

## **STATEMENT BY THE IVSC STANDARDS BOARD**

This statement was approved for publication by the IVSC Standards Board at its meeting on 25 October 2008 in anticipation of the handover of its functions to the new International Valuation Standards Board (IVSB). The purpose of the Statement is to advise the new Board of the status of current projects being progressed by the outgoing Board, and to make recommendations as to future projects. These recommendations reflect projects that are either being held over from the existing agenda or that have been identified by current stakeholders. The Board hopes this statement will be helpful in smoothing the transition of business from the existing Board to the new IVSB. This statement supersedes a similar statement made following the previous meeting of the Board in May 2008 to reflect progress and events that have occurred in since that meeting.

### **CURRENT PROJECTS**

#### **Valuation of Intangible Assets:**

Subject to certain amendments that were discussed at its meeting in October 2008 the Board approved working drafts for two new Guidance Notes, a revised GN 4 dealing with Intangible Asset valuation generally, and a new GN16 on the Valuation of Intangible assets under IFRS. The incoming Board will be invited to review these with a view to publishing Exposure Drafts by the end of November 2008.

#### **Advisory Sub Groups:**

In order to support the work of the new IVSB, specialist sub groups will be needed. It is envisaged that there will need to be standing sub groups to advise on valuation issues arising within the major asset classes, eg intangibles, real estate and financial instruments, and project groups appointed to deal with specific self contained tasks. Individuals with the appropriate skills suitable for populating these sub groups are invited to register their interest with IVSC so that the new Board has a list of candidates from which it can formalize appointments as and when required.

#### **Valuation of investment property in the course of development**

IVSC has received a request from the European Public Real Estate Association (EPRA) to develop guidance on the valuation of investment property under construction. This follows concern at diversity in valuation practice following the pronouncement by IASB in early 2008 that such properties should be accounted for under IAS 40 instead of under IAS 16 with effect from January 2009. The Board has considered principles developed by EPRA, and agrees that these appear to form an acceptable basis for proceeding with the development of

guidance. It is recommended that the new Board approve an initial position statement in readiness for 1 January, followed by an Exposure Draft of a new GN as soon as possible.

## **RECOMMENDED NEW PROJECTS**

### **Critical Review of IVS:**

**Issue:** In 2006 the IVSC formed a “critical review” group to undertake a comprehensive review of the existing International Valuation Standards. The group considered the format of an ‘ideal’ set of international valuation standards and reviewed the current standards against that ideal. Following public exposure of its draft report, the group made a number of recommendations for the redrafting of the current standards. These included:

- Clearly defining what constitutes a standard and then restructuring content to improve distinction between Standards and Guidance. This may involve removal of some material from the current book that does not meet the revised criteria for inclusion.
- Reviewing the standards and where necessary rewriting them so that they are “principles based”, and avoiding the use of instructive language.
- Reviewing text to remove the historic real estate bias of generic material that should be applicable to valuations of all asset classes.
- Reviewing text to avoid excessive repetition and to eliminate some potential contradictions that have arisen through piecemeal development of current standards.

### **Recommendation:**

That the new Board should implement the recommendations of the Critical Review Group in the development of future standards.

### **Review “Due Process” procedures for future development of IVS:**

**Issue:** The current IVSC Standards Board has gradually evolved procedures for the development and review of new standards, but these are not formalized in any constitution or directive from the Management Board.

**Recommendation:** It is recommended that the new Board should consider the appropriate procedures for the development of new standards, revision of existing material and for making minor changes and clarifications as an early priority, and submit these to the Board of Trustees.

### **Extractive Industries:**

**Issue:** An expert group appointed by the outgoing Board has produced GN 14 in the current IVS and also produced further information for inclusion in a Technical Paper. Some criticism has been received that these documents focus almost entirely on the identification of mineral reserves with no guidance being given on demand side considerations.

**Recommendation:** It is recommended that the new Board appoint a new expert sub group to review the current guidance and bring forward recommendations for improvements.

### **Developing guidance on valuation in illiquid markets:**

**Issue:** The “credit crunch” of 2007-2008 has exposed difficulties in establishing values when markets become inactive. A number of international organizations have produced reports including:

- the “Joint Forum”, a consortium of the Basel Committee, IOSCO, and IAIS, – paper on *Credit Risk Transfer (CRT): Developments from 2005 to 2007*;
- the *Interim Report of the Institute of International Finance Committee on Market Best Practices*;
- the Financial Stability Forum (FSF), *Report on Enhancing Market and Institutional Resilience* to the G7 Ministers and Central Bank Governors.

The FSF report called for international standard setters to enhance accounting, disclosure and audit guidance for valuations. The IASB has responded by producing a paper prepared by an expert group “Measuring and Disclosing the Fair Value of Financial Instruments in Markets that are no Longer Active”.

**Recommendation:** It is recommended that the new Board establish a multidisciplinary group to consider the difficulties arising from the need to produce valuations in inactive markets, consider solutions and to make recommendations as to any amendments that may be required to current IVS or additional guidance that may be required.

### **Liaison with Accounting Standard Setters**

**Issue:** The IASB has a continuing project on developing a standard for “fair value” measurements under IFRS. The FASB has produced a Standard, FAS 157, designed principally for the valuation of financial instruments, but this is giving rise to a number of implementation questions. IVSC is a participant in the FASB “Valuation Resource Group” advising on issue arising under FAS 157, and has also been invited to work with the IASB on various aspects of its continuing project. Most recently, IFAC has indicated that it wishes to co-operate with IVSC in the development of any material relevant to valuation in the public sector or audit standards that it publishes. There is also a need to reach a clear

understanding as to where accounting guidance ends and valuation guidance begins, and vice versa.

**Recommendation:** It is recommended that the new Board continues to seek and maintain dialogues with IASB, IFAC and FASB to help ensure that future accounting standards are clear as to the valuation requirements and that suitable valuation standards and guidance are developed to meet these requirements.

#### **Valuation of Liabilities:**

**Issue:** There is currently little guidance relevant to the measurement of liabilities, either for financial reporting or for other purposes. Both financial and non-financial liabilities fall to be valued under IFRS. The IASB has requested that the IVSC provide further guidance on the valuation of non-financial liabilities, for example asset retirement obligations, environmental cleanup or performance obligations.

**Recommendation:** It is recommended that a multidisciplinary group be formed to explore the problems associated with valuing liabilities, the diversity of practice that exists and bringing forward recommendations for new guidance.

#### **Valuation of Forestry**

**Issue:** Forestry is a major asset class worldwide but no recognized international standards have been produced for the valuation of commercial woodlands. Various nationally based standards have been produced but it is believed that there is diversity in practice.

**Recommendation:** It is recommended that an expert group be established to investigate the standards that exist and then bring forward recommendations for developing international guidance.

#### **Sustainability and Environment**

**Issue:** There is increasing awareness of users and consumers of the direct and indirect environmental consequences of the use or disposal of different types of asset. In some markets this is beginning to have an observable impact on the decision making of market participants and on asset pricing. Related topics are the development of hypotheses for the valuation of intangible environmental benefits, eg the value of land enjoyed as a public amenity, and schemes designed to encourage entities and individuals to reduce their environmental impacts, eg carbon trading schemes.

**Recommendation:** It is recommended that the new Board appoint a group or groups to advise on emerging practices in the measurement of the environmental impact of different activities and to keep the need for developing valuation guidance under review.

## **Interpretation of IVS**

**Issue:** As the awareness and influence of IVS grows, IVSC has been receiving requests for clarification or interpretation. These have been dealt with on an ad hoc basis,

**Recommendation:** It is recommended that the new Board consider a suitable protocol for dealing with such requests in the future, which may include the formation of an interpretations sub committee, and make recommendations to the Board of Trustees.

## **Role of the Auditor**

**Issue:** IVS currently issues valuation guidance on meeting the valuation requirements under IFRS. However, little guidance is given to valuers on the role of the auditor or the International Standards on Auditing issued by IFAC and how these may impact on the role of the valuer or on valuation reporting protocol.

**Recommendation:** It is recommended that the new Board discuss the role of the valuer in the audit process with IFAC, consider whether this impacts on current IVS and whether there is need for further guidance.

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