



MINUTES OF THE MEETING OF THE INTERNATIONAL VALUATION STANDARDS BOARD

HELD IN LONDON

ON MONDAY 21 JUNE 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. He advised of alterations to the running order of the published agenda.

2. MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

2.1 The chairman reported that the meeting planned for 23/24 April 2010 had been cancelled due to the transport problems caused by volcanic ash. An informal meeting had been held on 23 April with three Board members present and others participating by phone.

2.2 The minutes of the previous meeting held on 5 February 2010 were approved.

2.2 Minute 7.1 to be amended as follows (changed wording shown in bold; wording in red to be deleted)

“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.**”

2.3 Minute 13.7 to be amended to read:

“...He said it was important that a record of future changes **would be needed be kept** so that users could easily establish what standards were in existence at any given point.”

2.4 Minutes 13.9, second bullet to read:

“the avoidance of terms such as “should”, “**will**”, “**shall**” weakened the authority of the

standards.....”

3. SUMMARY OF IVSC ACTIVITY

3.1 The Board noted the written summary of IVSC activity since November 2009.

4. REPORT FROM THE INTERNATIONAL VALUATION PROFESSIONAL BOARD

4.1 The Board noted the written report from the IVPB and noted with particular interest the discussions on private equity and venture capital valuation guidelines. It was agreed that IVSC seek a dialogue with the principal bodies currently publishing guidance in this area.

5. EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

5.1 The chairman reported that he had attended the recent EPRA Reporting and Accounting Summit at their invitation.

5.2 The US FASB is fast tracking a project to develop an IAS 40 equivalent standard as part of the IASB/FASB convergence project.¹ EPRA, working with its US counterpart, NAREIT, is seeking to influence the development of the FASB standard in the hope that this in turn could lead to improvements in IAS 40. The chairman has been invited to a meeting in July of a group established by EPRA to discuss the issue. The Board agreed that the IVSB could contribute to the work of the group in discussions on the valuation content of any proposed accounting standard but should be careful not to be drawn into any wider debate over when fair value measurements should be used and how the reported figures are used in the financial statements.

5.3 EPRA also raised the question as to why there was no dedicated valuation standard for investment property generally in IVS, only the recently published standard dealing with investment property under construction (IPUC). The chairman had advised that if EPRA and its equivalents in other world regions made a strong case for developing a new standard in this area that the board would consider this against its due process criteria. Key factors would be evidence of diversity of practice in undertaking or reporting valuations and the degree to which this was of concern to users and the wider investor community.

5.4 The Board reviewed the article written by Ad Buisman *The Fair Value Paradigm; How Fair are Fair Values?*, reproduced in the Europe Real Estate Yearbook 2010 and agreed that it should be forwarded to the IVPB who might be in a position to address some of the issues raised in the forthcoming Technical Information Paper on IPUC.

6. INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS

6.1 The Board discussed the suggestions that had arisen as a result of the IVSC presentation at the recent IOSCO Annual Conference given by IVSC trustee, Roel Campos. It was agreed that there was a need to maintain and strengthen the contact with IOSCO and that it would be productive to respond to the request by the chair of the IOSCO Executive Committee that a summary of the IVS exposure draft be prepared. The Board agreed that this should be an extended guide to the content of the standard, and should contain a clear warning reading this

¹ At its meeting on 14 July 2010, the FASB discussed its project on investment properties (a project similar to IAS 40, Investment Property). As the result of the meeting, the Board tentatively decided to issue a proposed Accounting Standard Update that would require an investment property, as defined in IAS 40, to be measured at fair value.

was not a substitute for reading the full document . Chris Thorne agreed to prepare a draft for approval by the Board.

- 6.2 The Board agreed that Chris Thorne should discuss with Roel Campos how best to respond to the issue raised by the Commission of the US Commodity Futures Trading Commission regarding valuing bilateral over the counter derivatives.

7. IVS REWRITE

- 7.1 The Board noted the summary of changes between the working draft discussed at the informal meeting on 23 April and the published exposure draft of the new IVS released on the timetabled date of 2 June.
- 7.2 The Board agreed to hold a working session on the day before the next IVSB meeting in Miami to discuss responses and agree priority areas on which work needed to be done with the objective of approving a final draft for publication at the November meeting.

8. VALUATION UNCERTAINTY

- 8.1 The Board debated the draft of the paper that had been developed by members of the IVSC Expert Group on the Valuation of Financial Instruments. The Expert Group will debate the draft at its meeting on 12 July.
- 8.2 The following observations were made by Board members:
- That because price does not always equate to value the descriptions of valuation uncertainty in the second sentence of paragraph 1 and in paragraph 19 were too simplistic. A transaction price might differ from a valuation because of differences in the basis. The wording should be amended to reflect this.
 - The Background section in paragraphs 3-18 should be reduced, as much of it now appeared historic.
 - The graphs should be simplified – the second in particular was felt to be unclear.
 - That uncertainty can be caused by factors other than those identified in the current paper, for example: valuer experience, the valuation task (eg projected values will be inherently more uncertain than retrospective values). It was agreed that the paper should be expanded to reflect these points.
- 8.3 Tom Boyle agreed to revise the paper to reflect the Board's debate.
- 8.4 There was discussion as to the status of the paper. The subject was not suitable for a Standard, but that it was important for IVSC to make a clear statement of its position in view of the question of uncertainty having been raised by politicians and financial regulators. Since IASB was also producing additional proposals aimed at dealing with the issue in the context of financial statements, it was even more important for IVSC to contribute to the debate. It was agreed that the paper should be released by as a discussion paper.

9. EXTRACTIVE INDUSTRIES

9.1 The Board noted that the Board of Trustees had been unable to approve funding for the totality of the project at the level requested so there was a need to progress with the project in stages.

9.2 It was agreed that Jeff Harder, as Board member responsible for the project, with the assistance of Jim Eales, should draw up a list of significant corporate in the oil, gas and mining industries and discuss informally with contacts to see whether there would be interest in attending a meeting to ascertain the level of industry interest in the development of a valuation standard for the extractive industries.

9.3 The proposed project plan is to be amended to reflect agreed action and the new timetable.

10. BIOLOGICAL ASSETS

10.1 The Board noted that GN10 *Valuation of Agricultural Properties* had not been included in the IVS exposure draft.

10.2 The Board agreed that 'biological assets' was too broad an area to warrant the development of standard at this time but that a number of investors were looking for consistency in the valuation of forestry assets.

10.3 Bob Connolly, with Jeff Harder, agreed to develop a brief highlighting areas of concern and difficulty and with background of what guidance currently exists for the valuation of forestry assets for discussion at the next meeting.

11. FAIRNESS OPINIONS

11.1 Following the February meeting, Jim Eales and Frank Bollmann had discussed the proposed project and concluded that it would be very difficult to develop an international standard on fairness opinions. This view had been discussed with Jean-Florent Rérolle, a member of the IVPB and author of the paper debated at the February IVSB meeting.

11.2 The Board supported the decision of the IVPB to develop guidance surrounding fairness opinions but agreed that there could be matters identified as part of that project that could be dealt with in a brief standard. The Board requested that Jim Eales be involved in the IVPB working group to act as liaison between the two Boards.

12. INTERNATIONAL FEDERATION OF ACCOUNTANTS

12.1 Frank Bollmann reported on the meeting of the Consultative Advisory Group of the International Auditing and Assurance Standards Board (IAASB) held in Barcelona in early March that he had attended on behalf of the IVSC. IVSC is the only valuation focused group that is represented.

12.2 There was a similarity in the discussions of the two boards regarding levels of diligence and, for the auditors, what is a review as opposed to an audit. IAASB has much experience in setting standards and would be a good source of advice for the IVSB. The area of greatest

overlap between the work of the two organisations is the draft International Auditing Practice Statement 1012 – Auditing Financial Statements which is under development.

12.3 The next meeting of the Consultative Advisory Group is September 13/14 2010 in London.

13. INTERNATIONAL ACCOUNTING STANDARDS BOARD

13.1 The Board agreed to request the Expert Group on the Valuation of Financial Instruments Group to prepare a response on behalf of the IVSC to the IASB request for comments on FASB proposals for a new standard on financial instruments.

13.2 The IASB should be alerted to the IVSC project on extractive industries in the light of the recent publication by IASB of an international research project on a possible IFRS for the extractive industries.

14. WORK PLAN

14.1 The Board agreed that a project on the valuation of liabilities (excluding financial instruments) was needed. The Chairman reported that he had reviewed some of the comment letters posted in response to the IASB's proposals to alter IAS 37, many of which were critical of the proposals. There could be points raised in these comments that should be considered in our own project. Jim Eales and Nova Chan agreed to develop a document setting out a suggested scope for the project for discussion at the next meeting.

14.2 The Board noted that a specific question had been asked in the IVS exposure draft as to whether there was the IVSB should develop a standard for the valuation of personal property.

14.3 The Board noted a copy of a recent speech given by Andrew Haldane, Director for Financial Stability at the Bank of England in which he concluded that in circumstances where an efficient market hypothesis cannot be applied, either amortised cost or fair value can be misleading and queried whether there was an answer in looking at methods to evaluate an objective measure of expected loss and suggested this might be an issue the IVSC should explore. At this stage, the Board did not feel it appropriate to develop a response but agreed to maintain the dialogue with Mr Haldane.

14.4 The Board did note that since GN 11 Valuation Review had been removed from the IVS exposure draft there may be the need to prepare a discussion paper or appendix to the scope of work.

15. PUBLICATION ARRANGEMENTS FOR IVS

15.1 The Executive Director reported that early discussions were underway with a publishing house to provide:

- Hard copy version of IVS and future Technical Information Papers
- Free on-line access to the IVS but with limited print functionality
- A subscription service to provide access to searchable IVS, possibly *Go To* navigation; on-line copies of Technical Information Papers; updates, and maybe hard copy

versions of documents as well.

16. ANY OTHER BUSINESS

- 16.1 The Board recommended that a joint meeting with the IVPB should take place during the Miami meetings, together with the Trustees if possible to develop a protocol governing the interaction between the two Boards.

17. DATE OF NEXT MEETING

- October 7/8 – Miami. The IVSC AGM will take place on Saturday 9 October.