

EXPOSURE DRAFT OF PROPOSED INTERNATIONAL VALUATION GUIDANCE NOTE – REVIEWING VALUATIONS

Comments to be received by 31 December 2002

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Exposure Draft of Proposed International Valuation Guidance Note

Reviewing Valuations

1.0 Introduction

1.1 Because of the need to ensure the accuracy, appropriateness and quality of valuation reports, valuation reviews have become an integral part of professional practice. In a valuation review, the correctness, consistency, reasonableness, and completeness of the valuation are considered.

1.1.1 A review valuation may call for input from experts with specialist knowledge of ancillary fields.

1.1.2 A review valuation provides a credibility check on the valuation under review, with focus upon:

1.1.2.1 the apparent adequacy and relevance of the data used,

1.1.2.2 the appropriateness of the methods and techniques employed,

1.1.2.3 whether the analysis, opinions and conclusions are appropriate and reasonable, and

1.1.2.4 whether the overall product presented meets or exceeds Generally Accepted Valuation Principles (GAVP).

1.2 Valuations reviews are performed for a variety of reasons, including:

1.2.1 due diligence required of financial reporting and asset management;

1.2.2 expert testimony in legal proceedings and circumstances;

1.2.3 determination of whether a report complies with regulatory requirements, where

1.2.3.1 valuations are used as part of the mortgage lending process, especially mortgages insured or regulated by the government;

1.2.3.2 it is necessary to test whether Valuers have meet regulatory standards and requirements within their jurisdiction.

2.0 Scope

2.1 The requirements in this Guidance Note apply to the development and reporting of valuation reviews.

2.2 Compliance with this Guidance is incumbent upon any Valuer, who within a supervisory or managerial capacity signs a valuation review, thereby accepting responsibility for the contents of that review.

3.0 Definitions

- 3.1 *Valuation review.* A valuation assignment that covers a range of types and purposes. The principal characteristic all valuation reviews have in common is that one Valuer exercises impartial judgment in considering the work of another Valuer. A valuation review may support the same value conclusion in the valuation under review, or it may result in disagreement with that value conclusion. Valuation reviews provide a credibility check on the valuation as well as a check on the work of the Valuer who developed it, as regards the Valuer's knowledge, experience and independence.

In some states, a valuation review may also designate an update done by a Valuer of the same valuation firm, which carried out the original valuation.

Valuation organisations around the world distinguish between various types of reviews, e.g., *administrative (compliance) reviews*, *technical reviews*, *desk reviews*, *field reviews*, reviews to ensure that a valuation has been carried out *in accordance with professional standards* (where the bases of valuation used in the valuation under review are accepted), reviews that muster general market information *to support or contest the value conclusion*, and reviews that *examine the specific data in the valuation under review with comparable data from a sample group*.

- 3.2 *Administrative (compliance review) review.* A valuation review performed by a client or user of valuation services as an exercise in due diligence when the valuation is to be used for purposes of decision-making, such as underwriting, purchasing, or selling the property. A Valuer may, on occasion, perform an administrative review to assist a client with these functions. An administrative review is also undertaken to ensure that a valuation meets or exceeds the compliance requirements or guidelines of the specific market, and at a minimum conforms to Generally Accepted Valuation Principles (GAVP).
- 3.3 *Technical review.* A valuation review performed by a Valuer to form an opinion as to whether the analyses, opinions, and conclusions in the report under review are appropriate, reasonable, and supportable.
- 3.4 *Desk review.* A valuation review that is limited to the data presented in the report, which may or may not be independently confirmed. Generally performed using a checklist of items. The reviewer checks for the accuracy of calculations, the reasonableness of data, the appropriateness of methodology, and compliance with client guidelines, regulatory requirements, and professional standards. See also Field Review.
- 3.5 *Field review.* A valuation review that includes inspection of the exterior and sometimes the interior of the subject property and possibly inspection of the comparable properties to confirm the data provided in the report. Generally performed using a checklist, which covers the items examined in a desk review and may also include confirmation of market data, research to gather additional data, and verification of the software used in preparing the report. See also Desk Review.
- 3.6 *Auditor's Report.* A written statement that describes the scope of the audit investigation, summarises the findings, and expresses the auditor's opinion as to

the accuracy of the financial statement in setting forth the company's financial position over a specified period.

4.0 Relationship to Accounting Standards

- 4.1 The relationship between accounting standards and valuation practice is discussed in the Introduction to IVS 2003.

5.0 Guidance

5.1 In developing a valuation review, the Review Valuer must:

- 5.1.1 **identify the client and intended users of the Valuation Review, the intended use of the Review Valuer's opinions and conclusions, and the purpose of the assignment;**
- 5.1.2 **identify the subject property, the date of the Valuation Review, the property and ownership interest valued in the report under review, the date of the report under review and the effective date of the opinion in the report under review, and the Valuer(s) that completed the report under review;**
- 5.1.3 **identify the scope of the review process to be performed;**
- 5.1.4 **identify all assumptions and limiting conditions in the Valuation Review;**
- 5.1.5 **develop an opinion as to the completeness of the report under review within the scope of work applicable to the assignment;**
- 5.1.6 **develop an opinion as to the apparent adequacy and relevance of the data and any adjustments;**
- 5.1.7 **develop an opinion as to the appropriateness of the methods and techniques used and develop the reasons for agreement or any disagreement with the report under review; and**
- 5.1.8 **develop an opinion as to whether the analyses, opinions, and conclusions in the work under review are appropriate, reasonable, and supportable.**

5.2 In reporting the results of a valuation review, the Review Valuer must:

- 5.2.1 **state the identity of the client and intended users; the intended use of the assignment results; and the purpose of the assignment;**
- 5.2.2 **state the information that must be identified in accordance with paragraphs 5.1.1-5.1.4 above;**
- 5.2.3 **state the nature, extent, and detail of the review process undertaken;**
- 5.2.4 **state the opinions, reasons, and conclusions required in paragraphs 5.1.5-5.1.8 above;**
- 5.2.5 **indicate whether all known pertinent information is included;**
- 5.2.6 **include a signed certification in the review report.**

5.3 The Review Valuer should not consider events affecting the property or market subsequent to a valuation, but only information that was readily available in the market at the time of the valuation.

5.4 Reasons for agreement or disagreement with the conclusions of a valuation report should be fully explained by the Review Valuer.

5.4.1 Where the Review Valuer agrees with the conclusions of a valuation report, reasons for such agreement should be fully explained and disclosed.

5.4.2 Where the Review Valuer does not agree with the conclusions of a valuation report, the reasons for such disagreement should be fully explained and disclosed

5.5 A valuation review may require input from experts with specialist knowledge of construction costs, property income, legal and tax matters, or environmental problems.

6.0 Effective Date

6.1 This International Valuation Guidance note became effective (date).