DUFF & PHELPS

IVSC

February 15, 2013

Response to IVSC Exposure Draft
Valuation Uncertainty

Contents

General Observations

We appreciate the IVSC's efforts to address valuation uncertainty. We have the following general observations on the Exposure Draft (ED), grouped by theme:

Scope of Proposed Disclosures

- The ED needs a clear statement upfront as to when valuation uncertainly disclosures would apply so one could put the discussion into proper context. This information is presently buried in the middle of the document (paragraph 29). It seems that the disclosures would be required when there is a "material uncertainty" per IVS 103 Reporting.
- It appears that the potential disclosure requirements that the ED is proposing are incremental to those in IFRS 13. If this is the intent, then then the ED is overreaching into areas that already have specific requirements in place and are outside the jurisdiction of the IVSC. Also, a clear statement as to why existing IFRS 13 disclosures are not sufficient would support the overall context.

  IFRS 13 has its own framework and hierarchy of inputs (Levels 1, 2, 3) that have been vetted through an open standard-setting process and are considered adequate for disclosing valuation information for financial reporting purposes. As a result, in a valuation for financial reporting, by following IASB guidance one may be fully complying with the requirements of IFRS 13 or other IFRSs, but may not complying with the stricter IVS requirements, which would be an odd result.
- Further, when companies commission valuations for financial reporting, they are engaging and remunerating valuers with some specific scope in mind, aligned with the IFRS requirements. Having the client engage the valuer to perform additional procedures to meet the incremental IVS requirements makes little sense in this case.
- We also would like to remind the Board that FASB and IASB had undertaken a project specifically on fair value disclosures which also included sensitivity disclosures. The project was halted in that after extensive efforts no workable solution could be reached considering the feedback of preparers, users and valuers. In light of this, we would advise the board to scope out IVS 300 Valuations for Financial Reporting from the disclosure requirements of this document.
- As a broader issue, the IVSC needs to assess how to provide, and whether it should be providing, disclosure or other additional

guidance in cases where elaborate requirements already exist for specific purposes.

Users of Proposed Disclosures

- The ED should make much clearer the distinction between disclosures that are limited to the valuation report (which is seemingly the objective of the document), whose users are the party commissioning the valuation and potentially others privy to the report as part of the arrangement with the valuation advisor; vs. disclosures for much "wider consumption" such as the IFRS 13 disclosures that are made to users of a company's financial statements. The discussion of IFRS 13 in the ED blurs this distinction.
- Consideration should also be given to the possibility that if extensive disclosures are being provided in valuation reports, the relevant regulator or authority may, at a minimum, challenge the valuation conclusion in favor of other potential outcomes and, in the extreme, require that such disclosures be regularly provided with a wider distribution than originally intended by the ED.

  As discussed later in this letter, the manner in which uncertainty disclosures are presented may undermine the very conclusion in the valuation and lead users to second guess the outcome. Valuation estimates by their nature are uncertain; the concluded estimate or range is based on the interpretation of facts and circumstances, the application of relevant techniques and the use of judgment by professionals trained in the valuation discipline. There is a point at which providing volumes of disclosures and sensitivities would amount to second guessing the work of the valuation advisor, which does not increase the confidence in users of the report.

Focus of Discussion in the ED

- While it is useful to have a common framework for addressing valuation uncertainty, we are left with the impression that the current discussion in the ED is suited mostly to financial assets. This ED seems to be written from the perspective of valuation uncertainty in the context of valuing financial assets; however, other assets including intangibles as well as liabilities do not necessarily subject themselves well to some aspects of the discussion in the ED.

Therefore we recommend either focusing the ED on financial assets only, or including the perspective of valuers of other types of assets and liabilities (e.g. IPR&D, customer relationships and other intangibles; contingent consideration, pending litigation or other contingencies) in further developing the guidance.

Terminology Issues

- The current choice of words in defining *market uncertainty*, and *market risk* exacerbate the confusion rather than ameliorating it. We agree that *market uncertainty* is often confused with *market risk* because market risk is driven by variability, i.e. uncertainty, in the market. The problem is that the ED uses a broad, generic term (uncertainty, which connotes variability or lack of precision in measurement) and is trying to give it a special and different meaning (disruption or abnormal scenario risk), just by using the modifier *market* before it.

  To further blur the lines, the definitions of *model and input uncertainty* use one definition of the word uncertainty, while the definition of *market uncertainty* uses another. The ED would be much more helpful if instead of *market uncertainty* it used *market disruption risk*, or another term to connote EXTREME uncertainty, not just uncertainty.

- Another issue we find with the choice of terminology is the reference to *model uncertainty*. Once again, the inadvertent underlying focus of the ED on financial assets comes through in this regard (in finance, *model risk* is used in the context of valuing financial instruments, and in particular, complex securities).

  We believe that this particular source of uncertainty referred to in the ED is one of *methodology* broadly, rather than model, and we recommend that it be described as such (*methodology uncertainty*).

  Further confusion arises from the multiple interchangeable references to model, method and approach in paragraphs 20 and 21 of the ED.

Input Uncertainty

- As stated earlier, the ED needs to be enhanced in a number of areas so it would be more readily applicable to assets other than financial assets, as well as to liabilities. One such area is the discussion of input uncertainty. In order to make it more useful, a distinction should be made between observable inputs (for example, volatilities) vs. unobservable inputs (for example, probabilities of success), and related issues.

- The statistical analyses referred to in the input uncertainty section of the ED are not applicable to intangible assets, as one example, because of the heavy reliance on unobservable inputs in the valuation of intangibles.

Clarity Needed on Implementation

- It is not clear from the document if one would be disclosing a range of alternative possible inputs (implied by the discussion of IFRS 13 disclosures in paragraphs 33-38); a range relating to the concluded valuation estimate (as stated in paragraph 45); or a sensitivity analysis (as stated in paragraphs 46, 48 and 49). With respect to the latter two options, a sensitivity analysis would examine the valuation result as a function of up to two inputs that change over time, whereas a range related to the concluded valuation estimate could incorporate the effect of a multitude of inputs at the same time; therefore, the requirements vary.
- It is not clear from the document if the discussion of the various types of uncertainty (model, input, market) is for educational purposes only, or if disclosures need to be made by type of uncertainty.
- It is not clear if, generally, only a qualitative discussion is expected around market uncertainty compared to a quantification of model and input uncertainty.
- We recommend that any illustrative examples be exposed prior to being made a part of a final document.
- Also, in order to test the operability of the disclosures, we recommend that the Board test the guidance with a focus group of participants specializing in the valuation of a variety of asset types and groupings, whereby each participant independently develops the required disclosures.

  Alternatively, a common set of facts and conclusions with respect to a specified asset could be provided to each participant and their disclosures could be compared.

  The results of this two-fold exercise should be analyzed in order to determine if the disclosure guidance will serve its purpose as intended.

Aggregation Issues Not Addressed

- The ED does not address aggregation issues, which could be a significant implementation challenge: often a valuation would include multiple assets (or liabilities) across various classes giving rise to aggregation issues. As we had stated in our 2010 comment letter on the related Discussion Paper, aggregating ranges of quantitative disclosures across multiple assets and asset classes could produce results that are meaningless.

  For example, in the context of a portfolio of financial instruments, it is unlikely that all instruments would be settled at the top (or respectively, bottom) part of the range. Thus the pragmatic solution seems to be to provide a robust qualitative discussion about the inputs used (in the context of financial reporting, many aspects of this are already required by IFRS 13 and other IFRSs).

  Further, whether aggregation is meaningful is also a function of the asset class involved. For example, in the fixed income markets, it has been standard practice to perform sensitivities on various inputs (e.g. changes in interest rates, prepayment rates, default curves, etc.). This established practice, along with the types of (macro) inputs considered in the sensitivities which may impact multiple fixed income products in a similar fashion, makes the measurement uncertainty disclosure relatively less problematic and meaningful on an asset class level.

  However, this approach loses its effectiveness with multiple equity securities or intangible assets: the use of non-homogeneous inputs across investments or intangibles, as an example, may lead to potential aggregation issues in disclosure (i.e. aggregating end ranges of dissimilar items).

- In summary, while a qualitative statement can be augmented by a quantitative disclosure, this is not practicable or helpful across all asset classes and in all circumstances.

Alternative Perspective in Discussing Valuation Uncertainty

An alternative perspective in presenting what we see as an educational discussion on market risk and valuation uncertainty may be to compare the types of risk and uncertainty one faces while holding an asset that is actively traded vs. one for which a valuation estimate needs to be made (in other words, the asset is either not traded altogether, or is not traded in an active market).

According to the discussion in the document, the investor would be exposed to market risk in all of the situations. However, model and input uncertainty enter once the objective becomes to estimate the value of the asset, exchanged in a hypothetical transaction under current market conditions; i.e., when one has to replicate the price in a hypothetical transaction under current market conditions. Market uncertainty[1], on the other hand, is a source of valuation uncertainty only in those situations in which markets are disrupted, thus affecting both prices and valuation inputs.

Pictorially, one way to present the types of risk and uncertainty could be as follows:

	Actively Traded Asset	Valuation Estimate*
Normal Market Conditions	Market risk**	Market risk** Model uncertainty Input uncertainty
Market Disruption	Market risk** Market uncertainty***	Market risk** Market uncertainty*** Model uncertainty Input uncertainty

*A valuation estimate is needed when the asset is not actively traded or is not traded altogether.

**Natural historically-quantifiable variability

***Extreme, abnormal conditions arising from market disruption

Valuation uncertainty, as defined in the ED

* * *

Subject to our comments above we have provided responses to the questions posed in the Exposure Draft.

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[1] For ease of reference, this discussion uses the terms from the ED; however, please refer to our terminology change recommendations earlier.

Responses to Specific Questions

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?

Duff & Phelps response: We believe that the definition can be improved. It should be shortened, and the multiple references to "same" could be avoided. Ultimately, the valuation uncertainty the ED refers to is simply the risk that the actual price may differ from a valuation estimate as of the valuation date. The concept of "as of the valuation date" already implies that the transaction occurs at the same time and within the same market environment.

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?

Duff & Phelps response: We agree with the exclusion. Prudential valuation adjustments are within the jurisdiction of the prudential regulators.

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?

Duff & Phelps response: Please refer to our comments regarding terminology in the General Comments section of this letter. We believe the Board should change some of the terms used as the choice of words exacerbates rather than alleviates the confusion.

We agree that the examples in paragraphs 16 and 17 should be retained as they help differentiate the concepts of natural, historically-quantifiable variability vs. extreme, abnormal conditions arising from market disruption. However, the graph presented in paragraph 16 may need more explanation.

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.

Duff & Phelps response: In general, we agree with the three sources of uncertainty that the ED identified. However, consider the following:

- A major source of uncertainty in IPR&D or contingency valuation is context-specific event- or outcome uncertainty. There is not much of a parallel in financial asset valuation, except possibly counterparty risk; this is one of the many ways that financial asset valuation uncertainty differs from that of other assets (although one could argue that the thought process surrounding distressed debt could also take in to account alternative scenarios and probabilities). It is not clear where or how this is captured - possibly this would fall under input uncertainty.
- Reading the guidance in paragraphs 23-26, one does not get the impression that the class of inputs from the above bullet is captured adequately. For example, the list of illustrative inputs in paragraph 23 does not include projections, probabilities, or any inputs that require judgment in assessing unobservable data, which is in stark contrast to the inputs currently listed that are largely based on observable data and give undue preference to a Market Approach.
- Also, a deeper discussion is needed of issues related to Level 3 inputs - to borrow the term from financial reporting – these inputs

are unobservable, they cannot be corroborated by market data. This area should be addressed by expanding the discussion on input uncertainty – see our General Comments section in this letter.

Also please take note of our comments on terminology in the General Comments section of this letter.

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?

Duff & Phelps response: We generally agree with this position, however, as discussed in our General Observations in this letter, we are not sure how one is to apply it (see themes: Clarity Needed on Implementation, and Aggregation Issues Not Addressed - under General Observations).

Also, note that in some cases a market disruption (described as market uncertainty in the ED) may affect the inputs used in the valuation, therefore taking the form of input uncertainty, which in turn is presumed to be measurable. From a practical standpoint it may be difficult to draw the line between the two.

Further, it should be noted that even with market disruption or market uncertainty market participants do transact and are able to agree on how to price a transaction. Therefore, while judgment is required, it is always possible to derive valuation inputs from a market participant perspective.

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?

Duff & Phelps response: We do not find the guidance on materiality to be helpful. Also, it is not clear what the purpose of the IFRS 13 discussion is in the section on Materiality in the ED, paragraphs 33 - 39.

We recommend that the Board study the guidance on materiality in FASB's Concepts Statement No. 2 *Qualitative Characteristics of Accounting Information*, as one example of providing guidance on the subject:

> **"Materiality**
> The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, *makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced* by the omission or misstatement." [Emphasis added]
>
> "Materiality is a pervasive concept that relates to the qualitative characteristics, especially relevance and reliability. Materiality and relevance are both *defined in terms of what influences or makes a difference to a decision maker,* but the two terms can be distinguished. A decision not to disclose certain information may be made, say, because investors have no need for that kind of information (it is not relevant) or because the amounts involved are too small to make a difference (they are not material). Magnitude by itself, without regard to the nature of the item and the circumstances in which the judgment has to be made, will not generally be a sufficient basis for a materiality judgment. The Board's present position is that no general standards of materiality can be formulated to take into account all the considerations that enter into an experienced human judgment. Quantitative materiality criteria may be given by the Board in specific standards in the future, as in the past, as appropriate." [Emphasis added]

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.

Duff & Phelps response: We generally agree; however, illustrations would be helpful. Also, the Board needs to consider providing guidance such that the disclosures do not become boiler plate.

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.

Duff & Phelps response: We disagree with the statement that model and input uncertainty may be more readily measureable for financial instruments than for other types of assets. Input uncertainty can be more readily measureable for pharmaceutical IPR&D projects relative to other inputs; this is an example of how the ED draws broad conclusions that may result in flawed comparisons across industries.

Further, the issue is not so much one of the technique for quantifying the uncertainty, but one of providing a disclosure that is in a useful format, does not overwhelm or underserve the reader of the report, or impose an undue cost and effort in providing it. Most importantly, the manner in which uncertainty disclosures are presented may undermine the very conclusion in the valuation. Valuation estimates by their nature are uncertain; the concluded estimate or range is based on the interpretation of facts and circumstances, the application of relevant techniques and the use of judgment by professionals trained in the valuation discipline. There is a point at which providing volumes of quantitative disclosures would amount to second guessing the work of the valuation advisor.

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.

Duff & Phelps response: We agree with the principles subject to the following caveats:

- To the extent quantitative disclosures for material valuation uncertainty are required to be made, interdependence and correlation between significant inputs should be required to be considered in all cases, and not only when it is practical to do so. Ignoring correlation was a key contributing factor to the mortgage-related aspect of the financial crisis, for example.

Correlation must be considered, at least at a high level, whenever it is material. Also, if the correlation is positive, as is often the case for a portfolio (e.g. loans), ignoring correlation leads to underestimating the impact of uncertainty, rather than overestimating it.

- Financial instruments are valued individually; they would be valued as part of a portfolio only if the purpose of the valuation requires it or allows it. Uncertainty disclosures on the other hand should be allowed for a pool of instruments with similar characteristics, which would also make the disclosure more feasible and understandable. However, it must be clear that in many cases aggregating quantitative measures of uncertainty would likely not be meaningful.

Finally, the principles outlined in par. 51 need to be illustrated with examples.

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 Annex 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.

Duff & Phelps response: We agree that illustrative examples should be provided for an array of assets and situations. We strongly encourage the Board to expose such examples before finalizing the guidance. Also see the General Comments in this letter (in particular, see section Clarity Needed on Implementation).

Detailed Comments by Paragraph

Paragraph 5
Some of the definitions confuse more than clarify. The definition of Uncertainty Risk in particular is oddly worded (unclear what is simultaneous with what).

Also, Value at Risk is not the “maximum loss”, as the first read of the definition implies; while the definition is correct, the structure of the sentence is such that the modifier to “maximum loss” is at the end of the sentence, thus leading some readers to the wrong conclusion.

We have provided additional comments on this definition earlier in this comment letter.

Paragraph 6
We disagree with the statement the ED makes 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. Market valuations are estimates of the most probable price that would be paid in a transaction as of the valuation date.”

Rather, consistent with corporate finance theory, a valuation represents the expected value associated with the range of possible outcomes. The same holds for a market price, which is the present value of the expected future cash flows to be generated by an asset discounted at a risk-adjusted rate.

Paragraph 8
A valuation made by reference to concurrent prices for identical assets in the same market, as may be the case for frequently traded securities should have **no** associated uncertainty, as that concept is defined in the ED; meanwhile, the ED suggests that uncertainty, albeit negligible, is present in the above cases as well. Perhaps the ED could instead discuss when a range of observed prices is expected and what that range represents.

Also see our comments on paragraph 39.

Paragraph 11
Considering that the disclosures the ED requires are triggered when *material uncertainty* is present, this concept should be more prominent and should be discussed and defined earlier on in the ED.

Paragraph 16
We are not comfortable with the notion that market risk can be "measured" by VAR. VAR is just one perspective on, or metric for, market risk. We suggest editing the sentence to read as follows: "One metric that can be used to help quantify market risk is value at risk."

Paragraph 20
It is not obvious what *model uncertainty* is without diving into the definition, and the concept comes across as too narrow.

Model variability can be driven by inputs (input variability is one of the reasons two people's models might give different answers). Rather, we think the objective here is to describe the variation in results one might get by applying different *methodologies*. In that case, the distinction between input uncertainty and methodologically-derived variability would be clearer. Therefore we recommend the use of *methodology uncertainty* as a better term.

Also please refer to our General Comments in this letter (in particular, see Terminology Issues).

Paragraph 23
This paragraph is missing a discussion of *key* input uncertainties for IPR&D and contingent asset valuations. Namely, “Level 3” assessments of likelihood of events or future scenarios, for which there may be inadequate historical or market data, in which case one would obtain expert assessments.

Also please refer to our response to Question 4 of the ED.

Paragraph 25
We disagree that a valuation method used may adjust for input uncertainty. The example provided in the ED is flawed because if a DCF is used and the adjustment for uncertainty in the projections is made through the discount rate, one needs to acknowledge that the discount rate is just another input. So in the end, it is not the valuation method that is used to make the adjustment, but another input.

Further, as TIP #1 Discounted Cash Flow acknowledged, there are different ways to apply a DCF method, using either probability-weighted cash flows or most likely cash flows, so this ED should not conclude that risk/uncertainty adjustments *should* be reflected in the discount rate used.

Paragraph 26

This paragraph presents a good example of the built-in financial assets bias in the ED. While there is nothing at issue with the paragraph per se, there is a lack of a similar discussion that would be applicable to non-financial assets and liabilities.

Paragraph 32

The presumption that a valuation for internal purposes would have a higher tolerance for a materiality threshold is misguided. Internal valuations can eventually affect third parties (for example, internal valuations may be used to set strategies; test trading model integrity; make investments, etc.).

Paragraphs 32-39

It is not clear what the purpose of the IFRS 13 discussion is in the ED. If any of the concepts from IFRS 13 need to be leveraged in the discussion on valuation uncertainty for IVS purposes, then the ED should do so without attempting to re-hash and interpret the IFRS guidance. Meanwhile, the ED summarizes certain disclosure provisions of IFRS 13, at times incorrectly. For example:

- **Paragraph 35** incorrectly references Level 3 *inputs*, when the requirement pertains to Level 3 *measurements* (different than inputs). The IFRS 13 requirement is to provide a narrative description of the sensitivity of Level 3 fair value measurement to changes in unobservable inputs resulting in significantly higher or lower measurements. Also one is to provide a description of interrelationships with other unobservable inputs and their effect on the fair value measurement.
- The IFRS 13 disclosures discussed in **Paragraph 36** only apply to financial instruments that are categorized within Level 3 of the fair value hierarchy. This is not clear from paragraph 36 or the preceding paragraph 35. One could be left with the incorrect impression that this IFRS 13 disclosure applies to *all* financial instruments.

Paragraph 38

We disagree with the statement that:

> "whether a potential alternative input is "reasonably possible" can be a useful concept to help determine whether valuation uncertainty is material …"

Whether an input is reasonably possible has little to do with its impact on the valuation (could be material, could be de minimis.) It is possible that the idea was simply not articulated clearly in this paragraph. However, this presents another on-point example of how the entire IFRS 13 discussion in the ED is fraught with the potential to misguide, as the precision and deliberateness of the IFRS requirements are lost in this "summary".

Paragraph 39

We disagree with the first sentence: by definition, there could be no model or input uncertainty in Level 1 in the context of financial reporting (and generally, even outside that context). A Level 1 input is a price from an active market that requires no further adjustment – and no valuation analysis is required – therefore not posing any potential model or input uncertainty issues.

Also see our comments on paragraph 8.

Paragraph 42

The first sentence of paragraph 42 reads as if model and input uncertainty have an impact on the market, which is incorrect. It seems that the intent is to state that "market disruption" has an impact on market activity (i.e., trading may cease; credit may dry up; etc.). The idea that this sentence is trying to convey can come across more clearly if better terminology was used ("market disruption" rather than "market uncertainty"). See our earlier comments on the choice of terminology in the General Comments section of this letter.

Paragraph 43

We disagree with the statement made in the paragraph, even for financial assets. Level 3 assessments (to borrow the financial reporting term) often involve scenarios, and quantification may be possible.

Further, the last sentence in the paragraph is flawed, as it states:

> “if the data needed to quantify the uncertainty is available then it could have been used to reduce the uncertainty in the valuation process”.

A well-reasoned and supported valuation conclusion has considered the application of various approaches and their weighting, and may already have incorporated the impact of different scenarios and a range of appropriate inputs. That is, certain methodologies do incorporate all material data about uncertainties to come up with expected (probability-weighted) cash flows; while these methods fully *recognize* the uncertainty in the *measurement*, they are separate and apart from the uncertainty *disclosures* (model, input, etc.) that this ED is requiring.

Paragraph 45
We disagree with using the words "not recommended"; this is very strong guidance. Alternatively, consider changing the second sentence to something along the lines of "However, use caution in providing a range, especially if any of the following situations apply."

Also, it is not clear what the second bullet of this paragraph is stating.

Paragraph 47
The reference of an “indefinite” holding period for tangible and intangible assets is confusing, as it evokes a specific intangible asset class. Perhaps the reference should be changed to “unspecified period”, or another term.

Paragraph 48
The statement that a reported valuation should be based on the most likely of outcomes is flawed. A market price is the present value of the expected future cash flows to be generated by an asset discounted at a risk-adjusted rate. Also see our comments to Paragraph 6.

Paragraph 50
It is not clear how this could be applied to intangible assets (as just one example of an asset class different from financial assets).

Paragraph 51, fourth bullet
We disagree with only needing to consider correlation "when it is practical to do so". Ignoring correlation was a key contributing factor to the mortgage-related aspect of the financial crisis, as one illustration.

For example, the valuation of subprime-mortgage-backed CDOs did not take into account the correlation of the assets; specifically, the situations under which one subprime mortgage would perform poorly were the same situations under which many of them would perform poorly. Instead, the faulty assumption was made that the portfolio was diversified.

Correlation must be considered, at least at a high level, whenever it is material. Also, if the correlation is positive, as is often the case for a portfolio (e.g. loans), ignoring correlation leads to underestimating the impact of uncertainty, rather than overestimating it. Non-correlation allows a narrower band of uncertainty, due to the law of large numbers.