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IVSC Discussion Paper– *Valuation Uncertainty*

Dear Steve

We refer to your letter dated 26 October 2010 and would like to set out our comments on the Discussion Paper of International Valuation Standards Council (IVSC) on *Valuation Uncertainty.*

Our comments on the specific questions raised in the discussion paper are attached. We would be happy to further clarify or discuss any of the above points should you so wish.

Yours sincerely

Rita Liu
Secretary

Enc.

Attachment - Response to Specific Questions in the International Valuation Standards Council's Discussion Paper *Valuation Uncertainty*

Question 1

Do you agree that it is only when material, or abnormal, uncertainty attaches to a valuation on a specific time or date that the specific disclosure is necessary when the valuation is reported? If not please explain why you consider that an uncertainty statement should be provided in all cases.

We agree that only material or abnormal uncertainty should be disclosed unless there is a specific accounting or regulatory requirement to disclose measurement uncertainty in the context for which the valuation will be used. However, we believe that the International Valuation Standards Council (IVSC) could provide guidance for valuation experts to make an assessment as to whether material or abnormal uncertainty exists.

Question 2

Do you believe that the Board has identified all major sources and types of material valuation uncertainty? If not please identify what additional causes of uncertainty exist and how often you encounter these in practice.

The Board has identified five principal sources of valuation uncertainty: Status of Valuer, Scope of Work, Market Uncertainty, Model Uncertainty, and Input Uncertainty. We believe that the characteristics of a financial instrument can be a significant source of valuation uncertainty as described in the Basel Committee's April 2009 publication *Supervisory guidance for assessing banks' financial instrument fair value practices*. Characteristics such as complexity of payoff, option based instruments and long term maturity all contribute to valuation uncertainty. We recommend that the major sources of material valuation uncertainty be extended to include these types of risks.

Question 3

Do you agree with the Board's conclusion that an explanation of any abnormal uncertainty identified and an explanation of the impact this has on the valuation (a qualitative statement) is more helpful to users in understanding the valuation than a purely numeric expression of the range of possible values created by the uncertainty (a quantitative statement)?

The Discussion Paper (DP) states that, in some cases, uncertainty may be identifiable but it is immaterial in the context of the market for the particular asset or valuation assignment because it falls within the range that would be expected, and accepted, by most market participants. The DP refers to immaterial identifiable uncertainty as "normal" uncertainty. The Board has implicitly defined abnormal uncertainty as a material amount of uncertainty. We believe that a qualitative statement would generally be sufficient if it provides the user of the valuation with the ability to appreciate how material the uncertainty may be. However, in some cases, such as fair value measurements, it could be helpful for the qualitative statement to be supplemented by a quantitative assessment. In addition, accounting and regulatory requirements such as IFRS 7 may have specific needs for a quantitative measure such as for financial statement disclosure requirements. We believe it would be helpful for the IVSC to provide guidance on quantitative disclosures to meet specific accounting or regulatory requirements. We do not see a need for the IVSC to develop generic quantitative disclosure requirements for all valuation purposes.

Question 4

Do you think the IVSB should include an explicit requirement in the proposed IVS 105, Valuation Reporting, to disclose any material uncertainty or is the principle that requires valuation reports not to be ambiguous or misleading sufficient?

We believe that explicit requirements should be included in the International Valuation Standards. It is not clear that the existence of abnormal uncertainty would necessarily make a valuation ambiguous or misleading if the valuation is otherwise based on the valuation experts best estimate within a range of acceptable outcomes. Therefore, we would support an explicit requirement.

Question 5

Do you consider that there are cases where a qualitative statement of the causes and impact of uncertainty on the valuation is inadequate and should be either augmented or replaced by a quantitative statement? If so please (a) state the circumstances and assets classes where you believe that quantitative statements are more helpful to users and, (b) provide a brief explanation or example of the type of quantitative statement that you believe would be useful.

Please see response to Question 3.

Question 6

Do you consider that it would be helpful if IVSC developed guidance on methods for making a quantitative disclosure of uncertainty under specific circumstances? If so please indicate the circumstances and any methods that you either use or encounter in your market.

Consistent with our response to Question 3, it may be helpful for the IVSC to provide additional or supplemental guidance for specific accounting or regulatory requirements, such as the uncertainty disclosures in IFRS 7.