



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

HELD IN LONDON

ON 17 June 2011

### PRESENT:

Steve Sherman Chairman  
Frank Bollmann  
Tom Boyle  
Bob Connolly  
Jim Eales  
Jeffrey Harder  
Simon Landy  
Siu Yu Nova Chan  
Ana Castaneda

### IN ATTENDANCE:

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

### 1. CHAIRMAN'S INTRODUCTION

1.1 The chairman opened the meeting and welcomed all observers.

### 2. APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence.

### 3. MINUTES OF PREVIOUS MEETING & MATTERS ARISING

3.1 The minutes of the previous meeting held on 4 March 2011 were approved. There were no matters arising for discussion.

### 4. OVERVIEW OF IVSC ACTIVITY

4.1 A report on activity since March 2011 had been circulated with the agenda. Of particular note was the invitation to the IVSC 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 first IVSC Corporate Executives Round Table that had been held the previous week in New York, chaired jointly by himself and Jean-Florent Rérolle, chair of the Professional Board. Some 10 senior level executives, based in the New York area, had attended and welcomed the opportunity to present their views. 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 and in London in March 2012.

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

- 5.1 The joint working session of the two Boards the previous day was considered to have been extremely useful and it was agreed that further meetings should be held.
- 5.2 The Board noted that the Professional Board was considering comments received in response to exposure of two draft Technical Information Papers (TIPs) – Discounted Cash Flow and Depreciated Replacement Costs. A number of comments had asked for more detail to be included, together with worked examples. As these were to be the first TIPs to be published, the Professional Board had agreed that it was important to get the scope and depth of the documents right.

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

- 6.1 The Board noted 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 should be available from mid-July.
- 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.
- 6.3 The Chairman asked that his appreciation to members of the Standards Board and to the Technical Director for the considerable effort in bringing the IVS Improvements project to a successful conclusion be noted in the minutes. He confirmed that although the 2011 standards had now been finalised and were due for publication in July, the Board should have a policy of continuous improvement.
- 6.4 Bob Connolly suggested that usage of the new standards would identify areas where some refinement might be needed. Nova Chan asked whether there needed to be a project recorded in the IVSC Work Plan to review the standards. The Board was advised that many of the projects already included in the Work Plan were likely to lead to additions to or alterations of the 2011 standards. A further project to consider unspecified changes would not comply with the requirements of the Board's Due Process. IVS users need to be alerted to the possibility of specific changes.
- 6.5 Jim Eales said that he had found interaction and exchanges between valuers from different markets and backgrounds to have been very constructive and this had undoubtedly improved the standards.

## **7. DRAFT IVS TRADE RELATED PROPERTY**

- 7.1 At the March meeting the Board had not approved the draft IVS 232 *Trade Related Property*. Various Board members had raised different objections. Some Board members did not believe a separate standard was necessary as the principles involved were already covered by IVS 200 *Businesses and Business Interests* or by IVS 230 *Real Property*. Others considered that there were important issues that arose from valuing this category of property that should be addressed in IVS. Others considered that since the core of both GN12 in IVS 2007 and the draft IVS 233 was the description of a valuation method, it would be better presented as a Technical Information Paper.
- 7.2 Valuations of Trade Related Property were required for different purposes and Board members discussed specific matters that were of concern if valuing the interest for loan security, for financial reporting or for tax.
- 7.3 The Board agreed that a working group be established to examine the issues in greater detail and consider whether a public discussion paper is needed to seek views on the extent of standards or guidance required. Jim Eales will chair the group and Bob Connolly and Tom Boyle agreed to serve on it. The Professional Board will also be invited to nominate a member and a public call for nominations will be made. The Technical Director agreed to produce a project brief.

## **8. REVIEW ACTIVITY AND INTERACTION WITH OTHER BODIES**

### **8.1 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 has been made that the IVSC should meet with the full IOSCO subcommittee although no date has yet been set.

### **8.2 IASB**

The IASB is seeking to publish educational guidance to assist in the application of IFRS 13 by January 2012. The Technical Director had met with the IASB staff and it has been agreed that it there would be mutual advantages if this could be coordinated with the project being led by the Professional Board to develop Illustrative Examples. The IVSC project would have a broader scope than financial reporting but there would be clear benefits in making sure that the outputs were consistent.

The IASB has projects in abeyance for both extractive industries and “non financial” liabilities, both subjects on the IVSC 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 on valuation in these two areas in advance of any further work that IASB might undertake.

### 8.3 **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. The OECD working group is mainly tax experts and is looking to IVSC for valuation input. Frank Bollmann agreed to attempt further dialogue to see what role the IVSC could play. Jeff Harder also agreed to help in view of his personal contact with the chair of the OECD group.

## 9. **UNCERTAINTY**

- 9.1 Ana Castaneda introduced a report that outlined a suggested brief for the proposed working group to be formed to develop guidance on valuation uncertainty. There was discussion as to whether the guidance would need to be asset specific. Bob Connolly thought that there was a danger that some of the issues that created uncertainty in the valuation of financial instruments might cause confusion if applied to other assets, such as real estate. Ana Castaneda disagreed as many of the issues that are of concern in the financial markets apply to many assets, and financial instruments are often affected by uncertainty in underlying physical assets. She gave the example of the Spanish real estate markets. Jeff Harder also agreed that identifying and reporting uncertainty was a wider issue, and gave the example of the extractive industries.
- 9.2 The Board agreed that the project brief should be developed and a working group formed representing a range of sectors. Part of the brief would be consider what should be general guidance and if any additional asset or purpose specific guidance would be needed.

## 10. **EXTRACTIVE INDUSTRIES**

- 10.1 The Board approved the draft project brief and agreed to establish a working group to prepare an initial Discussion Paper. Jeff Harder reported that he had spoken to a number of companies in Canada who had expressed an interest in the project.
- 10.2 The Board debated whether to establish two working groups – for minerals and oil/gas – but agreed to begin with one group representing both interests. The Board also agreed that the involvement of other standard setters and regulators as a review group should be explored.

## 11. **PROMOTING AWARENESS OF IVS**

- 11.1 Rohit Grover, Associate Director, Spada, joined the Board for this agenda item. Board members provided suggestions as to how to improve the tabled draft press release for the launch of the new IVS and agreed to provide further contacts to be added to the global media list (also tabled). Frank Bollman can help with press and other media contacts in Germany and Ana Castaneda can help with contacts for Spain and Portugal.
- 11.2 There followed discussion on promoting the new IVS.

- There is a need to emphasise to member institutes that IVSC can help them in communicating the message about the new IVS to their members, by providing speakers and/or other advice on content.
- Board members should seek individual presentation opportunities with regulators. There is the possibility of arranging something in Hong Kong around the November meetings. Jim Eales was arranging to meet the financial regulators in Singapore with his colleagues in Singapore..
- The Executive Director was in touch with HKIS with regard to a possible seminar to be attended by some Board members in Hong Kong.
- The Chairman had agreed to present at the CFA Institute Annual Global Investment Performance Standards (IGIPs) conference in Chicago in October.
- Jeff Harder indicated that he would speak on IVS at the CICBV conference in Halifax Nova Scotia.
- There are discussion with the ASA about a joint “webinar” on the new IVS.

11.2 Board members were encouraged to seek other opportunities to promote the new IVS. All were asked to advise the Executive Director of such opportunities.

## **12. LIABILITIES**

12.1 Nova Chan presented the draft project brief. There was some discussion as to whether contingent liabilities arising from a business combination should be included in the project scope. It was agreed that, along with other liabilities arising under a contract or instrument that involved the payment of a specific sum on a given date or event they should be excluded initially

12.2 It was agreed that a working group should be formed to progress the project. The Chairman suggested that in forming the working group consideration should be given to contacting the litigation community.

## **13. FORESTRY**

13.1 Bob Connolly introduced a draft project brief. In addition he referred to a paper produced by a Finnish group in 2004 that had could be contrasted with some of the existing standards referenced in the paper as it indicated that there were regular sales from which market data could be drawn. He also mentioned regulatory interest in this subject. In Australia tax breaks available to investors in forestry had given rise collective investment schemes based on forestry assets that were sustained on valuations that subsequently proved to be ill founded. The Board approved the project brief and agreed to establish a working group to take the project forward.

13.2 Board members were asked to forward names of large companies in the sector who might be interested in helping with the project to the Technical Director. Nova Chan advised that the China Appraisal Society currently had a project underway on forestry valuation.

#### **14. UPDATE ON FINANCIAL INSTRUMENTS PROJECTS**

- 14.1 Ana Castaneda updated the Board on recent developments. Two projects had been identified as priority – Credit Valuation Adjustments and Financial Instruments Valuation Methods. A call for applications had been made in May and two working groups were currently being established – the first to be chaired by Paul Hawkes and the second by Ana Castaneda. The two group chairs together with the Technical Director have had an initial meeting to agree the briefs for the two projects.

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

- 15.1 The Board reviewed the work plan and:

(i) agreed that the project on Trade Related Properties be added to the plan; and

(ii) noted that the PB project to develop MV Illustrative Examples would move onto the plan rather than being noted as ‘under consideration’.

- 15.2 There was discussion on how requests for clarification or application of the standards to specific situations should be dealt with. It was agreed that the Technical Director should be the point of contact and would use his discretion as to whether the request was one that he could deal with without consulting the Board, whether he should consult with one or more Board members or whether it should be referred to the full Board. The Board requested that the Technical Director draft a short protocol on how requests should be dealt with. It was also agreed that the responses could be used to develop a list of Frequently Asked Questions that would be published to aid application of the standards..

- 15.3 Simon Landy queried whether the proposal to undertake a project on Investment Property was being taken forward. The Technical Director advised that discussions with trade associations representing REITS and investment funds were continuing. Although there seemed to be widespread support from the leadership of various associations for IVSC developing a specific standard and associated guidance, and one of the major global consultancies had offered resources to help achieve this, the associations were still in discussion with their own members to ensure that they would also support such an initiative. He expected some formal requests before the next meeting.

- 15.4 The Technical Director reported that he was developing the Glossary that would be distributed to both the SB and PB for comment when complete.

#### **16. NEXT MEETING**

- 16.1 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 final arrangements have yet to be confirmed.