Appraisal Institute®
Professionals Providing Real Estate Solutions

200 W. Madison St.
Suite 1500
Chicago, IL 60606

T 312-335-4100
F 312-335-4400
www.appraisalinstitute.org

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IVSC Standards Review Board
1 King Street
London EC2V 8AU
United Kingdom

Submitted by email to: aaronsohn@IVSC.org

RE: Comments on IVS 2017 Proposed Revisions Exposure Draft

Dear IVSC Standards Review Board:

Thank you for the opportunity to comment on proposed revisions to the International Valuation Standards. The Appraisal Institute recognizes that to serve the public interest the IVS, must be understandable and capable of consistent application. The Appraisal Institute provides the following comments with the hope that they will assist the IVSC with improving the understandability and applicability of the IVS.

Question 1: Do you believe that IVS should define the terms Price, Cost, and Value? If so, please discuss why you think the additional definitions are necessary.

Price – We note that the term "price" is used 101 times in 2017 IVS. Does the proposed definition apply to all of these uses? Or is the term used differently in different places? We further note that USPAP defines Price as "the amount asked, offered, or paid for a property." We believe the USPAP definition is superior to the proposed IVS definition. The proposed IVS definition fails to cover the concept of "the amount paid for an asset."

Cost – We find the proposed definition to be acceptable. However, we note that the term "cost" is used 270 times in 2017 IVS. Does the proposed definition apply to all of these uses? Or is the term used differently in different places?

Value – We believe that IVS should include a definition of the term "value" because it is one of the foundational terms of the profession. The main service that valuers provide is developing and reporting opinions of value. However, the proposed draft is problematic. The draft indicates that in certain instances "the word 'value' refers to a fact" whereas we believe that value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. Another problem with the draft definition is that it is not a stand-alone definition – it references a section of IVS 104 that a reader would need to review.

Valuation -We have concerns about this proposed definition. First, is IVS a set of standards for the professional valuer – a person - who prepares valuations, or a set of standards on the valuation itself, which could be provided by a mechanized device or computer program, as in the case of an AVM? If the former (and we strongly suggest this be the case) we suggest the word "estimate" be replaced with "opinion." In the US, we used "estimate" for many years, but when AVMs came into being, the Appraisal Standards Board responsible for USPAP recognized that an appraisal (valuation) prepared by an appraiser (valuer) differs from an AVM because only an individual can have an opinion, while a mechanized device or computer program can generate an estimate. We urge the Standards Boards to give this serious consideration.

Question 2: Do you believe IVS should define Calculation and Calculation Engagement? Please explain why.

> We would be willing to review any proposed definitions, however, it does not appear that these terms are currently used in the IVS.

Question 3: Should a Calculation be IVS compliant, and if so, what differences in the scope of work and disclosures outlined in IVS should be required by the valuer?

> We cannot answer this question definitively without seeing how "calculation" would be defined. We refer you to our comments above regarding "valuation", specifically, does IVS apply to the individual performing the work or to the work itself? If the former, and if a "calculation" is provided by a valuer, then it should fall under IVS; but if a "calculation" is a computation rather than the development of a value opinion, then only limited portion of IVS should apply.

Question 4: Should IVS provide examples of "substantial" limitations? If so, please provide examples of such limitations.

> No, examples of "substantial limitations" are not necessary. In fact, Section 20.7 as a whole seems unnecessary as it leads to such an obvious conclusion. Do valuer's really need to be told that a valuation that is not credible, or a valuation that lacks necessary information or a valuation in which the valuer was unable to sufficiently evaluate inputs and assumptions would not comply with IVS? Again, this goes to the question of whether valuers comply with IVS or their work complies with IVS.

Question 5: Do you agree with the suggested changes to IVS 105 section on Discount Rates? If not, please provide details of the additional information you think should be included or excluded from this section.

> No. We believe that with these proposed revisions the IVS is continuing to move in the wrong direction. As stated in our response to the IVSC's May 15, 2017 Invitation to Comment:
>
>> The services of ethical and competent valuers are vital to the well-being of society and the global economy, as such services foster economic growth, stability and public confidence. Because of the essential role that valuers fill there is a wide range of valuation stakeholders including valuers, lenders, borrowers, investors, regulators, governmental entities, the general public, and numerous other individual and entities. There is a wide range in the level of valuation knowledge that each of these groups of valuation stakeholders possess. One way to address this situation is to develop a set of professional valuation standards that is simple (can be understood by a wide range of stakeholders) and straightforward. A wide range of stakeholders would be able to understand valuation standards that are straightforward statements that include a specific prohibition or exhortation, "do this", "don't do that." Conversely, a wide range of stakeholders would have trouble understanding valuation standards that include detailed information on valuation theories and methodologies.
>>
>> The Appraisal Institute believes that information concerning valuation theories and methodologies does not belong in a standards document. The Appraisal Institute has published a textbook, *The Appraisal of Real Estate*, since 1951. This

textbook is now on the 14th edition, and it contains methodology, valuation theory and basic valuation principles. The Appraisal Institute is concerned that the current edition of IVS reads more like a condensed version of such a textbook rather than a set of valuation standards. The topics raised in the Invitation to Comment indicate that the IVS is continuing to move in the direction of increased complexity and detail. The fact that the methodologies currently employed in many of the topic areas raised in the Invitation to Comment are unsettled and not ripe for inclusion in a set of valuation standards is an additional complicating factor. Adding methodology to standards:

- Creates dense standards that are hard to understand by a wide range of stakeholders.
- Creates ambiguity, which can lead to misinterpretation.
- Creates standards that are slow to adapt to change.
- Stifles the growth of a profession as judgement and the ability to innovate are discouraged when standards prescribe methodologies.
- Creates content that overlaps and may be inconsistent with appraisal principals and procedures educational material and advice.
- Requires practitioners to reference multiple sections of the standards document to find requirements.
- Leads to regulatory enforcement of suggestions and recommendations.

The Appraisal Institute understands that one rationale for the IVS's mix of methodology, valuation theory and basic valuation principles, is that there is a need for such in developing countries and/or for other less developed valuation disciplines. However, a complex, unsettled and ever-changing set of valuation standards may be less helpful to developing entities than a concise, direct and easy to understand set of valuation standards and separate educational resources that cover methodology, valuation theory and basic valuation principles. The Appraisal Institute believes that the technical content of a standard should specify the minimum requirements necessary to achieve the objectives of the standard and not the methodology to achieve it. In other words, standards should focus on what is to be achieved and what is required, i.e. a credible valuation and a report that is not misleading, rather than a prescribed methodology for achieving those goals.

Under the plan outlined in the Invitation to Comment the IVS will be “under construction” for at least the next five years. This unsettledness creates uncertainty in the profession and keeps practitioners and other stakeholders on edge - nobody knows what the standards will look like next year. This unsettledness might be resolved if the IVSC focused on developing valuation standards that were simple, straightforward and universal.

Some might argue that the valuation profession and processes are complex and that the profession therefore needs to have complex standards. However, a standard setting organization could more clearly address this complexity by promulgating principles-based standards and separate advisory materials.

Question 6: Do you agree that the methods are more relevant to business valuation and the placement in IVS 200 is appropriate? If no, please explain why.

Question 7: Are there additional methods that should be included in the proposed revisions, for example the Hybrid Method? If yes, please discuss the additional methods to consider.

Question 8: Are there additional topics within Early Stage Company Valuation that you feel should be included in IVS or explored further by the Boards? Please provide an outline for any topics suggested.

Our comments regarding Question 5 of this Exposure Draft also apply to Questions 6 through 8.

We further note that the Background and Scope section this Section of the Exposure Draft references an AICPA working draft entitled *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies.* The AICPA document is not a standard. The AICPA identifies this document as a “valuation guide” which “provides nonauthoritative guidance and illustrations”.

Question 9: Do you feel that the inclusion of the “As Is” and “As Proposed” value for the Development Property will reduce the risks in relation to the valuation of development property? If no, what additional information would you like to see included?

We believe that determining the type of value that will be the focus of a valuation assignment should be one of the terms of engagement between the client and the valuer. It should not be a preset Standards requirement.

Further, we caution against the use of the term “As Is” value in particular. USPAP does not use this term, but US bank regulatory agencies use it. It has been a source of much confusion. The term packs into it multiple assignment elements that should instead be considered separately: type (definition) of value, date of value, physical property condition, legal conditions associated with the property.

Question 10: Should the valuer be compelled to state the method of valuation they have used in their calculation of market value and report the assumed (or calculated) Developers Profit when reporting market value? If no, please explain why not?

IVS 103 30.1 already requires that a report must convey “the method or methods applied”

We further note that our comments in regard to section 3 of this Exposure Draft also apply to IVS 410 as a whole.

Thank you for your consideration of our comments.

Paula Konikoff

Paula K. Konikoff, MAI, AI-GRS
Chair, Professional Standards and Guidance Committee
Appraisal Institute