

June 28, 2019

IVSC Standards Board  
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Submitted by email to: [aaronsohn@IVSC.org](mailto:aaronsohn@IVSC.org); [comments@ivsc.org](mailto:comments@ivsc.org)

RE: Comments on IVS 2017 Additional Technical Revisions Exposure Draft

Dear IVSC:

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.

**Section 1 – IVS Glossary**

*Question 1: Do you believe that IVS should seek to harmonise valuation standards with other standards such as CUSPAP and USPAP? If so, please discuss why you think the harmonization of valuation standards is necessary.*

Due to the wide range of specialties and jurisdictions numerous valuation standards have been developed to address the needs of various marketplaces and stakeholders. Public trust in the valuation profession is enhanced by having valuation standards that do not contain conflicting Standards. In addition, international trade and the world economy benefit from valuation standards that are more universal in application. However, any standards promulgated should be principles-based and understandable, and not responsive to an individual jurisdiction's laws and regulations.

We would also urge the IVSC Boards to consider the Appraisal Institute *Standards of Valuation Practice (SVP)*. With the *SVP* and the *Code of Professional Ethics (CPE)* the Appraisal Institute has created a straightforward set of requirements that are principles-based, and enforceable for ethical and competent practice. Because the *SVP* and *CPE* are foundational, they do not require revisions for new valuation methodologies or tools.

*Question 2: Do you believe that IVS should define the term Assignment? If so, please discuss why you think the additional definition is necessary.*

It depends on what the definition of "assignment" would be. We believe that there is a fundamental problem with the current *USPAP* definition, which defines "assignment" as the service itself instead of the agreement to provide the service. In a comment letter to the Appraisal Standards Board concerning *USPAP* the Appraisal Institute has proposed the term "engagement," which would be the agreement to provide the service. The *SVP* contains a definition of the term "engagement:"

Engagement: An agreement between a valuer and a client to provide a service.

*Question 3: Do you believe that IVS should define the term Confidential? If so, please discuss why you think the additional definition is necessary.*

We believe that the term defined should be “confidential information.” The Appraisal Institute’s *Code of Professional Ethics* (“CPE”) and *USPAP* both define this term very similarly. The CPE definition provides:

**Confidential Information** - Information that is either:

- identified by the client as confidential when providing it to a valuer and that is not available from any other source; or
- classified as confidential or private by applicable law or regulation.

*Question 4: Do you believe that IVS should define the terms Client, Intended Use, Intended User, and Purpose? If so, please discuss why you think the additional definitions are necessary*

Yes, as to “Intended Use” and “Intended User” because these terms have a special meaning within IVS; that is, their use within IVS is not the common usage.

“Client” is not an additional definition as it is already defined in Section 20.2 of the IVS Glossary.

No, as to “Purpose” as the proposed definition seems to be the general dictionary definition of the term; we believe that terms should only be defined in standards when the term is used in those standards with a meaning other than the common usage definition.

## **Section 2 – IVS Framework**

*Question 5: Should IVS change Section 50.1 to a “should”? If not, please provide your reasons*

No. Public trust in the Valuation Profession could be harmed by lessening the standards for competence. An alternative solution to the issue that the IVSC Boards are trying to address is present in the *Ethical Rule 1-3* of the Appraisal Institute’s *CPE*:

### **Ethical Rule 1-3**

It is unethical to knowingly fail to properly identify the issue to be addressed and have the knowledge and experience to complete the Service competently prior to agreeing to perform a Service, or alternatively, to:

- (a) disclose the lack of knowledge and/or experience to the client before agreeing to perform the Service;
- (b) take all steps necessary or appropriate to complete the Service competently; and
- (c) describe the lack of knowledge and/or experience and the steps taken to complete the Service competently in the Report.

A similar solution is found in the *Competency Rule of USPAP*:

An appraiser must: (1) be competent to perform the assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or withdraw from the assignment.

The *Competency Rule of USPAP* further explains what competency requires, how an appraiser can acquire competency and what to do if an assignment cannot be completed competently.

We strongly urge the IVSC Boards to revise this section of the IVS Framework to follow the model set by *Ethical Rule 1-3 of the CPE* and the *Competency Rule of USPAP*.

### **Section 3 – IVS 102 – Investigations and Compliance**

*Question 6: Should IVS change Section 20.4 to state “Inputs provided to the valuer (e.g., by management/owners), should be considered, investigated and/or corroborated.”? If not, please provide your reasons.*

We recognize that some revisions will help to increase the clarity of this section and we recommend the following additional revisions:

20.4 When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration should be given as to whether the information is credible ~~or and whether that~~ the information may otherwise be relied upon without adversely affecting the credibility of the valuation opinion. Inputs Information provided to the valuer (e.g., by management/owners), should be considered, investigated and/or corroborated. In cases where the valuer has reason to doubt the credibility or reliability of information supplied ~~cannot be supported~~, such information may be reported but not relied on by the valuer.

### **Section 4 – IVS 103 - Reporting**

*Question 7: Must a report that is the result of an assignment involving the valuation of an asset or assets, in addition to the other requirements stated above, also convey the intended use? If not, please provide your reasoning.*

Yes. Intended use is a key driver in scope of work determination, and reporting intended use thus puts the valuation in the proper context. *The Appraisal of Real Estate*, 14<sup>th</sup> Edition, Appraisal Institute, provides:

The intended use is the appraiser's intent regarding how the report is to be used. Identifying the intended user and intended use of an assignment is essential for the determination of the scope of work. That is, the appraiser must identify who needs the services and for what purpose that person (or entity) will use the information the appraiser provides. The intended use of an appraisal is identified through communication with the client. The intended use might relate to

- financing
- litigation
- condemnation
- divorce proceedings
- buy/sell decisions
- tax reporting
- portfolio evaluation
- arbitration
- partnership value
- estate value
- charitable donation
- valuation for financial reporting

The intended use is the key driver in determining the appropriate scope of work for the assignment. For example, an appraisal with an intended use related to condemnation often requires the development of two separate opinions of value, one before the taking and one after the taking. In contrast, an appraisal with an intended use related to financing may require the development of just one opinion of value (unless a separate value "as is," "upon completion," or "upon stabilization" is requested). A lender who needs an appraisal for financing purposes likely knows what is involved in the appraisal, but a property owner disputing the amount of just compensation received for property taken through eminent domain is not likely to understand the complexities of an appraisal related to condemnation.

In addition to its critical role in determining the scope of work, the intended use of the appraisal helps the appraiser identify the appropriate level of detail to provide to the intended user. For example, if the intended use of an appraisal of a single-unit house is for lending purposes, it is not likely to require the same level of detail as an appraisal of the same property requested with a different intended use such as use in a litigation matter.

### **Section 5 – IVS 104 – Bases of Value**

*Question 8: Should IVS 2017 use the term 'allocation of value' or 'apportionment of value' or both?*

We suggest using just one term and that it should be defined.

*Question 9: Should it be mandatory for the valuer to state the reason for the sum of the assets/components being greater or less than the whole as stated in 220.3? If not, please provide your reasoning.*

The IVSC may want to consider whether that valuer should state the reason for the sum of the assets/components being greater than, less than or equal to the whole.

Also, as this seems to be a reporting requirement, the IVSC should consider whether there should be a comparable development requirement.

*Question 10: Section 220.4 states that "If the value of the asset includes an element of assemblage value or portfolio premium/discount the valuer must report the overall value separately from the value of the individual assets or components." Are there any instances where you feel that this is not the case, if so, please provide examples?*

The Appraisal Institute has no comments related to this question.

*Question 11: Section 220 has been drafted to apply to all specialisms. Should additional Information be Included within the Assets Standards for Business Valuation, Financial Instruments or Tangible Assets? If yes, please provide examples of the initial information to be included.*

The Appraisal Institute has no comments related to this question.

### **Section 6 – IVS 105 – Valuation Approaches and Methods**

*Question 12: Do you think that IVS should include a section within the General Standards on Modelling for Valuation purposes? If not, please provide your reasoning.*

No. We note that in addition to Standards, the current edition of IVS contains a mix of methods, valuation theory and basic valuation principles and adding the proposed section continues to

move the IVS in that direction. The Appraisal Institute understands that one rationale for this mix is that there is a need for methods, valuation theory and basic valuation principles for developing countries and/or for other less developed valuation disciplines. However, current and proposed versions of the IVS 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 methods, valuation theory and basic valuation principles.

*Question 13: Do you believe that IVS should define the term valuation model? If so, please suggest a definition and discuss why you think the additional definition is necessary.*

No. We do not see the need for a term to be defined by IVS unless it has a special meaning in IVS, and it does not appear that this term has a special meaning in IVS.

*Question 14: Do you believe that IVS should define the term valuation calculation? If so, please suggest a definition and discuss why you think the additional definition is necessary.*

No. It does not appear that this term is currently being used in this proposed new section, and even if it were, we do not see the need for the term to be defined by IVS for the reasons stated in our immediately prior response.

*Question 15: Section 90.2 states that "When using a valuation model the valuer must take responsibility for the output of valuation model...." Are there any instances where you feel that this is not the case, if so, please provide examples?*

If an opinion of value is being provided by the valuer, the answer is yes. If the valuer is "merely" creating output at the client's (or another's) instruction, for the user's information only, no.

As noted in *USPAP Advisory Opinion 18*, in some instances a client may ask a valuer to run a valuation model using information provided by the client. If the valuer does not alter the input or affect the output of the valuation model and does not communicate his or her own value or review opinion(s) regarding the valuation model's output the valuer is acting as a valuation model operator and not a valuer. In such instances, the valuer would need to be sure that any communication of the outputs is not misconstrued as the work of an individual acting as a valuer and accepting the responsibility of a valuer.

*Question 16: Section 90.2 also states that "When using a valuation model the valuer must....keep appropriate records to support the selection of the model." How long are you required to keep valuation records in the market(s) in which you operate? Please provide details of any relevant valuation record keeping legislation within the market(s) in which you operate.*

The *USPAP Record Keeping Rule* provides:

An appraiser must prepare a workfile for each appraisal or appraisal review assignment. A workfile must be in existence prior to the issuance of any report or other communication of assignment results. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report...

An appraiser must retain the workfile for a period of at least five years after preparation or at least two years after final disposition of any judicial proceeding in which the appraiser provided testimony related to the assignment, whichever period expires last.

An appraiser must have custody of the workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile. This

includes ensuring that a workfile is stored in a medium that is retrievable by the appraiser throughout the prescribed record retention period.

An appraiser having custody of a workfile must allow other appraisers with workfile obligations related to an assignment appropriate access and retrieval for the purpose of:

- submission to state appraiser regulatory agencies;
- compliance with due process of law;
- submission to a duly authorized professional peer review committee; or
- compliance with retrieval arrangements.

Comment: A workfile must be made available by the appraiser when required by a state appraiser regulatory agency or due process of law.

An appraiser who willfully or knowingly fails to comply with the obligations of this RECORD KEEPING RULE is in violation of the ETHICS RULE.

*Question 17: Do you agree with Section 80.3 that “when using a valuation model the valuer must take responsibility for the output of valuation model and keep appropriate records to support the selection of the model?” If not, please provide instances when this is not the case*

Yes, with the one exception of when a value or review opinion is not being provided

*Question 18: Do you feel that additional valuation standards on valuation modelling are required within the Asset Standards (i.e. IVS 200 [Business] and Business Interests, IVS 400 Real Property Interests, IVS 500 Financial Instruments)? If so, please provide an indication of the proposed content and where within the IVS Asset Standards you think this additional content should be contained.*

No. We believe that a concise, direct and easy to understand set of valuation Standards and separate educational resources that cover methods, valuation theory and basic valuation principles would be a better path for the valuation profession and stakeholders.

Thank you for your consideration of our comments.

Sincerely,



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