International Association of Consultants, Valuators and Analysts
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29 October 2009

International Valuation Standards Board
41 Moorgate
London EC2R 6PP
United Kingdom

Ladies and Gentlemen

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA). We are a knowledge transfer and credentialing organization with Charters in China, Germany, Ghana, Middle East, South Korea, Taiwan and the United States. Our nearly 8,000 members are involved in business valuation and fraud deterrence.

They are extremely concerned with the development of International Valuation Standards and therefore IACVA is a member of the International Valuation Standards Council (IVSC). Our view is that there should be only one set of standards and best practices worldwide preferably through the IVSC.

With respect to IVSC Exposure Draft of August 2009 "The Valuation of Investment Property under Construction", our comments are as follows:

Question 1

Do respondents agree that it is appropriate that the Exposure Draft extends to include the valuation of investment property under construction for all purposes but not to other types of property under construction?

IACVA believes that the problems of valuing assets under construction are sufficiently significantly, that restrictions of the Guidance Note to investment property as in the Exposure Draft is wrong. It is likely to lead to the same types of inconsistencies in other areas that hopefully will be dealt with for investment properties. Most of our members deal with Business Valuation. In such situations the problems of valuing a development stage entity or an immature brand are analogous to those of an investment property, a paper mill or an oil refinery that is still under construction.

Question 2

Do respondents consider that the level of detail on the types of valuation approaches that may be appropriate is sufficient to eliminate significant differences in practice or do they consider that it would be appropriate to expressly identify approaches that would be acceptable or unacceptable by name? If respondents agree with the latter, it would be helpful if examples of named approaches that it is considered should be expressly referenced could be provided.

There is some confusion as to terminology. In both real estate appraisal and Business Valuation, there are three basic approaches: Cost (asset-based), Market and Income. Under each there are numerous methods such as Depreciated Replacement Cost Guideline publicly traded entities or Discounting Projected Cash Flows. In each method a number of techniques may be involved.

IACVA considers the level of detail in all the Guidance Notes is insufficient, not only to eliminate significant differences in practice, but also to establish best practices. We recommend as an example, the Appraisal Foundations recent toolkit. We recommend that acceptable methods should be indicated.

Question 3

The Board is interested in learning the extent to which the two approaches [methods] to estimating the value and cost inputs to the valuation of a part completed project are used in different markets. It would therefore be helpful if respondents could indicate the market or markets in which they operate and the approach that is generally used.

IACVA believes that the current value, as if the property is already completed, does not, even when adjusted for the time value of money, necessarily represent fair value as it ignores the numerous risks involved, some of which are difficult to quantify. In our view, the present value of the estimated amount on completion using two or more scenarios for the process is more appropriate, even though some markets may normally use another method.

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Question 4

a) Do respondents consider that there is scope for confusion between finance risk as reflected in the interest rate charged to the developer and the return that the developer requires to reflect total development risks (which may include fluctuations in the cost of finance)? If so, is the cautionary note adequate or is more detail required on this point?

In our view the cautionary note requires more detail as to the different levels of finance costs and risks to lenders as well as to the developer.

b) Do respondents agree that the guidance note should expressly refer to the potential for different interest rates at various stages before the investment reaches its normal income generating potential?

IACVA believes that this should be covered in the Guidance Note.

Question 5

Do respondents agree that it is outside the scope of this guidance note to consider whether a valuation can be reliably determined for the purpose of IAS 40?

IACVA believes that a discussion of whether a value can be readily determined for a particular asset under construction is essential.

Should you wish to discuss this matter further, a member of your staff may contact the writer in Toronto, at 011-1-416-865-9766.

Yours very truly,

James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CFE
Chair