



raad onroerende zaken

International Valuation Standards Board
41 Moorgate
London EC2R 6PP
United Kingdom

The Hague, 6 September 2010
10.0031/AH/NP

Re: : IVSB Exposure Draft

Dear Sir / Madam,

We have studied the Exposure Draft and are impressed by the work that has been done. You herewith receive our comments on the proposed Standards, which have been contributed to also by Prof. dr. Tom M. Berkhout, my partner in trying to implement IVS throughout the country and Director of the Tax Authority Real Estate Knowledge Centre.

Kind regards,
Real Estate Council

Prof. dr. A.C. Hordijk MRICS
director

LEDEN

AEDES
Vereniging van Woningcorporaties

IVBN
Vereniging van Institutionele
Beleggers in Vastgoed, Nederland

KNB
Koninklijke Notariële
Beroepsorganisatie

NVM
Nederlandse Vereniging
van Makelaars n.g. en
vastgoeddeskundigen NVA

NEPROM
Vereniging van Nederlandse
Projectontwikkeling Maatschappijen

NVB
Vereniging voor Ontwikkelaars en
Bouwondernemers

Vastgoed Belang
Vereniging van Particuliere
Beleggers in Vastgoed

VGO
Vereniging Bemiddeling
Onroerend Goed

VEH
Vereniging Eigen Huis

WE Belang
Belangenorganisatie voor
Appartementseigenaren

RVT
Vereniging van Register Vastgoed
Taxateurs

COMMENT FROM ROZ REAL ESTATE COUNCIL NETHERLANDS

EXPOSURE DRAFT PROPOSED NEW INTERNATIONAL VALUATION STANDARDS

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.

FOREWORD FROM THE NETHERLANDS

First of all we would like to express our appreciation for all the work which has been done by the International Valuation Standards Board. The restructuring of the previous IVS has probably been an intensive task, which needed a lot of thinking. However, despite all that we have major concerns about the IVS drifting away to much from the guidance role for practitioners in their day to day work. We regret especially the removal of a number of guidance notes like the one for Mass Appraisal fro Property Taxation. We tried hard to implement that guidance note in our country, have convinced the Netherlands Council for Real Estate Assessment to adopt the translated guidance note and they did in their official regulations. You can imagine that it was an embarrassment not only for them but also for us to find out that the Mass appraisal guidance note didn't appear in the new Standards. It is all very well to design a new structure, but to remove existing ones without a good reason is dangerous for the reliability of the IVSB and will frustrate implementation of the IVS.

We will organize our comments by question and relevant chapter of the Exposure Draft in italic and will end with some remarks.

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 recognizes 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?**

Yes, the new structure is in principle logical and easy to follow, but we strongly suggest to add the existing guidance notes in so far not being covered by the "300" asset standards for the time being as a separate "400" series.

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, we consider it helpful but in addition, we still think that more detailed guidance notes will be necessary and helpful for practitioners.

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?

We prefer both delivery methods.

IVS 101- GENERAL CONCEPTS AND PRINCIPLES

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

Do you consider that this objective has been met? Do you consider that there are any additional valuation concepts and principles that should be considered and discussed in this standard?

Yes, we think the objective has been met.

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 this approach

ADDITIONAL REMARKS ON THIS CHAPTER

Page 11 point 9 : valuation date is written in italic, does that mean that it will refer to the definition and if so should that not be made clear in the foreword of the IVS ?

Page 12 point 12 : we agree that not only forced sales will be market evidence, but in a falling market the influence of those sales will be significant, also as evidence for “normal” transactions. What is the intention of this paragraph, just a remark or guidance ?

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.

For real estate valuations we agree. We find it hard to understand what a cost approach will be in the case of a liability.

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.

Essential question, especially considering the DCF income approach for multi tenant buildings, will a valuer really receive the information of for instance lease structures from other multitenant buildings in detail to make sure that he will not compare apples to oranges in using the sales comparison approach? Direct sales comparison will work for home owner/occupier houses but in the case of the income generating real estate not in all cases. We suggest to make a remark about the use of the hierarchy under those circumstances.

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 found "Sales Comparison Approach" clear enough, it is also a common definition for ages and embedded in all books and study material at Universities, High Schools and any other education by professional organization . Why to go through all kind of difficulties and probably misunderstandings, couldn't it be solved by amending the definition ?

ADDITIONAL REMARKS ON THIS CHAPTER

Page 16 point 5 : we think that more explanation might be necessary, in just a few sentences various applications of the cost approach are given. The statement that a buyer will not pay more than the cost to construct a modern equivalent is questionable : the time element might play a crucial role, if the buyer needs it now and have to wait two years for the new building, he might pay even more for an office which is immediately available. We suggest to expand this paragraph a bit more.

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 prefer "principles" because it is much stronger than "assumptions". Bases of value need to be as strong as possible.

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 still think that a distinction between investment value and special value is necessary. Investment value in the case of a pension fund might mean that because of Asset Liability Management reasons the investment value will be determined by a long holding period. That will not be necessarily the case for Special Value.

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 do support the continued use of the term "Investment 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.

We agree with the approach taken in IVS.

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.

The clear distinction should stay in, especially now when the IASB definition of Fair Value is heavily under consideration and most likely will be changed.

ADDITIONAL REMARKS ON THIS CHAPTER

Page 24 point 15 : fair value as defined by IFRS equal to market value ? According to the RICS report that is only true for IAS 40 and not for other IAS standards or are we out of date ?

Page 26 point 27 : forced sale, sometimes banks will mix up forced sale and the many years ago determined liquidation value at the date of valuation as given by the valuer. Is there any place within the standards where we could make this difference clear? Very important in a falling market.

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.

We agree with the inclusion of a standard for scope of work in IVS. In addition we would like to draw the attention from the Board to the chances of Fraud with valuations. It seems to be that already some lists with items about preventing fraud are already existent. Might be important to refer to major dangers of fraud by "red flags" at the scope of work as well as in the disclosures.

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 agree with the changes, but a similar addition as under IVS 104 related to possible fraud chances.

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 consider that IVS should contain application standards, the level of detail is sufficient, but should probably supported by technical notes if more details are necessary.

ADDITIONAL REMARKS ON THIS CHAPTER.

*Page 36 point 5 ; we **strongly** disagree on the last sentence that for practical purposes market value under IVS will meet fair value under IFRS. Talking about a simplification, it is not at all true and might therefore be a highly misleading statement. Suggestion : remove!*

Page 53 point 3 (e) ; also assets arising from construction contracts might have a value which is too high and should be impaired.

Page 53 point 3 (h) ; also assets held for sale might have a value which is too high and should be impaired.

17. The series 201.01 - 201.04 inclusive are all concerned with valuations under IFRS. With the exception of 201.01, which addresses the current IASB Fair Value project, the topics covered all appear in IVA 1 in the current edition of IVS, although in this draft the text has been updated and some additional detail included to address issues of particular relevance to the valuation task. There are opposing views as to the extent and how IVS should address valuation issues under IFRS.

View (a) is that IVS should not refer to valuations under IFRS at all because the IASB is in the process of producing its own fair value standard that will clearly set out the valuation criteria for all valuation measurements required under IFRS and if parallel valuation standards are produced in IVS these will have no relevance. Supporters of this view also argue that limited references to the accounting requirements under IFRS can be misleading and lead to misinterpretation.

View (b) is that valuation measurements under IFRS are intended to reflect market reality and are not a special type of valuation reserved for financial statements. It is therefore important that the requirements under IFRS are properly related to wider valuation principles and practice through cross references in IVS. Supporters of this view also believe that limited references to IFRS are necessary to help those who are valuers rather than accounting experts understand the required criteria and assumptions so that appropriate valuations can be provided.

Which of these views do you support?

We support view (a).

ADDITIONAL REMARKS ON THIS CHAPTER

It is questionable if a standard on depreciation is necessary, because it doesn't relate to market value. However, in relation to business valuation it might make sense.

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

No comment other than that it might be necessary to add technical (guidance) notes in some cases.

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

Do you consider that a class of "personal property" can be identified that is not already covered by the proposed new asset standards? If so, do you consider that it has distinct characteristics that need to be considered in valuations that would benefit from a new IVS asset standard being developed?

No specific ideas about this issue.

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?

Our concern is that IVS is drifting away more and more from Real Estate. Our priority would be to have all real estate standards in place first.

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.

As mentioned above we strongly suggest to take up the guidance note on Mass Appraisal again. We also noted that 4 guidance notes (50%) don't have direct relationship to real estate. We regret that out of the high number of very practical real estate related guidance notes in IVS 2005, only about half of it remained. Highly valuable guidance notes about valuation review, hazardous and toxic, discounted cash flow, with highly practical implications don't show up in the asset standards. Coming back on my earlier remark, we should not create confusion or less service by removing well functioning guidance notes. A suggestion about a new guidance note is about preventing and recognizing fraud.

ADDITIONAL REMARKS ON THIS CHAPTER

Page 96 point 8 : market rent, contract without compulsion ? Seems odd.

Page 98 point 15 ; we very much like the list of requirements necessary for market evidence, very useful.

Page 105 point 14 : not always will market rent be applied. Sometimes an (in)direct subsidy will be added to the contract rent. Quite often specific users like museums will become tenant at much lower rents

Page 106 point 15 : cost approach, but the cost approach should use the reproduction costs

Page 118 : valuations of financial instruments : a very special form of valuation, we doubt if the current practitioners as represented by their national organizations at IVSC will be able to produce those.
