



MINUTES OF THE IVSC PROFESSIONAL BOARD

HELD IN HONG KONG

THURSDAY 3 NOVEMBER 2011

PRESENT:

Jean-Florent Rérolle Chairman
Greg Forsythe – Vice Chairman
Paul Hawkes
Roy Farthing
David Faulkner
Doug McPhee
Brad Wagar

IN ATTENDANCE:

Chris Thorne IVSC Technical Director (for part only)

APOLOGIES:

Marianna Todorova

1. OPENING REMARKS

- 1.1. The Chairman opened the meeting and welcomed everyone including observers to the meeting. The Chairman announced that he has had to resign as a member of the Board due to a recent change in his professional role. The Nominating Committee is recommending to the Board of Trustees that Greg Forsythe should succeed him.

2. APOLOGIES FOR ABSENCE

- 2.1. Marianna Todorova was unable to attend.

3. MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- 3.1. The minutes of the meeting held on 15 June 2011 were approved. There were no matters arising for discussion.

4. OVERVIEW OF IVSC ACTIVITY

- 4.1. The Technical Director referred to the report of meetings with external bodies and conferences attended by board members and staff since the last meeting in June.

- 4.2. The Private Sector Task Force of Regulated Professions and Industries brought together at the request of the Presidency of the G-20 and referred to at the last meeting of the Board had now produced its final report. This included recommendations that the governments of the G20 should encourage and support the development, adoption, implementation and consistent interpretation of globally accepted high-quality international standards, to the greatest extent possible, for each of financial reporting, auditing, valuation, and actuarial services. The report was prepared for the summit in Cannes that was concurrent with this meeting.
- 4.3. The Board noted that in the process of completing the report for the G-20 meeting, the IVSC worked closely with nine other professional organisations and developed a working dialogue which should help facilitate the IVSC's objective of strengthening the worldwide valuation profession.
- 4.4. A Round Table discussion for valuation users had been held the previous day in Hong Kong and had provided useful feedback on current topics of concern. It is intended to hold further discussions in London, Chicago and possibly Brazil. David Faulkner suggested Singapore as a possible venue as there are a number of multinational corporations located there.

5. REPORT ON INTERNATIONAL VALUATION STANDARDS BOARD ACTIVITY

- 5.1. The Technical Director reported that more than six working parties have been formed to progress the new projects identified by the Standards Board in June. This had taken longer than expected but now they are in place the projects can proceed..
- 5.2. The Technical Director reported that requests had been received from various industry bodies including EPRA and APREA to develop a dedicated standard for investment property which was being considered by the Board in its concurrent meeting. .

6. TIP 1 DISCOUNTED CASH FLOW

- 6.1. Doug McPhee advised that the working draft presented at this meeting was still work in progress. Considerable changes had been made to the Exposure Draft to reflect the comment letters received during the consultation process and the discussions at the last Board meeting. However, more work was required on the discussion of the different types of DCF technique and on the selection of the appropriate discount rate, especially in relation to business valuation. The Technical Director also reported that some alterations were still required to the illustrative examples which had only just been developed.
- 6.2. Some Board members indicated that they felt that some of the concepts in the current version are still ambiguous and will require further clarification. Care needs to be taken to ensure that issues are not overly simplified which may lead to more confusion and questions. Members of the Board should provide any further comments on the working

draft to Doug McPhee and the Technical Director as soon as possible after the meeting. Doug McPhee is intending to seek further input from the Working Group and finalise the draft before reverting to the Board with a version recommended for approval before the end of December with a view to publication in early 2012.

7. CODE OF ETHICAL PRINCIPLES

- 7.1. David Faulkner reported that the proposed Code had been amended to reflect the comments received on the second exposure draft. Most comments received had been positive, apart from one professional body that seems opposed to the principle of the IVSC issuing a Code. Most requests were for better clarity around the status of the Code and sections within it, ie was it intended to be mandatory or advisory. Amendments had been made to address this and the Code is now presented for approval.
- 7.2. The Technical Director advised that the Code contains five fundamental principles that are expected to be reflected in the code of any Valuation Professional Organisation in membership of IVSC. The remainder of the Code provides a commentary on how those principles are applied in practice. Although this commentary is written in a style that enables the whole Code to be adopted and applied in its own right, it also acknowledges that member Valuation Professional Organisations may have their own rules that apply the fundamental principles to their members, and therefore this section is not compulsory for all member bodies.
- 7.3. The Chairman asked for clarification as to whether the code properly addressed threats under the following situations:
- Valuation update assignments
 - Arbitration assignments
 - Litigation support

It was confirmed that the Code identified “self review” as a threat to objectivity where valuations are updated on a recurring basis and possible steps to avoid this threat are identified. The Code also recognises that a valuer can act independently between two parties, such as in arbitration, providing this is with the consent of both parties. It was noted that arbitration and litigation support are often subject to national legislation or regulation that imposes specific requirements to establish independence and objectivity and that IVSC could not realistically go beyond establishing the high level principles in the Code by attempting to draft detailed requirements for specific types of assignment.

- 7.4. The Board approved the document for publication. The document will be subject to copy editing, proof reading and design. The Chairman requested that the final proof be circulated to the Board.

8. PROCEDURAL GUIDELINES FOR FAIRNESS OPINIONS

- 8.1. Doug McPhee reported that working draft before the Board was close to finalisation although some members of the Working Group in the “Big Four” firms had sought inputs from within their networks and some further comments were still expected. Some members of the Standards Board had also provided comments.
- 8.2. In summary the proposed guidelines include the following:
 - Defining what a fairness opinion is and the purpose that it serves.
 - Discussion on independence and objectivity.
 - Discussion on reporting and disclosure, but will not provide a template as different countries vary significantly in the amount of detail included in a fairness opinion. The content of a fairness opinion is mainly driven by the local market practice rather than regulatory requirements.
- 8.3. The reference to business judgement rule in the draft may be revised as it is specific to Canada.
- 8.4. The working group had attempted to interest investment banks in participating in the project but without success. It is hoped that some feedback will be received from this group when the paper is issued to the public for comment.
- 8.5. Further work is required to reflect any feedback from the current consultations, to develop questions for respondents and then to ensure that the wording is consistent with IVS and contains the appropriate cross references. It is hoped that this will be complete by the end of 2011. The proposed Exposure Draft will be circulated to the Board for approval before release.

9. UPDATE ON IVSC ACTIVITY AND INTERACTION WITH OTHER BODIES

- 9.1. **IOSCO** – IVSC has been invited to make presentations to two of IOSCO subcommittees, SC1 dealing with accounting and SC5 dealing with investment management. SC5 is particularly pertinent because it has a current project to update its valuation guidelines for collective investment schemes.
- 9.2. **IASB** – The Technical Director reported that a good dialogue continues with the IASB. It has been agreed that the IVSC will be part of the working group that the IASB is establishing to produce education materials relating to IFRS 13 Fair Value Measurements.
- 9.3. **FASB** – The Valuation Resource Group has not met since November 2010 and in the light of the FASB’s involvement in the Working Party referred to in 9.2 it is unlikely that this group will continue.

- 9.4. **IAASB** – IVSC is a member of Consultative Advisory Group (CAG) and is represented by Frank Bollmann of the IVSC Standards Board. He recently made a presentation on IVSC and its activities to a meeting of the CAG that includes representatives of many other global regulatory organisations.
- 9.5. **IPEV** – The Memorandum of Understanding was signed in early October and a number of action points have been agreed.
- 9.6. **IPSAS** – Andrew Lennard, who works for the IPSAS Board on its Framework Project, has agreed to join the IVSC project on Specialised Government Property. .
- 9.7. **OECD** – IVSC was invited to meet with them last November to discuss transfer pricing issues and intangible asset valuation. In March of this year, a representative of the IVSC presented a more detailed presentation on the subject matter to the OECD. Recently, the OECD requested us to provide more information on our current standards and guidance related to intangible assets.

10. CREDIT/DEBIT VALUATION ADJUSTMENTS

- 10.1. Paul Hawkes reported that the working group has been formed and the project can now proceed. The banks represented on the working party are generally sophisticated on the topic and agreeing a consistent approach will be an important next step, especially given the regulatory interest in the subject.
- 10.2. The Board suggested that since this topic is sensitive to regulators and standard setters, the working group should reach out to them and keep them updated on the progress. Paul Hawkes reported that the UK FSA, a leader in this field, responded positively. The SEC is also paying attention to this issue and plans to issue its own guidance on this matter.
- 10.3. It is hoped to produce an Exposure Draft by mid 2012.

11. TIP 2 COST APPROACH

- 11.1. Roy Farthing provided advised that discussions had been continuing among the working group since the draft that had been submitted with the agenda, with the result that this paper was not being proposed for approval. The outstanding items requiring resolution were the differences in terminology and application of the approach used by North American real property valuers and the terminology and application used elsewhere. However, he was hopefully that a resolution was imminent.

11.2. The working group had arranged to meet after the Board meeting to finalise the outstanding issues. They will ensure that the paper accommodates different practices, but will make certain that the wording of the paper is written in a way that will minimise potential abuse. The working group will seek Board approval electronically once they are ready the draft has been agreed.

12. TIP 3 INTANGIBLE ASSETS

12.1. This paper is basically a reformatting of the existing GN4 that was published in March 2010 following a four year project. The changes made to GN4 are confined to:

- Updating of language and cross referencing to reflect the new IVS, and IVS 210 in particular;
- Including an additional paragraph on asset identification;
- Including a short reference to the Greenfield Method for consistency with the forthcoming TIP on Contributory Asset Charges;
- The inclusion of a few illustrations of the methods referenced in the TIP.

12.2. Doug McPhee advised that he felt some refinement of the examples was required and these had not yet been seen by the members of the Standards Board involved with the project. Otherwise, subject to any amendments agreed by the Board the paper was presented for approval.

12.3. The Chairman suggested that an additional paragraph should be included under the discussion of the cost approach to refer to opportunity cost. A question was also raised as to the use of "CU" (abbreviation for Currency Unit) in the illustrative examples. The Technical Director explained that this followed the convention adopted by the IASB in its publications and therefore should be familiar to many of the IVSC's constituents. The Board agreed that CU should be used. Marianna Todorova had also submitted a few minor comments on the draft.

12.4. It was agreed that the Working Group would finalise the paper based on the above comments and would aim to circulate it to the Board for electronic approval before the year end.

13. AUDIT GUIDANCE FOR VALUERS

13.1. Greg Forsythe presented an initial working draft for discussion. A difficulty with the project was defining its scope because of the significant differences in procedure and scrutiny between the listed sector in the US and non-listed businesses in countries that have not yet adopted IFRS and where fair value is rarely required.

- 13.2. The working group includes smaller accounting firms that outsource the valuation review to an external party. Common issue is that the external valuation specialist may not have a good understanding of accounting standards and the scope of work may not be suitable for financial reporting purposes.
- 13.3. The guidance is intended to provide awareness for the auditor as well as the external valuation specialist to ensure that the scope of valuation for financial reporting is clearly understood and the roles and requirements by both parties. The intent is to highlight the purpose, need, and ultimate outcome required by the auditor and the external valuation specialist.
- 13.4. Brad Wagar indicated that the paper should take on a balanced approach between the audit perspective and the external valuer's perspective. Roy Farthing suggested that objectivity should be highlighted to ensure that the audit review process does not turn into a critique of the external valuer's work.
- 13.5. The Board was requested to provide any feedback on the paper and it is hoped that an Exposure Draft will be completed in time for approval at the next meeting.

14. PROFESSIONAL VALUER

- 14.1. The Technical Director introduced a draft that had been prepared to reflect the comments received on the Discussion Paper issued in June 2010 and subsequent Board discussions. The purpose of the paper is to increase awareness of the characteristics of a professional valuer and to increase awareness of what valuation users should expect from a qualified professional valuer. This was felt to be of particular benefit in developing countries.
- 14.2. The Board agreed that the paper presented formed a suitable basis for consultation and requested the Technical Director to develop an Exposure Draft for approval.

15. CONTRIBUTORY ASSETS

- 15.1. There is an agreement with the Appraisal Foundation to develop the "Monograph" it published in 2010 that was specific to US GAAP into a document for international consumption. The draft had been developed under this agreement and was presented for approval for release as an exposure draft. Greg Forsythe reported that he had just received some comments from the Appraisal Foundation on the exposure draft. These would need to be reviewed but they should not hold up the issue of the IVSC version for public comment. It was agreed that the document will be circulated to the Board for release as an Exposure Draft before the end of the year.

16. UPDATE ON OTHER PROJECTS

- 16.1. **Specialised Government Property** - The Board has formed a working group to include members from the Standards Board and a number of expert practitioners. The group has started work by completing a short questionnaire designed to identify the types of asset that might need to be considered and the purposes for which valuations are required.

Issues that have emerged include the scope of assets to be covered in the project (eg will it include only government owned assets or will it include similar assets that are privately held?), and the extent to which non-economic or social value is a required measure, and how this should be reflected.

- 16.2. **Illustrative Examples** – Marianna Todorova had prepared a detailed project plan that identified various topics in the IVS Framework that would benefit from illustrative examples. Some of these were also relevant to the IASB project to produce educational material on fair value. It has been agreed that the two organisations will coordinate their activities through cross representation in order to avoid contradictory material being produced. The Working Group has been formed and individuals have been asked to identify the topics that they would prioritise. It is envisaged that this will be a rolling project and there will be no single “deliverable” but that a collection of examples will be released for exposure when ready.

- 16.3. **Customer Relationships** – Greg Forsythe reported that the Appraisal Foundation’s working party was hoping to have a draft ready for submission to the IVSC before the year end. The intention is that both organisations would expose the documents for comment simultaneously, with only different preambles.

- 16.4. **Glossary** – A draft of the glossary was circulated to members of both Boards in the summer and the Technical Director had received comments from a majority of Board members that have been reflected. It has been previously agreed that the Glossary will be published as a resource on the IVSC web site and be updated on a rolling basis. There will be a facility for the public to send in requests for amendments which can be reviewed by the Boards on a periodic basis. This should be ready within a few weeks.

17. REVIEW AND UPDATE CURRENT IVSC WORK PLAN

- 17.1. The Board reviewed the Work Plan and updated some of the deliverable dates. It was noted that the project assigned to the Professional Board on Investment Property under Construction is likely to be replaced by a general project on Investment Property led by the Standards Board.

18. ANY OTHER BUSINESS

18.1. No other topics were raised.

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19. DATE OF NEXT MEETING

19.1. The next meeting will be held in London in March 2012 on a date to be confirmed. *(post meeting note – the date has been provisionally agreed as Saturday 17 March)*