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

October 20, 2014

Re: IVSC Consultation on the Structure and Scope of IVS

Dear Technical Director,

Duff & Phelps appreciates the opportunity to provide comments on the above referenced Exposure Draft.

Our valuation advice, particularly with regards to financial reporting, is sought by hundreds of global clients annually as we work with them in developing pragmatic solutions for applying fair value techniques.

We would be pleased to further discuss our comments with the IVSC. Please direct any questions to us via the contact information set forth below.

Sincerely,



Jonathan Jacobs
Managing Director
Global Financial Services Leader



Gary Roland
Managing Director
Office of Professional Practice

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?

D&P Response: We think that a debate about semantics may cloud the real issue here. Regardless of what any IVSC-produced documents are called, there should be a bright line delineating the requirements that are mandatory (or, as the IVSC describes it, being “capable of mandatory application”) from those that are not. Practically, valuation professionals need clarity about what they would be held to if the valuation was challenged. In that regard, it is probably easier to designate the (potentially) mandatory portion of IVS as “standards” and refer to the rest by another name.

Further, the (mandatory) standards should be written on a high, principles-based level; if not, they would be difficult to apply globally, and there is greater risk of running into jurisdictional exceptions. *Further, the greater detail included in the mandatory standards, the more difficult it may be to apply and defend appropriate professional judgment when specific circumstances call for it.*

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.

D&P Response: We would agree with (a) above for the purposes of determining compliance, i.e. what is mandatorily required.

While judgment is required in all aspects of valuation, we think that even more judgment goes into the selection and application of best practices, compared to applying the principles that underlie the (potentially mandatory) standards. Also, while supporting information and guidance might provide further insight into how best to address and comply with any mandatory requirements, the reality is that the confluence of facts and circumstances has the capacity to render each valuation unique.

Also see our response to Question 1.

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?

- yes or
- no

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

D&P Response: Again, we do not have a preference about the title used as long as it is clear that “TIPs” encompass non-mandatory, best practices guidance, and are designated as such. TIPs could also be called “application guidance”, “implementation guidance”, “white papers”, “recommendations”, or “technical interpretations”.

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.

D&P Response: We generally find the TIPs helpful. However, we think that more expansive consideration of the issues and ample time should go into their development, and that they should be vetted out with a variety of constituents. There should also be an established mechanism to amend this guidance – based on either ad hoc issues put forth by constituents, or as part of a periodic review.

In our experience, we find that fast-tracking guidance that is not fully vetted with a representative group of constituents may result in more confusion and less acceptance of the standards and guidance in practice. For example the issuance by FASB of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (1998) in the U.S. was followed by a multi-year painstaking and laborious effort to provide clarification and implementation guidance on the standard through the Derivatives Implementation Group (DIG).

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.

D&P Response: We are unclear about the reference to “standards” above. Is reference being made to the IVSC body of work in general? We think that there should be a clear line between mandatory requirements and best practices/ other helpful guidance/ perspectives on issues.

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.

D&P Response: Yes, we agree. In general, implementation/application guidance would be useful on the sub-asset class level and industry level, as well as for different valuation purposes. This should not be part of the mandatory standards.

Further, we do not think that the IVS Framework or the IVS Valuation Applications should form part of IVS, to the extent IVS is described as capable of mandatory application. Perhaps some confusion may arise due to the fact that these are all printed in the same IVS book (the purple book) along with the IVS General Standards and the IVS Asset Standards, and because they all bear the name “IVS”.

As the Consultation Paper explains, the IVS Framework is “a preamble to all other IVS standards” and sets forth principles and concepts. The parallel for this is the Conceptual Framework in IFRS which is not part of the IFRS standards. As the IASB’s The Conceptual Framework for Financial Reporting 2010 states:

“...This *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of financial statements for external users.... This *Conceptual Framework* is not an IFRS and hence does not define standards for any particular measurement or disclosure issue. Nothing in this *Conceptual Framework* overrides any specific IFRS...”

As to the Valuation Applications, as the name suggests, they are not “standards”, but “applications”. Furthermore, we would envision application guidance that is far more detailed than what is currently incorporated in IVS 300 and 310. For example, the guidance contained in IVS 300 seems to present a high-level summary of the requirements of different IFRSs, but no real hands-on guidance.

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.

D&P Response: Each organization has their own approach and their own taxonomy, accepted by the marketplace and their constituents, and there is no compelling reason to follow one model or another. As stated earlier, the most important issue is for the IVSC to draw a bright line delineating the requirements that are mandatory (or, as the IVSC describes it: that are “capable of mandatory application”) from the rest. Valuation professionals must have clarity about what they would be held to if the valuation was challenged by a regulator, agency, party commissioning the valuation, or others.

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?

D&P Response: We think that the guidance should simply be split into mandatory and non-mandatory.

The non-mandatory (best practices) guidance is likely going to have more content, classes or subcategories if it is going to address sub-asset classes, industries and applications. The ultimate organization and taxonomy are less relevant than the clarity around what is considered mandatory, as described earlier.

Question 7

In the document *Scope and Content of the International Valuation Standards*, 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.

D&P Response: We think that the limitations on scope above are reasonable; this “jurisdictional exception” should be made clear in IVS.