



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

HELD IN MIAMI

ON FRIDAY 8 OCTOBER 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

- 1.1 The chairman opened the meeting and welcomed members and observers to the meeting. He advised that all but two of the accompanying papers has been made available on the IVSC website. The remaining papers – Extractive Industries and Forestry – would be posted the following week.

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

- 2.1 The minutes of the previous meeting held on 21 June 2010 were approved.

### 3. OVERVIEW OF IVSC ACTIVITY

- 3.1 Members were referred to the full report on IVSC activity to be given by the Chair of the IVSC Board of Trustees to the AGM the following day that had been circulated.

### 4. REPORT ON INTERNATIONAL VALUATION PROFESSIONAL BOARD

- 4.1 The Board noted the IVPB work plan that had been circulated and that the IVPB, at its meeting being held concurrently with that of the IVSB, was to approve issuing exposure drafts of two Technical Information Papers (TIPs) – (i) *The Cost Approach* and (ii) *The Discounted Cash Flow Method - Real Property and Business Valuations*. Work was also well progressed on a further TIP – *The Valuation of Investment Property under Construction*.
- 4.2 Jeff Harder questioned whether there were any issues of particular concern to regulators where the IVSC should be providing guidance. The chairman reported that regulators' their concern was primarily in the area of the valuation of financial instruments and consistency of methods. The Financial Instruments Expert Group did have some projects underway, the most advanced was a project to identify and measure liquidity premia.

- 4.3 The chairman reported that Michel Prada had chaired a meeting of the IVSB and IVPB chairs and vice chairs with representatives of the International Private Equity and Venture Capital Valuation Board (IPEV Board) on 6 October. IPEV produce valuation guidelines and there was general agreement at the meeting to try and converge to one set of standards.
- 4.4 Jim Eales reported that there is an issue around portfolio valuation that should be raised with IPEV and particularly whether infrastructure should be looked at differently from other private equity investments.

## 5. IVS REWRITE

- 5.1 A summary report of the comments received on the exposure draft of the proposed new IVS had been circulated with the agenda. 52 responses had been received and the Board expressed its appreciation to all respondents for their contribution towards the development of the new Standards. The Chairman advised that the focus of the Board's debate at the meeting would be on main strategic issues and areas of contention arising from responses to the questions posed in the exposure draft rather than detailed text changes.
- 5.2 The Chairman reported that three Round Tables had been arranged – New York, November 2; Hong Kong, November 12; and London, November 19 - to which an invited number of c20 participants per event would be invited to debate key issues arising from the consultation. The conclusions from the Round Tables would be available to inform the IVSB's next debate on the draft at its meeting on 22 November. The conclusions would also be made publicly available on the IVSC website. Comments will not be attributed to individual participants at the Round Tables.
- 5.3 An initial discussion took place on the timing of the publication of the new standards that had been planned for early 2011. The Board agreed that if there were significant new issues introduced into any part some limited further exposure might be necessary. It was likely that publication would not be possible until second quarter 2011. It was also agreed that that the Board should communicate more effectively to constituents that the standards would not be a physical book published on one date that would be effective for a set period but that each standard would be updated as required, with the current version being published via the internet. The hard copy publication would simply be a collection of the standards at a specified date but would not constrain the publication of amendments or additional standards as and when they had been completed.
- 5.4 Discussion on responses to the specific questions asked in the Exposure Draft

### **Question 1 – Do you find the new structure of the Standards to be logical and easy to follow?**

Although a few proposed alternative numbering protocols, the majority of the respondents answered this question positively. However, there was considerable comment on what constituted a standard and on the designation of all parts as standards. Some considered much of the content to be guidance rather than standards. There was considerable disagreement between respondents as to the balance of explanatory material and standards. Some considered that there was too much "guidance" contained within the standards but others called for more detail. The Board agreed that some of the latter group were probable unaware of the the progress being made by the Professional Board on Technical Information Papers (TIPs) and how these would support the standards. Others indicated that they considered the mix of authoritative statements and explanatory material to be confusing.

The Board agreed that there was no bright line between what could be considered standards as opposed to guidance. The mixed response did not mandate a significant change to the approach

adopted in the ED and the Board considered that the standards, ie statements intended to be mandatory, had to be supported by explanatory material so that they could be understood and applied in context. However, it was agreed that some reformatting was desirable to make a better distinction between the standard and any supporting commentary.

**Question 2 – Do you consider the combination of background information and specific directions (in the Asset Standards) to be helpful? Would you prefer all background information and explanatory information on asset classes to be removed from the standards so that only the specific directions applicable to each application or asset type reminded?**

Most respondents were in general agreement that the 300 series provided helpful background and explanatory information. However many called for a better distinction between the standards and background material. There was little support for the alternative of removing all the background material from the standards.

**Question 3 – Which delivery method for the new edition of the standards are you or your organisation likely to use?**

This question was uncontroversial and the responses consistent with the proposal to publish the standards both in hard and electronic copy.

**Question 4 – IVS 101 is intended to explain fundamental concepts and principles that are referred to throughout the remainder of the standards to assist in their applications....Do you consider that this objective has been met? Do you consider that there are any additional valuation concepts and principles that should be considered and discussed in this standard?**

The Board considered that the responses indicated that the objective had been met. Jeff Harder proposed that this section be redesignated as framework document.

A few respondents had referred to the Glossary. Some had called for further definitions; others suggested that reference could be made to the International Glossary of Business Valuation Terms agreed between various North American institutes. The Board agreed that reference should be made to the IGBVT to see if there were any terms that could be used in IVS but reaffirmed that the Standards were not the right place for a comprehensive glossary of valuation terms and noted that the IVPB had the preparation of a glossary on its work plan..

**Question 5 - .....the word *valuation* can be used with two distinct meanings. Where the word is used in the Exposure Draft the Board believes that it is generally clear from the context which sense is intended and has only added words to emphasis whether the reference is to the process of estimating value or to the valuation result itself where there is scope of ambiguity. Are you in agreement with this approach....?**

There was little controversy with the responses with the overwhelming majority in agreement with the Board's approach.

**Question 6 – Previous editions of IVS have identified the principal valuation approaches listed in this proposed standard. Do you agree that these three approaches encompass all methods used in the assets or liabilities that you value?.**

Although some respondents lobbied for a particular method applicable to their specialism, the Board agreed that there was no justification for their inclusion.

**Question 7 – Paragraph 6 of the draft sets out a proposed hierarchy of approaches which indicates that the direct market comparison approach is generally to be preferred where there are observable prices for similar assets available at the valuation date. Do you agree with this hierarchy and do you consider it helpful?**

There was considerable opposition to the proposed hierarchy of approaches. The Board agreed that this should be an issue for discussion at the Round Tables. The problem may be solved by rewording the paragraph and changing the emphasis although there was unease at the use of the word 'hierarchy' and potential confusion with the IASB hierarchy of inputs. Jim Eales felt that there was possible confusion with market approaches generally.

**Question 8 – In the current edition of IVS, the term “Sales Comparison Approach” is used to describe the process of estimating value by comparison with the prices of identical or similar assets in the market ...After deliberation the Board has proposed the term “Direct Market Comparison Approach” in this edition of the standards. Do you find this change of terminology to be helpful?**

The majority of respondents disagreed with the proposed terminology change with a significant number in favour of the alternative term 'Market Approach'. The Board tentatively agreed to revert to this term with the inclusion of additional explanation that "market" does not preclude the use of other approaches to arrive at market value.

**Question 9 – Basis of valuation is defined in the draft as a statement of the “fundamental measurement assumptions of a valuation. In the current edition of IVS it is defined as a statement of the “fundamental measurement principles of a valuation”.....Do you agree with the proposed change to the definition?**

There was a similar level of support for each alternative, with a few respondents proposing different terms. The Board concluded that either principles or assumption could be used in the definition as it was the explanatory notes rather than the definition itself that was important to its understanding.

*(after meeting note: the IPEV guidelines make a similar distinction to that in IVS between the “basis”, “method” and “inputs” and refer to the basis as defining “what the carrying amount represents”.)*

**Question 10 – A change is proposed to the definition of Investment Value. Do you agree with this proposed change?**

Most respondents disagreed with the change. There was general agreement by the Board that there was a lack of clarity on the difference between 'investment value' and 'special value' in the exposure draft and that both definitions should be revisited. It was noted that USPAP requires the valuer to define the value basis used and cite the source for that value rather than offering a set of value definitions. A similar option is in the Exposure Draft if one of the IVS recognised bases is not used. It was agreed that the definition of investment value and special value should be a matter for discussion at the Round Tables.

**Question 11 – The Board has considered alternative names to “Investment Value” for the basis of value that describes value to a particular entity.....Do you support the continued use of the term “Investment Value” or would you prefer an alternative?**

There was a general consensus that the term “Investment Value” should be retained.

**Question 12 – In IVS, highest and best use (HABU) is treated as an inherent feature of market value.....Do you agree with the approach taken in IVS?**

The majority of respondents agreed with the approach taken in the IVS although some requested consistency with IASB.

**Question 13 – In the existing IVS a clear distinction is made between fair value in general use and fair value as defined in IFRS. In this draft the definition of fair value in general use has been changed to emphasise the distinction from the usage of the term in IFRS. Do you consider this proposed change in the definition to be helpful?**

Most respondents found the different meanings of the term fair value in IVS and IFRS to be confusing. Some requested that IVS use an alternative name for a value representing a price that is fair between two parties in IVS, others questioned whether it was needed at all. This issue will be referred to the Round Table discussions.

**Question 14 – Previous editions of IVS did not have a standard relating to scope of work. Do you agree a) with the inclusion of a standard for scope of work in IVS; and b) that the minimum contents identified in the draft are proportionate and represent a realistic minimum standard?**

The majority of respondents were in agreement with the scope of work standard as drafted. The Board considered comments as to whether additional information should be included as suggested by some respondents and agreed to further debate whether there should be an additional requirement regarding adherence to a code of conduct.

**Question 15 – The proposed standard (on Reporting) is significantly less prescriptive than the equivalent standards IVS 3 in the current IVS...Do you agree with the changes that have been made?**

The majority of respondents were in agreement with the standard as drafted.

**Question 16 – The standards in the 200 series relate to valuations for specific purposes.....Some consider that the fundamental principles of valuation should remain unchanged regardless of the purpose for which it is being prepared and therefore these application standards are superfluous. Others consider that it is important that valuation standards highlight factors that could be relevant to determining the appropriate valuation hypothesis for different purposes....Which view do you support? If you consider that future IVS should contain application standards, do you consider that the degree of detail of those in the draft is appropriate?**

**Question 17 – The series 201.01 – 201.04 inclusive are all concerned with valuations under IFRS. There are opposing views as to the extent and how IVS should address valuation issues under IFRS. View (a) is that IVS should not refer to valuations under IFRS at all**

**because the IASB is in the process of producing its own fair value standard. View (b) is that valuation measurements under IFRSs are intended to reflect market reality and are not a special type of valuation reserved for financial statements. Which of these views do you support?**

While some of the respondents agreed with the concept of Application Standards, the majority disagreed with the content on the basis that the Application Standards lacked the required detail or that the Application Standards were really not 'standards'. There was considerable discussion on the need for and content of IVS 201.01 Fair Value under IFRSs and the Board agreed that it would await the outcome of the Round Table discussions on this issue before reaching any conclusion.

In contrast there was general support for IVS 202.01 *Valuation of Property Interests for Secured Lending*.

**Question 18a) – The proposed standards in the 300 series are all concerned with the application of the General Standards to specific asset types. Question 2 asked for views on whether the combination of background information and specific directions was appropriate. Do you have any other comments on the general structure of the Asset Standards?**

The overwhelming support for the content of the 300 series although (as previously discussed see Question 2), some respondents reiterated their preference for comprehensive guidance in TIPs rather than for the 300 series to be published as standards.

**Question 18b – Do you consider that a class of “personal property” can be identified that is not already covered by the proposed new asset standards? If so, do you consider that it has distinct characteristics that need to be considered in valuations that would benefit from a new IVS asset standard being developed?**

Nearly all respondents were of the view that there was no need to have a standard on personal property.

**Question 19 - .....Do you agree that a standard on valuing non financial liabilities is required and what topics should it cover?**

A substantial majority of respondents who answered this question there was a need to consider standards and/or guidance on this topic.

**Question 20 - .....Please identify any additional types of asset or liability that you believe should be considered for future inclusion in IVS...**

A number of suggestions were received that the Board will consider when agreeing its future work programme.

## 5.5 Topics for discussion at Round Tables

Arising from the responses to the questions posed in the Exposure Draft, The Board identified the following issues for discussion at the forthcoming Round Tables:

- The structure of the standards
- The 201 series and its status and the relationship between the IVS and IFRS
- Valuation Approaches and hierarchy
- Special Value
- Fair Value

5.6 The chairman reported that work would continue in developing the proposed IVS prior to the November IVSB meeting when it might be possible to approve sections of the draft and to identify if any issues would need further exposure. The current target is to approve the complete draft at the February 2011 meeting.

## **6. VALUATION UNCERTAINTY**

- 6.1 The Board noted that the Discussion Paper *Valuation Uncertainty* had been published with comments requested by 24 December 2010.
- 6.2 The Board noted the reproduced extracts from a Discussion Paper *The Prudential Regime for Trading Activities – A Fundamental Review* recently published by the UK Financial Services Authority (FSA) that referenced the IVSC. The feedback received on the Paper would be used by the FSA to inform a review being undertaken by the Basel Committee on Banking Supervision and the Board agreed that the IVSC should respond to the FSA Paper.

## **7. INVESTMENT PROPERTY**

- 7.1 The Board noted the letter received from the European Public Real Estate Association (EPRA) requesting that it add a project to produce a dedicated standard and guidance for the valuation of investment property.
- 7.2 The Board agreed that EPRA should be asked to respond to the questions posed in the IVSB Due Process to enable a decision to be made as to whether the development of a standard, as opposed to guidance, was appropriate.

## **8. NON-FINANCIAL LIABILITIES**

- 8.1 The Board reviewed the outline for a project on the valuation of non-financial liabilities and agreed that the project met the criteria in the IVSB Due Process and should be included in its work programme.
- 8.2 Jim Eales was requested to develop a brief for the project, following which the Board would be in a position to determine the resources required. It was considered however that a work group would need to be constituted and expressions of interest should be invited in the IVSC ENews.

## **9. BIOLOGICAL ASSETS**

- 9.1 The Board reviewed the outline for a project on the valuation of biological assets. The Board agreed that the project met the criteria in the IVSC Due Process and should be included in its work programme.
- 9.2 Bob Connolly was requested to develop a brief for the project to cover biological assets with particular reference to forestry. The first stage of the project could be to develop a Discussion Paper requesting feedback as to whether forestry valuation should be the subject of a separate project.

## **10. INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS**

- 10.1 Chris Thorne reported that he had attended the IOSCO Technical Committee Industry Stakeholders Consultation meeting on July 30. IOSCO has a number of projects of relevance to the IVSC and it might be possible to work with IOSCO in some areas. One particular project that could be considered is joint work to identify the extent to which individual securities regulators currently regulate valuation. The chairman will discuss this with the IOSCO Secretary General.

## **11. EXTRACTIVE INDUSTRIES**

- 11.1 A paper summarising the IASB Discussion Paper Extractive Industries, the responses received and the possible valuation impact was circulated by Jeff Harder.
- 11.2 The Board noted that Jeff Harder and Jim Eales would compile a list of potential working group members to take the IVSB project forward. It was also agreed that the industry would be more willing to support the project if the IVSB was seen to be working closely with the IASB and possibly the US SEC who has an industry user group. Chris Thorne agreed to speak with the IASB.

## **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 on September 13/14, the last to be chaired by David Damant. The new chair is Prof. Linda de Beer who had represented the World Federation of Exchanges on the CAG. The issue of particular interest to the IVSC on the agenda was the proposed new guidance on auditing complex financial instruments.
- 12.2 Frank Bollmann reported that there would be an opportunity to give a presentation on the IVSC at the next CAG meeting in March 2011.

## **13. INTERNATIONAL ACCOUNTING STANDARDS BOARD**

- 13.1 An IASB staff update on the Fair Value Measurement project was circulated. The Board noted that the draft FVM standard was increasing in detail. IASB anticipates finalising the standard early 2011 with an effective date of 2013.
- 13.2 Nova Chan drew attention to the recent announcement that the IASB was planning to issue educational guidance to support the implementation of the FVM standard. It was agreed that this be discussed with the IASB staff to obtain a better understanding of its intentions and how IVSC can assist.

## **14. WORK PLAN**

14.1 No new items were added to the work plan at this meeting.

**15. DATE OF NEXT MEETING**

Monday 22 November - London