

Fire sale prices and worst case scenarios do not reflect “fair value”, according to IVSC and IPEV

The emergence of COVID-19 has recently caused market prices to drop dramatically and fluctuate significantly. Investment funds and investors are grappling with the challenge of quantifying the impact of this elevated uncertainty and extreme market volatility around the globe on the value of their investments.

The International Valuation Standards Council (IVSC) and the International Private Equity and Venture Capital Valuation Board (IPEV) both recently released guidance on valuing investments during periods of significant market uncertainty:

- [IVSC's Technical Boards' letter](#)
- [Special Valuation Guidance by IPEV](#)

What does this guidance mean for investment valuation?

Key take-aways from the IVSC and IPEV valuation guidance include:

- **No worst case scenario** – IVSC says, “The objective of the valuation is not to stress test a valuation to an extreme case.” Valuations must continue to reflect the most reasonable assumptions based on information available at the time.
- **No fire sale prices** – While there may be a short term liquidity decline, the IPEV reminds us that fire sale prices are not reflective of fair value (as defined in the accounting standards).
- **Beware of recent transaction prices** – While recent

transaction prices (such as from previous capital raisings) are often a good indicator of current value, in the IPEV’s view, they may no longer be appropriate following the emergence of the pandemic.

- **Don’t over-engineer maintainable earnings** – IPEV recommends estimating maintainable earnings excluding the impact of any short term drop in earnings. Rather, short term impacts can be treated as a separate deduction.
- **Don’t mix up uncertainty and risk** – While an element of uncertainty is inherent in most market valuations, valuation uncertainty should not be confused with market risk. Risk is the exposure that the owner of an asset has to potential future gains or losses. It is taken into account by informed buyers/sellers and reflected in observed market prices. Valuation uncertainty occurs in times of significant market disruption when the observed market data does not accurately reflect the impact of an event. When uncertainty appears to be significant, the valuer must disclose the uncertainty in the valuation report.

To help you make sense of the conflicting data in these volatile times, contact one of our experts on page 2.

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