



## MINUTES OF THE INTERNATIONAL VALUATION PROFESSIONAL BOARD

HELD IN LONDON

ON WEDNESDAY 15 JUNE 2011

### PRESENT:

Jean-Florent Rérolle Chairman  
Roy Farthing  
Greg Forsythe  
Paul Hawkes  
Doug McPhee  
Marianna Todorova  
Brad Wagar

### IN ATTENDANCE:

Chris Thorne IVSC Technical Director  
Marianne Tissier IVSC Executive Director

### APOLOGIES:

David Faulkner

## 1. OPENING REMARKS

- 1.1. Jean-Florent Rérolle opened the meeting and welcomed Paul Hawkes to his first meeting.

## 2. APOLOGIES FOR ABSENCE

- 2.1. David Faulkner was unable to attend as he was speaking at a valuation conference in Beijing.

## 3. MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- 3.1. The minutes of the meeting held on 1 March 2011 were approved. There were no matters arising for discussion.

## 4. OVERVIEW OF IVSC ACTIVITY

- 4.1. The Board noted the report summarising IVSC activity since March 2011 that had been circulated with the agenda and welcomed in particular the news that the IVSC had been invited to be a member of a Private Sector Task Force of Regulated Professions and Industries that had been brought together at the request of the Presidency of the

G-20 to provide to the G-20 an analysis of the development of financial policy and regulation to facilitate economic stability in the world's capital markets, focusing particularly on issues of international convergence.

- 4.2. The chairman reported on the IVSC "Corporate Executives Roundtable" that had taken place in New York on 6 June. About ten senior level executives had attended and welcomed the opportunity to present their views. One conclusion from the Round Table was the need for the IVSC to provide more detailed guidance to support the IVS. Much of the discussion had centred on financial reporting and fair value, an area of huge focus in the US and where participants expressed the hope that the IVSC could help reduce current diversity in practice. The IVSC Board of Trustees has agreed that further Roundtables should be held in other geographic locations with one planned for Hong Kong to coincide with the IVSC November meetings.

## **5. REPORT ON INTERNATIONAL VALUATION STANDARDS BOARD ACTIVITY**

- 5.1. The Technical Director reported that the main project for the IVSB had been to finalise the new edition of the International Valuation Standards. The Board was now looking to take forward projects on Extractive Industries, Commercial Forestry and Liabilities (other than financial instruments). In its meeting on Friday, the Board would discuss a paper proposing how to take the Valuation Uncertainty project to the next stage. The Technical Director advised that the Valuation Uncertainty project would not focus exclusively on financial instrument valuation although it was a particular issue for that sector, especially for prudential regulation purposes. Paul Hawkes advised he was leading a project on the subject for his bank and would be happy to share the outcomes.
- 5.2. The Chairman reported that it has been agreed that representatives from both the Professional and Standards Boards would be on all working groups developing projects under the IVSC technical work plan.

## **6. UPDATE ON PUBLICATION OF REVISED IVS**

- 6.1. It was reported that the IVS and other IVSC technical publications were to be published by the IVSC at its own risk through outsourcing to outside printers and distributors rather than proceeding with an earlier proposal to publish under contract with a commercial publisher. The 2011 edition will consist of 12 approved standards, and will be available in July. The proposed standard on Trade Related Property had not been approved for publication at this stage.
- 6.2. The IVSC is seeking to follow the IASB model, whereby each year it publishes in book form all standards applicable at that time but each standard has its own life and can be altered or a new standard introduced at any time. The intention is also to move to an on-line subscription service for all IVSC technical publications hopefully by mid-2012 by which time a number of TIPs should be available to increase the value of the subscription to the subscriber.

## **7. PROMOTING AWARENESS OF NEW IVS**

- 7.1. Rohit Grover, Associate Director, Spada, joined the meeting for this agenda item. Board members provided suggestions on the draft press release for the launch of the new IVS and agreed to provide further contacts to be added to the global media list.
- 7.2. Board members were encouraged to explore opportunities for articles, speaking engagements or interviews in their markets that could help promote IVS and IVSC. The Technical Director is preparing a standard PowerPoint presentation that he will circulate to all Board members. This can be adapted to suit different situations. The Technical Director emphasised that he was willing to help any Board member prepare articles or presentations.

## **8. DISCOUNTED CASH FLOW**

- 8.1. Doug McPhee introduced the Summary Report of Responses received on the exposure draft Discounted Cash Flow TIP. Overall the draft TIP had been well received although a majority of respondents had requested more detailed discussion and worked examples.
- 8.2. In response to the comments received the working group was proposing to:
  - Provide some further detail on discount rate selection and terminal value calculations.
  - To include examples (both qualitative and quantitative as appropriate) to illustrate a range of practical situations.
  - To review the definitions in the draft to which a number of objections had been received. It was agreed that the definition of Gross Present Value was superfluous. Those for Free Cash Flow and its various forms also needed reviewing.
- 8.3. The point was made that some of the responses indicated that people did not understand the scope of the project, or how this TIP was intended to relate to either the IVS or to other TIPs in the course of development. It was agreed that a clear opening statement setting out the scope of the TIP its objective and any related TIPs would assist readers.
- 8.4. It was suggested that the final TIP should explain the application of DCF techniques to specific applications, for example how the inputs might need to differ for calculating Value in Use under IAS 36.
- 8.5. There was discussion as to whether the scope of the draft was appropriate. It was agreed that the application of DCF to intangible assets and financial instruments should be excluded as these would be the subject of separate TIPs. Some respondents had advocated that it would also be more appropriate to produce separate TIPs for real property and business valuation. Although there was general agreement that the basic techniques were similar across asset classes, there were material differences in the inputs and separate papers would enable these to be dealt with more comprehensively. Also if the application of DCF to intangibles and financial instruments was going to be

dealt with in dedicated TIPs it would be inconsistent to cover business interests and real property in a single document. It was agreed that a decision on whether there should be two TIPs rather than one should be deferred until the alterations had been made when the question of the best presentation of the material assembled would be easier to determine.

- 8.6. It was agreed that one of the Working Group, Professor Nick French, would be invited to assist with preparing examples. The Working Group would then revise the draft. The target is for the Working Group to have finalised its review by the end of September so that the recommended paper can be circulated to the Board with a view to approval at the November Board meeting.
- 8.7. There was discussion as to whether there was a need to produce a paper that defined the scope of an IVSC TIP generally, and whether other types of paper should be identified when the guidance provided was not of a technical nature where the TIP title may not be appropriate. A decision was deferred until the first two or three TIPs had been worked through, when the criteria for inclusion in a TIP should be more settled.

## **9. UPDATE ON JOINT PROJECTS WITH APPRAISAL FOUNDATION**

- 9.1. Under an Agreement with the Appraisal Foundation (TAF) the IVSC is to take the completed TAF "Monograph" on Contributory Asset Contributions as the basis for an exposure draft of a proposed TIP on the topic, and to concurrently expose with TAF drafts on two other projects that TAF has in progress on "Customer Relationships" and "Control Premiums".
- 9.2. The Technical Director reported that a working draft of the proposed TIP on Contributory Asset Contributions that had circulated prior to the meeting had not been approved by the Appraisal Foundation and that details of the alterations they were requesting were awaited. Accordingly approval of the draft would have to be deferred.
- 9.3. Greg Forsythe, IVPB member with responsibility for liaison with TAF on the current projects, reported that exposure drafts on the other two projects were progressing and should be sent to the IVSC for review and comment within a couple of months. Although the IVSC is not directly represented on the current working groups the intention is that it would be for future projects planned by the Appraisal Foundation on valuation for financial reporting.

## **10. ILLUSTRATIVE EXAMPLES OF MARKET VALUE CONCEPTS**

- 10.1. The Board noted the report on this item and the outcome of the discussions held with the IASB staff member responsible for its fair value project. The IFRS Foundation is seeking to publish educational guidance to assist in the application of IFRS 13 by January 2012. The proposed IVSC project will have a broader scope but it was agreed that it would be beneficial for there to be collaboration between the two organisations in the development of the respective outputs to ensure that there are no inconsistencies.

10.2. The Board suggested that the scope of the IVSC project should extend beyond the principles involved in market value, such as highest and best use, to include examples of other bases. Illustrations of entity specific factors, and when these should be reflected and not reflected would also assist understanding of the distinction between the bases identified in the IVS Framework. The Board agreed to proceed with the Project. Marianna Todorova was appointed as chair. A project brief will be finalised and a call made for nominations to a working group. .

## **11. CODE OF ETHICAL PRINCIPLES**

11.1. The second exposure draft of the Proposed Code of Ethical Principles for Professional Valuers was noted. The exposure draft had been issued in June with a request for comments by 31 August 2011.

11.2. The International Federation of Accountants had given permission for extracts from the IESBA Code of Ethics for Professional Accountants to be included in the draft. The question of whether IFAC will require consent for either the finalised Code or reproduction of parts of it by an IVSC member institute will depend upon the alterations that are made as a result of the consultation process.

## **12. DEPRECIATED REPLACEMENT COST**

12.1. Roy Farthing introduced the summary report of responses received on the exposure draft Depreciated Replacement Cost TIP. He highlighted the following:

- A number of respondents, particularly accounting standard setters, had requested more guidance on the use of DRC in the public sector for assets that do not generate income. This topic is to be covered as part of the Specialised Government Property project and therefore should be excluded from the scope of this TIP;
- That a number of respondents requested the paper be extended to provide guidance on the application of DRC to intangibles, and specific reference was made to the need to reflect the opportunity cost that would be incurred by the developer of an intangible asset. It was agreed that should be covered in the current rewrite of GN4.
- A number of respondents asked for additional illustrative examples. It was proposed to develop more examples, in particular on the application of economic obsolescence to individual assets.
- The Working Group needs to consider including guidance on applying the depreciated replacement cost method to bases other than market value.

12.2. Roy Farthing also reported that he was to meet with some members of the Standards Board to explore a solution to objections raised by certain North American professional institutes to proposals included in the draft IVS 230 on the application of the cost approach to real property. The Standards Board had removed two paragraphs from the final version, but this potentially created a gap in guidance that the forthcoming TIP might need to address.

12.3. It was also agreed that a robust opening statement was required to clarify the scope of the TIP and its relationship with other IVSC publications.

12.4. A final draft should be available to the Board for approval at the November meeting.

### **13. UPDATES ON OTHER PROJECTS**

#### **13.1. Fairness Opinions:**

Doug McPhee reported that the working group was hoping to finalise a proposed Exposure Draft for circulation to the Board in September for approval at the November meeting. A review group of representatives from some regulatory bodies had been formed, although some further participation is being sought. So far there had been no success in connecting the global investment banks involved in M&A activity with the project, although it was agreed that they would be proactively targeted with the Exposure Draft.

#### **13.2. Valuer/Auditor Guidance**

Greg Forsythe reported that he had further developed the draft; that he was hoping to have a conference call with the working group in early July so that a draft could be provided to the Board in September for review.

#### **13.3. Intangible Assets**

The Technical Director reported that he hoped to complete the review and reformatting of the current GN into a TIP during the summer. It was also intended to include some illustrative examples, and Doug McPhee had recently provided some of these.

#### **13.4. Financial Instruments**

The IVSB has identified two projects as priority – Credit Valuation Adjustments and Financial Instruments Valuation Methods. Two working groups are being established – the first to be chaired by Paul Hawkes and the second by Ana Castaneda.

#### **13.5. Specialised Government Property**

The Board had agreed to establish a working group to develop this project in March. However, although a call had been made a group identified, it had been put on hold pending clarification of whether an agency of the Canadian Government (PWGSC) was willing to provide financial support to the project. Brad Wagar advised that discussions with the PWGSC had been interrupted by the recent election in Canada. It was confirmed that notwithstanding the availability or otherwise of resources from the PWGSC the project should proceed. The Technical Director reported that the IPSAS Board have recently published a draft measurement framework and had expressed an interest in working with the IVSC on this project.

### **13.6. Professional Valuer**

At the previous meeting it had been agreed that the professional institutes should be consulted further, emphasising that the objective is to promote the profession generally rather than to pass judgement on any individual institutes membership criteria. However, the IVSC Directors advised that this had been put on hold due to the IVSC's involvement since May 2001 in the Private Sector Task Force of the Regulated Professions set up by the G20 (see item 4.1). Although it was early days, it appeared that one of the themes emerging was the need for Governments to more effectively support regulation and this could have implications for how IVSC could most effectively promote professionalism in valuation.

The Board discussed the objectives of the project again and felt that notwithstanding the G20 project, there was still a useful role that IVSC could play in providing a specification of a professional valuer. This would be aimed at emerging countries where there was little or no professional infrastructure, rather than established markets. It was agreed that title of the Discussion Paper may also have given the wrong impression of its objective to some respondents. A better title would be the 'characteristics' or 'attributes' of a professional valuer rather than a 'definition'. It was agreed that the Technical Director should prepare a paper setting out a description of the attributes of a professional valuer that was aspirational rather than literal in nature for discussion by the Board at its next meeting.

## **14. REPORT ON IVSC ACTIVITY AND INTERACTION WITH OTHER BODIES**

### **14.1. IOSCO**

The Technical Director reported that IOSCO was reviewing its guidance published in 1999 on the pricing and valuation of collective investment schemes. He, together with Jean-Florent Rérolle, had met with the chair of the subcommittee responsible for the project who works with the Autorité des Marchés Financiers in France. The work being undertaken by the European Securities and Markets Authority in the context of the Alternative Investment Fund Managers Directive was also discussed as the two projects overlapped to some degree. The suggestion was made that the IVSC should meet with the full IOSCO subcommittee although no date has yet been set.

### **14.2. IASB**

The discussions with IASB concerning educational guidance on valuation are noted under item 10. In addition the IASB has projects in abeyance on both extractive industries and liabilities, both subjects on the IVSB work programme. IASB is currently consulting on its post convergence priorities but staff members have indicated that it would be helpful if the IVSC were to have issued standards or guidance in these two areas in advance of any further work that IASB might undertake.

#### **14.3. FASB**

The FASB Valuation Resource Group has not met since last November and earliest possible date for a meeting is September or October.

#### **14.4. IPEV**

The Memorandum of Understanding has been approved by both the IVSC Board of Trustees and the IPEV Board and staff members were coordinating on a date for a signing ceremony to which press would be invited.

#### **14.5. IPSAS BOARD**

IPSAS has expressed an interest in the work being undertaken on the Specialised Government Property and a may provide a member to the IVSC working group.

#### **14.6. OECD**

Frank Bollmann had given a presentation on behalf of the IVSC as an OECD meeting on the Transfer Pricing Aspects of Intangibles in March but there had been no further contact since then.

### **15. INVESTMENT PROPERTY UNDER CONSTRUCTION**

15.1. The Board noted that David Faulkner had recently forwarded a revised working draft to the Technical Director but in view of David's absence from this meeting and other priorities this will be worked on over the coming weeks with a view to presenting a proposed Exposure Draft to the Board at its next meeting.

### **16. REVIEW AND UPDATE CURRENT IVSC WORK PLAN**

16.1. The Board reviewed the Technical Work Plan circulated with the Agenda. Most of the projects for which the Board is responsible would need updating and anticipated timings reviewed in the light of the decisions at this meeting. . The Technical Director reported that he had begun work on the Glossary and anticipated a draft being available during August.

### **17. DISCUSSION ON POSSIBLE FUTURE BOARD PROJECTS**

17.1. The Board agreed to defer discussion on this item to the joint working session with the IVSB the following day.

### **18. DATE OF NEXT MEETING**

The IVSC 2011 AGM is to be held in Hong Kong on Saturday 5 November. Both the Professional and Standards Boards would be meeting on the Thursday and Friday although detailed arrangements had yet to be confirmed.