



MINUTES OF THE MEETING OF THE INTERNATIONAL VALUATION STANDARDS BOARD

HELD IN LONDON

ON MONDAY 22 NOVEMBER 2010

PRESENT:

Frank Bollmann who chaired the meeting
Tom Boyle
Bob Connolly
Jim Eales
Jeffrey Harder
Simon Landy
Siu Yu Nova Chan

APOLOGIES: Steven J Sherman

IN ATTENDANCE:

Chris Thorne – Technical Director IVSC
Marianne Tissier - Executive Director IVSC

1. CHAIRMAN'S INTRODUCTION

1.1 As the date of the meeting had been sent prior to Mr Sherman's appointment as chairman of the Board, he was unable to attend. Frank Bollmann, as vice-chairman, chaired the meeting on Mr Sherman's behalf.

2. MINUTES OF PREVIOUS MEETING

2.1 The minutes of the previous meeting held on 8 October 2010 were approved.

3. MATTERS ARISING

3.1 Arising from minute 12.2 that reported on a forthcoming presentation to the Consultative Advisory Group of the International Auditing and Assurance Standards Board of the International Federation of Accountants in March 2011, Chris Thorne advised that he would circulate a sample PowerPoint presentation that members could use when asked to speak on the IVSC.

4. OVERVIEW OF IVSC ACTIVITY

4.1 The following events and meetings, at which the IVSC had been represented, were noted:

- 2010 Annual Meeting of the World Federation of Exchanges
- Presentation on the IVSC to the Committee of European Securities Regulators
- Annual Conference of the Instituto de Censores Jurados de Cuentas de España
- Attendance at IOSCO 10th anniversary in Madrid

- World Congress of Accountants, Kuala Lumpur
 - RICS Valuation Conference
- 4.2 The Organisation for Economic Co-operation and Development (OECD) has begun a project on the Transfer Pricing Aspects of Intangibles and had been sent a copy of revised GN 4 when it was published in March 2010. The project is being led by a working party of the OECD Committee on Fiscal Affairs – Working Party 6, Taxation of Multinational Enterprises – chaired by a member of the Board of Directors of the Canadian Institute of Chartered Business Valuators. Jean-Florent Rérolle represented the IVSC at a meeting of the working party held in November to discuss and finalise the coping of the project. The work is to be taken forward at a further meeting in March 2011 to which it is anticipated the IVSC will be invited. Details of the project can be found on the OECD website – www.oecd.org/ctp/tp/intangibles.
- 4.3 At the request of the Asset Management and Investors Council (AMIC) of the International Capital Markets Association (ICMA), a meeting has been arranged for 1 December to discuss the work of the AMIC Valuation of Assets working group. The Accounting Task Force of the Basel Committee for Banking Supervision has also requested a meeting. That meeting is taking place on 24 January 2011.
- 4.4 Chris Thorne reported that following the Round Table in Hong Kong, he had taken the opportunity to meet with CBRE Asia Pacific, Swire Property Group, and Hong Kong Land.

5. REPORT ON INTERNATIONAL VALUATION PROFESSIONAL BOARD

- 5.1 The minutes of the October meeting of the IVPB were circulated to all members. It was reported that the chairs and vice chairs of both the Standards and Professional Boards were to hold regular monthly conference calls to better coordinate the work of the two Boards.
- 5.2 It was agreed that there was a need for clarity as to the various documents produced by the two Boards. The following list was put forward as a suggestion:
- Standards i.e. the International Valuation Standards) which include high level explanatory guidance to identify methods but no detail on how to apply them.
 - Technical Information Papers – professional guidance aimed at practising professionals illustrating application of methods.
 - Other Pronouncements
 - Benchmark Educational Standards
- 5.3 A note of caution was sounded in connection with the IVPB project to develop guidance on fairness opinions and sensitivity of investment banks around the subject of contingency fees. It was recommended that the working group should include representation from the investment bank community.
- 5.4 The project that the IVPB is undertaking with the International Accounting and Auditing Standards Board on the relationship between valuers and external auditors was progressing well although there was still a debate as to the status of the paper.

6. IVS REWRITE

- 6.1 The Board agreed that draft summary report of the Round Table discussions circulated with the agenda should form the basis of a public report to be posted on the IVSC website.
- 6.2 The Board discussed the feedback on the Topics discussed at the Round Tables.:

Topic 1 – Scope & Structure

With hindsight the recommendation of the Critical Review Group that all the content be termed “Standards” needed more consideration. It is clear that respondents need a better differentiation between standards and the accompanying explanatory material. It was agreed to proceed on the basis of the proposal that the Asset Standards be reconfigured so that the “standard” element containing mandatory requirements would be at the front, with a supporting information in a commentary.

Some concern had been expressed at the Round Tables that the proposed Scope of Work (SoW) was too restrictive. The reason was because some of the requirements list would not be known at the outset. It was agreed to give greater prominence to the proviso that the SoW does not need to be completed at the outset and can be updated as the assignment progresses. It was also suggested that matters that normally could not be determined until the assignment was in progress might be moved into a separate standard.

Some Board members felt that the SoW proposals were not sufficiently prescriptive, e.g. they did not clearly state that it was the valuer’s responsibility to prepare a scope that was suitable for the purpose. However, the majority view was that this was a conduct and regulatory issue and was contrary to the agreed focus of the standards on the valuation, not on a supposed client /valuer relationship as the standards should be capable of use by internal as well as external valuers. Also, setting the bar too high would either limit the application of the standards or increase the need for departures, either of which would be undesirable.

The Board discussed the view expressed by a number of respondents that IVS 101 – 103 in the ED were not really standards as they contained only concepts and explanations and no requirements.

The Board agreed that:

- IVS 101, 102 and 103 in the ED should be moved into an introductory Framework rather than being labelled as individual standards;
- That a separate standard be created between Scope of Work and Reporting for matters required during the execution of the assignment.
- That the order of the Asset Standards and Application Standards in the ED be reversed.
- That the numbering be changed to reflect the revised order and simplified.
- That the word ‘valuations’ dropped from the title of each individual asset standard;

Topic 2 – Relationship with accounting standards

Although there was general agreement that the content of the IVS 201 series in the ED is useful, many considered it to be guidance rather than in the nature of a standard. There was also unease at referencing IFRSs within the IVS. The Board needs to reconsider how to address the issue of valuation for financial reporting.

It was agreed that the Technical Director be asked to prepare a proposal for a revised presentation of this section reflecting the following principles:

- IVS should not attempt to impose a duplicate requirement to one appearing in IFRS;
- That there were some generic additional requirements for valuations for financial reporting that should be collected into a standard.
- That the bulk of the text in the ED was indeed guidance about IFRS requirements rather than a valuation standard. It was useful for valuers but needed distinguishing from the standard.
- That consideration should be given to accounting standards other than IFRS.

Topic 3 – Hierarchy

It was agreed that the suggestion in the ED that the market approach should rank above other approaches was inappropriate and should be removed. It was also agreed that a requirement to consider the most appropriate approach or approaches should be included in the proposed new standard on execution of the assignment

Topic 4 – Special Value

The Board accepted the strong feedback that the proposed reference to a *class* of special purchasers was inappropriate and should be deleted. It was felt that clarity could be added by added words to indicate that special value related only to situations where a particular buyer had a unique motivation to pay more than the market.

The question was raised as to whether it would be useful to explain differences between special value, synergistic value and investment value. No decision was made.

Topic 5 – Fair Value

The Board agreed with a proposal that IVS should retain its current definition of 'fair value'. Consideration should be given to distinguishing this from the IFRS definition of fair value by labelling that as 'fair value (IFRS)', although this was dependent upon how the final standards referenced and related to IFRS generally.

The Board agreed that although it would retain the option, none of the above decisions implied a significant change from either the substance of the Exposure Draft or alternatives that were suggested by respondents to questions posed. As such there was unlikely to be a need for further exposure.

The Board agreed that in view of the flaws with the current 2007 edition and the number of other IVSC projects that were dependent upon the Standards Improvement that there was need to progress to finalising the project as quickly as possible. It was agreed that the Technical Director and Technical Writer would progress alterations to reflect the Board decisions,

The importance of Board members examining the final wording closely was raised, and it was agreed that staff would send through the revised texts for each section to the Board for detailed review over the next two months. In order to have a final version for formal Board approval in early March this process would need to be completed by the end of January 2011.

7. VALUATION UNCERTAINTY

- 7.1 It was noted that the Comment period on the Discussion Paper was running until 24 December. The Technical Director reported that some significant interest had been shown in the project.
- 7.2 The Board debated whether to issue a response to the Discussion Paper *The Prudential Regime for Trading Activities – A Fundamental Review* published by the UK Financial Services Authority (FSA) that referenced the IVSC. It was agreed that the FSA should be sent a copy of the IVSC paper on Valuation Uncertainty.
- 7.3 The Board noted that there was potentially a very large number of documents to which the IVSC could respond and agreed that a due process or checklist of questions be prepared so that a consistent approach is taken in deciding when a response is appropriate. Tom Boyle agreed to prepare an initial draft.

8. INTERNATIONAL PRIVATE EQUITY VALUATION GUIDELINES

- 8.1 The Board noted that IPEV was happy for the IVSC to publish its guidelines on the website as part of the accompanying papers for this meeting. The IPEV Board is meeting on 30 November to discuss the future working relationship with the IVSC following the initial meeting between the two organisations held in Miami.
- 8.2 The question of whether there is a the need for a standard or guidance for portfolio valuation in the PE arena was raised, as the IPEV Guidelines are focussed on financial reporting and therefore single assets. This could be suggested as a joint project to the IPEV Board.
- 8.3 The question of the frequency of portfolio valuations raised the issue of whether IVS needed to define the difference between a “full” valuation and a valuation “review”. The Board was reminded that when this had been previously discussed, it was agreed that IVS should be designed to be applicable to the widest range of valuation services as possible. The Scope of Work standard was intended to provide this flexibility by requiring the purpose, extent of investigation and type of report to be specified. While in specific markets or jurisdictions it may be practicable to define specific services, this was not the case globally.

9. PROJECT UPDATES

9.1 The following updates were received:

- **Non Financial Liabilities** – no report
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- **Extractive Industries** – Jeff Harder reported that together with Jim Eales, a list of companies who might be interested in supporting the development of a standard had been prepared. Initial enquiries had indicated that some financial support might be forthcoming if there was the right combination of organisations involved.
- **Investment Property** – Chris Thorne reported that he would be meeting shortly with Gareth Lewis, EPRA. He had also had a conversation with NAREIT who was concerned at the way FASB might introduce fair value accounting for investment property.
- **Forestry/Biological Assets** – Nova Chan reporting that the China Appraisal Society was developing guidance on forestry valuation and was willing to share its experience.

10. REVIEW ACTIVITY AND INTERACTION WITH OTHER BODIES

10.1 The Financial Stability Board and the Bank for International Settlements should be added to the list of bodies with whom the IVSC had established contacts. Chris Thorne had attended a presentation by Mr Gerry Edwards, Senior Advisor on Accounting and Auditing Policy, Bank for International Settlements, at the World Congress of Accountants. Although many of these organisations had valuation on their agenda, there was a danger that valuation by itself would not be able to address the identified problems. There was an issue for the IVSC to ensure that expectations are managed and a need for the Expert Group on the Valuation of Financial Instruments to clearly identify which projects it should focus on.

10.2 The OECD should also be added as a standing agenda item.

10.3 It was noted that the International Organisation for Standardisation had published a standard on brand valuation which was apparently less detailed than current GN 4.

11. REVIEW AND UPDATE WORK PLAN

11.1 The Work Plan circulated at the previous Board meeting was reviewed. With the exception of updating the timetable for the IVS Improvements project, no other changes were made.

12. ANY OTHER BUSINESS

12.1 There were no other items of business

13. DATE OF NEXT MEETING

Friday 4 March, 2011