

Chapter B9 - STANDARD FOR DISCLOSURE OF VALUATION UNCERTAINTY

Purpose

The purpose of this standard is to ensure that:

- material valuation uncertainty is disclosed; and
- there is consistent treatment of valuation uncertainty.

Definition

Valuation uncertainty exists when an uncertain factor (either in occurrence or quantity) could impact upon the valuer's estimated market value of an asset, such that the value may differ from the price that could be achieved in a transfer of the asset at the valuation date.

Valuation uncertainty may arise from:

- a) Market uncertainty - when a market is disrupted by events such as economic or political crises, opening or closing of processing facilities or natural disasters.¹
- b) Contingent uncertainty - when a potential obligation or benefit may arise as a consequence of some earlier transaction or activity:
 - The occurrence of which is possible but not probable, or
 - The associated cost or value cannot be quantified with reliability.
- c) Input uncertainty - when information available to the valuer is limited or restricted, or when there are a number of reasonable inputs or assumptions that the valuer can use.

STANDARD B9.1 Disclosure

Valuation uncertainty that could have a material impact on forest value shall be reported.

The following points are to be disclosed as notes in the valuation report:

- the existence and nature of the valuation uncertainty;
- factors that may affect possible outcomes; and
- the potential financial effect, if it can be quantified, and it is useful to do so.

¹ Market uncertainty should not be confused with market risk which is discussed in chapter A4.



GUIDANCE NOTES ON VALUATION UNCERTAINTY

Definitions

For clarity, the differences between uncertainty and risk are explained in the following definitions:

Uncertainty: refers to the situation where there is a lack of knowledge or certainty in estimating a component of the valuation. It involves unpredictable outcomes and/or unknown probabilities of their occurrence which do not allow for accurate or precise calculations or predictions.

Risk: refers to the possibility of deviation from expected outcomes. It involves known potential outcomes and probabilities which can be quantified and assessed objectively.

Reporting

Table 9-1 provides a guideline on the reporting of valuation uncertainty that is deemed to be material.

Table 9-1: Valuation uncertainty guideline

Event Likelihood	Can Quantify	Cannot Quantify
Probable	Not valuation uncertainty Include in forest valuation	Valuation uncertainty Disclose existence as a note
Possible	Valuation uncertainty Disclose existence as a note and potential financial effect if useful	Valuation uncertainty Disclose existence as a note

Probable could be interpreted as an event or outcome more than 50% likely to occur within a defined period.

A decision to quantify material² valuation uncertainty should be based on the agreed scope, timeline and context of the valuation and, on what can be usefully and reliably estimated.

In general:

- Market uncertainty is not quantified because the impacts of the event on the valuation are unknown. Its existence will be disclosed as a note.
- Contingent uncertainty will be disclosed as a note in the valuation report. Financial impacts, where useful and reliable, should be reported. Sensitivity and/or scenario analysis are tools that may be usefully employed to bound uncertainty.
- Input uncertainties that can be estimated can be directly included in the valuation where appropriate (through for example, the area statement, yield tables, costs, log prices, or the implied discount rate). The limitations

² Refer to chapter C2 for guidance on materiality.



of the estimation(s) must be disclosed. Analysis, using tools such as sensitivity or scenario analysis or the use of frequency distributions, may be used to bound the input uncertainties, regardless of whether included or not in the cash flows.

Any analysis undertaken needs to be informative on the potential impact on value from the range of possibilities for the uncertainty, i.e. some input uncertainty may have a normal distribution, some can only result in either a negative (e.g. windthrow) or positive impact (e.g. expanded market capacity), while the impact of other input uncertainty may be truncated (e.g. pulp price given there is a floor at which stumpage becomes negative). If possible, analysis should also consider the probabilities of occurrence, e.g. through tools such as tornado charts.

Method uncertainty is not included as a type of valuation uncertainty. This subject, and its disclosure requirements, are covered in detail in chapter B12.

Valuation uncertainty sits on a spectrum and may also be inherent in implied discount rate evidence (see chapter A4). Of overriding importance is that the uncertainty is declared, and its treatment disclosed.

Examples

Examples of possible causes of valuation uncertainty include (but are not limited to):

Market uncertainty

- Global financial crises;
- Pandemic;
- Politically induced trade restrictions;
- Natural disasters;
- Market cessation, expansion or entry.

Contingent uncertainty

- Land use or access restrictions that have the potential to change forest management, such as:
 - provision for public access on non-freehold land;
 - uncertainty over land tenure, such as the provisions for resumption of land in Crown Forest Licences in **New Zealand** or mechanisms (e.g. native title) to recognise Traditional Owners in **Australia**;
 - areas of possible historical or cultural significance (e.g. Wāhi Tapu (sacred site) in **New Zealand**);
 - areas subject to potential prospecting rights or covered by mining licences that permit the removal of tree cover subject to a period of notice;
 - draft regional plan provisions or future zoning/land use capability status, such as soil and water conservation issues and the protection of landscape and aesthetic values;



- Other provisions that potentially change forest management at some later point, e.g. blanket replanting requirements that do not fully recognise site capability or the need to obtain water licenses or permits;
- Provisions for uninsured fire losses;
- Volume commitment by a forest owner to a proposed new market that may or may not happen.
- A commitment to purchase planting stock with unknown genetic gain.

Input uncertainty

- Contractual obligations that could, for example, influence the way prices are adjusted, control future rate of harvesting or limit management flexibility;
- Existence of a new disease for which the full potential impact is not yet determined;
- Absence of or lack of quality measurement data for estimation of yield (including as a result of climate change);
- Establishment of a new species with unknown yield, or a new forest with unknown productivity;
- Extent and frequency of forest loss due to climate change;
- Absence of or lack of quality actual data on which to base cost or prices estimates.



Revision History

Original Standard

NZIF. Released in May 1999

Revision in August 2023

NZIF. Main changes are:

- changing the name from Disclosure of Contingencies to Disclosure of Valuation Uncertainty.
 - definition is now focused on valuation uncertainty.
 - examples classified by three types of uncertainty.
-

Revision in December 2025

FA/NZIF. Released as part of Australia New Zealand Forest Valuation Standard.

