



**The Institute of  
Chartered Accountants  
in Australia**

3 September 2010

International Valuation Standards Council  
41 Moorgate  
London EC2R6PP  
UNITED KINGDOM  
By email: [CommentLetters@ivsc.org](mailto:CommentLetters@ivsc.org)

Dear Sir/Madam,

### **Comments on Exposure Draft– Proposed New Valuation Standards**

Thank you for the opportunity for The Institute of Chartered Accountants in Australia ("The Institute") to provide comments on the IVSC exposure draft: Proposed New Valuation Standards.

Overall, The Institute supports the evolution of the standards related to the valuation profession encompassed by this exposure draft. Our main concern with the proposals is that we do not support including summaries of existing accounting standards within the valuation standards. Detailed comments on the exposure draft are set out in the Appendix to this letter. These were prepared by the Institute's Business Valuation Special Interest Group ("BVSIG"), a special interest group whose members are most affected by the exposure draft.

The Institute is Australia's premier accounting body, which represents over 50,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia through Australia and internationally.

The Institute is a founding member of the international accounting coalition called the Global Accounting Alliance (GAA), which provides reciprocal arrangements with ten of the other leading accounting bodies in the world. The Institute is the only Australian accounting body within the alliance. The GAA represents more than 778,000 members world-wide and includes professional accounting organisations from America, Canada, Hong Kong, England/Wales, Ireland, Scotland, Japan, Germany, New Zealand and South Africa.

In July 2005 the Institute established the Business Valuation Special Interest Group (BVSIG) for the benefit of the Institute, members and stakeholders, including regulators and the community. The BVSIG currently has over 900 members working in the field of business valuation. The key aim of this group is to provide standards in the area of business valuations. The BVSIG is represented in most states and nationally.

Should you have any questions in relation to the matters discussed in the attached document, please contact Richard Stewart, Chair, BVSIG on +61 2 8266 8839 or at [richard.j.stewart@au.pwc.com](mailto:richard.j.stewart@au.pwc.com)

Yours sincerely,

Lee White  
General Manager  
Leadership and Quality  
The Institute of Chartered Accountants in Australia

**Customer Service Centre**  
1300 137 322

#### **NSW**

33 Erskine Street  
Sydney NSW 2000  
GPO Box 9985  
Sydney NSW 2001  
**Phone** 61 2 9290 1344  
**Fax** 61 2 9262 1512

#### **ACT**

L10, 60 Marcus Clarke Street  
Canberra ACT 2601  
GPO Box 9985  
Canberra ACT 2601  
**Phone** 61 2 6122 6100  
**Fax** 61 2 6122 6122

#### **Qld**

L32, 345 Queen Street,  
Brisbane Qld 4000  
GPO Box 9985  
Brisbane Qld 4001  
**Phone** 61 7 3233 6500  
**Fax** 61 7 3233 6555

#### **SA / NT**

L11, 1 King William Street  
Adelaide SA 5000  
GPO Box 9985  
Adelaide SA 5001  
**Phone** 61 8 8113 5500  
**Fax** 61 8 8231 1982

#### **Vic / Tas**

L3, 600 Bourke Street  
Melbourne Vic 3000  
GPO Box 9985  
Melbourne Vic 3001  
**Phone** 61 3 9641 7400  
**Fax** 61 3 9670 3143

#### **WA**

Ground, 28 The Esplanade  
Perth WA 6000  
GPO Box 9985  
Perth WA 6848  
**Phone** 61 8 9420 0400  
**Fax** 61 8 9321 5141

## OVERALL OBSERVATIONS

The exposure draft (ED) summarises widely accepted aspects of valuation practice and provides definitions and background to valuation processes. In addition, there is considerable summarising of accounting standards.

We consider that the ED does not provide specific directions on controversial issues and does not require significant departures from current practice. Accordingly, it is our view that it is unlikely that the ED will attract significant adverse comment from practitioners.

However, we strongly recommend that précis of existing accounting standards is not necessary in these valuation standards and create the risk of differing bases of valuation should the accounting standards change in the future. As accounting regulation is frequently subject to change, a more appropriate approach would be to incorporate the relevant accounting standards by reference.

Further, we note that the introduction of the standards subject to the exposure draft seems unlikely to significantly reduce divergence in observed valuations.

In our view, to manage the expectations of users of the proposed standards, it may be useful to note that divergence in valuation opinions would be reasonably expected as they relate primarily to differing views of the future rather than differences in the valuation framework.

As noted in the overall observations, the standard sets out the methodologies available and how they should be applied. This still leaves a gap between the guidance in the accounting standard and the valuation standard in relation to “what methodology should be applied in a particular situation and for a particular asset”. We suggest that additional guidance be contemplated in this area, but that alternatives are presented rather than mandated approaches.

In many cases, intangible assets and other assets are valued for taxation purposes as well as for financial reporting purposes. In many cases, intangible assets are more narrowly defined in taxation legislation or common law than the accounting definitions. The standards should deal with the different definitions required depending on the context of the valuation.

We include our detailed comments below.

## RESPONSE TO 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 structure of the Standards is logically set out. We appreciate the avoidance of duplication by establishing definitions and guidance common to all valuations early in the standards.

### **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?**

Yes. By virtue of their nature, standards cannot consist wholly of specific directions to practitioners. However, it should be clear which element of the standards are which. Furthermore, specific directions should be distinguished in the text by the use of bold print.

We consider that the background information should incorporate by reference the relevant detailed standards issued by other professional bodies. In our view, it is not appropriate to issue standards at a less detailed level since valuers will always need to understand the primary standard in performing valuations. For example, IVS 201.01 and IVS 201.04 summarise aspects of certain accounting standards and the IASB Fair Value Measurement exposure draft (FVM). Given the potential for change in these standards and the risk of incorrect abridgement these summaries should be avoided.

We note that this does not exclude the opportunity – with the input of the relevant professional body – for the IVSC to issue “guidance” in relation to practical valuation issues arising in performing valuations under the primary standard.

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

It is likely that the majority of our members are likely to value access of the standards from the IVSC website far more than printed publications.

**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?**

Yes, in general this objective has been met. We note that the list of fundamental concepts and principles is fairly concise. Notwithstanding that, it covers several key concepts underlying valuations of all types.

We consider that the following matters could be also covered at the concept level (although they are primarily encountered in business valuations and are covered as such in IVS301.01):

- partial interests in assets or companies
- marketability issues
- valuation at a point in time and the relevance of hindsight

We also note that the inclusion of the paragraphs on independence and objectivity and competence in IVS 101 seems redundant with the issue of the ED on Ethics of Professional valuers.

Furthermore, the comments are more professional standards related rather than in the nature of valuation technical standards and would find a more sensible home in such professional standards.

**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, example “valuation process” or “valuation result”?**

Yes, the current use of the word “valuation” is acceptable.

## **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.**

Yes, we agree. Detailed or advanced valuation approaches (e.g. residual income, monte carlo modelling, real options) are all generally variations of the three major approaches. Accordingly, more detailed analysis of the various approaches would not add value.

**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.**

Yes, in general the hierarchy is helpful, but there are some significant practical challenges. For example, if the Direct Market Comparison Approach is defined as little iteration from an observed market price, it is agreed that it will likely be the most authoritative valuation approach. However, on many Business Valuation occasions in a Direct Market Comparison approach, adjustments may be made to reflect the absence of exact contemporaneous transactions, control (minority, size or other) premiums or discounts or liquidity and marketability differentials.

Accordingly, if the Direct Market Comparison Approach includes situations where there is application of significant iteration as implied by IVS301.01 (for example, as discussed above), it would not necessarily rank ahead of an income approach based on a DCF methodology, when performing a business valuation.

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

No. See the comments above in relation to the definition of the Direct Market Comparison Approach in relation to, at least, business valuations. There may also be concerns with this definition in other valuation areas. Accordingly, we are of the view that this definition requires further clarification and restriction.

**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?**

No. We believe this change does not add great clarity. We believe that the term “basis of value” is reasonably well understood and the proposed definition is not much clearer. An alternative may be that the basis of value “is a statement of the value measure appropriate to the particular circumstance of a valuation”

Further, we have included here some comments in relation to the fair value definition.

The definition of FV in the Glossary in the ED is ‘... the estimated price for the transfer of an asset or liability between identified and knowledgeable and willing parties that properly reflects the respective interests of those parties.’

The definition of fair value in the IASB's ED ED/2009/5 *Fair Value Measurement* is ‘the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.’

We do not believe it is appropriate for, nor is it the role of, the IVSC to define fair value. Valuations are undertaken for a variety of purposes and it is too difficult to develop a definition that can be used in all contexts. However if the IVSC wanted to keep its definition - it should be revisited to align with the definition used for IFRS purposes to help minimise confusion with their intended meaning. We consider that the wording from paragraph 5.2 of the current version of IV GN No. 1 *Real Property Valuation* should be incorporated into IVS 103. This says:

‘Where a type of value other than Market Value is the purpose of the valuation, the Valuer shall apply the appropriate definition of value and shall follow IVS 2 (or now new IVS 103) and applicable GNs. It is the responsibility of the valuer to avoid potential misunderstandings or misapplications of the valuation estimate in situations where a value other than Market Value is the purpose of the assignment. Proper disclosures, identification and definition of terms, and stated limitations on the applicability of the valuation and Valuation Report normally ensure compliance’.

In paragraph 20, further expansion and debate is worthwhile in relation to the minimum number of specific buyers that can constitute a “special purchaser (group)”. Paragraph 20 implies that this definition can apply to a “class” of buyers. This is contrary to the business valuation general practice among business valuers where only one special buyer is normally excluded in the consideration of fair market value.

**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 realize that special value to be?**

Yes, we agree that the distinction between special value in the hands of an assets current holder and special value in the hands of one particular buyer is appropriate and not controversial.

**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?**

No, we prefer alternatives. This is a term that already has numerous potential connotations and therefore potentially confusing. Of the stated alternatives, Entity Specific Value appears to be the most accurate representation of what in fact is applied by Valuers in practice.

**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?**

We agree. In our view, highest and best use is consistent with market value. It is also consistent with the approach adopted in the FVM.

**13. Do you consider this proposed change in the definition to be helpful? If not, please indicate how you believe it could be improved.**

Yes. This is a helpful change. Until the terminology in the FVM is amended, this clarification is necessary.

**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.**

No, we do not agree that the scope of work should be covered in valuation standards. This is a matter that might ultimately be covered in a professional standard covering the conduct of those undertaking valuations.

**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.**

Again, we do not agree with the changes that have been made and are of the view that this would be more properly dealt with in a professional standard rather than technical standard.

**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?**

Looking – for example - at the value concepts of Value in Use under (IAS 36) and depreciated replacement cost (under IPSAS 21), it is apparent that valuers are often required to prepare valuations that fall outside the General Concepts and Principles in IVS 101. There is a need for valuers to gain a full understanding of the detailed requirements of the accounting or other governing standards.

A concern with IVS201.01 to IVS 201.05 is that they primarily seek to summarise accounting standards and use different language to the accounting standards. This potentially leads to situations where a valuer might perform work based on the summarised information in these Application

Standards rather than refer back to the full detail of accounting standard to understand the full context of the valuation requirements. We therefore strongly suggest that IVS201.01 to IVS201.05 (in their current form) are deleted.

This does not exclude the possibility that the IVSC – with the appropriate input of the IASB or IPSAS – might issue “guidance” in relation to practical valuation issues arising in performing valuations under a standard. For example, based on general practice among valuers, there is an apparent need for guidance by the IASB or IVSC to clarify the references in IAS36 to pre tax cash flows and pre tax discount rates so that there is a clear understanding of appropriate practice.

By way of contrast, IVS202.01 (which also potentially relates to value concepts outside IVS 101) covers an area of application where no other external standard is in place. Hence this is an area where a valuer would look first to the IVSC to provide standards to a level such that compliance with the IVSC standard would denote application of appropriate principles.

#### **17. Which of these views do you support?**

Based on the comments above, we believe text summarising IFRSs should be removed (View A)

### **ASSET STANDARDS**

#### **18. Do you have any other comments on the general structure of the Asset Standards?**

The Standards include useful “high level guidance” and “discussion” but relatively little specific direction and hence are less in the nature of standards and more guidance notes. Accordingly, given the nature of the content this should remain as guidance.

#### **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?**

This is a consideration that seldom emerges in a business valuation context, so we have no comment.

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

It is necessary for Valuers to be familiar with accounting standards in this area. In terms of most likely topics, there is in our view scope for or guidance to be developed in relation to:

- valuing earn out clauses and contingent liabilities in acquisitions under IFRS3
- evaluating mine rehabilitation and environmental liabilities

#### **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.**

None noted at this stage.