



Our Ref:

2 September 2010

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

BY Email and By POST
Email: CommentLetters@ivsc.org

Dear Sirs,

Exposure Draft
Proposed New International Valuation Standards

The Hong Kong Institute of Surveyors (hereinafter referred to as 'The Institute') would like to congratulate your Board for having compiled the Exposure Draft for the Ninth Edition of International Valuation Standards ("IVS").

We have reviewed the Exposure Draft and would like to tender our comments and observations. We attach herewith our feedback to some of the questions in the *Overview and Questions for Respondents* in Appendix I hereto.

In addition, The Institute has the following observations for the Board's consideration:

IVS 101 – General Concepts and Principles

Para. 24 - Competence

The proposed new IVS suggest that the valuer can be an individual or a firm (see also IVS 104 – Scope of Work Para. 2 item a) and IVS 105 Valuation Reporting Para.5 item a)).

The Institute noted that nearly all of the self-regulatory professional bodies in the global valuation practice have only individual full members who are required to observe the professional ethics and standards set by the respective professional bodies, and are required to sign on the valuation reports prepared by them. By signing on his/her valuation report, the valuer not only confirms his/her competence, but also accepts his/her responsibility in preparing his/her report. Some self-regulatory professional bodies have corporate members who are only eligible to receive information, but not to sign on a valuation report.

The Institute takes the view that the competence of a firm comes from its employees who are individual members of various self-regulatory professional bodies. Without these individuals' effort and competence, a firm is unable to claim itself as a competent valuer. Thus, for a firm to sign on a valuation report is unfair to the users and the public. Competent individuals can sign for and on behalf of a firm, but ultimately the responsible "valuer" should be the individual, not the firm. This is a common consensus in the global valuation practice.



The Institute therefore opines that a valuer should only be an individual who is a full member of a self-regulatory valuation organisation of professional individuals which admits individuals on the basis of their academic qualifications and experience, requires compliance with professional standards of competence and ethics established by the organisation and has disciplinary powers including the power to suspend or expel a member.

The Institute would suggest to delete the word "*or firm*" from this para.

IVS 102 - Valuation Approaches

Para. 2 – Direct Market Comparison Approach

It is recognised that in less transparent markets, details of transactions may not be obtainable, and as such, listed price or market offerings may be used by valuers as a reference, or in extreme cases, taken as comparables. Nevertheless, the Institute considers it fit to further elaborate on the appropriate use of items listed or offered for sale when adopting this valuation approach.

The Institute would suggest to further expand and elaborate the following phrase:

"...or that are listed or offered for sale"

Para. 4 – Income Approach

For income capitalisation, if the income stream is fixed, it has no upside potential, and by capitalising such fixed income stream by the all risks yield (which implicitly reflects the future income growth potential – the all risks yield are derived from comparable transactions and adjustments of the same would be needed for the subject valuation to reflect its quality and flow of income – with the income potential could go up or go down), the resulting valuation would be higher than it should be.

The Institute would suggest for the sentence to be amended to read:

"...income capitalisation, where an appropriate yield is applied to the current income stream and the income stream achievable upon expiry of the contracts/tenancies, or discounted cash flow...."

Para. 5 – Cost Approach

It is noted that the term "Depreciated Replacement Cost" is defined under the Glossary of Terms for the International Valuation Standards. Nevertheless, the definition does not elaborate on its relationship with Market Value, and in particular, that Depreciated Replacement Cost arrived at by the Cost Approach could in fact represent the Market Value of the property.

The Institute would suggest to amend the last sentence of this paragraph to read:

"This adjusted figure is also known as the depreciated replacement cost."



Para. 6 – Hierarchy of Approaches

We have already expressed our view on this issue through our response to the questions included in the document Overview and Questions for Respondents, but would wish to reiterate it again, in view of its significance.

This paragraph suggests that the Direct Market Comparison Approach is generally preferred when observable prices for identical or similar assets are available at or close to the valuation date.

Nevertheless, the most preferable approach or approaches for adopting in valuation by the valuer is dependent on an array of factors. For instance, in valuing investment properties which are subject to a schedule of existing tenancies, one may find it difficult, if not impractical, to make appropriate adjustment(s) on sales comparables to reflect the effect that the tenancies may have on the market value of the property. In this instance, although observable prices for identical or similar assets may be available at or close to the valuation date, the tenure of the asset may become the more determining factor in considering the appropriate preferred approach to the valuation.

The Institute would suggest for the sentence to be amended to read:

"...different to other assets of a similar type (eg investment properties with existing tenancies) that are being transacted at..."

Para. 11 – Use of Multiple Approach and Methods

This paragraph includes a reference to Market Value in relation to the Cost Approach stating that the use of market based parameters will lead to the Market Value of the asset. The use of Market Value here is confusing to the readers that when associated with a cost based valuation which would not necessarily achieve a market value. The Institute considers that this is not the case for Depreciated Replacement Cost arrived at by the Cost Approach.

The Institute would suggest for the last sentence to be amended to read:

"..... the outcome of using any of the foregoing procedures should be a reflection of market value if each method is based on market derived data."

IVS 103 – Bases of Value

Para. 12 - Investment Value

The term of "Investment Value" is defined. While it is clear enough to valuation professionals, stronger emphasis may be worthwhile for the benefit of other readers, in differentiating this value from Market Value.

The Institute would suggest for the sentence to be amended to read:

"Investment value is, specifically, the value of an asset to the owner or a prospective owner."



IVS 104 – Scope of Work

Para. 4 – Changes to Scope of Work

It would be worth putting in the emphasis that any changes to scope of work should be properly recorded.

The Institute would suggest to add to the end of the para.:

"In such circumstances, any such changes to the Scope of Work, along with adjustment of fees (if any) should be properly agreed between the valuer and the client in writing. In the event that the parties would like to do so via exchanges of emails, attention should be drawn to the contents of any footnote or otherwise exemption clause that may appear in the email correspondence."

IVS 105 – Valuation Reporting

IVS 201.01 – Fair Value under International Financial Reporting Standards

Para. 4 – Property Types

This paragraph states *"... a valuation should address ... in order to provide the lender with adequate information on the suitability of the property as security and the risk factors associated with the property over the duration of the loan."*

As such, the valuer would be imposed, or seemed to be imposed, with an obligation.

The Institute considers that whether or not the valuer is also professionally trained in banking, he/ she would not be in an appropriate position to judge what constitute (or not constitute) adequate information on the suitability of the property as security/ collateral. In addition, in most cases, the valuer would not be provided information on the duration of the loan. Therefore, imposing the valuer with the obligation in a valuation exercise is neither fair nor appropriate.

In the event that such adequate information and risk factors, as mentioned in para. 4, be required by the client, it should be a separate and specific exercise, with specific pieces of information required explicitly spelt out in the engagement letter.

The Institute would suggest deletion of this para.

Para. 13 - Valuation Reporting

For a valuer to provide "sufficient information on.... to "enable" the preparer of the financial statements to determine.... the valuation hierarchy" would put the valuer in a much inferior and passive position during the work process. Further, it would be difficult for the valuer to know if the preparer of the financial statements is "enabled".

The Institute would suggest replacing the word "enable" with "assist", if the condition cannot be omitted.



Para. 15 – Valuation Reporting

The Institute is of the view that to a large extent, the valuer and the client should be free to discuss and agree on the contents for inclusion in the valuation report.

The Institute would suggest for the first 5 items bulleted to be deleted.

Para. 16 – Valuation Reporting

The valuer should be, and should be seen, as being providing independent valuations. While the Institute has all the reasons to believe that its members always act ethically, the requirement for the valuer to make enquiries on the sale price agreed (or confirmed) and refer to such sale price in the valuation report is likely to give a wrong impression to the reader/ user of the report that the valuer's valuation has been affected by such sale price agreed.

In any event, the information should be known to the lender; and should not be a useful piece for an independent valuation.

The Institute would suggest deletion of this para.

IVS 201.03 – Valuation for Lease Accounting

Para. 12 – Classification of Property Leases

The Institute recognises that the classification and definition of "finance leases" has created concerns and discussions in markets which operate on leasehold property system (like Hong Kong, the United Kingdom, mainland China, Macau and Singapore).

The Institute would suggest for the provision of guidance/examples that such relevant land leases (where significant land premiums have been made) would qualify for "finance leases".

IVS 201.04 – Valuation for Impairment Testing

Para. 15 Valuation Approaches

Fair value less costs to sell is a procedural value derived by i.) to estimate the fair value (which is equivalent to market value); ii.) to estimate the costs to sell; and iii.) to deduct the costs to sell from the fair value to come up with the recoverable amount (i.e. fair value less costs to sell). Such kind of procedural value is difficult, if not impossible, to be arrived at by using one single approach to value because in each procedure different approaches to value may be used.

Should the IVSC consider that fair value equals to market value, it may appreciate that the fair (market) value of an asset would be arrived at by using either the Direct Market Comparison Approach, the Cost Approach or the Income Approach; or by using more than one approach to value. The IVSC may like to restrain from regulating the valuer on a particular approach to value to be adopted for arriving at a procedural value. In the event that the IVSC considers it inappropriate to use the Cost Approach, it would be appropriate for the reason(s) and its point of view to which type of the Cost Approach is inappropriate – the replacement cost or reproduction cost to be explicitly set out and explained. This is so especially as the market value of an asset can be its depreciated replacement cost offered in the market.



The Institute would suggest to delete the two sentences starting from "*Fair value less costs to sell ... or both elements of the recoverable amount*" from Para. 15, and to replace with the sentence of "*Fair value less costs to sell is a procedural value and the valuer is required to use appropriate approach(es) to value to determine the fair value and the costs to sell prior to arriving at the recoverable amount*".

IVS 202.01 – Valuations of Property Interest for Secure Lending

Para. 2 (i) Assumptions and any special assumptions

The Institute would suggest for "achievement of a specified occupancy level" to be deleted as an example under special assumption and for "market value at a specified occupancy level" to be deleted as an example of special assumptions. For most of the cases, this should be regarded as a general assumption.

Para. 15 - Valuation Reporting

The Institute considers that to a large extent, the valuer and the client should be free to discuss and agree on the contents for inclusion in the valuation report.

The Institute would suggest to revise: "*....on valuations of property interests for secured lending, subject to the agreed scope of work, may include comment on.....*"

Para. 16 – Valuation Reporting

The sale price agreed is subject to its specific transaction details which could be very complicated and are usually not available to the valuer. If this paragraph becomes mandatory, the valuer is under obligation to give comment on the deal if his/her valuation figure is different from the price agreed. However, such commentary could not be properly handled.

The Institute would suggest deletion of this para.

IVS 303.01 – Valuation of Property Interests

Para. 1 & 2 – Property Interests

Reference should be made to strata-titled ownership in land and co-ownership (like tenants in common and joint tenants).

Furthermore, the issue of beneficial interest in development agreement/ JV of property development (which may not have the form of a lease) should also be covered.

Para. 7 & 8 – Rent

The Institute is aware that local laws and/or tenancy agreements/ leases have their own definitions of "rent", "prevailing market rent" or "market rent". As a result, the definition of Market Rent in Para. 8 may not be applicable.

The Institute would suggest for the further elaboration on when the definition of Market Rent as stipulated in Para. 8 should be applicable and when it should not be applicable be explicitly stated in Para. 7.



Para. 12 – Valuation Approaches

In addition to the three approaches mentioned in this paragraph, the "residual valuation approach", which is commonly used in valuing development sites, should also be considered.

IVS 303.03 – Valuations of Investment Property under Construction

Para. 1 – Investment Property

The para. states that Investment property is "*property that is land or building, or part of a building, or both, held by the owner ...*", which appears to carry the same meaning of "real property", as defined under the Glossary of Terms for the International Valuation Standards. The Institute would suggest, for promoting consistent terminology, for the sentence to be amended to read:

"Investment property is real property for earning rentals or for capital appreciation ..."

Para. 11 – Valuation Approaches

This para. states that when valuing an investment property under construction, the normal market practice of assuming the property was completed is a "special assumption". We are of the view that it is normal market practice to make such assumption and thus this is not "special".

The Institute would suggest for the word "special" to be deleted in line 4 of the para.

Para. 12 – Valuation Inputs – items (e) Other costs

It is provided that "any costs that would be incurred in an actual transfer of the property on the date of valuation should be ignored." Further explanation of this guidance would be useful as it is usual for buyers of development properties to allow such transaction costs like stamp duty, legal costs in an actual transfer.

The Institute would suggest for the view being taken further discussed and clarified.

Para. 12 – Valuation Inputs – items (f) Risk and (g) Buyer's return

While these are important, it should be noted that they somewhat overlapped, since risks are the factors in determining buyer's return. Having two separate paragraphs in the Standards would be confusing, especially to non-valuer readers.

The Institute would suggest for item (g) to be deleted.

Glossary of Terms for the International Valuation Standards

Special Assumption

The term is currently defined as "*an assumption that either assumes facts that differ from the actual facts existing at the valuation date or that would be made by a typical market participant in a transaction on the valuation date.*"



“Special assumption” as currently defined would virtually turn all assumptions into special assumptions. However, no definition of “assumption” can be found under the Glossary of Terms for the International Valuation Standards, and it is difficult for one to attempt differentiating the two different types of assumptions.

The Institute would suggest for this important term be very carefully defined, and for the term “assumption” also be defined.

We would be grateful if your Board would carefully review and consider our observations and comments set out in the above and in the attachment, which we wish you have found helpful.

Should you have any queries, please do not hesitate to contact us.

Yours faithfully
For and on behalf of
The Hong Kong Institute of Surveyors

Francis Ng
Chairman, General Practice Divisional Council

*c.c. The President of The Hong Kong Institute of Surveyors
Mr. KK Chiu, Representative of The Hong Kong Institute of Surveyors in IVSC*



Appendix I

Overview and Questions for Respondents

General Questions:

1. Do you find the new structure of the Standards to be logical and easy to follow? If not, what alternative would you propose?
2. Do you consider that the combination of background information and specific directions to be helpful? Would you prefer all background information and explanatory information on asset classes to be removed from the standards so that only the specific directions applicable to each application or asset type remained?
3. Which delivery method for the new edition of the standards are you or your organization likely to use?

The Institute would suggest pdf version which can be downloaded from the IVSC website.

IVS 101 – General Concepts and Principles

4. Do you consider that this objective has been met? Do you consider that there are any additional valuation concepts and principles that should be considered and discussed in this standard?
5. Are you in agreement with this approach or would you prefer the word “valuation” either not to be used at all or always used with qualifying words to indicate the intended meaning, for example “valuation process” or “valuation result”?

IVS 102 – Valuation Approaches

6. Do you agree that these three approaches encompass all methods used in the assets or liabilities that you value? If not, please describe what approaches you feel have been omitted.

A valuation standard should not be a valuation instruction manual and the IVSC should avoid preparing a handbook or manual with details for the global valuation practitioners to follow. Practitioners should have obtained such knowledge and skill set in university or in job training. Valuation approaches and methods also change from time to time depending on the then social and economic conditions. It is inappropriate to list all known valuation approaches and methods in a valuation standard at one time for it cannot be ascertained whether the list is complete or there are other approaches or methods that were not considered.

7. Do you agree with this hierarchy and do you consider it helpful? If not explain if you would prefer to see no reference to a hierarchy or would prefer an alternative hierarchy.

Again, a valuation standard should not be a valuation instruction manual and the IVSC should avoid preparing a handbook or manual with details for the global valuation practitioners to follow. The use of appropriate valuation approaches and methods should be at the discretion of the valuer, who will base on his experience and knowledge to apply the most appropriate valuation methodology under the then environment, and his choice is subject to potential legal challenge. It is inappropriate for IVSC to regulate or intentionally to suggest the so-called “hierarchy of approach” for the valuers to follow. By suggesting the hierarchy of approach for the valuers to follow, the IVSC not only limit the thinking



process of the valuer in approaching an engagement, but also put itself open to possible legal challenge against its suggestion.

8. Do you find this change of terminology to be helpful? If not please explain what alternative you would prefer and why.

IVS 103 – Bases of Value

9. Do you agree with the proposed change to the definition? If not indicate what alternative you prefer and why.
10. Do you agree with this proposed change? If not, please explain why and what you believe the distinction is between investment value to a prospective purchaser and special value to a prospective buyer who can realise that special value to be?
11. Do you support the continued use of the term “Investment Value” or would you prefer an alternative? If so, what would that alternative be?
12. Do you agree with the approach taken in IVS? If not, explain why not and give examples where you believe the highest and best use may be different from the market value.
13. Do you consider this proposed change in the definition to be helpful? If not, please indicate how you believe it could be improved.

IVS 104 – Scope of Work

14. Do you: a) Agree with the inclusion of a standard for scope of work in IVS? b) That the minimum contents identified in the draft are proportionate and represent a realistic minimum standard? If you disagree, please explain why.

IVS 105 – Valuation Reporting

15. Do you agree with the changes that have been made? If not, please explain what provisions of the current IVS3 you believe should be carried forward into the new standard.

Application Standards

16. Which view do you support? If you consider that future IVS should contain application standards, do you consider that the degree of detail of those in the draft is appropriate and help the better understanding of the valuation requirements?
17. Which of these views do you support?

Asset Standards

18. Do you have any other comments on the general structure of the Asset Standards
19. Do you consider that a class of “personal property” can be identified that is not already covered by the proposed new asset standards? If so, do you consider that it has distinct characteristics that need to be considered in valuations that would benefit from a new IVS asset standard being developed?
20. Do you agree that a standard on valuing non financial liabilities is required and what topics should it cover?
21. Please identify any additional types of asset or liability that you believe should be considered for future inclusion in IVS, together with an indication of the benefits that you consider a new standard would bring.