

VALUATION UNCERTAINTY

Exposure Draft

About the respondent

APVIF is the association of professional financial instruments valuers. It was founded in 2011 and currently counts 10 members.

The association purposes are;

- to define and broadcast standards and guidelines of financial valuation methods,
- to communicate on the profession and promote it,
- to take part in workgroups with regulators,
- to be the French representation of professional valuers inside the FFEE.

Its current President is Francis Cornut, Chief Executive Officer of DeriveXperts and member of this IVSC workgroup.

Response to questions

Q1 The proposed TIP defines valuation uncertainty at para 7.
Do you agree with this definition?

Answer

YES

Q2 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?

Answer

YES

Q3 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?

Answer

Market risk can be measured in a number of ways and depend on modeling assumptions. We believe that the brief explanation of market risk in paras 16 and 17 is not needed.

Q4 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?

Answer

YES

Q5 The proposed guidance indicates that because market uncertainty arises when the impact of

events on value is unknown it is identifiable but not measurable. In contrast, model and input uncertainty can be both observable and measurable.

Do you agree with this position?

Answer

NO, we agree that market uncertainty is identifiable but not measurable. However stating that model and input uncertainty is measurable is misleading, as it can at best be estimated.

Q6 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?

Answer

NO, we believe materiality is a concept only useful for accounting purposes that should not have any impact on valuation methodology or disclosures. In most cases the professional valuer for financial instruments doesn't possess the information about financial impact of a valuation spread. However the concept of materiality should definitely make part of regulatory reporting and accounting.

Q7 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?

Answer

YES

Q8 Para 47 suggests that model and input uncertainty may be more readily measurable 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?

Answer

NO

Q9 Para 51 sets out proposed principles for quantitative measures of uncertainty.

Do you agree with this list?

Answer

YES

Q10 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?

Answer

YES, it is good to have standard templates of disclosures and guidelines in specific situations.