

By email: aaronsohn@ivsc.org

September 5, 2018

Mr. Mark Zyla
Chairman, Standards Review Board
International Valuation Standards Council
1 King Street
London EC2V 8AU
United Kingdom

Dear Mr. Zyla,

Thank you for the opportunity to provide our views on the IVSC's Exposure Draft on Proposed Revisions to IVS 2017.

We thank the IVSC's Standards Review Board for its continued efforts on enhancing International Valuation Standards in order to achieve international consistency and a robust set of standards.

On behalf of the Canadian Institute of Chartered Business Valuators and our Professional Practice and Standards Committee (PPSC), our comments for your consideration are as follows:

IVS Glossary

Question 1

We are not opposed to the terms price, cost and value being defined, although we do not believe defining them to be strictly necessary and are comfortable that the Glossary not attempt to define basic valuation, accounting or finance terms, as a valuer should have an understanding of such terms.

With respect to the proposed definition of "valuation", we urge the IVSC to give consideration to using a "value conclusion" rather than an "estimate of value" in the definition of "valuation" to clearly address that a valuation is a valuer's professional opinion. Using the terminology "value conclusion" or "valuation conclusion" suggests and reflects a certain level of rigour and reporting. Defining a "valuation" as a final conclusion would also tie in with existing IVS 102 par 30.1, which requires a valuation record to be kept and "should include the key inputs, all calculations, investigations and analyses relevant to the final conclusion..." (*emphasis added*). We believe the definition of "valuation" should be revised to include not just the "act or process", but also how that conclusion of value is reported. If the IVSC does not include the reporting of that valuation in the definition of valuation, consideration should be given to defining a "valuation report" as "a written communication containing conclusion of value". The IVSC may also wish to consider whether the definition of "valuation" ("...by applying IVS") should contemplate departures from IVS (as in 60.1), and whether the definition of "valuation" should be broadened to include situations where a valuation, as that term is defined, is not compliant with IVS.

Question 2

We understand a “calculation” (or “calculation engagement”) as an act or process which determines and communicates an estimate of value, however it is not a process which requires a professional assessment, as a “valuation” would. As such, a calculation or calculation engagement could not comply with IVS, as IVS are standards for undertaking valuation assignments, and require the use of professional judgement.

We do not believe it is necessary to define “calculation” or “calculation” engagement, but instead to be very clear on what is a “valuation”. We think the definition of “valuation” can be enhanced to clarify that a valuation is subject to a requirement to apply certain levels of professional assessment. As such, by definition, any other engagement that does not have the same degree of professional input, such as a calculation derived from an automated valuation model, would not be a “valuation.”

Question 3

As discussed above, we understand a calculation to be a determination of value based on a limited amount of procedures, with little to no professional analysis and judgement (such that the valuer has not assessed the appropriateness of all significant inputs). In this context, a “calculation” and a “calculation engagement” should **not** be IVS compliant. Allowing a calculation to be IVS compliant would be dangerous for a user, as it would appear to potentially give undue credibility.

We believe it would be too difficult to spell out a minimum scope of work for a calculation. Compliance with IVS must be a meaningful statement on the quality of a valuation, and compliance with IVS requires that the valuer perform sufficient procedures to assess all significant inputs and assumptions and their appropriateness for use in the valuation. Therefore, we are of the view that creating an IVS-compliant “calculation” would undermine the very objective of high quality valuations.

IVS 102 – Investigations and Compliance

Question 4

We agree with the proposed revisions to par 20.7.

We believe that, consistent with past considerations of the IVSC, the standards should be principles-based, allowing for professional judgement to be applied. One suggestion for determining what might be a substantial limitation can be that an appropriately experienced valuation professional would reasonably be expected to regard the limitation as “substantial.” Having said this, some examples could be informative to ensure all valuers are applying IVS 2017 consistently, although the examples would not need to form part of IVS. The examples may be beneficial, particularly if the IVSC is contemplating specific situations, but we do note that providing examples poses the risk of codifying those examples and having valuers look to those examples narrowly.

We believe that a valuer’s the determination of what is a “substantial” limitation should be made in the context of the purpose of the valuation.

IVS 105 – Valuation Approaches and Methods

Question 5

We have no objections to the revisions in par 10.5 or par 50.6, however, we suggest combining and clarifying par 10.9 and 10.10.

In par 10.9, we believe the IVSC should remove “could be better characterised as a calculation of value”, and state simply that “Depending on the limitations placed on the valuer and procedures performed, such circumstances may result in a valuation that is not IVS compliant.”

We are unclear on the meaning of the first sentence of par 10.9 and whether it is contemplating (similar to par 10.10) a situation where the valuer and the client do not agree on the approach, methods, or the extent of procedures. In a situation where a valuer is following a valuation approach or methodology that is not the most appropriate in that valuer’s professional judgment, due to a client imposed limitation or instruction, and it is reasonable to expect that the effect could be material, this should result in a valuation that is not IVS compliant, and IVS should clearly state this (in par 10.10 or otherwise). Consideration should also be given to addressing this in IVS 105 par 10.5, which discusses the valuer’s responsibility to choose the appropriate method(s) for each valuation engagement. It is our understanding that IVS 2017 allows valuers to consider client instructions, but prohibits valuers from using a basis of value that is not appropriate for the intended purposes of the valuation.

In par 10.9, we would suggest clarifying what is meant by “the extent of procedures the valuer will perform” and whether this refers to investigations by the valuer. If this is the intended meaning, consider parallel revisions to IVS 102.

Overall, we believe there should be more clarity as to when a valuation assignment is not IVS compliant.

For the revisions to the section on Discount Rates, we agree with the additions generally.

We suggest removing from par 50.32 the words “determining the reasonableness of a discount rate”, since this appears to be addressed in par 50.33.

We would also suggest an addition to par 50.39(b) dealing with the expectation around undertaking quantitative procedures to support the adjustments to the discount rate. We are of the view that the amount of the adjustment to the discount rate is a matter of professional judgement, and it may not be possible to undertake quantitative procedures to support the adjustment in all cases. We believe par 50.39(b) should be revised to state “undertake quantitative **and/or qualitative** procedures to support the adjustments...”

IVS 200 – Business and Business Interests

Question 6

We agree with the additions in paragraphs 130.2 to 130.24. We also agree that these methods should be discussed in IVS 200 because they relate to business and business interests.

Question 7

No comment.

Question 8

No suggestions.

IVS 410 – Development Property

Question 9 & 10

We have no comments on this section.

If you have any questions on our comments or would like us to elaborate on any point, please do not hesitate to contact us.

Yours truly,

A handwritten signature in blue ink, appearing to read "C. Miranda".

Catalina Miranda, CPA, CA, CBV
Director, Professional Practice