

International Valuation Standards Board
41 Moorgate
London
EC2R 6PP

3 September 2010

Dear Sirs

Re: Exposure Draft of Proposed New International Valuation Standards

We are responding to your invitation to comment on the above exposure draft on behalf of PricewaterhouseCoopers.

Following consultation with several members of the PricewaterhouseCoopers network of firms, this response summarises their views. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

PricewaterhouseCoopers appreciates the International Valuation Standards Board's (IVSB) efforts in this process and welcomes the opportunity to provide comments on the Exposure Draft.

We agree that there is a need for high quality standards governing the preparation of valuations and particularly fair value estimates for financial reporting purposes. Setting standards that are principles-based is consistent with the approach applied by the IASB but we believe there is also a need to provide sufficient guidance to promote consistency.

The introduction to the Exposure Draft outlines five objectives in paragraph 3 that the proposed new International Valuation Standards (IVS) are designed to achieve and we believe these are good objectives for the proposed new IVS to meet. We have concerns that certain of these objectives are not sufficiently met by the Exposure Draft. In particular, the aspects set-out under 3c) relating to 'solutions for the major purposes for which valuations are required' and then under 3d) 'the identification of specific issues that require consideration when valuing different types of assets or liabilities' are two objectives that we believe are not fully met by the new proposed IVS as currently drafted

Whilst we understand that the aim of the proposed new IVS is to provide a framework around the subject of valuation, there is a danger that the lack of specific guidance and the high-level nature of the proposed new IVS will not help promote consistency in practice. The overall structure of the IVS is logical and generally clear but the Application Standards (200 Series) and the Asset Standards (300 Series) are broad in nature and only provide solutions and identify specific issues to a limited extent.

The Application Standards (the majority of which relate to valuations for financial reporting) are largely a summary of International Financial Reporting Standards and there is limited specific guidance on performing valuations consistent with those standards.

We would also recommend that the Application Standards refer to the relevant IFRSs rather than try to summarise them, as this will reduce the need to change the IVS's when IFRS's are updated or amended. As an example, IVS 201.03 'Valuations for Lease Accounting' will be impacted following the intended revision to lease accounting by the IASB.

Valuation for financial reporting is a specialised area of valuation that requires a deep understanding of relevant accounting literature together with relevant valuation principles. In preparing standards that are relevant for financial reporting, there is a responsibility to the capital markets and users of financial accounts. We believe that any valuation standards relating to financial reporting should be consistent with the principles and guidance contained in the relevant accounting literature and where possible should look to advance the thinking on key issues. This is an area of valuation where different jurisdictions or local legislation will not typically impact the purpose or scope of valuation and there should be an aim of trying to provide guidance that will help provide global consistency when preparers/valuers seek to apply the principles set out in the accounting standards.

In respect of valuations for financial reporting, we believe the IVSC should consider having a separate dedicated group that consider valuations standards in this context and their interaction with accounting standards as it is an area that presents unique challenges, different from valuations for other purposes. This separate group could also be the IVSC's interface with the accounting boards and have responsibility for interacting with the accounting standard setters to help ensure that the relevant valuation standards provide more guidance, definitions and interpretations in a manner that is consistent with the intention of the relevant accounting standard setters.

Whilst the new structure of the proposed IVS is generally clear and it is useful to have General Standards providing definitions etc, we believe the IVSB should consider further the type and level of guidance that is currently provided by the Application and Asset Standards.

It is unclear what process the IVSB will now follow to debate the comments received on the Exposure Draft but we would stress the need for the process to be both robust and transparent. Similar to the way in which accounting standard setters issue standards, there needs to be clear reasoning behind the conclusions reached in the Exposure Draft, for example in a 'Basis of Conclusions'. We would be happy to participate fully in any round-table discussions that the Board may decide to hold to discuss the comments received on the Exposure Draft.

Our detailed comments on the Board's questions are set-out in Appendix A to this letter and we offer some additional comments on the proposed new standards which were not covered by those questions in Appendix B.

If you have any questions on the content of this letter, please do not hesitate to contact Andreas Mackenstedt, PwC Global Valuations Leader (+49 69 9585 5704), Peter Clokey, UK Valuations partner (+44 20 7804 5557) or John Hitchins, PwC Global Chief Accountant (+44 20 7804 2497).

Yours faithfully,



PricewaterhouseCoopers LLP

Appendix A – answers to specific questions

GENERAL QUESTIONS

1. The proposed new edition of IVS follows the recommendations of the Critical Review that was commissioned by the old IVSC 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?

The new structure is in general logical and easy to follow. The need to establish early on (i.e. in the General Standards), definitions and guidance that are common to all valuations avoids duplication of content in individual application and asset standards.

There is certainly merit in distinguishing between General Standards and Application or Asset Standards which should look to provide specific direction and guidance for a particular valuation purpose or type of asset that is being valued.

We do see a need for additional guidance and comment on this in our answer below (Q2).

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?

Some repetition of background and explanatory information in the Asset Standards is helpful so as to make them more stand alone, for a reader interested in the particular asset class. However, inclusion of background information should be kept to a minimum and the standards should focus on valuation methods and specific issues that may exist in relation to the valuation of a particular asset or liability.

Providing some background information in the Application Standards may not be appropriate where they represent abridged summaries of more detailed standards issued by other professional bodies. In particular, IVS 201.01 and IVS 201.04 summarise aspects of certain accounting standards and the IASB Fair Value Measurement exposure draft (FVM). Where definitive standards issued by other professional bodies are already in place (or will be in place), it is not appropriate to issue standards at a less detailed level since valuers will always need to understand those other standards when performing valuations. 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, say, an accounting standard. If guidance is issued in the form of, say, technical papers, which we understand may be a process implemented by the IVSC to provide further guidance in addition to the standards, it will be important to make clear to users how the guidance should be applied relative to the proposed standards. There may otherwise be a potential conflict with the recommendation of the Critical Review as outlined in Question 1 that “all pronouncements should carry equal weight”.

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 IVSC website.

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

Our organisation is likely to use both electronic copies downloaded from the website and hard copies for reference.

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?

We consider that the objective has only partially been met. The standard (IVS 101) discusses "market value" which is the most typical required basis of value. However, valuations are performed for other purposes with other measurement objectives that are defined elsewhere in the standards. We believe these should be discussed within this standard.

In general, we agree with the establishment of a "framework" explaining important concepts and principles. Nevertheless the IVSB should also consider matching the definitions of specific terms with the corresponding IFRS statements, e.g. by integrating the IASB's definition of the most advantageous market into the corresponding IVS 101 (General Concepts and Principles), paragraph 8. Having different definitions for the same term in accounting standards, the IVS and potentially other legislation (e.g. tax legislation sometimes refers to fair market value) is likely to cause confusion and leave room for different interpretations in practice.

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"?

We are in agreement with the approach used as the meaning is generally clear depending on the context.

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.

We agree that the methodologies used to value assets and liabilities can generally be classified into one of the three basic approaches listed in the proposed Standard.

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.

As a general principle, we note that the valuation purpose will typically determine the basis of value and that this, along with availability and the quality of valuation inputs, will then determine the appropriate valuation approaches.

The hierarchy in the Exposure Draft is appropriate if the basis (objective) of the valuation is a market-based measure. However for other value objectives such as investment value the hierarchy may not be relevant and the IVS should note this.

We suggest that reference is made in the IVS to the IASB's proposed Fair Value Measurement Standard (when issued) which provides further guidance on the hierarchy.

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 believe it would be useful to harmonise terms that are used globally in the context of valuations but recognise there are challenges with doing so given that various bodies around the world use different terms (e.g. certain tax authorities also use fair market value). We do not believe that introducing a new term is the answer though and note that the IASB's Exposure Draft on Fair Value Measurement uses the term "Market Approach"

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.

We believe that the term "basis of value" is reasonably well understood. In our opinion, the proposed definition does not add clarity.

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?

We do not agree with the proposed change. Investment value is from the perspective of a specific person and can be either the owner of an asset or a potential acquirer. It is what the person perceives will be the value of something to them i.e. the expected benefits arising from the asset. It is not necessarily an amount at which two parties would exchange.

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?

We support the continued use of the terms "Investment Value" as it is a term that is typically understood and we do not believe there is a reason to change the definition.

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.

We agree with the approach taken that highest and best use is consistent with market value. Given that the IVS are also intended to be relevant for valuations under IFRS, where appropriate IVS definitions should always be in line with the IASB's fair value definitions.

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.

We agree with the inclusion of a reference to "fair value as defined in IFRS" and that this definition will be further clarified by the IASB when the Fair Value Measurement standard is issued.

There are numerous definitions of fair value as set by various bodies. We do not believe that it is possible to have one definition of “fair value in general use” as this is not the case and will potentially cause confusion in different jurisdictions. We believe it should be highlighted that whenever fair value is used without explicit reference to an accounting standard that its meaning can be quite different depending on the purpose and/or jurisdiction.

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.

- a) We believe that any guidance on scope of work should be covered by the International Valuation Professional Board (IVPB) as opposed to being covered in the IVS. We disagree with including a standard scope of work in IVS as variations in scope may be appropriate for different types of valuations engagements or be dependent on local legal, tax or other regulatory requirements.
- b) See answer to a) above.

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.

We would agree with a principles based approach in respect of guidance on the content of a valuation report and that there is no need to be too specific. However, consistent with our response to Q14, we believe that any specific guidance on valuation reporting may be more appropriately covered by the IVPB.

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 support the view that the valuation purpose determines the appropriate valuation basis and valuation approaches. As noted in our letter, the application standards are broad in nature and for the most part simply summarise accounting standards.

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 exists. This is an area where a valuer may look first to the IVS to provide guidance to a level such that compliance with the relevant IVS would denote application of appropriate principles.

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?

Of the two views outlined above, we would support View (a), since IVSC guidance might potentially conflict with guidance provided in IFRS (e.g. in the Appendices or Basis of Conclusions). However, as outlined in our letter, we would recommend that the Application Standards refer to the relevant IFRSs where appropriate.

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 Standards include useful 'high level guidance' and make broad observations but provide relatively little specific direction.

We would note in the context of IVS301.02 that the definition of intangible assets is wholly aligned to accounting standards. The IVS should note that intangible assets are valued for a variety of purposes including, for example, tax purposes and may have different definitions or recognition criteria for those purposes.

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?

We believe that there is no other class of “personal property” that is not already covered by the proposed new Asset Standards. Asset class standards are conceptually useful as there is a need for relevant guidance unique to particular assets/liabilities. However, we do think there is a need for the Board to reconsider the level of guidance provided by the proposed Asset Standards.

We would also recommend the Board consider amendments to the naming of certain individual Asset Standards to make separate reference to valuing liabilities such as debt, valuing provisions etc.

19. 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?

There is certainly a need for such guidance in valuations for financial reporting purposes and there may be a need for other purposes. This is an area where the accounting boards will most likely provide further guidance and it is important that the IVS do not contradict this guidance as to do so would cause confusion.

20. 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.

We believe that the proposed new IVS cover a sufficient number of assets (and liabilities) and that the focus should be on ensuring that the proposed standards include guidance that provides more direction.

Appendix B – Additional Comments

The inclusion of the paragraphs on independence, objectivity and competence in IVS 101 does not seem to fit with the suggested purpose of the standard. The comments are valid but might better be included in separate professional standards

In IVS 103, with respect to the definition of “fair value”, consideration should be given to the different definitions of “fair value” that exist in IFRS and also outside of use in financial reporting where it is sometimes defined in a legal context with the aim of being equitable to two parties.

IVS 103 - One similar term that has common usage in some property related valuations is “deprival value” and it would be useful to provide comment on how that concept relates to investment value.