

## EXPOSURE DRAFT

### PROPOSED NEW INTERNATIONAL VALUATION STANDARDS

#### AUSTRALIAN PROPERTY INSTITUTE RESPONSE

##### QUESTIONS FOR RESPONDENTS

The International Valuation Standards Board invites responses to the following questions. Not all questions need to be answered but to assist analysis of responses received please use the question numbers in this paper to indicate to which question your comments relate.

Additional comments are also welcome. Please clearly identify the IVS number, title and relevant paragraph number to which your comment relates.

##### 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 structure of the Standards is drafted in a format to cover all users and stakeholders. It is impossible to comment on what else is required as there is very little information available on the number and content of the Technical Information Papers which it would appear will address issues more specifically for the professional valuer.**
- **The manner in which the IVS is proposed to be “rolled-out” makes it impossible for those organizations, who had adopted the 2007 version, to adopt the proposed IVS until sometime in the future.**

- **In the timeframe adopted by the IVSC you will have a situation where countries continue to adopt the existing standards until greater clarity from the IVSC. This is not considered a satisfactory scenario.**

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?**

- **Yes, however there is too much background and not enough guidance.**
- **The 300 series should be addressed as particular “Technical Guidance Notes” separate from the Standards. Please note it is believed “Technical Information Papers” should be termed “Technical Guidance Notes” as use of the word “Guidance” is already well recognized and gives greater weight to the intent and content of the Notes.**
- **An alternative for the 300 series is to split some into the Standards (IVS 301.01, 301.02, 302.01, 303.01 and 304.01) whilst adopting the balance (IVS 303.02, 303.03 and 303.04) as Technical Guidance Notes.**

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?**

- **The final version should be available in hardcopy and be able to be downloaded from the IVSC website.**
- **The download proposal should be as a “Total Document” as well as “Individual Standards”.**
- **With respect to the “Individual Standards”, each should contain a Preamble.**
- **The download version should be free to all users and regulators alike.**
- **The hardcopy version to be subject to a purchase price.**

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. Whilst the section is introduced with the principles of cost, price and value, there is some concern that Items 5 to 14 are too narrow in the concept to the extent that the emphasis needed on the existence of a market is clouded when envisaging market value.**

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”?**

- **Yes, we are in agreement with the approach.**

## **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.**

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. However, depending on the purpose and information available, there will be occasions when the market comparison approach is not the preferred approach. The emphasis should be that the valuation is based on comparable evidence and it is essential that the application to the subject property is completed in precisely the same manner as the analysis of the comparable evidence.**

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.**

- **The use of the word “Direct” is not considered appropriate as it implies an exact comparison which is misleading.**
- **The term “Market Comparison Approach” is considered a more acceptable term.**

## **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 – the existing definition should stand because “assumptions” is considered less precise and the distinction between “assumptions” and “principles” is important.**

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.**
- **There is a need to define when and how the definition should be used.**

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?**

- **No – as indicated in the response to Question 10 above the appropriate definition is 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.**

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.**

- **No – the document could be improved by not including such in it. Guidance to alternative forms of fair value may be appropriate. The term fair value, outside of financial reporting, can have a number of meanings. There is a need to clarify the definition when used.**

#### **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) Yes.**
- **(b) Possibly too prescriptive, depending on the type of asset.**
- **Minimum Standards should also include a Statement of Independence in the Terms of Engagement.**

#### **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 – subject to further changes including Statement of Independence.**

## **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?**

- **IVS should contain application standards, however, it is suggested the document has too much background and not enough guidance.**
- **There is a need other purposes in the standards including:**
  - **Insurance**
  - **Rating & Taxing**
  - **Compulsory Acquisition**
  - **Feasibility Studies**

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?**

- **View (c). Background comments appropriate, however, the IVS should not replicate the IASB, rather refer back to source documents.**
- **With respect to Financial Reporting there is a need to review IVS 201.01-04 with intent of creating a single application standard for financial reporting (too much repetition in current proposal).**

## **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**

- **See the response to Question 2.**

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?**

- **Yes. Some subsets of “personal property” – for example, Fine Arts as a Technical document.**

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?**

- **A Technical Guidance Note is required rather than a Standard.**

- **Topics covered to include:**

- **make good at end of term**
- **legislative**
- **environmental**

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.**

- **There is a need to be aware of what else is proposed before deciding whether it should be a Standard or Technical Guidance Note.**