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Difficulties in evaluating unquoted shares and other equity

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Nordic Group Meeting in Oslo
6-7th September 2012
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Outline

- Background
- Estimation method
- Problems:
- Industry coverage
- Liquidity discount
- Counterpart sector

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Background

- Unquoted shares should be valued at market value. How do we measure market value when no market exits?

- In DK we use the value for quoted shares to estimate it as recommended by Eurostat.

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Background

- Correct estimation of unquoted shares is important both in terms of value and of counterpart

- Their size is twice the amount of quoted shares for S.11

- Unquoted shares is roughly 10% of S.14 assets

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Estimation method

What is used in the estimation

- Market value/own funds-ratio method is used
- Liquidity
- Industry

Estimation only for non-financial sector

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Estimation method

Basic principle:

- Market value $_{\text{unquoted shares}}$=(market value $_{\text{quoted shares}}$/own funds $_{\text{quoted shares}}$) $*$ own funds $_{\text{unquoted shares}}$
- Transactions= own funds - own funds $_{t-1}$ – retained earnings
- Revaluations = residual

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Problems – industry coverage

Number of quoted companies in DK
is 169

- Branch 2 (Mining, Energy, Refining) only 1
  company
- Branch 4 (Construction) – 3 companies
- Branch 6 (Hotel and restaurants, Transports
  and communication) – only companies for T&C

Can we really use the method
then???

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Problems – industry coverage

Branch	Name	No of companies
1	ICT	12
2	Mining, Energy & Refining	1
3	Manufactoring	19
4	Construction	3
5	Trade	11
6	Hotel & Restaurants, Transport & Communication	6
7	Financial intermediation	55
8	Insurance	0
9	Financial and insurance auxiliaries	0
10	Real estate, non financial services, Others	42
11	Holdings	20

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Problems – industry coverage

Can we use the ratios for M,E&R,
Construction and H&C?

- For the two first industries we use the
  calculated ratio
- H&C – market value/own funds=1

Maybe set all 3 ratios to 1 or use data
for quoted companies in the Nordic
countries.

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Problems – liquidity discount

Liquidity discount

- Currently we use 25 % calculated
  by France
- Is that valid for Denmark? Should
  we calculate our own. How?

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Problems – counterpart sector

Information concerning counterpart
sector is really scarce

Our data source is from a private
company which collects information
from annual reports

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Problems – counterpart sector

- Data does not cover all companies
  – so we have to impute counterpart
  sector
- Over estimation: Sometimes all we
  know is that S.14 owns more than
  5% - we then assume S.14 owns
  all.

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Problems – counterpart sector

The uncertainty regarding counterpart
sector implies, that we often make
adjustments in unquoted shares
when we see large discrepancies in
net lending/net borrowing

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Wrap up

Valuation of unquoted shares is
important

We do face some problems with
industry coverage and counterpart
sector

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