March 28, 2014

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

Re: Illustrative Examples
Chapter 1 – Bases of Value
Exposure Draft

To: The IVSC Professional Board:

Attached below and for your consideration are our responses to the Questions for Respondents from the above-referenced Exposure Draft (“ED”).

As stated in the “Introduction to Exposure Draft” section this draft represents the first chapter of a project to provide examples that illustrate valuation concepts and principles discussed in the IVS Framework. The IVSC initiatives to promote worldwide consistency of practice are important and necessary for the valuation profession, and American Appraisal is thoroughly supportive of these efforts.

We are concerned, however, that the guidance within this ED will result in significant confusion when applied to valuations performed in situations where well established procedures conflict with the definitions and guidance presented in the ED.

We have responded to the specific Questions for Respondents and hope the Board will also consider our other comments. At your convenience we are available to further discuss our responses.

Sincerely,

American Appraisal
Questions for Respondents

1. **Do you consider the differences among the IVS bases of value have been adequately illustrated? If not, what additional illustrations might be helpful?**

   All bases of value seem to have been adequately explained to convey the concepts.

   However, the current definition of Fair Value (IVS) conflicts with the well-known definitions that are in use worldwide by valuers, auditors, and regulators and will lead to confusion in application. As applicable to transactions among identified (specific) parties, Fair Value (IVS) includes all synergies. The more globally recognized IFRS and US GAAP definitions of Fair Value only recognize market participant synergy and is predicated on the concept of an exit price.

   It is recognized that valuations are carried out for a multitude of purposes beyond financial reporting. Whether a valuation is for the purpose of financial reporting, tax purposes, financing, litigation, etc. it is the intended use that drives the correct definition of value. It is only then and within the context of a particular assignment and the relevant definition(s) of value, that the concepts of synergies and buyer specific motivations take shape.

2. **Do you perceive any issues or unintended consequences arising from any of the illustrations? If you do, please explain what these are.**

   It is possible that practitioners will perfectly understand the IVS synergy concepts as illustrated in the ED, but miss the mark if applied in the same way to financial reporting where the concept of synergy is at the center of the market participant issue.

   Beyond those terms commonly associated with financial reporting, certain other terms used in the ED are commonly associated with US Tax reporting, OECD transfer pricing, and the valuation of real estate (e.g. arms-length, highest and best use). Readers will gravitate to those sources for definitions that may not fit the IVS Framework.

3. **Do you consider that there are any other differences between Market Value and IFRS 13 Fair Value that should be discussed and illustrated?**

   One of the major differences between Market Value (“MV”) and IFRS 13 Fair Value (“IFRS 13 FV”) is that IFRS 13 FV is predicated on an exit price concept whereas the MV is the price at which the asset or liability is exchanged. In fact, none of the definitions include an exit price and pure market participant concept. It would be challenging at best to develop a clear valuation report for which the purpose is IFRS reporting and the agreement with the client requires the valuer to comply with IVS where definitions are different and guidance about synergy results in different numerical conclusions.
4. **Does the term “arm’s length” in the Market Value definition need explanation?**

Inasmuch as IVS has adopted its own definitions for Market Value and Fair Value it should also define arm’s length. If left undefined practitioners will find guidance wherever it exists, certainly within the US tax code and OECD transfer pricing. (See #2 above.)

5. **Do you find the graphics in the document helpful in understanding the relationships between the bases of value and other pertinent concepts?**

The graphics seem to be consistent with the terms, definitions and concepts in the document.

6. **Below are examples of other topics within the scope of the Illustrative Examples project which the Board is planning to cover in future chapters:**

- Market Participants
- Market
- Proper Marketing
- Forced Sales
- Assumptions and Special Assumptions
- Aggregation and Unit of Account
- Highest and Best Use
- Transaction Costs
- Valuation Date

Please indicate the perceived priorities from this list and if there are any additional concepts or issues within the IVS Framework that you believe it would be helpful to address.

The unique definitions in the IVS Framework are not used by practitioners for valuations, and the guidance related to those definitions produce hypothetical results that conflict with every-day real situations faced by practitioners. For the purpose of its publications the IVS could instead refer to a generic *Market Value* that is defined as:

> “a type of value, as of a specific date and under the specific conditions set forth in the definition of the market value term identified by the valuer as applicable to the situation and intended use.”

Then, the intended use of the valuation, and the jurisdictions under which the valuations are prepared will guide the rest of the process. IVS can then focus on standards and not valuation concepts and application guidance that will always vary by intended use, and jurisdiction.

Also, detailed guidance for the topics listed above that does not conflict with existing practice and the application of those concepts to every-day valuations will most certainly be challenging.

Finally, the difference between Special Value and Investment Value is not discernable. Is Special Value intended to be the increment that is in addition to Fair Value or Market Value? Otherwise they would seem to produce an identical result.