when discussing the application of correlation in valuation as the term may imply a quantitative statistical approach to valuation. We recommend that the paper instead emphasises that there needs to be consistency between the assumptions being applied under any valuation scenario. Consistency can be achieved through judgement and by considering how relationships between inputs have worked in the past.

The comment on netting effects across portfolios is potentially confusing as typically the unit of account will be an individual asset or security rather than a portfolio (the portfolio exception to unit of account is applicable in limited situations). This is covered elsewhere in accounting standards and therefore need not be referenced here.

10.) **Do you agree with the board's proposal to include illustrative example of typical disclosures?**

In our view, illustrative disclosures are most likely to be useful when applied to specific industries and markets. A 'one size fits all' approach to disclosure is therefore unlikely to be helpful.