



International Valuation Standards Council
1 King Street
London EC2V 8AU
United Kingdom

KPMG ref: IVSC Comment Letter
Structure and Scope of the
International Valuation Standards
Contact: Patrick Coady/Jim Calvert

October 9, 2014

Dear Sirs

Structure and Scope of the International Valuation Standards

We appreciate the opportunity to comment on the consultation paper *Structure and Scope of the International Valuation Standards* (the "CP") issued by the International Valuation Standards Board ("IVSB" or the "Board"). The following response expresses the views of KPMG's Global Valuation Services practice. We have set out responses to the questions raised in the CP in Appendix 1.

We support the International Valuation Standards Council's (the "IVSC") efforts to provide standards and guidance to improve the quality and reliability of valuations. The IVSC has set out ambitious objectives for International Valuation Standards ("IVS") and other material it or its subsidiary boards propose to issue. It has positioned IVS to be at the centre of efforts to achieve high quality valuations, supporting the public interest in financial reporting and capital markets, bank lending, etc.

We believe that the IVS should remain a principles based set of standards. However, frequently the Board adopts a very high level approach to its guidance that limits its influence and effectiveness. In particular, key topics are not explained at a sufficient level of detail nor is the basis of the application of valuer judgment to specific circumstances. We believe that more comprehensive, principles based guidance together with a greater number of more complex examples would increase the quality of valuations, reduce inconsistencies and improve the influence and effectiveness of IVS.

Please contact Jim Calvert at +353.1.410.1001 or Patrick Coady at +1 613 212 2841 if you wish to discuss any of the matters addressed in this letter.

Yours truly,

KPMG LLP

KPMG LLP



Appendix I

Question 1:

Paragraph 15.1 describes two alternative views on what constitutes a “standard”. Please indicate whether you agree with either statement a) or b) below:

- a) the word standard in the context of the IVSs should be reserved only for rules or principles that have to be applied, or**
- b) the word standard in the context of the IVSs means a required level of quality and will necessarily include not only rules and principles but also guidance and supporting information to assist consistent application of those rules and principles?**

We agree with statement b).

Question 2:

Paragraph 15.2 describes two alternative views on what is meant by the word “mandatory” in the context of standards. Please indicate whether you agree with either statement a) or b) below:

- a) a satisfactory level of compliance with the IVSs can be achieved by following only the Requirements in the standards and that all other material issued by the IVSC is of no relevance in determining compliance, or**
- b) a satisfactory level of compliance with the IVSs can only be achieved by following the Requirements and also having regard to the supporting information and guidance included in the standards.**

We agree with statement b).

Question 3

Paragraph 15.3 describes confusion that has been identified by some around the purpose of the current TIPs. To assist the Board in considering whether changes are appropriate and if so what those changes should be, please answer the following questions:

3a Do you consider that the title “Technical Information Paper” is an appropriate description for the content of the TIPs issued to date and for those proposed TIPs for which public exposure drafts have been issued?

- a) yes or**
- b) no**

If you have answered no please provide reasons for your view and suggest a preferred alternative.

Yes, we believe that Technical Information Paper is an appropriate description.

3b Do you find the content of the current TIPs helpful in understanding and applying the IVSs? If you do not, please identify any other material that you rely on to support the interpretation and application of the IVSs.



We believe that the TIPs are useful in providing a high level understanding of selected topics. However, where complex questions arise, they provide limited guidance on how a valuer should apply their judgment to the facts of a particular circumstance.

More comprehensive, principles based guidance, including realistic examples, would facilitate the consistent application of valuer judgment and reduce diversity in practice. For example, comprehensive guidance material produced by the AICPA and the Appraisal Foundation has increased understanding of complex technical issues, provided guidance on the application of valuer judgments and reduced diversity.

More complex examples could highlight the alternative approaches that might be taken in sample fact patterns and how value judgment should be applied in such circumstances.

3c Is there anything in the current TIPs that you consider should not be included, or that should not form part of the standards? If you believe there is please explain what should be excluded and why.

As noted above, rather than suggest the exclusion of material from TIPs, we believe that their utility would be increased by more comprehensive guidance, while remaining principles based.

Question 4

Do you agree that the Board should issue commentaries, guidance and information to support the concepts, principles and requirements in the standards? If you disagree please explain what alternative sources providers and users of valuations can use and how diversity of application and interpretation across different jurisdictions and markets can be avoided.

We agree that such material should be included in standards. Guidance that is too high level and generic is unlikely to reduce diversity in practice and help valuation professionals and the user community better understand complex issues. There is also a risk that a high level approach would allow a very wide range of practices to claim to comply with IVS, which may weaken the IVS. Commentary, guidance and information will assist valuation professionals in applying the standards consistently to specific fact patterns and the user community in understanding the underlying valuation principles.

Question 5

This consultation paper highlights four other sets of international standards that are in use in the financial markets and the different types of pronouncement that fall within their scope. An overview of each is provided in the Appendices. Please indicate if you consider that there are any aspects of the way these standards are presented that the Board should consider as a way of improving the presentation and clarity of the IVSs.

We believe that the range of illustrative examples in a TIP should be expanded and the basis for conclusions be more clearly articulated. This will increase understanding of the core technical principles involved which will enhance application of such principles to individual valuations.

Question 6

When it adopted a structure for the standards that contained five different categories of pronouncement the Board was responding to requests for a clear distinction be made between those parts that included mandatory requirements and those that contained supporting guidance. It also considered that a taxonomy that grouped similar types of pronouncement together would make it easier for users to navigate to the parts relevant to their needs. However, some other standard setters do not make the same distinction. For example the IFRSs are simply numbered consecutively according to the date of their first issue, with no attempt to group by the type of topic each standard addresses. Do you believe that the current structure of the IVSs that groups pronouncements into five different categories with distinct titles is easy to understand and use? If not, what alternative would you prefer?

We believe that the current structure is readily understood and appropriate.

Question 7

In the document *Scope and Content of the International Valuation Standards*², issued in August 2013, the Board explained that the scope and level of detail are examined during the consultation process for each new pronouncement. However, its general approach is to include all those concepts and principles which it can identify as being widely accepted across different geographic regions and that can be applied across different jurisdictions. Simple explanations or illustrations of how those concepts and principles can be applied to different genres of asset or for different valuation purposes may also be included. It also will ensure that there is sufficient detail to address any inappropriate practice that has been identified during the progress of the project.

The Board will generally exclude from the IVSs any matter that reflects requirements arising from national law or regulation or from established practice in a particular jurisdiction but which either does not arise or that conflicts with those in other jurisdictions. The IVSs may refer to valuation methods or techniques, provide high level explanations of those methods or give examples of when their use may be appropriate. Finally, the paper confirms that the IVSs are not intended to provide educational material and will not examine methods defined or discussed in the standards at the level of detail necessary to apply them in practice.

Do you agree with these limitations on the scope of the IVSs? If not, please describe the types of additional material you believe should be included or matters currently included you believe should be excluded.



We believe that these limitations on the scope of the IVSs are generally appropriate given the mandate of the IVSC and its desire to provide an overarching structure for valuation guidance. However, we believe that having more comprehensive guidance would increase understanding of underlying technical issues and improve the quality of valuations. In addition, the IVS lacks a mechanism to enforce standards which we believe would only ever be recognized by valuation professionals should they opt into both a level of training/certification and peer review or oversight.

Current issues in valuation may only be partially addressed by standards as currently developed. In evaluating other international standards, it is useful to consider not only the approach taken to presenting such material but also other factors surrounding those standards, which influence their effectiveness:

- Professionals are typically members of well-established governing associations with clear ethical and other professional responsibilities. In the case of valuers, participation in an organized association is country dependent and not necessarily compulsory. In many countries, certain valuers, e.g., those specializing in business or derivative valuations may not be part of specialist professional valuation bodies. Where a valuer is a member of an association or governing body, the standards of that organization would be expected to take precedence over any standards issued by the IVS, given the member's local or national association typically provides education and enforcement of standards.
- Core technical knowledge is well established and/or new developments are carefully explained.
- There is extensive educational support for professionals, including ongoing professional education requirements.

It may be useful to consider the extent to which these and other factors are relevant in ensuring high quality professional performance and whether these factors should be considered by the IVS.