



## MINUTES OF THE MEETING OF THE INTERNATIONAL VALUATION STANDARDS BOARD

HELD IN LONDON

ON FRIDAY 5 FEBRUARY 2010

### PRESENT:

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

### 1. CHAIRMAN'S INTRODUCTION

The chairman opened the meeting and welcomed members and observers to the meeting.

### 2. MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

2.1 The minutes of the previous meeting held on 5 November 2009 were approved.

2.2 Minute 6.2 to be amended as follows (changed wording shown in bold; deletion in red)

“The situation in the financial markets is different. Ana Castañeda reported that the volumes of instruments valued and the automated methods used for valuation, meant that there was greater reliance on statistical models for valuation and a greater requirement for quantitative rather than qualitative measures. It was agreed that the paper **tabled** (should) **limited** its scope to non financial assets. The Financial Instruments Expert Group is considering certainty in its sector as a separate project.”

### 3. THE APPRAISAL FOUNDATION

3.1 In response to a question regarding The Appraisal Foundation, the chairman reported that he had had contact with the chair of the TAF ASB. Looking to build relationship between the two organisations. They hope to send an observer to April meeting.

#### **4. VALUATION CERTAINTY**

- 4.1 In Madrid it had been agreed that the paper tabled would be discussed with the Professional Board to determine how best to publish the paper. The chairman reported that reservations had been expressed by the Professional Board the Financial Instruments Expert Group at the omission of financial instruments from the paper. Current discussions between the Trustees and financial regulators confirm that it is financial instruments that are driving the concern about valuation certainty. The view was that it would be unwise for IVSC to be publishing a paper on the topic that expressly ignored the topical concerns.
- 4.2 A small working of the Financial Instruments Expert Group, led by Ana Castaneda, had agreed to develop the paper to include financial instruments. The Chairman is to meet with Ms Castaneda on March 9 to review work/direction of this revised paper. This is likely to return as an agenda item for the April Board meeting

#### **5. EXTRACTIVE INDUSTRIES**

- 5.1 The Board reviewed the draft project brief and agreed the following changes:
- (i) To increase group size to nine to ensure adequate representation from both oil/gas and mining industries
  - (ii) That representatives from regulators and IASB to be invited to attend as observers
  - (iii) To reflect the fact that the group will need to have a number of face-to-face meetings rather than rely exclusively on electronic communication
- 5.2 The Board appointed Jeff Harder to chair the Expert Group.
- 5.3 The Board agreed that a request for funding for the project should be made to the Board of Trustees.
- 5.4 The project timetable, subject to funding approval being given by the Board of Trustees would be:
- nominations for membership to be sought during March;
  - first meeting of group late May/early June;
  - preparation of draft discussion paper by mid-September for discussion at IASB October meeting.
- 5.5 Subject to the above changes, the brief was approved by the Board.

#### **6. PROJECT BRIEF FOR FORESTRY ASSETS**

- 6.1 It was agreed that an Expert Group was needed to review current GN 10 in the context of the forestry paper (discussed at the previous meeting) and to consider whether the valuation requirements of IAS 41 have been adequately addressed. It was noted that the brief was narrower than that for the Extractive Industries project and, such, the Expert Group may not need to meet but could deal with issues by electronic communications.
- 6.2 Prior to setting up the Group, the Board agreed that an invitation to comment should be published on the IVSC website seeking views as to whether forestry should be dealt with separately or in conjunction with other biological assets as defined in IAS 41 *Agriculture*.

## **7. FAIRNESS OPINIONS**

- 7.1 There was some discussion as to whether a “fairness opinion” was a valuation or not. Although a fairness opinion normally contains much more than a valuation, a valuation is at the heart of the advice given. It was also pointed out by a couple of Board members that a number of regulators around the world regarded fairness opinions as valuations and it would be illogical for Board to conclude otherwise.
- 7.2 Fairness opinions are subject to regulatory requirements in many states, and the question was raised as to whether there was any scope for an IVSB initiative, as the opinions will have to be prepared in accordance with the particular requirements of the state having jurisdiction over the transaction in question. However, after discussion it was concluded that the various state regulatory requirements mainly concerned the status of the valuer, i.e. the defined degree of independence required rather than the contents and practice of the valuation.
- 7.3 The Board applied the tests in the draft Due Process document and agreed that this was a topic that was suitable for inclusion in the work programme although it was not clear whether the eventual outcome would be an application standard, best practice guidance or a combination of both. It was agreed that Jim Eales, Frank Bollmann and Tom Boyle would form a sub group, to which the professional board would also be invited to nominate members. The group would agree a series of questions to be put on the web site aimed at soliciting responses to help inform the Board as to the future direction and objectives of the project.

## **8. WITHDRAWAL OF EXISTING GN 5 *Valuation of Personal Property*, and GN 14 *Extractive Industries***

- 8.1 The Chairman reported that as a consequence of changes agreed at the previous meeting regarding the style and terminology used in the re write of the standards the current GN5 had to a large extent become redundant. Although it originally had been intended to refer to Antiques and Fine Arts and other collectable assets, the broad definition of “personal property” in the current standards had compromised the relevance of the GN. If it is desired that there be a standard specifically for A&AF valuation this would need looking at as a new project. The Board agreed with the recommendation of the Chairman that the current GN 5 be withdrawn from publication. Views should be sought as to whether there is sufficient demand from our constituents to include the development of a new standard specifically for A&FA in the future work plan.
- 8.2 It was also agreed that the current GN14 should also be withdrawn pending the outcome of the Extractive Industries Project.

## **9. INTERNATIONAL FEDERATION OF ACCOUNTANTS**

- 9.1 Frank Bollmann reported that the next meeting of the International Auditing and Assurance Standards Board Consultative Advisory Group was to take place in early March in Barcelona.

## 10. IVSB DUE PROCESS FOR STANDARDS SETTING

10.1 The Board agreed to modify point 5 of the draft Due Process to state that the Board may withdraw or modify a project at any stage.

10.2 Subject to this amendment the Board resolved to request the Board of Trustees to endorse the Due Process, following which the document should be published on the website.

## 11. INTERNATIONAL ACCOUNTING STANDARDS BOARD

11.1 The IVSC was represented by the Chairman at the Round Table discussion on the Fair Value Measurement Exposure Draft in London. In another capacity, Frank Bollmann had attended another of the London sessions and also the session in Tokyo.

11.2 The Chairman reported that during the session he attended, many of the points he made based on the comment letter IVSC submitted on the Exposure Draft were well received by other participants. There also seemed to be agreement with the view he expressed that the focus of the Fair Value Measurement standard could usefully be readjusted away from trying to prescribe how valuation judgement should be exercised to disclosure about who provided the valuations and the control environment in which the valuation was provided. He contrasted the current disclosure requirements in IAS 16 and IAS 40 with the lack of equivalent requirements in other IFRSs requiring fair value, and in the proposed new Fair Value standard itself.

11.3 Frank Bollmann reported that one of the key issues arising from the Tokyo Round Table was that emerging markets are asking for more valuation guidance. The IASB has responded by inviting submissions on the issues within IFRS where more valuation guidance is required. In subsequent discussions with IASB staff they acknowledge that IVSC may be able to assist in developing the required guidance. The Board reinforced its view that solutions to valuation problems raised by IFRS must reflect the consensus of the global valuation community otherwise they would just cause further confusion. It was noted that the deadline for submission of issues had been 31 Jan. It was agreed that the Board should monitor the IASB project. It was also noted that developing educational materials for emerging economies may be a project that would attract support from the World Bank.

11.4 It was agreed that IVSC should respond to the IASB's exposure draft of proposed replacement of one section for IAS 37, Provisions, Contingent Liabilities and Contingent Assets that contained revised proposals for measuring liabilities. Robert Connolly, Nova Chan and Frank Bollmann agreed to form a sub group to prepare the response. **(Exposure period ends 12 April 2010)**

## 12. WORK PLAN

12.1 The Chairman reported on a meeting that had been held with EPRA in connection with a survey by JP Morgan that showed that the investment community had low confidence in the valuations of investment property disclosed in financial statements in many countries of Europe. EPRA had asked whether IVSB would consider producing a standard for investment property to help raise practice in this area, EPRA is also looking to establish common "key performance indicators" (KPIs) for financial statements produced by REITS and Property Companies, and these may in turn lead to specific reporting requirements in valuations.

- 12.2 The Board did not consider that a separate standard for investment property was warranted at the present time as most of the appropriate procedures and reporting requirements applicable to the valuation of Investment Property were common to property generally. The few matters specific to investment property would probably not be sufficient for a standard. It was agreed however that the EPRA “KPI” project should be monitored and could lead to a suitable addition to IVS in the future. One suggestion was that the present Investment Property Under Construction standard could be extended in scope and retitled to include all matters specific to the valuation of investment properties..
- 12.3 EPRA also asked if IVSC could write to IASB to support the recent tentative decision by IASB to remove investment property from the scope of lessor accounting in the proposed future leasing standard and that IAS 40 continues as the method of accounting for investment property. It was agreed that there were sufficient valuation reasons to support this decision over the mooted alternative based on the “rights of use” model to justify IVSC taking a position on this. The Chairman is to prepare an appropriate response.
- 12.4 Simon Landy reported that the Thai Securities Commission was becoming concerned at the valuations used to support “Infrastructure REITS”. He asked if there was scope for IVSB to consider this issue. After discussion the consensus was that if the valuation was of a company set up to provide the infrastructure then the normal business valuation standard should suffice; if the valuation was of the asset then either the real property or plant and equipment standards would apply. If specific concerns came to light that were not covered by these standards then the Board might consider a project but there was insufficient evidence to warrant this at present.

### **13. IVS REWRITE**

- 13.1 The Chairman reported that he and the IVS technical writer had held a second two day meeting in London in early January to progress this project. Working drafts of the Introduction plus ten individual standards had been circulated to the Board ahead of the meeting.
- 13.2 Individual Board member’s were invited to give their initial comments on the general style and level of detail in the drafts.
- 13.3 Arvind Nandan was happy with the general organisation and format , but felt that in places the standards were still a little too prescriptive.
- 13.4 Nova Chan felt that the drafts covered most of the essentials . He felt that we should aim for greater consistency of layout between standards in the same category. He suggested that a table of changes from the current standards might be useful, although the Chairman pointed out that the reorganisation of the text was so significant it would be very difficult to do anything other than give a broad overview of the principal changes. Mr Chan also suggested that it would be more logical to reverse the order of the “application standards” and the “asset standards”. He also felt more logical to start numbering of each class of Standards at 1 rather than 0, i.e. 101 not 100.
- 13.5 Tom Boyle liked the organisation of the Standards although he agreed with Nova Chan that applications might be better following the asset standards. He questioned whether some of the General Concepts and Principles were a Standard. He also asked whether there would be a Glossary (there will be). He also felt that it would be better if each standard could be more self contained.
- 13.6 Jeff Harder didn’t like the term “Core Standards” (there was general agreement on this point

and the consensus was that “General Standards” was preferred). He had no material argument with content of what had been tabled so far. He suggested that future applications could include fairness opinions and possibly litigation and taxation. He did not like the repeated references to “asset or liability”. (It was agreed in discussion that in general usage only “asset” would be used with a comment in the introduction that this included liabilities unless clear from the context that it did not). He also questioned how the standards would be published, as this would have a bearing on the layout and format.

13.7 Jim Eales liked the new structure although was concerned that there was too much focus on this aspect rather than the technical content. He said it was important that a record of future changes would be needed so that users could easily establish what standards were in existence at any given point.

13.8 Frank Bollman liked the new structure and agreed with the comments made by Jeff Harder and Jim Eales in particular. He suggested that the discussion on the principal valuation approaches in draft IVS 100 should form a separate standard.

13.9 Robert Connolly had a number of concerns with the drafts. These were:

- the scope of the standards should be confined to “independent” valuation.
- the avoidance of terms such as ‘should’, ‘will’, ‘shall’ weakened the authority of the standards. The uses of phrases such as “may be appropriate” was similarly undermining.
- the drafts had too much focus on the needs of the client, not of the valuer.
- He did not like the references to valuation as an “estimate” and would prefer the word “opinion”
- a clear statement needs to be made that valuations can only be carried out by experts
- a basis of value is not a statement of the valuation objective.
- the reference to “mortgage lending value “ should be deleted from the Secured Lending Standard.

13.10 Simon Landy liked the new structure and style – he found the simplified style easier to follow than the existing book, although there were one or two cases where the drafts may have over pared existing material. He agreed that the valuation approaches should be in a separate standard. It would also be more helpful if there was an explanation of what is in each class of standard.

13.11 The Chairman thanked the Board for its comments. It was clear that there were matters that the Board needed to address in a working session on the drafts. In the light of some of the comments there was a need to have a further debate on the objectives and purpose of the standards, e.g. what do they include and who are we writing them for? These matters had been considered by the Critical Review Group but although the Board had previously decided that the report of this group should set the objectives of the re-write, it was important that the Board was supportive of the new standards. Other topics connected with the re-write that need to be considered by the Board include:

- The process for progressing the re-write
- Whether IVA 1 is simply updated or whether question of valuation for financial reporting needs to be addressed in a different way
- Whether the current IVA 3 – Public Sector assets warrants a separate standards
- Whether the current IVA 2 Secured Lending should be confined to valuations of property or its scope broadened

#### **14. DATES OF NEXT MEETINGS**

- April 23/24 – London
- October 7/8 – Miami. These meetings will coincide with the 2010 IVSC AGM and take place immediately after the ASA/CICBV Business Valuation Conference.