



September 2, 2010

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Via email to: [ivsc@ivsc.org](mailto:ivsc@ivsc.org)

RE: Exposure Draft of Proposed New International Valuation Standards

Thank you for the opportunity of providing comments on the Exposure Draft of the Proposed New International Valuation Standards.

We have provided responses to the 21 questions posed in the accompanying Overview and Questions for Respondents. Because of the length and breadth of the Exposure Draft, it has been possible to provide comments only at a high level. Any set of standards must also be vetted in great detail. This has not yet been possible. We look forward to future opportunities of approaching the proposed standards in more detail.

In the following response, we have repeated the questions and then provided our responses. For purposes of this response, we have used the terms "appraisal" and "valuation" interchangeably. We have also used the terms "appraiser" and "valuer" interchangeably.

Questions for Respondents:

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

There are General Concepts and Principles (IVS 101-105), Application Standards (IVS 201-202), and Asset Standards (IVS 300 Series). There is also a glossary.

Structurally, it would seem to make more sense to have definitions outside the standards and in the glossary. The International Glossary of Business Valuation Terms is a source of accepted

definitions for many key valuation terms. We recommend that this source be considered in the proposed standards (see attached).

The Applications Standards are actually purposes of valuation. IVS 202.01 is titled “Fair Value under International Financial Reporting Standards.” The broad category should be Valuation for International Financial Reporting. This broad category would include Business Combinations and other Fresh Start Measurements, Impairment, Lease Accounting, Share-Based Compensation Accounting, and Mark-to-Market Accounting as appropriate subheadings. Then Depreciation, Lease Accounting and Impairment Testing, as in the Proposed Standards, would fit into these categories. Public Sector Valuation, Secured Lending Valuation, Tax-Related Valuation, and Valuation Related to Dispute Resolution are the relevant major categories.

See the response to Question 16 where we recommend that the Application Standards be eliminated and replaced with the General Standards addressing real property, personal property and businesses (businesses, business ownership interests, securities and intangible assets).

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?

We believe that standards should be declarative, succinct and straightforward. Any additional information should be separate from the standard and emphasized for readers. See, for example, the *Uniform Standards of Professional Appraisal Practice* (“USPAP”), where standards are stated specifically and succinctly, and Comments elaborate on the standards (having the full force of standards). Additional interpretive guidance can be provided in separate statements, separate from standards themselves, or in Technical Information Papers as described in Paragraph 15 of the Introduction to the proposed IVS.

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

Paperbound copies may be appropriate in certain circumstances, but electronic distribution is generally preferable. Easy access to the standards on an international basis will encourage adoption and application of the standards. We note that previous versions of the IVS should remain available in electronic form for purposes of comparison and applicability at different points in time.

4. [IVS 101 General Concepts and Principles]. 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.

a. Do you consider that this objective has been met?

The valuer needs to understand the purpose of the valuation, and the applicable standard of value, and must apply the appropriate valuation approaches and methods. Much of IVS 101 relates to a discussion that effectively pertains only to fair value for financial reporting purposes. It does not provide general guidance for valuation under other standards of value. IVS 101 attempts to present one interpretation of markets that is not necessarily universally accepted. This interpretation should not be characterized as a standard.

b. Do you consider that there are any additional valuation concepts and principles that should be considered and discussed in this standard?

IVS 101 should first capture and define more terms used throughout this ninth edition. We also respectfully suggest the IVSC take a positive step towards the convergence objective described in the Introduction, with a decision to adopt the International Glossary of Business Valuation Terms (IGBVT) in its Glossary of Terms for the International Valuation Standards. The following professional societies and organizations incorporate IGBVT in their professional standards:

- i. American Institute of Certified Public Accountants
- ii. American Society of Appraisers
- iii. National Association of Certified Valuation Analysts
- iv. The Canadian Institute of Chartered Business Valuators
- v. The Institute of Business Appraisers

5. [IVS 101 General Concepts and Principles.] 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 emphasize 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”?

Our experience with developing valuation standards suggests that precision is always preferred over contextual inferences. Thus, the use of precise terms will better inform users of valuations about distinctions in valuation meanings they encounter. Users of valuations should not be forced to guess what is really meant when a valuer uses the same term when discussing appraisal development, appraisal results, the appraiser’s opinion of value, and the appraisal report. We suggest that the IVSB adopt the use of qualifying words to clarify intended meanings.

6. [IVS 102- Valuation Approaches.] 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.

There are three universally-accepted valuation approaches: the market approach, the income approach and the cost approach. All valuation methods fall under at least one of these approaches.

The introduction of the Direct Market Comparison Approach, rather than using the broader term, the Market Approach, would be confusing to readers and users. Use of the broader term, the Market Approach, is, in our opinion, absolutely necessary if the objective of convergence of valuation standards is to be achieved.

IVS 102 mischaracterizes the income capitalization method for any asset having a growing income stream. The confusion lies in the distinction between a discount rate and a capitalization rate. Similarly, the application of the income approach to value liabilities is also mischaracterized

through the omission of reference to an appropriate market yield to discount the cash flows required to service the subject liability.

Description of the cost approach is incomplete by including only depreciated replacement cost. Reference should also be made to the existence of other adjustments to cost if a single reference to adjustments is also to be included. Further, depreciated replacement cost, discussed in Paragraph 5 and defined in the Glossary, is defined in terms of “modern equivalent,” which is not a defined term.

7. [IVS 102 - Valuation Approaches]. 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.

USPAP directs appraisers to exercise professional judgment and decide the approach or approaches they will consider in an appraisal assignment in accordance with USPAP’s Scope of Work Rule.

We agree with this general principle. To the extent that other requirements particular to a regulatory body (i.e., IFRS or U.S. Federal tax) specify a hierarchical approach, then this may be appropriate. Discussion in IVS 102 of the approach hierarchy is inaccurate when the reader is left with the impression that a hierarchical path is always proscribed.

8. [IVS 102- Valuation Approaches.] 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.

The proposed change in terminology represents a departure from commonly used valuation terms. The International Glossary of Business Valuation Terms clearly defines the Market (Market-Based) Approach, as “A general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities or intangible assets that have been sold.” The International Glossary clearly defines Guideline Public Company Method as: A method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business, and that are actively traded on a free and open market. It defines Merger and Acquisition Method as: A method within the market approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. The IVSB should incorporate the International Glossary of Business Valuation Terms in IVS. Five of the world’s leading valuation societies have vetted this glossary and its valuation terms, and incorporated them in practice.

9. [IVS103 - Bases of Value.] 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.

The term used by most valuers/appraisers is standard of value. Standard of value is defined in the International Glossary as: “The identification of the type of value being used in a specific engagement; e.g., fair market value, fair value, investment value.” This term is in use by valuers/appraisers around the world. The IVSC’s stated goal of convergence would seem to call for use of the term, standard of 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?

Investment value is a standard of value as are like fair market value and fair value. (In Canada, the term used is "Value to the Owner"). Investment value is defined in IGBVT as "value to a particular investor based on individual investment requirements and expectations". The concept of investment value extends beyond a single buyer or prospective purchaser to include value to a particular investor who may currently own the subject of an appraisal. Thus an owner's investment value may depart from a prospective buyer's investment value. We respectfully suggest that IVSB adopt IGBVT's definition of the term Investment Value.

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

We support use of the term, 'Investment Value', as defined in IGBVT.

12. [IVS103 - Bases of Value.] 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.

USPAP Standard Rule 1-3(b) and comment states, "When necessary for credible assignment results in developing a market value opinion, an appraiser must develop an opinion of the highest and best use of the real estate", and "An appraiser must analyze the relevant legal, physical and economic factors to the extent necessary to support the appraiser's highest and best use conclusion(s)." Thus, value of farm land situated in a newly re-zoned area in the path of real estate development will have a range of values reflecting differing HABUs depending on which type of commercial real estate it eventually is converted, based on relevant legal, physical and economic factors in effect on the appraisal date.

The phrase, 'highest and best use', does not normally appear in business valuation assignments.

13. [IVS103 - Bases of Value.] 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 emphasize the distinction from the usage of the term in IFRS.

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

We believe that the user of valuation services will benefit from a distinction between “Fair Value for IFRS purposes” and “fair value for general appraisal purposes”. “Fair value” includes the concept of ‘special value’ and thus draws an important distinction from ‘market value’. Fair Value for IFRS will differ and may well be different in the future. The staff’s draft of the proposed IFRS Standard on Fair Value is available. The definition of fair value therein conforms with ASC 820. Please refer to <http://www.iasb.org> for the source draft document.

14. [IVS 104 - SCOPE OF WORK.] 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.

IVS should include a Scope of Work standard. However, a comprehensive definition of scope of work relates to the complete *development* of appraisal assignment results. We recommend that the IVSC compares IVS 104 with the Scope of Work Rule and Standards 1, 7 and 9 of USPAP to assure completeness and conformity.

15. [IVS 105- VALUATION REPORTING.] 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.

IVS 105 should include a provision for oral reports as well as signed appraiser certifications. It also should require a separate statement of limiting conditions in the assignment. An additional requirement that substantive matters affecting the opinion of value should be addressed in the report. IVS 105 should also include a requirement for report clarity and accuracy of disclosure. Again, we recommend that the IVSC review Standards 2, 8 and 10 of USPAP to assure completeness and conformity.

16. [APPLICATION STANDARDS] 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?

We support the elimination of the standards in the 200 series. If appropriate, specific guidance could be provided in Technical Information Papers, and then updated over time when appropriate.

17. [APPLICATION STANDARDS] 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.

Please refer to our answer to Question 16.

18. ASSET STANDARDS. 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 definitions should be moved to the Glossary. The definition of en bloc value appears incomplete and is confusing.

In the first sentence of Paragraph 9 of IVS 301.01, it would be appropriate to add “in the context of the financial position and expectations for future performance of the enterprise (or the interest).”

There is no discussion of the application of valuation discounts or premiums in the appraisal process. Please consider reviewing BVS VII Valuation Discounts and Premiums, ASA Business Valuation Standards, as an example for treatment of these important issues.

The income approach (IVS 301.01, Paragraphs 23-29) is too detailed and prescriptive. For example, consider the list of potential adjustments in Paragraph 29, which is lengthy and, by

definition, incomplete. This form of guidance is not appropriate for treatment in standards, but rather in Technical Information Papers or other appropriate communications.

Refer also to the comments to Question 8 above, where we comment on the Direct Market Comparison Approach. These comments apply to IVS 301.01 and every other standard in which the use of this term appears.

There are three broad categories of assets: real property, personal property, and businesses (businesses, business ownership interests, securities and intangible assets). The IVSB should consider a broad standard for each of the broad categories. Additional guidance should be remanded to Technical Information Papers or other appropriate communications. This response applies to the latter questions regarding Asset Standards, as well.

19. **ASSET STANDARDS.** 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?

See the comments above.

20. ASSET STANDARDS. 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?

The term, non-financial liabilities (assets), is unclear and should be defined or clarified.  
See the comments above.

21. ASSET STANDARDS. 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.

The goal is to have broad, principles-based standards. Detailed guidance should be remanded to Technical Information Papers or other appropriate guidance.

There are at least two issues not addressed in the Exposure Draft that should be considered in the next Exposure Draft:

1. There is no concept or definition of different types or levels of valuation engagements. For example, in the ASA Business Valuation Standards, there are three types of engagements: appraisals, limited appraisals and calculations.
2. There is no standard for appraisal review in the Exposure Draft. The IVSC should review Standard 3 of USPAP when considering an appropriate review standard for the IVS.

We recommend that there be at least one, and preferably two, additional exposure periods for the proposed standards. We look forward to participating in the process as the IVS continue to evolve with subsequent drafts.

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We thank you for this opportunity to comment on your Exposure Draft of Proposed New International Valuation Standards.

Sincerely,



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