



International Valuation Standards Committee

Newsletter

July 2005

Welcome to the first IVSC E-News.

I hope you find it informative. Please forward to others who may find it of interest and suggest they register for their own copy by clicking: **REGISTER** If you would prefer not to receive future copies, please send an email by clicking: **UNSUBSCRIBE**

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IVSC News

IASB education session

As a regular part of its work, the International Accounting Standards Board from time to time invites groups to present an education session. The IVSC is delighted to have been invited to present a session on valuation issues to the IASB at its September 2005 meeting.

IVS Course

The Appraisal Institute, under a license agreement with the IVSC, has developed an on-line version of the IVSC course 'An Introduction to the International Valuation Standards'. The fundamental principles that provide the foundation for IVS and Generally Accepted Valuation Principles are discussed. IVS 1 - Market Value Basis of Valuation is the main focus of the course. The IVSC will develop further modules that will provide more detailed coverage of other standards and guidance notes. For more information, visit <http://onlineed.appraisalinstitute.org>

What's New on the IVSC web site

- . Technical Paper - Mass Appraisal for Property Taxation.
- . Research Paper - "Valuation Accuracy in Real Estate Indices: The Case of the ROZ/IPD Netherlands Property Index Compared to the IPD UK Index and the NCREIF USA Index" by Aart Hordijk, March 2005
- . "Property Valuations for Company Balance Sheets Following the Adoption on IFRS" - paper presented by Elvin Fernandez, IVSC vice-chairman, at the 56th FIABCI World Real Estate Congress, Athens, Greece, May 30-June 4, 2005
- . "Key to Success: a Profession Speaking with a United Voice" - article by IVSC chairman-designate, Joe Vella, published in Canadian Appraisal, Vol49:1 (2005)

Seeking responses

Valuation of Plant and Equipment - new Guidance Note issued for exposure

The IVSC has published a new exposure draft of a proposed revised International Valuation Guidance Note 3 - Valuation of Plant and Equipment. An earlier exposure draft was issued during 2004. That draft has been significantly amended for two reasons. Firstly, to ensure consistency with revised International Valuation Application 1 (IVA 1), Valuation for Financial Reporting published in the 2005 edition of the International Valuation Standards. Revisions to IVA 1 were undertaken to reflect the changes made to the International Financial Reporting Standards as part of the IASB Improvements Project. Secondly, the IVSC Standards Board agreed that all material in the earlier draft relating to insurance should be removed and placed in a separate Guidance Note to be developed for insurance valuation for all asset classes. In view of the extent of the changes to the original 2004 exposure draft, the IVSC has issued a revised Exposure Draft for comment. Comments are to be received by 30 September 2005.

A copy of the Exposure Draft is available on the IVSC web site - www.ivsc.org

IVSC Responds

European Association for Investors in European Non-Listed Real Estate Vehicles (INREV) - White Paper 'INREV Guidelines for a Secondary Market'

In its response to the White Paper published by INREV the IVSC endorsed the conclusion of the paper that greater transparency and consistency in valuation is important to the development of a dynamic, liquid European-wide secondary market. A more systematic use of the International Valuation Standards is at least part of the answer and must be encouraged throughout Europe. The use of IVS has already been encouraged by INREV in its draft illustrative European Real Estate Fund financial statements (November 2004) which carry the statement that 'valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee'.

The White Paper and the draft financial statements are available to view on www.inrev.org

American Institute of Certified Public Accountants (AICPA) Proposed Statement on Standards for Valuation Services, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset

The IVSC has responded to the exposure draft published by the AICPA in March 30, 2005. A number of respondents to the Exposure Draft published by the US Financial Accounting Standards Board (FASB), *Fair Value Measurements*, expressed concern that the diversity of groups in the US that provide

. A Spanish translation of the IVSC web site is now available

Model IFRS Financial Statements and Presentation and Disclosure Checklist for the year ended 31 December 2005 published by Deloitte

The notes to the model financial statements recognise the International Valuation Standards with the following two statements:

"Land and buildings were revalued at 31 December 2005 by Messrs. Lo & Ko, independent valuers not connected with the Group, by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards."

"The fair value of the Group's investment property at 31 December 2005 has been arrived at on the basis of a valuation carried out at that date by Messrs Lo & Ko, independent valuers not connected with the Group. Messrs Lo & Ko are members of the Institute of Valuers, and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties."

The Model Financial Statements can be viewed on www.iasplus.com

guidance for business valuation coupled with the lack of a 'codified' set of standards created the potential for confusion and inconsistent application of valuation practices. The AICPA Statement acknowledges that there currently exist business valuation standards promulgated by other recognized valuation or appraisal organizations and that those standards do not agree with each other in all respects. However, the AICPA believes that the proposed Statement, while improving practice, will not result in conflicts with those standards.

In its response, the IVSC strongly encourages AICPA to endeavour to make their standards consistent with IVS and to join in the global effort to converge valuation standards towards a single set of global valuation standards.

News from IVSC member institutes and representatives

● **At the South African Institute of Valuers National Executive Meeting held in Cape Town on 7 - 9 June 2005 the 7th Edition of International Valuation Standards (2005) was adopted, in toto, as South African Institute of Valuers Standards**

News from other international organizations

● **Real Estate Indicators and Financial Stability**

In October 2003 the Bank for International Settlements and the International Monetary Fund jointly organized a conference

entitled 'Real Estate Indicators and Financial Stability'. The proceedings of that conference were published as BIS Paper No 21 in April and are available to view on the BIS website - www.bis.org

The papers include one given at the conference by IVSC vice-chairman, Elvin Fernandez.

● **Committee of European Securities Regulators (CESR)**

The CESR has published (Feb 2005) its recommendations for the consistent application of European Union legislation on Prospectuses due to come into effect in July 2005. The IVSC participated in the consultation process, providing comment on proposals for the information to be published by property companies and mineral companies.

For property companies, CESR proposes that a condensed valuation report be required which must, inter alia:

- (i) be prepared by an independent expert;
- (ii) give the date or dates of inspection of the property;
- (iii) provide all the relevant details in respect of material properties necessary for the purposes of the valuation;
- (iv) be dated and state the effective date of valuation for each property;
- (v) include a summary showing separately the number of freehold and leasehold properties together with the aggregate of their valuations;
- (vi) include an explanation of the differences of the valuation figure and the equivalent figure included in the issuer's latest published individual annual accounts or consolidated accounts, if applicable.

The CESR received very divided responses regarding which valuation rules to apply. Some respondents supported the idea of the rules of the country of the competent authority. Others suggested that accepted international valuation standard should be followed. Finally, some respondents had the opinion that the rules in the country where the property is located should be applied. Due to the lack of agreement in this matter, CESR has decided not to make any recommendations regarding which rules the report should comply with, but to leave it to the competent authority.

● **Mineral companies.**

The IVSC in its response urged the CESR against providing its own definitions for reserve and resource categories. To do so would continue the proliferation of incompatible definitions in the world and result in difficulties for companies that must apply them. Many respondents also asked for harmonized and widely adopted standards/definitions. CESR has therefore decided to provide high level requirements and to withdraw the detailed definitions from the recommendations. Accordingly, appropriate definitions would have to be agreed with the competent authority. CESR recommendations are available on www.cesr-eu.org

● **International Accounting Standards Board (IASB)**

(1) The IASB and the US Financial Accounting Standards Board (FASB) have published an Exposure Draft containing joint proposals to improve and align the accounting for business combinations. The proposals include a draft standard that the boards had developed in their first major project. The proposed standard would replace the existing requirements of the IASB's IFRS 3 Business Combinations and FASB's Statement 141 Business Combinations. Among the principal changes

being proposed include a requirement to measure the business acquired at fair value. The current version of IFRS 3 requires a business combination to be measured and recognised on the accumulated cost of the combination. See www.iasb.org and www.fasb.org

IASB is to publish shortly a discussion paper 'Measurement Bases for Financial Accounting: Measurement on Initial Recognition' prepared by the Canadian Accounting Standards Board (AcSB). This project is a preliminary investigation of alternative bases for measuring assets and liabilities in financial accounting which is being undertaken for the purpose of identifying, considering, and making recommendations on issues related to the selection of an appropriate basis (or set of bases) of measurement.