



MINUTES OF THE INTERNATIONAL VALUATION STANDARDS BOARD
19 June 2009

PRESENT:

Chris Thorne Chairman
Frank Bollmann
Tom Boyle
Bob Connolly
Jim Eales
Jeffrey Harder
Simon Landy
Arvind Nandan
Siu Yu Nova Chan

IN ATTENDANCE:

Marianne Tissier Executive Director, IVSC

1. CHAIRMAN'S INTRODUCTION

1.1 The chairman opened the meeting and welcomed observers to the first formal Board meeting of the reconstituted IVSB.

2. THE VALUATION OF FINANCIAL ASSETS – an education session

- 2.1 The chairman introduced the education session by reporting that although traditionally the IVSC had not been engaged with the valuation of financial assets, it was an issue it could no longer ignore due to the political attention it was receiving. He reported that the IVSC had established an expert group to advise the IVSB and IVPB on valuation issues and potential solutions. That group was to hold its first meeting on 29 June.
- 2.2 Two members of that group had been invited to give the Board an overview of valuation procedures and practices in the sector. Ian Blanche of Ian Blanche Consulting and Tanguy Dehapiot of BNP Paribas provided the Board with an overview of the sources and methods of valuations of financial asset valuation. These are impacted by a number of factors, including regulatory requirements, accounting standards, industry 'best practice' guidelines, internal risk and compliance policies and internal budgets and cost constraints.
- 2.3 They discussed the use of trade prices, dealer quotations, aggregate pricing services, mark to market and mark to model techniques in different sectors of the markets, together with the advantages and disadvantages of each. There was also debate over the distinction between the value of assets in a transfer to a third party and the value of the same assets to the holder – a difficulty arises where accounting standards require some financial instruments to be valued to fair value (ie assuming a transfer) when the instruments cannot actually be transferred to a third party in the real world.
- 2.4 The chairman thanked Messrs Blanche and Dehapiot for their contribution. He commented on the need to distinguish between developing standards for valuation in this sector generally and the continuing debate over the relevance of fair value as a measurement objective for different classes of instrument under accounting standards.

3. VALUATION OF INTANGIBLE ASSETS

- 3.1 The Board noted the background documents circulated with this agenda item summarising the responses received to the two exposure documents.
- 3.2 One issue arising from the responses received was the polarisation between those calling for more “how to” guidance and those saying there was too much guidance in the drafts. The chairman reminded members that under the new IVSC structure, the IVSB is responsible for development of standards and the IVPB for educational and technical papers. He also advised that the IVSC had reached an agreement to work with the Appraisal Foundation in the USA to develop best practice guidance being prepared by the Foundation into international guidance, mirroring similar arrangements between IASB and FASB. The first such paper to be produced under this agreement would be *The Identification of Contributory Assets and the Calculation of Economic Rents*.
- 3.3 Jeff Harder, who led the group that had analysed the responses, reported that overall the comments were supportive. He recommended that the Board concentrate discussion on three main themes – the scope of the drafts; valuation inputs; and whether key valuation methods had been excluded.
- 3.4 The Board agreed that it was important to issue updated generic guidance on the valuation of intangible assets and agreed that the development of the revised GN 4 should proceed. However, although the intangible assets valuation project initially was prompted by the growth in demand for valuations following the publication of IFRS 3, from a valuation perspective valuations under IFRS were not fundamentally different to valuations for other purposes. Although the ED of GN16 contained some useful cross references for valuers unfamiliar with IFRS which enabled them to better understand the valuation context, after review of the representations and further debate the Board agreed that these were not sufficient to warrant a dedicated standard. The Board agreed that the material contents of the draft GN 16 should be incorporated within a revised IVA 1, *Valuation for Financial Reporting*, during the review of all the existing standards that would be part of the project to rewrite the IVS. This would also enable any amendments arising from the current IASB Fair Value Measurement project to be reflected.
- 3.5 The Board agreed with those respondents who considered that Section 5 “Valuation Inputs” strayed into too much detail on how valuations are undertaken. It was noted that this also led to some repetition. In line with the brief that the new standard should provide high level guidance it was agreed that Sections 4 and 5 should be merged, with only the minimum information required to explain the basic inputs required under each valuation method being discussed.
- 3.6 The Board agreed that mention should be made of the real option approach but not of the so called “greenfield approach” as this was simply a subtle variation on the principal approaches discussed in the ED.

4. THE VALUATION OF INVESTMENT PROPERTY UNDER CONSTRUCTION UNDER IAS 40

- 4.1 Simon Landy reported that a working group had been set up to develop an exposure draft consisting of three members of the IVSB; and two representatives from each of the Asian Public Real Estate Association and the European Public Real Estate Association.
- 4.2 The Board reviewed the summary of issues discussed by the working group and the conclusions reached. The Board reviewed the draft and proposed some minor amendments, notably to paragraph 8.

- 4.3 Following discussion, the Board agreed that there was no need to restrict the scope of the draft to the valuations under IAS 40 but that it should be amended so that it could be applied to the valuation of investment property under construction for any purpose. There was some discussion on the effect of the need under IAS 40 to reflect the going concern assumption, which would not be appropriate for a valuation of the same property for, say, secured lending. However, it was felt that these distinctions could easily be made to the working draft prior to its exposure. It was agreed that the amendments discussed should be made with a view to publishing the before the end of July.

5. VALUATION CERTAINTY

- 5.1 Bob Connolly introduced discussion paper by saying that there is an international debate on valuation certainty in which the IVSC must engage and take leadership. It was agreed that a small project group under the chairmanship of Bob Connolly be established to develop a discussion paper in order to prompt debate on this issue.

6. PROJECT TO REWRITE THE INTERNATIONAL VALUATION STANDARDS

- 6.1 The Board agreed the need for a project to review and rewrite the current edition of the IVS as matter of priority and in the general direction articulated in the report prepared by the Chairman.
- 6.2 Nova Chan proposed a simplified linear approach to the layout of book and was asked to develop this further.
- 6.3 The Board agreed the need to develop a brief for a writer and to develop a template as to the content of a 'standard'. It was noted that the International Auditing and Assurance Standards Board had recently concluded a 'clarity project' under which the International Standards on Auditing had been rewritten and might be able to offer guidance.

7. IASB FAIR VALUE MEASUREMENT EXPOSURE DOCUMENT

- 7.1 The Chairman reported that the IASB had recently issued its exposure draft *Fair Value Measurement*. All members were requested to review the draft and to provide comments to be submitted to the IVPB who would respond on behalf of the IVSC.

8. DATE OF NEXT MEETING

The next meetings of the IVSB and IVPB are to be held in Madrid on 5/6 November 2009.