

3 September 2010

Mr Chris Thorne
Chairman
International Valuation Standards Board
41 Moorgate
LONDON EC2R 6PP
UNITED KINGDOM

Proposed International Valuation Standards

Dear Sir

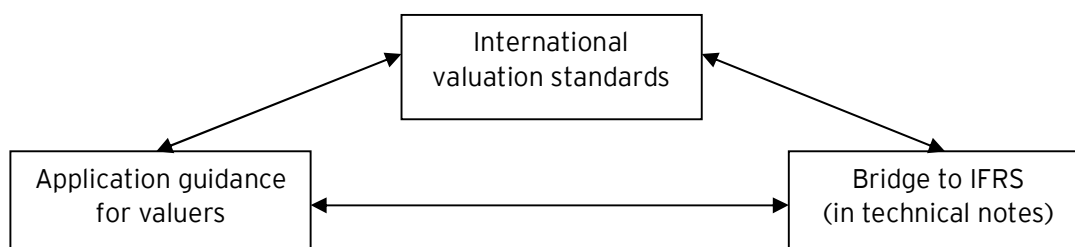
Thank you for the opportunity to comment on the Exposure Draft (“ED”) for new “International Valuation Standards” (IVS). This response is on behalf of the global Ernst & Young organisation which as well as providing accounting, audit and tax services, includes professionals who provide valuations of businesses, property, plant & equipment, financial instruments and intangible assets.

Ernst & Young is supportive of the IVS aim to identify concepts and principles that are applicable to all types of valuation in order to improve consistency, transparency and therefore confidence in the valuation process. As requested our attached response addresses the specific questions and then the individual standards.

Interaction with International Financial Reporting Standards (“IFRS”)

Overall, we are supportive of the International Valuation Standards Board’s (“IVSB”) intention to deal with valuations performed in accordance with IFRS. However, we believe the valuation standards deal with valuations generally, rather than specifically addressing valuations in accordance with IFRS. The scope of valuation standards should be sufficiently broad and robust to deal with any valuations that may be undertaken, whether or not they are in accordance with any accounting standards.

In our view, the obligation to bridge the gap between valuation standards and accounting standards lies with accounting standard setters. However, we would strongly support the joint development of bridging guidance or technical notes by the IVSB and accounting standard setters.



In developing such a bridge between valuation standards and application standards, we would strongly encourage the IVSB to provide valuers with detailed application guidance. We understand the IVSB intends to develop detailed technical guidance separately from its valuations standards. We strongly recommend the IVSB accelerates this process.

In our view, the inclusion of IFRS requirements within the body of the exposure draft creates a maintenance risk for the IVSB given the ongoing development of accounting standards. In addition, should the IVSB elect to retain IFRS-specific valuation guidance within valuation standards, without adequate cross-referencing to IFRS the summary guidance may be misleading. Therefore, we would:

- ▶ Discourage direct repetition of specific standards, including related guidance, in IFRS, interpretations, discussion papers, or exposure drafts issued by the IASB or the IFRS Interpretations Committee.
- ▶ Encourage cross-referencing to both standards and guidance provided by the IASB, preferably within bridging guidance or technical notes.
- ▶ Encourage the separation of any IFRS-related guidance from valuation standards generally.
- ▶ Encourage the IVSB to provide detailed application guidance for valuers on the methodologies its supports.
- ▶ Encourage the development of technical notes to bridge the differences between valuation standards and measurement requirements within IFRS, preferably developed in conjunction with the IASB.

Terminology

We strongly support the IVSB's intention to develop consistent valuation terminology globally. We understand that valuation terminology currently varies widely between countries.

We further support the IVSB's attempts in the exposure draft to cross reference IFRS terminology to the IVS equivalent. For example, the clarification by the IVSB that the fair value as defined by the IASB is distinct from the definition of fair value in general use by the IVSB is useful. However, where the same terms are used in both IFRS and IVS but with different meanings (for example, fair value) it will inevitably lead to confusion. Therefore, we would encourage:

- ▶ Convergence of terminology between IVS and IFRS, particularly to ensure that common terms have common meanings.
- ▶ Continued cross-referencing of terms used in IVS and their IFRS equivalent terms.
- ▶ Clear explanations of any differences between terms used in IVS and the IFRS meaning of the same terms.

In our view, terms that are derived from a valuation framework should be 'owned' by the IVSB globally and terms that are derived from an accounting framework should be 'owned' by accounting standard setters. Clear definition of the respective terms by both valuation and accounting standard setters is important in the convergence process. As with valuation and accounting standards generally, we strongly encourage the development of bridging terminology guidance. Joint development with accounting standard setters of terminology may be required to ensure greater consistency.

Valuation Reporting

To improve the quality of valuation reporting in relation to those performed for IFRS reporting purposes, we would strongly encourage:

- ▶ The existing requirement within IVS 105 to require clear disclosure of the scope of work. In our view, this requirement is critical to ensuring high quality valuation reporting.
- ▶ Including a requirement to disclose detailed information regarding the valuation methodology and assumptions applied.
- ▶ Including a requirement to state compliance with, or preparation in accordance with, the relevant bridging standards when stating compliance with international valuation standards, assuming bridging guidance is jointly developed by the IVSB and IASB (as discussed above).

Should you have any questions please contact me on +61 2 9248 4616.

Yours faithfully

A handwritten signature in black ink, appearing to read 'John E Gibson', with a long horizontal flourish extending to the right.

John E Gibson
Partner - Valuation and Business Modelling

GENERAL QUESTIONS

1. The proposed new edition of IVS follows the recommendations of the Critical Review that was commissioned by the old IVSB in 2007. Among the key recommendations of this review was that in future editions of the standards the term “International Valuation Standards” should apply to all pronouncements, not just to a limited number, and that all pronouncements should carry equal weight. In this draft the previous distinction between “standards”, “applications” and “guidance” in the titles of various documents has been removed. However, the Board recognises that standards still fall into different categories and has identified these as General Standards, Application Standards and Asset Standards, and grouped these together.

Do you find the new structure of the Standards to be logical and easy to follow? If not, what alternative would you propose?

While logical, the structure is not easy to follow with reference required to the general standards, as well as the application and asset standards. The structure of the application standards is confusing with multiple standards relating to financial reporting. We also find the numbering system of the application and asset standards confusing. The ability of professional organisations to adopt IVS will be significantly impaired until Technical Information Papers (“TIP”s) have been prepared to replace the guidance contained in the current standards. References should be made to the Code of Conduct where appropriate such as in the reporting requirements.

2. The Application Standards contain some information on the background to the valuation requirement and the Asset Standards information on the asset type in question and the characteristics affecting value. They also identify particular actions that should be taken in order to apply the principles in the General standards to the particular valuation purpose or when valuing the particular type of asset.

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?

As noted above we find the combination of general, application and assets standards complex. In particular the inclusion of a general application standard for International Financial Reporting Standards and then additional financial reporting application standards for depreciation, lease accounting, impairment testing and property, plant and equipment in the public sector. For these additional application standards in particular the dialogue is focused on repetition of accounting standards and does not adequately discuss valuation issues. Please refer to our comments on the interaction with IFRS and terminology in our covering letter.

3. It is currently proposed that the final version of the Standards will be published both in hard copy and be available for downloading from the IVSB website.

Which delivery method for the new edition of the standards are you or your organisation likely to use?

In keeping with the objective of a proper understanding by all stakeholders the standards should be available for reading and download from the IVSC website on a standard by standard basis. This also reflects the premise that individual standards may be updated or published from time to time. We would recommend that the online version includes a search engine for key words or standards similar to the Financial Accounting Standards Board ("FASB") website and other online publications and standards.

IVS 101- GENERAL CONCEPTS AND PRINCIPLES

4. This Standard is intended to explain fundamental concepts and principles that are referred to throughout the remainder of the standards to assist in their application. Some of the material has been carried forward from previous editions of IVS and some new concepts have been introduced, for example the discussions on market activity and market participants.

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?

Yes. Paragraph 21 should be cross referenced to IVS 104 Scope of Work, to require that where objectivity and independence are relevant to the valuation they are dealt with in the scope of work. Paragraph 22 should be cross referenced to the Code of Ethics for Professional Valuers.

5. As indicated in paragraph 4, the word *valuation* can be used with two distinct meanings. Where the word is used in the Exposure Draft the Board believes that it is generally clear from the context which sense is intended and has only added words to emphasise whether the reference is to the process of estimating value or to the valuation result itself where there is scope for ambiguity.

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 current approach is appropriate.

IVS 102- VALUATION APPROACHES

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

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.

Yes. The hierarchy of approaches and methods is useful for communication of the valuation process. Rather than stating that the three approaches encompass all methods we would prefer that the wording was amended to “... methods of valuation can be categorised into three general approaches”. We do not agree with the change from “market approach” to “direct market approach”. Market approach is already in broad use and a change in the term may lead to confusion with readers attempting to distinguish between the two terms. In addition, a number of the methods discussed under the “direct market approach” in the other standards would be more correctly described as indirect (refer to IVS 301.01 paragraphs 16-22).

We are concerned over the different descriptions of the cost approach in the different standards and the glossary. The description of the approach should be consistent with the adaptation to different applications or assets being done at the “methods” level. Our preference is for the description set out in IVS303.01 although it would need to be adapted to be generic as to the application and the type of asset being valued.

The hypothetical development approach, is commonly used in the valuation of development projects and used to identify the highest and best use of land. This approach to valuation is the basis upon which value is determined in draft IVSB 303.03 Valuations of Investment Property under Construction. Although in general use, we believe that this should be regarded as a method within the income approach.

Business valuers in some jurisdictions refer the Asset (Asset-Based) Approach, in general this is a summation of values which themselves have been determined with by a method which falls within one of the three general approaches.

7. Paragraph 6 of the draft sets out a proposed hierarchy of approaches which indicates that the direct market comparison approach is generally to be preferred where there are observable prices for similar assets available at the valuation date.

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.

Yes if restricted to identical assets (ie, publicly traded stocks). However, for similar assets, depending on the purpose and information available, there will be occasions where the income approach is preferred. The most suitable approach should be determined by the method in which the participants in the market determine value.

8. In the current edition of IVS, the term “Sales Comparison Approach” is used to describe the process of estimating value by comparison with the prices of identical or similar assets in the market. The Board received representations that this term was too restrictive as it seemed to preclude market evidence that was not related to an actual sale. Some advocate the use of the term “Market Approach”; however, others find this confusing as both the income and cost approaches can use market based inputs. The Board also received evidence that some believed that only a “market approach” could be validly used to determine market value. After deliberation the Board has proposed the term “Direct Market Comparison Approach” in this edition of the standards.

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

We find the change confusing. We believe that “Market Approach” would be a better term. This could then encompass a “Direct Market Comparison” method for identical assets and a “Market Comparison Method” for similar assets.

IVS103 - BASES OF VALUE

9. Basis of value is defined in the draft as a statement of the “fundamental measurement assumptions of a valuation”. In the current edition of IVS it defined as a statement of the “fundamental measurement principles of a valuation”. Supporters of the proposed change believe that the word “assumptions” is more precise. It is self evident that a basis of value is a principle but IVS needs to explain the nature of that principle. The bases of value defined in IVS all consist of a set of assumptions that define the underlying hypotheses on which the value is based. The fundamental assumptions within a defined basis can then be used in conjunction with additional assumptions or special assumptions as explained in IVS 103 and 104. . Others prefer to retain the use of the word “principles”, while some consider that a basis of value is more precisely described as a statement of the measurement objectives of a valuation.

Do you agree with the proposed change to the definition? If not indicate what alternative you prefer and why.

No - principles is a better term. Assumptions would apply to the going concern assumption or the assumptions with respect to growth rates, inflation or other valuation parameters.

We would encourage the IVSB to consider the term Fair Market Value to replace Market Value. While both terms are in general use in different jurisdictions the general meaning of market value implies an active market and a concept more aligned to price. The addition of the term fair, better reflects that in many circumstances the willing buyer and willing seller are hypothetical.

10. A change is proposed to the definition of Investment Value. The Board had received representations that some are confused by the distinction between Investment Value and Special Value in the current edition of IVS. The Board has proposed to amend the definition so that it only reflects the value to the owner, not the value to prospective purchasers. The rationale is that a prospective purchaser for whom an asset had value in excess of that to market participants generally could also be described as a special purchaser, which is separately defined. A reciprocal change is proposed to the definition of “special purchaser” to make it clear that it can include a single buyer with a special interest or a restricted class of buyers that can realise additional value not available to the market participants at large.

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?

The definition of Investment Value should be amended to reflect the entity specific value which may be to an owner, owner occupier or prospective purchaser. The Scope of Work and the Report should specify which one is considered.

11. The Board has considered alternative names to “Investment Value” for the basis of value that describes value to a particular entity. Alternatives suggested include “Entity Specific Value”, “Owner Value”, “Value to Owner”, or “Invested Value”. Critics of Investment Value consider that the term is insufficiently precise; although it is a measure of the value of the investment in an asset to a particular party, it can also be interpreted as being the sum required to buy an investment in the market. Others consider that the term is sufficiently broadly understood that any change would cause confusion.

Do you support the continued use of the term “Investment Value” or would you prefer an alternative? If so, what would that alternative be?

Yes, if amended as indicated in 10 above, otherwise we prefer the term Entity Specific Value.

12. In IVS highest and best use (HABU) is treated as an inherent feature of market value. This follows the economic theory that the price of an asset which is fully exposed to all potential buyers will sell for a price reflecting the most efficient or productive use of that asset. Other literature that has been published recently presents highest and best use as a separate concept from the price that would be paid in a hypothetical exchange between market participants.

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.

Yes, we believe that it is inherent but it needs to be discretely addressed in all market valuations. (eg, in a manufacturing facility you would have to disclose what the highest and best use is for the land, if it is not for manufacturing use).

13. In the existing IVS a clear distinction is made between fair value in general use and fair value as defined in IFRS. Some found this confusing since the definition of fair value in IVS was identical to that currently appearing in IAS16. Although the IASB is likely to change the definition of fair value in IFRS in its proposed new Fair Value Measurement Standard, in this draft the definition of fair value in general use has been changed to emphasise 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.

Fair value has different meanings in different jurisdictions and contexts for example financial reporting under IFRS. The IVS should highlight this and require the applicable definition of fair value and its source to be included in the Scope of Work and valuation Report. The addition of another definition of fair value is not helpful.

The clarification by the IVSB that the fair value as defined by the IASB is distinct from the definition of fair value in general use by the IVSB is useful. However, the difference in the definition of the term 'fair value' ultimately creates confusion for users. It would be difficult for users to comprehend the difference in fair value for the same asset. Wide variations in the fair value under each terminology only serve to raise doubts over the reliability of information disclosed under each definition.

We would encourage:

- ▶ Convergence of terminology between IVS and IFRS, particularly to ensure that common terms have common meanings;
- ▶ Continued cross-referencing of terms used in IVS and their IFRS equivalent terms.
- ▶ Clear explanations of any differences between terms used in IVS and the IFRS meaning of the same terms.

IVS 104 - SCOPE OF WORK

14. Previous editions of IVS did not have a standard relating to scope of work, although the need to record the valuation instruction in writing was included under the heading of "Code of Conduct". The Board considers that a more specific standard is required to detail the minimum acceptable scope of work. This reflects established best practice in many markets and provides the necessary foundation for the valuation process to begin.

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.

Yes, we do agree with the inclusion of a minimum standard for scope of work in IVS. The inclusion of such standard may improve the transparency of the valuation work. It is also in accordance with the general purpose/ concept of IVS, which is to promote consistency and aid the understanding of valuations of all types. We believe that the standard should also reflect the following:

- ▶ g) Extent of investigation - we think it is important to expand this section to include a description of who the practitioner is going to meet with and what information they are going to utilise in the valuation. The focus should be on explaining the extent of analysis/inspection of data obtained as well as making it clear what will not be done (eg audit the client data).
- ▶ h) Nature and source of information relied upon - We believe the first paragraph should be changed to "In the course of the valuation process, it will be necessary to rely on information provided by the client or third parties". We feel that this section needs to highlight exactly who is responsible for the data provided (eg company management). The Scope of Work should also include a standard caveat that practitioner is not responsible if information that is withheld or concealed from them or misrepresented.
- ▶ I) Description of report - change 2nd sentence to "If no or limited explanation of the approach used or other reasons are to be provided, this shall be recorded"

IVS 105- VALUATION REPORTING

15. This proposed standard is significantly less prescriptive than the equivalent standard IVS 3 in the current IVS. The proposed changes reflect the general recommendation of the Critical Review Group that the standards should contain less prescription and focus on principles. It also reflects the need to ensure that these standards can be applied to a wider sector of asset classes than previously.

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, however, the standard does not define a report. This may lead to issues surrounding the issuance of draft reports, internal reports for the use of one's employer, valuation schedules / calculations. The standard should also require the report to include:

- ▶ The definitions employed.
- ▶ A statement that the report has been prepared in accordance with the IVS.
- ▶ A description of the valuation calculations, explaining how the significant components of the valuation calculations were developed, the rationale for each component and the matters considered.
- ▶ An assertion whether or not the valuer is independent, objective and his / her fees are not contingent.
- ▶ A statement by the valuer indicating whether or not they have considered special purchasers.
- ▶ Sub paragraph 5 I) should be amended to disclosure and reasons for the approach(s) and method(s) used.

APPLICATION STANDARDS

16. The standards in the 200 series relate to valuations for specific purposes. They provide guidance on the background for the valuation requirement before setting out specific matters that should be reflected or considered when applying the principles in the General Standards. Some consider that the fundamental principles of valuation should remain unchanged regardless of the purpose for which it is being prepared and therefore these application standards are superfluous. Others consider that it is important that valuation standards highlight factors that could be relevant to determining the appropriate valuation hypothesis for different purposes, and to set down criteria to ensure that reports contain the appropriate information.

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?

We agree with the concept of the application standards but find the numbering and the inclusion of multiple application standards for financial reporting purposes confusing. There is too much background by means of replication of IFRS and not enough guidance in particular with respect to IVS 201.2 to 201.5.

17. The series 201.01 - 201.04 inclusive are all concerned with valuations under IFRS. With the exception of 201.01, which addresses the current IASB Fair Value project, the topics covered all appear in IVA 1 in the current edition of IVS, although in this draft the text has been updated and some additional detail included to address issues of particular relevance to the valuation task. 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 that will clearly set out the valuation criteria for all valuation measurements required under IFRS and if parallel valuation standards are produced in IVS these will have no relevance. Supporters of this view also argue 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. It is therefore important that the requirements under IFRS are properly related to wider valuation principles and practice through cross references in IVS. Supporters of this view also believe that limited references to IFRS are necessary to help those who are valuers rather than accounting experts understand the required criteria and assumptions so that appropriate valuations can be provided.

Which of these views do you support?

We are more aligned to View (b). However we note, consistent with valuations prepared for other specific purposes, the valuation needs to refer to and be prepared consistent with any specific requirements, in this instance with respect to IFRS.

In our view, some of the background information within the application standards replicates sections from the relevant standards in IFRS or current projects. This could be misleading without either the inclusion of, or adequate cross-referencing to, applicable implementation guidance and appendices within IFRS.

For example, the impairment section of the ED does not discuss the requirement to perform impairment testing on a pre-tax basis, nor does it specify the restrictions imposed by IAS 36 on value-in-use calculations. In addition, fair value less costs to sell is said to be consistent with a direct market comparison approach, which ignores the income approach and the difficulty of finding a direct market, particularly for cash-generating units.

Replicating existing standards in IFRS and those under development by the IASB could lead to increased maintenance obligations for the IVSB.

For example, the inclusion of guidance from the expert advisory panel on the measurement of financial instruments and the current proposals on fair value measurement would need to be updated when the financial instruments project and fair value measurement projects are completed.

In our view, the obligation to bridge the gap between valuation standards and accounting standards lies with accounting standard setters. However, we would strongly support the joint development of bridging guidance or technical notes by the IVSB and accounting standard setters.

In developing such a bridge between valuation standards and application standards, we would strongly encourage the IVSB to provide valuers with detailed application guidance. We understand the IVSB intends to develop detailed technical guidance separately from its valuations standards. We strongly recommend the IVSB accelerates this process.

In our view, the inclusion of IFRS requirements within the body of the exposure draft creates a maintenance risk for the IVSC given the ongoing development of accounting standards. In addition, should the IVSB elect to retain IFRS-specific valuation guidance within valuation standards, without adequate cross-referencing to IFRS the summary guidance may be misleading. Therefore, we would

- ▶ Discourage direct repetition of specific standards, including related guidance, in IFRS, interpretations, discussion papers, or exposure drafts issued by the IASB or the IFRS Interpretations Committee.
- ▶ Encourage cross-referencing to both standards and guidance provided by the IASB, preferably within bridging guidance or technical notes.
- ▶ Encourage the separation of any IFRS-related guidance from valuation standards generally.
- ▶ Encourage the IVSC to provide detailed application guidance for valuers on the methodologies its supports.
- ▶ Encourage the development of technical notes to bridge the differences between valuation standards and measurement requirements within IFRS, preferably developed in conjunction with the IASB.

IVS201.04, Paragraph 15, it is stated that "Fair value less costs to sell will normally be estimated using the direct market comparison approach." Actually, in practice, we see many valuers also use an income approach to estimate fair value less cost to sell, whereby market participant inputs are used.

ASSET STANDARDS

18. The proposed standards in the 300 series are all concerned with the application of the General Standards to specific asset types. Each standard contains some high level guidance as to the characteristics of each asset type that are relevant to value, a discussion on the principal valuation approaches and methods used and sets down specific matters that should be addressed in settling the scope of work or when reporting. Many of the asset classes included in this Exposure Draft are the subject of “Guidance Notes” in previous editions of IVS and much of the material has been drawn from these. Question 2 asked for your views on whether this combination of background information and specific directions was appropriate or whether you would prefer a clear separation.

Do you have any other comments on the general structure of the Asset Standards

The asset standards as drafted would appear to be more appropriately published as guidance notes which could then be more detailed. They contain mainly background information and the additional wording with respect to Scope of Work, Approaches or Reporting could be included under the general standards.

18. All the asset classes covered in Guidance Notes in the current edition of IVS are carried forward into this Exposure Draft. There are no equivalents for GN5 Personal Property, GN 10 Agricultural Property or GN14 Extractive Industries. Agricultural Property is to be included in the scope of a proposed new project on Biological Assets. A new project is also proposed on Extractive Industries. Personal Property has not been carried forward as the Board considered that the definition of what constitutes personal property in the current IVS is too widely drawn, with the result that much of the subject matter in the current GN5 is more specifically covered in other proposed standards.

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?

No.

The Board is proposing a project to produce a new standard on valuing non financial liabilities, i.e. liabilities that are not attached to a financial instrument.

Do you agree that a standard on valuing non financial liabilities is required and what topics should it cover?

If it is the Council’s intention to mirror all valuation requirements specified in IFRS with valuation standards in the IVS, we believe a standard dealing with the valuation of non financial liabilities would be appropriate.

As the current scope of the ED excludes employee benefits and actuarially determined valuations, we recommend limiting such a standard to the scope of IAS 37 (i.e. excluding IAS 19 and IFRS 4).

In addition, we recommend dealing with restoration provisions as part of the extractive activities project.

We refer to our general comments with respect to the interaction of the IVS and IFRS set out in our covering letter.

19. The Board would welcome suggestions for additional asset (and liability) types that are not already the subject of a proposed new standard or project.

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.

Valuation of the following is not addressed in the IVS.

Investment Properties (IAS 40), apart from those covered by the sections on leases and investments properties under construction - In our view, there should be a separate standard of the valuation of investment property. The valuation issue pertinent to investment property can be complex especially given the interplay with IAS 40.

Defined benefit plan assets (IAS 19) - The ED does not address fair value measurement of plan assets and reimbursements. We would encourage at least the inclusion of IAS 19 in the Annex to IVS 201.01 as an individual IFRS requiring fair value measurements and future development of a separate standard on this topic.

Share based payments (IFRS 2) - The ED does not address fair value measurement according to IFRS 2. We would encourage future development of a separate standard on this topic.

These matters should be addressed if the IVS are intended to cover all valuations that valuers may perform on behalf of IFRS-reporters.

We refer to our general comments with respect to the interaction of the IVS and IFRS set out in our covering letter.

ADDITIONAL GENERAL COMMENTS

For whose benefit are the IVS produced

We agree that the prime beneficiaries of the standards are those who rely on them. However, the standards are relevant to all stakeholders, valuation practitioners, clients, users and regulators, and will be referred to and relied upon by the practitioners more than the other stakeholders. While the IVSB is not a professional body and is without its own regulatory powers it should strive to publish standards that can be adopted by professional valuation bodies with as little amendment as possible. We agree that they should be widely available, robust and effective with greater awareness by all stakeholders.

Elimination of the Code of Ethics

While we agree that the Code of Ethics should be dealt with as a professional standard in some instances references should be made to it from within the valuations standards. This applies in particular to reporting requirements.

Reducing the Glossary

While we understand and agree with the concept and reasons for reducing the glossary we believe it has gone too far. The promotion of greater global consistency would be increased by the inclusion of more terms. We refer you to the International Glossary of Business Valuation Terms adopted by the American Institute of Certified Public Accountants, American Society of Appraisers, Canadian Institute of Chartered Business Valuators, National Association of Certified Valuation Analysts and the Institute of Business Appraisers.

Reducing Prescription

We agree that the standards should be principles based, setting high level requirement that are both applicable globally and that can be applied globally. We believe that greater clarity would be obtained if the requirements of the standard were in bold type. This would separate the requirements from the preamble and background text which is quite extensive in some of the proposed standards. This approach is less confrontational than the alternative to use "must" or "shall" repeatedly throughout the text.

Interaction with IFRS

It is important the ED addresses valuations performed in accordance with IFRS.

Valuers may not regularly use accounting standards. Therefore, we think it is appropriate for the valuation standards to provide an overview of the relevant IFRS requirements. However, the current approach to this in the ED is inconsistent. Some, like the impairment section, do not adequately address all the fundamentals. Others, like the financial instruments section, include requirements that are currently being debated by the IASB. Please refer to our comments on the interaction with IFRS in our covering letter.

Providing only an overview of the requirements without adequate reference to the full requirements and guidance in IFRS may result in non-compliant valuations being performed.

Replicating too much of the requirements in IFRS, particularly those that are still in process, creates a maintenance risk for the IVSB. Can the international valuation standards be kept up to date as IFRS changes?

Therefore, we would:

- ▶ Discourage direct repetition of specific standards, including related guidance, in IFRS, interpretations, discussion papers, or exposure drafts issued by the IASB or the IFRS Interpretations Committee.

- ▶ Encourage cross-referencing to both standards and guidance provided by the IASB within standards and interpretations.
- ▶ Encourage providing application guidance for valuers on the methodologies the IVSB supports to ensure IFRS-compliant valuations.
- ▶ Encourage distinguishing any implementation guidance that is applicable for financial reporting from those that are applicable for other purposes.

IVS 101 General Concepts and Principles

Page 11, IVS 101, paragraph 9: states that a valuation “has the objective of estimating a price in the market” and should not be “an adjusted or smoothed price based on a supposed restoration of equilibrium”. The distinction needs to be made between price and value, with the emphasis on the fact that one sale doesn’t necessarily make a market. The valuation should reflect the conditions in the relevant market on the valuation date, but may indeed in some circumstances need to reflect some smoothed price due to illiquidity in certain classes or types of assets.

Page 12, IVS 101, paragraph 14: does this contradict IVS 101, paragraphs 16 and 18?

IVS 102 Valuation Approaches

Page 16, IVS 102, paragraph 3: not just through a “capitalisation” process.

Page 16, IVS 102, paragraph 5: should be amended to say that “... a buyer will generally pay no more for an asset ...”.

Page 16, IVS 102, paragraph 5: definition on later page 100 provides a better definition of the cost approach. This is inconsistent with other definitions used throughout.

Page 17, IVS 102, paragraph 11: should be amended to say that “... by reference to an analysis of market based estimates of cost minus depreciation and obsolescence ...”

IVS 103 Bases of Value

Page 23, IVS 103, paragraph 11: market value, by analysing comparable sales of subject assets in the market, would generally reflect the buyers costs of purchase and taxes payable by the buyer as a result of the transaction.

Page 24, IVS 103, paragraphs 14 through 18: As noted above in response to question 13 we find another definition of fair value unhelpful.

IVS 104 Scope of Work

Page 29, IVS 104, paragraphs h) and i): it is quite often unclear during the scope stage what information will be relied upon, and what assumptions may be made as part of the valuation.

IVS 105 Valuation Reporting

Page 33, IVS 105, paragraph 5: what about valuation approaches and methodologies? Should the valuer be explaining to their audience i) the common valuation approaches available to the valuer in conducting a valuation, ii) the valuation approach selected and reasoning behind the selection, iii) the methodologies or applications used to apply that valuation approach?

IVS 201.01 Fair Value under International Financial Reporting Standards

To improve the quality of valuation reporting where valuations are performed for IFRS reporting purposes, we would encourage requirements to disclose within the valuation report:

- ▶ Which requirements or standards in IFRS the valuation complies with.
- ▶ Sufficient information regarding the valuation methodology and assumptions to enable clients to prepare their disclosures under IFRS.
- ▶ Clarification where terminology used is not consistent with clear explanations of any differences between terms used in IVS and the IFRS meaning of the same terms.
- ▶ Page 35, why does this section have to be reinvented? This is an accounting specific standard, not valuation specific. To the extent that the relevant accounting standards change, this immediately needs revision or potentially becomes redundant. Revert back to the purpose of the IVS.

IVS 201.02 Valuations for Depreciation

Page 42, IVS 201.02: Depreciation as described here relates to accounting depreciation, not valuation depreciation. What about physical depreciation, functional obsolescence, technological obsolescence and economic obsolescence and how this interacts in a valuation? Significant attention is needed for the redrafting of this standard.

Page 44, IVS 201.02, paragraphs 9 & 10: Reasonable commentary here.

IVS201.03 Valuations for Lease Accounting

Page 50, IVS 201.03, paragraph 21: confusion between a debt centric borrowing rate versus an all encompassing discount rate in determining the present value using the income approach here.

IVS 201.04 Valuations for Impairment Testing

IVS201.04, Paragraph 15, it is stated that "Fair value less costs to sell will normally be estimated using the direct market comparison approach." Actually, in practice, we see many valuers also use income approach to estimate fair value less cost to sell, whereby market participant inputs are used.

Recital of the standards, IAS 36, may lead to people not following the actual standards as laid out by the IAS, but relying upon something less current. Accordingly, we suggest this is a dangerous precedent. Particularly when summarizing the related accounting standards.

Terminology - we suggest there is a need to be consistent with IFRS and / of existing accounting guidance

Paragraph 9 states that the discount rate would reflect the return that market participants would expect for an investment similar to the asset being valued - is this consistent with a VIU examination? In our view this is more consistent with an income approach under fair value less cost to sell - perhaps this is a result of attempting to summarize the detail.

Paragraph 15 - FVLCS is normally estimated under a direct market comparison approach. This statement would appear to be more consistent with tangible asset appraisals rather than business valuations. Guidance should capture use of income approach under FVLCS.

The Pre-Tax / Post Tax issue is not discussed nor addressed. One significant issue is usually the reconciliation of the pre and post tax discount rates used in the analysis.

This section seems to ignore groups of CGU's for goodwill impairment.

IVS 201.05 Valuations of Property, Plant and Equipment in the Public Sector

Page 57, IVS 201.05: does this section have such a distinct differentiation from other valuations concepts so as to require its own section in the IVS? We believe that this and all other standards should be moved to Appendices.

IVS 202.01 Valuations of Property Interests for Secured Lending

Page 63, IVS 202.01: this sections needs to be reviewed careful as many lending institutions will have very specific requirements as to how a valuation is performed to meet their underwriting needs. Perhaps this section, as with other specific valuation sections (ie. accounting, public sector valuations, etc) could have more specific guidance around these sections which builds upon the overarching valuation standards that are set out earlier in the IVS.

IVS 301.01 Valuations of Businesses and Business Interests

We would encourage the IVSB to adopt or refer to as guidance the International Glossary of Business Valuation Terms¹ within this standard. We would also recommend that for those terms that the IVSB has defined in a different way to that in the International Glossary an attempt be made to achieve harmonization with the relevant professional bodies. (Cost Approach, Market Approach, Goodwill, Income Approach, Intangible Assets, Investment Value, (Fair) Market Value, Specialised Property (Special Interest Purchasers)).

Approaches should include the Asset (Based) Approach.

The reporting requirements should include an explanation of the rationale for using the going concern or liquidation basis.

IVS 301.02 Valuations of Intangible Assets

Tax Amortization Benefit (clause 43-44)

We suggest inclusion of the following:-

The fair value of an asset is to be determined on an individual basis, as if the item were the subject of an asset deal. This principle still applies if the asset is in fact acquired in a share deal. In an asset deal, the buyer may derive a tax benefit from the amortization it can charge. When using the income approach to determine an asset's fair value, the present value of this tax amortization benefit, if available to market participants in the relevant tax jurisdiction, should be taken into account irrespective of the actual nature of the transaction. In the determination of the applicable tax rate, the same conditions shall be considered that were taken into account in arriving at the cash flows. If the market approach is adopted it may be assumed that the benefit is already reflected in the market price.

IVS 302.01 Valuations of Plant and Equipment

Page 89, IVS 302.01: In summary, this section used somewhat broad terminology and needs to be significantly expanded and refined to consider plant and equipment valuation in a more detailed context. For example:

- ▶ what are the three approaches to value, how do they compare and contrast and what is the hierarchy for valuing capital equipment?
- ▶ what methodologies and applications are available to the valuer when valuing machinery and equipment using certain approaches?

¹ As agreed to by the American Institute of Certified Public Accountants, American Society of Appraisers, Canadian Institute of Chartered Business Valuators, National Association of Certified Valuation Analysts and The Institute of Business Appraisers.

- ▶ what is the difference between replacement cost new and reproduction cost, and what does each generally include?
- ▶ what is the test of adequate profitability when valuing capital equipment?
- ▶ how does leasehold property tenure affect the value of capital equipment in certain circumstances?
- ▶ how do each of the forms of depreciation (physical) and obsolescence (technological, functional and economic) impact on value and how are they measured?
- ▶ how do different types of valuation for different purposes (ie. finance, accounting, insurance, compensation, etc) compare and contrast having particular attention to key differences with each?

Page 89, IVS 302.01, paragraph 2: these definitions are somewhat vague and as a result misleading. These definitions will be more specific and will differ for each and every organisation.

Page 90, IVS 302.01, paragraph 3: factually incorrect on many fronts (ie. "normally capable", "without significant damage", "significantly shorter useful life", "title").

Page 90, IVS 302.01, paragraph 5: bullet point 2 depends on what premise. The wording falls significantly short of the considerations that apply in conducting a plant and equipment valuation (ie. location variations, age of the asset, maintenance history or overhaul, economic environment which the asset trades in, demand for the asset in the market, etc).

IVS 303.02 Valuations of Historic Property

This should not be included as a valuation standard. It is better suited to a technical information paper. The content is more of background and conversational and ends with the three valuation principles as set out in IVS 102, and is therefore repetitive.

IVS 303.01 Valuations of Property Interests Page 100, IVS 303.01, paragraphs 22 through 24: a reasonable definition of the cost approach but is inconsistent with other definitions used throughout. Could form the basis of a consistent definition for the entire IVS.

IVS 303.04 Valuations of Trade Related Property

Page 115, IVS 303.04, paragraph 3 should make it clear that the valuation of an "operational unit" is the valuation of a business. If the value of the real property is being determined with respect to the trading potential of the operating unit sufficient

IVS 304.01 Valuations of Financial Instruments

This standard includes considerable detail which we believe belongs as application guidance instead. In particular we note that several topics which have had elevated interest recently are dealt with such as own credit risk. However the coverage is not complete as other topics have not been included such as consistent basis in the valuation of interest rate instruments.

Paragraph 10

This appears to contain guidance which appears fairly specific yet for practitioners could be interpreted in a number of different ways. We believe it is too detailed for a standard such as this, yet lacks the depth required for useful guidance.

Paragraph 19

We disagree with the suggestion that dealers would necessarily want to influence values in one direction. It may be misleading to assume that this is the case.

Paragraph 30

We disagree and believe that the risk replication method can give an estimate of value and price which is no less reliable than the other methods discussed.

Paragraph 31-35

The inclusion of the discussion of control environments goes beyond what we would expect from this standard.

Glossary of Terms for the International Valuation Standards

Page 129, Glossary of terms: don't redefine definitions from accounting standards (ie. fair value), another inconsistent definition of the cost approach, somewhat limited in terms of terms (ie. a significant amount of terms come to mind for capital equipment alone in technical obsolescence, functional obsolescence, economic obsolescence, physical depreciation, reproduction cost, residual value, depreciation profile, replacement cost new, in situ, ex situ, etc).