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Mark Zyla, Chair, IVSC Standards Review Board
IVSC
4 Lombard Street
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Dear Mark:
re: IVS 2017 Proposed Revisions (Additional Technical Revisions Exposure Draft)

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

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, recently renamed CBV Institute, and our Professional Practice and Standards Committee (PPSC), our comments for your consideration are as follows:

General Comments on the Exposure Draft

We note that the exposure draft makes reference to CUSPAP as "the" Canadian standard setter. We wish to clarify that Canada does not have "one" standard setter or indeed any government regulated valuation standards, similar to the way The Appraisal Foundation acts in the United States. "CUSPAP" is a term adopted by the Appraisal Institute of Canada, a tangible asset appraisal valuation professional organization (VPO) in Canada. CUSPAP does not cover or regulate business valuation practices. The CBV Institute's Practice Standards regulate the business valuation specialism in Canada as conducted by Chartered Business Valuators. As such, it is important to be clear in IVSC communications that CUSPAP is only "a" standard setter in Canada, and only for tangible assets, particularly in the context of an exposure draft which covers all specialisms of valuation, including business valuation.

Based on the framing of the exposure draft as being the result of a consultation process and harmonization discussions held with the Appraisal Institute of Canada (CUSPAP) and The Appraisal Institute (USPAP), we are concerned that this exposure draft did not include input from the IVSC's Business Valuation Board and Financial Instruments Board as the matters dealt with in the exposure draft will be relevant to those aspects of the valuation profession.

We note that the title of this exposure draft is "Additional Technical Revisions", however, the contents of the exposure draft deal with significant, fundamental and broader questions, such as harmonization, defined terms, and valuation modelling, which go beyond being "technical" revisions. While we acknowledge that some of the revisions are indeed of a more technical nature, we are concerned that perhaps this title does not appropriately reflect the nature of the feedback sought.

The concept of harmonization addressed in the exposure draft is worthy of a broader discussion. The IVS are intended to be the "best of the best" and we would have concerns about making changes to IVS with an objective of achieving adoption within particular segments.

We would recommend re-issuing this exposure draft after these broader issues have been addressed and then with a more descriptive title.

Specific Comments

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.*

No. We believe that the goal of the IVS should be to reflect best practice, which may or may not be in harmony with other standards. We believe IVS should reflect high standards of valuation, regardless of whether they are harmonized with other standard setters. This is because local country standards may have variances or additional rules that are incremental or specific to that local market, given its economy, history or nature of business activities. Furthermore, we do not believe harmonization should necessarily mean replication of the level of detail and granularity in other standards, but rather that harmonization can exist at a principles-level. IVS need to represent best practice, so revisions to IVS solely for the purpose of harmonization may be time consuming and may not be (in and of themselves) as valuable.

CBV Institute continues to believe that all established and reputable standard setters with existing high quality valuation standards should be included in harmonization efforts in an open and transparent way.

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

CBV Institute believes that the definition of Assignment (or engagement) is generally understood and that the dictionary definition of this term is adequate.

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

Presently, “Confidential Information” is not referenced in IVS 2017. We understand and agree that any terms defined within IVS should be those that are used within IVS. Furthermore, we believe this term to be generally understood.

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.*

We note that Client is already a defined term within IVS 2017. We believe that the remainder of these terms have a common meaning and are generally understood. Therefore, the additional definitions are not necessary in order to understand IVS. We would, however, be supportive of a one-time, thorough review of all IVS defined terms. We believe that a thorough review is more effective than a piecemeal addition of glossary terms.

IVS Framework

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

CBV Institute is not entirely clear on how the usage of “should”, which is slightly less onerous than “must”, would not act as a barrier to entry in certain developing markets. The word “should” still indicates responsibilities that are presumptively mandatory. Section 50.1 deals with competence which, in our view, is at the heart of high quality standards.

We are unclear about why the IVSC would relax existing requirements in an effort to include and facilitate adoption in developing markets. We are potentially concerned with this approach, as we do not want to see a race to lower standards simply to enable adoption in developing markets. In our view, developing markets, i.e., those that are just beginning to establish a valuation profession, have an opportunity to establish high quality requirements from the outset. We are of the view that widespread adoption of IVS should not come at the cost of relaxing the standards for all.

In our view, the more problematic portion of section 50.1 is the lack of common understanding of the word “appropriate” (in reference to the technical skills, experience

and knowledge of the subject of the valuation... etc). The term “appropriate” is highly subjective, and guidance should be provided to all stakeholders.

CBV Institute suggests softening the part of section 50.1 dealing with “knowledge of the subject of the valuation”, since such knowledge can be obtained by a valuer and, in fact, should/must be acquired prior to valuing the subject asset. Furthermore, we also suggest clarifying the language in section 50.1 dealing with the “market in which it trades”. We believe this requirement is appropriate.

The CBV Institute’s Code of Ethics contains requirement for competence stated as follows:

“A Member shall only undertake to provide professional services which he/she is competent to provide by virtue of training or experience, or is able to become competent in without undue delay, risk or expense to the client.”

This is an unequivocal requirement and we suggest IVS reflect a similarly high standard.

We propose the following wording:

50.1 Valuations must be prepared by an individual or firm having the appropriate [with guidance for what constitutes “appropriate”] technical skills, experience and knowledge of the subject of the valuation and the purpose of the valuation. A valuer should also have appropriate knowledge of the market(s) in which the subject asset/liability of the valuation trades.

IVS 102 – Investigations and Compliance

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

No, we do not agree with the change from “significant inputs” to “inputs”. By not specifying which inputs, it creates ambiguity as to whether it should be all inputs that are required to be investigated and/or corroborated. “Significant” is a defined term in the IVS Glossary, akin to “material”, which provides an adequate explanation of how to assess this concept, i.e., from the point of view of the reasonable expectation to influence the economic decisions of users of the valuation. Valuation and the valuation profession require professional judgment, so we do not believe that using “significant” in section 20.4 is unduly subjective.

We do, however, agree that “may” be revised to “should”, as it makes the obligation on the valuer clearer.

We also wish to point out a potentially broader inconsistency within IVS relating to the amount of work the valuer is required to complete with regard to inputs. For instance, section 20.3 of IVS 102 states:

Limits may be agreed on the extent of the valuer's investigations. Any such limits must be noted in the scope of work. However, IVS 105 Valuation Approaches and Methods, para 10.7 requires valuers to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose [emphasis added]. If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.

However, section 20.3(n) of IVS 101 states:

(n) That the valuation will be prepared in compliance with IVS and that the valuer will assess the appropriateness of all significant inputs [emphasis added]. The nature of any departures must be explained, e.g., identifying that the valuation was performed in accordance with IVS and local tax regulations. See IVS Framework paras 60.1-60.4 relating to departures.

The IVSC should clarify whether the intent of IVS is to have valuers evaluate all inputs and assumptions or only the significant/material ones. While we presume it is the latter, this should be clarified.

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, it should.

IVS 104 – Bases of Value

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

IVS should use the term "allocation of value".

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.*

Section 220.3 appears confusing as currently drafted. We suggest an introduction that explains the cases where the sum of the allocated values may differ from the total value. Clarification should be provided on the meaning of this requirement, particularly in a business valuation context. Pending further clarification, we would generally be supportive of this 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?

We agree with the wording as drafted.

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.*

Yes, it would be beneficial to have additional information within the Assets Standards that explains the situations contemplated.

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.*

Valuation modelling services are often offered to clients and, in such circumstances, these assignments are not “valuations”. IVS should be restricted to the resulting valuation conclusions/opinions only. IVS should apply to a valuer’s conclusions, not a model’s conclusions.

We are of the view that while Valuation Modelling is a tool for analysis, it is not a tool for report preparation per se, nor is it on its own a valuation. This should be clear within IVS perhaps through the Glossary).

IVS should make clear that automated valuation models (AVMs) are not valuations, since valuations require the application of professional judgment. Since they are not valuations, mentioning them within IVS should be done only to explain and distinguish them from valuations.

We agree with section 90.2, but would add the following: “When using a valuation model **in order to arrive at a valuation opinion**, the valuer must take responsibility for the output of the valuation model, and keep appropriate records to support the selection of the model.” In our view, IVS is about the valuation conclusion, not about a model review. To the extent that additional standards are needed for the real estate specialism, they can and should be included in the specific asset standard.

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.*

We are not opposed to defining valuation model in a way that is consistent with the proposed use of this term within IVS. This use is not yet clear, and we understand it is

continuing to be developed. If it is a valuation model used in arriving at a valuer's opinion of value, then the valuation conclusion is the subject of the report, not the model used.

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.*

We understand a "calculation" (or "valuation calculation") 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, in the context of business valuations, 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 believe the IVS General Standards must continue to apply to all asset classes.

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?*

The valuer should take responsibility for the output of the valuation model at a specific point in time. Generally this is the same time as the valuation itself, since this is the only time that the valuer gets to determine and assess the reasonability of the inputs and assumptions into that model.

To the extent a valuation model and its conclusions are the work of another specialist, the "valuation model" in question ought to be the responsibility of that subject matter expert. For example, in a business valuation context where a valuer is relying on the work of an asset appraiser but real estate or equipment values, any "valuation model" used by the asset appraiser should be the responsibility of the asset appraiser, not the valuer who is relying on the asset appraiser's work. IVS already requires (in the IVS Framework) that the valuer must have the technical skills, experience and knowledge to understand, interpret and utilize the work of any specialists.

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.*

CBV Institute business valuation standards state that: "All documents and working papers evidencing the nature and extent of work performed shall be retained for a reasonable time following completion of the engagement." We believe it is important for standards to be principles-based in this area, such that valuers can use their professional judgement based on the legislative and jurisdictional environment in which they are operating, as well as legal agreements or firm requirements.

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, we agree with section 90.2 that when using a valuation model in order to arrive at the valuer’s opinion on value, the valuer must take responsibility for the output of the valuation model(s) used and keep appropriate records.

Question 18: Do you feel that additional valuation standards on valuation modelling are required within the Asset Standards (ie 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. IVS should remain restricted to being about a valuation conclusion or opinion. The scope of IVS should not be expanded to include conclusions or assurances on processes or models separate from a valuation conclusion or opinion.

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

Best regards,

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

Catalina Miranda, CPA, CA, CBV
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