

14 February 2013

IVSC Standards Board  
International Valuation Standards Council  
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**National Office**

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Dear Sirs,

**Exposure Draft – Valuation Uncertainty**

On 16 November 2012 the IVSC announced the release of an Exposure Draft on valuation uncertainty.

The document was issued seeking a response from interested parties by COB 14 February 2013.

The Australian Valuation Standards Board comments (red) in response to the questions are detailed below:

**Question 1:**

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

Yes.

**Question 2:**

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

Yes.

**Question 3:**

Which of these views do you support?

The Australian Property Institute believes the inclusion of a brief illustration would be beneficial in helping the reader, particularly valuation users rather than providers, understand the distinction between the concepts.

**Question 4:**

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.

Yes.

**Question 5:**

Do you agree with this position?

Yes. We consider that it is easier to quantify uncertainty in relation to model and input uncertainty.

We consider the question of market uncertainty to be a challenging issue. The approach implied by the discussion at para 12-14 is that value estimates might be formulated using pre-market disruption parameters with some form of qualifier as to the status of that valuation given the market disruption.

We are unsure that this would be helpful for users or preparers of valuations during these periods of market disruption, particularly under the “exit price” formulation of value promulgated under IFRS 13: Fair Value Measurement. Taking the case of the Financial Crisis precipitated by the collapse of Lehmann Brothers, some markets continued to trade and others did not (or did not unless the assets were held by owners in distress). In general, liquidity was at a premium given the uncertainty at that time. It would be in our view difficult to argue that illiquid assets remained as valuable at that time under the exit price formulation.

Accordingly, despite the absence of trading in illiquid markets, inferences could be made about the quantitative degree of market uncertainty from the markets that continued to trade during these times of uncertainty. We consider that quantitative disclosures of this type would be helpful for users of valuation reports notwithstanding the degree of judgment involved in formulating them.

**Question 6:**

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

Yes.

**Question 7:**

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.

Yes.

**Question 8:**

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.

Yes. Members of the Australian Valuation Standards Board have experience of quantitative expressions of valuation uncertainty, most typically in business and intangible asset valuations.

For examples of disclosure around quantitative valuation uncertainty in these contexts, we attach examples of public independent expert’s reports from 6 most common providers of these reports on large transactions. In each of these reports, the valuation conclusion is expressed as a range of values, and the derivation of the range is set out in the report.

The most common techniques for developing the valuation range include:

- Conducting a sensitivity analysis around critical assumptions and either directly or heuristically selecting a valuation range around plausible ranges of these assumptions, and

- A more complex technique of estimating the valuation uncertainty is to use Monte Carlo modeling. This includes estimating a range of plausible market participant inputs/assumptions, ascribing distributions to those ranges and identifying correlations (and other relationships) between the inputs to derive a distribution for valuation conclusions. Because of the range of estimates required for this technique and its complexity for lay users of valuations it is less commonly used in public or litigation reports.

**Question 9:**

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.

Yes.

**Question 10:**

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.

Yes. It would be helpful to provide examples across different asset classes (eg. Real property, tangible assets, businesses, intangible assets and financial instruments.)

The Board considers that the examples would be most helpful in areas where valuation uncertainty is most significant. Examples of these situations would be:

- Limited or illiquid markets for an asset
- Where a market is temporarily dysfunctional, such as observed in late 2008 and 2009
- Where the structure of the asset is highly volatile (highly leverage businesses or derivatives) and significant information asymmetry is likely to exist between buyers and sellers and
- Where inputs to the valuation are difficult to source to objective market data (ie the valuation is based on level three inputs in the accounting literature)

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.

See above comments in relation to public Independent Expert Reports.

Yours faithfully,



A.L. McNamara  
Professional Standards Manager  
Australian Property Institute