

Anil Dhope

Chairman,

www.valuersworld.com

Responses to the proposed new exposure draft of International Valuation Standards.

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?*

Yes, the standards are quite logical and easy to follow.

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?*

The combination of background information and specific directions are helpful and it would not be advisable to remove this information. It makes understanding the standards much easier.

3. *Which delivery method for the new edition of the standards are you or your organization likely to use? Hardcopy or downloadable from the website?*

Downloadable edition of the standards will be our preference.

IVS 101- GENERAL CONCEPTS AND PRINCIPLES

4. *Do you consider that this objective of explaining concepts and principles throughout the standards has been met? Do you consider that there are any additional valuation concepts and principles that should be considered and discussed in this standard?*

The objective of explaining concepts and principles in the document has adequately been met.

5. *The word valuation can be used with two distinct meanings – one, with reference to the process of estimating value or two, to the valuation result itself. 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”?*

The term valuation should be used with a qualifying word always.

IVS 102- VALUATION APPROACHES

Previous editions of IVS have identified the principal valuation approaches listed in this proposed standard.

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.*

We agree that all approaches have been described in the document and there is no further need to add more approaches.

7. *Do you agree with the proposed hierarchy of approaches giving preference to direct market comparison approach 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.*

The proposed hierarchy of approaches is very helpful as a guiding principle to all valuation work. This should continue to be followed. But clarification is required as to which approach should be followed for what type of asset.

8. *Do you find the change of terminology from 'Sales Comparison Approach' to Direct Market Comparison Approach' to be helpful? If not please explain what alternative you would prefer and why.*

We agree with the proposed change in the terminology to 'Direct Market Comparison Approach'.

IVS103 - BASES OF VALUE

9. *Basis of value was defined as a statement of the "fundamental measurement assumptions of a valuation". It is proposed to be changed to "fundamental measurement principles of a valuation". Do you agree with the proposed change to the definition? If not indicate what alternative you prefer and why.*

Yes, we agree with the proposed change to the definition of basis of value.

10. *A change is proposed to the definition of Investment Value. The Board has proposed to amend the definition so that it only reflects the value to the owner, not the value to prospective purchasers. 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 realize that special value to be?*

We agree with the proposed change in the definition of investment value. Special value to a prospective buyer is again an investment value. This special value cannot be treated as specific value. It can be termed special value for a purchaser who is trying to purchase a property which is adjacent to his existing property and only if he is really interested in expansion by purchasing this property.

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?*

We agree to the use of the term 'Investment value' but every time that it is used, we should specify the reference in which it is being used.

12. *In IVS highest and best use (HABU) is treated as an inherent feature of market value. 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.*

We do not agree with the approach taken in IVS. HABU should not be adopted for secured lending valuation. In case of plant & machinery valuation, HABU approach is used to arrive at a value of the asset. But when the same asset is put up for auction purpose, the asset is sold at scrap/ salvage value, as by then the technology has changed and the machinery is obsolete and therefore the loan amount cannot be recovered.

Similarly, a big piece of land can be developed and huge profit anticipated out of that property on HABU basis, but when the same property is mortgaged and the owner fails to repay the loan, it fetches a distress value.

Hence it cannot be considered wise to take the HABU approach for secured lending valuations. The risk involved in these kinds of assets is always very high and profits cannot be considered as profits unless the profit is in your hands.

13. *In the existing IVS a clear distinction is made between fair value in general use and fair value as defined in IFRS. In this draft the definition of fair value in general use has been changed to emphasize the distinction from the usage of the term in IFRS. Do you consider this proposed change in the definition to be helpful? If not, please indicate how you believe it could be improved.*
The proposed change to the definition is welcome.

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.

We are in agreement with inclusion of a standard for scope of work in IVS. Scope of work needs to be more widely discussed.

IVS 105- VALUATION REPORTING

15. *The proposed standard is significantly less prescriptive than the equivalent standard IVS 3 in the current IVS. It is proposed to focus more on principles and application of the standards to a wider sector of asset classes. 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.*

Yes, we agree with the principle of making the standard less prescriptive and focus on the principles which have a wider application.

APPLICATION STANDARDS

16. *The standards in the 200 series provide guidance on the background for the valuation requirement. Some consider that the fundamental principles of valuation should remain unchanged regardless of the purpose. Others consider that it is important that valuation standards highlight factors that could be relevant to determining the appropriate valuation hypothesis for different purposes. 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. *There are opposing views as to the extent and how IVS should address valuation issues under IFRS.*

View (a) is that IVS should not refer to valuations under IFRS at all because the IASB is in the process of producing its own fair value standard and it is said that limited references to the accounting requirements under IFRS can be misleading and lead to misinterpretation.

View (b) is that valuation measurements under IFRS are intended to reflect market reality and are not a special type of valuation reserved for financial statements. Supporters of this view believe that limited references to IFRS are necessary to help those who are valuers rather than accounting experts understand the required criteria and assumptions. Which of these views do you support?

We support view (b). However, there is a potential conflict of interest between the IVSB and IASB. IASB is making a parallel draft for its members and they have a strong body to lobby for them. They are taking up work which is traditionally the bastion of valuers.

Real estate valuations should always be in the hands of real estate valuers and not chartered accountants. Already their encroachment in this field is visible in some places. To counter this development IVSB should also develop their own accounting standards related to valuation references only. IVSC draft should clearly demarcate areas of work and all professional bodies should follow it.

With IASB gaining widespread acceptance, IVSB will lag behind in terms of valuer acceptance. This will be a great blow to the valuer fraternity.

We want that the IVS should become the bible for valuers worldwide. It should be made very simple and easy to understand even for a beginner valuer. Everyone who pursues this profession anywhere in the world should be made to take guidance from it. At present, very few valuers are aware of the IVS.

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.*

Apart from these questions, we would like to highlight a few more issues on which asset/application standards would be welcome. There is a vast difference in the conditions in under developed, developing and developed countries. These individual differences need to be necessarily taken into account and guidance notes given accordingly.

1. The IVSC standards do not talk about standardization of the fee structure prescribed for valuers. Guidelines on fee structure of valuers should be more specific and should take into consideration country wise conditions.

I would like to give an example here. The IVS document was widely accepted by banks and financial institutions in India. They studied the document and took note of the two clauses from the code of ethics which say:

3.2.5 Fees must not depend on a predetermined outcome.

3.2.6 A Professional Valuer must disclose whether or not his or her fee is contingent upon any aspect of his or her report.

Based on these two clauses the bankers in India immediately restricted the valuation fee to a fixed amount which was as meager as US\$10 to \$ 20 per assignment in some institutions. And some others followed prevailing fee structure but put a ceiling of US\$ 100 as the upper limit.

This fee includes everything from inspection, to travelling, to lodging and boarding and stationery charges. (See

<http://valuersworld.com/newsite/forum/viewtopic.php?t=649&highlight=indian+oil+corporation>)

At times a valuer has to spend money out of his own pocket. Until now, the fee prescribed by Central Board of Direct Taxes, Ministry of Finance, Government of India, was being given to valuers.

Here the fee was directly proportional to the valuation amount and all the valuers were happy working accordingly although the fee structure was formulated way back in 1957 and remained unchanged until Jan 2009, (now the fee for a valuation amount of more than US \$ 100,000 is US \$ 100 for every US \$ 200,000).

With IVSC standards being selectively adopted by some financial institutions in India valuers have had to suffer. With the compensation being reduced to pathetically low levels most of the senior experienced valuers of the country left this profession and shifted to alternative professions.

Junior inexperienced valuers engaged by financial institutions on a meager fee were the main cause of banks reporting huge non performing assets (NPA) amounting to US \$160 billion in June 2010 in India. Therefore a guidance note is needed on valuers fee.

2. Licensing and regulation of valuation practices need to be clearly defined and means of adherence to these regulations should also be specified. A regulatory authority for ensuring the adherence and enforcement of code of ethics should be appointed in every country to oversee that everything happens according to the formulated code of ethics and valuation standards.

3. The IVS documents should throw light on some specific upcoming areas of valuation such as valuation of places of religious importance like temples, churches, mosques, holy shrines and mazars, (where bodies of saints are buried and these places have greater value attached to them as these cannot be replaced).

Especially in India, there are a number of such structures on private land which need to be demolished for the purpose of urban expansion & infrastructure development. These places have human sentiments attached to them and some are more than a century old. These structures have millions of devotees visiting them each day. They cannot be valued or compensated for at brick and mortar rate. Such building cannot be compared with buildings of historical or archeological importance. This area of valuation needs more guidance notes.

4. To make guidance notes/ supplementary more understandable and simpler even for a beginner there is need to add specimen examples with calculations on sample valuation cases by different methods. There are some important terms like Fair Value Measurement Standard, Investment Value, highest and best use etc. which should be clearly explained with examples.
