IVS Additional Technical Revisions 2021

Exposure Draft

Issued: 29 January 2021
Comments due: 30 April 2021
Notice to Recipients of This Exposure Draft

The IVSC Standards Review Board invites feedback on all matters in this Exposure Draft. We request comments by 30 April 2021 by one of the following methods:

- Emailing comments to aaronsohn@ivsc.org or comments@ivsc.org.
  File Reference IVS Additional Technical Revisions 2021 Exposure Draft

  or

  Respond using the IVS Additional Technical Revisions 2021 Exposure Draft Feedback Form and send to aaronsohn@ivsc.org or comments@ivsc.org

  or

  Complete the online feedback form on www.ivsc.org

All comments received are part of the IVSC’s public file and are available at www.ivsc.org.

A copy of the IVS Additional Technical Revisions Exposure Draft is also available at www.ivsc.org.

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Dear All,

Further to the publication of IVS (effective 31 January 2020) the Standards Review Board, together with the Business Valuation Board, Financial Instruments Board and the Tangible Assets Board, have decided to publish targeted revisions to IVS based on feedback received since that publication and valuation standards harmonisation discussions held with the Appraisal Foundation and the Appraisal Institute of Canada during 2020 and consequential amendments in light of expected revisions to Financial Instruments standards.

The IVSC is planning to publish revisions as needed based on market feedback. The consultation process for IVS (effective 31 January 2020) Additional Technical Revisions is now open. Accordingly, the Standards Review Board encourages participation within the three-month consultation period ending 30 April 2021 from all individuals and organisations. The IVSC is committed to a fully open and collaborative consultation process. All comments received as part of the consultation process will consequently be published on the IVSC website.

The IVSC intends to consider all feedback as part of its ongoing review of the standards. A basis of conclusions will be published in response to this consultation, with any resulting changes to the standards being issued in an update to IVS in June 2021. These changes would become effective after six months, from January 2022.

We look forward to your participation in the IVS Additional Technical Revisions 2021 Exposure Draft and incorporating the views and recommendations from practitioners, valuation professional organisations, academics, corporations and regulators, among others.

Kind regards

Mark Zyla
Chair, IVSC Standards Review Board
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Preface

Purpose of the IVS Additional Technical Revisions Exposure Draft

Stakeholders are invited to comment on all revisions in the IVS Additional Technical Revisions Exposure Draft. As part of the consultation process questions related to each specific valuation topic are included at the end of each chapter. There is also an executive summary of all the consultation questions contained within the last chapter of this document. Please note that in addition to revisions and questions, the IVSC welcomes general feedback from respondents on any matters in IVS.

Background and Scope

IVS was issued in July 2019 and became effective on 31 January 2020. Since that time, the IVSC Boards (collectively Standards Review, Business Valuation, and Tangible Asset Boards) have continued to make technical revisions to IVS and are due to publish IVS (effective 31 January 2022) in June 2021.

Following the publication of IVS (effective 31 January 2020) a number of technical clarifications were suggested by stakeholders during the consultation process, which are contained within this Exposure Draft.

Furthermore, following on from the publication of A Bridge from USPAP to IVSC, representatives of the Appraisal Institute of Canada (AIC) and the Appraisal Foundation (TAF) met with representatives of the IVSC several times during the course of the past two years to discuss harmonisation of valuation standards and further alignment with IVS. As part of this process it was felt that the first major step to harmonisation was to agree core valuation standard setting principles and core valuation principles. These core principles are incorporated within the Introduction and are the overarching principles on which IVS are based. Further harmonisation meetings with the IVSC and CUSPAP and USPAP representatives are planned during 2020 and 2021.

Structure of this Exposure Draft

The Boards determined that there was no need to republish the entirety of IVS (effective 31 January 2020), but rather have highlighted the substantive changes and other related paragraphs as needed for context. Respondents are, however, requested to review these changes in the context of the relevant Chapters of IVS (effective 31 January 2020). All draft additions are shown in dark red, while deletions are shown in dark red and crossed through.
The structure of this technical review is as follows:

Preface
I: IVS Introduction
II: IVS Glossary
III: IVS Framework
IV: IVS 101 Scope of Works
V: IVS 102 Investigations and Compliance
VI: IVS 103 Reporting
VII: IVS 104 Bases of Value
VIII: IVS 105 Valuation Approaches and Methods
IX: IVS 200 Business and Business Interests
X: IVS 400 Real Property Interests

Other ongoing projects and updates

The Boards are continuing to advance other topics from the Invitation to Comment, including ESGs, Long-term Value, Social Value, Uncertainty and Risk, Valuation Models, Data Handling and Data Control. The Boards have already issued the exposure draft for IVS 230 Liabilities, which came out of consultation on 30 June 2020 and intend to issue the final standard and a Basis of Conclusion later in 2021. Furthermore, the IVSC Financial Instruments Board are currently in the process of revising IVS 500 and have already issued an Exposure Draft covering Governance and Data on 11 December 2020 date and will be issuing an Exposure Draft on Methods and Models, and Controls and Reporting, later this year.
I. IVS Introduction

Background and Scope

The Appraisal Institute of Canada (AIC), the International Valuation Standards Council (IVSC) and The Appraisal Foundation (TAF) met in Washington DC on the 29 and 30 August 2018 to discuss the further alignment of the Canadian Uniform Standards of Professional Appraisal (CUSPAP) and the Uniform Standards of Professional Appraisal Practice (USPAP) with International Valuation Standards (IVS).

During the meeting, representatives of the standard setting bodies discussed initial steps toward alignment. As part of this process, IVSC began incorporating some CUSPAP and USPAP definitions such as *intended use* and *intended user* within the IVS Glossary. In the same spirit, the AIC and TAF have agreed to use the terms *valuer* and *valuation practice* in this document in lieu of the more familiar *appraiser* and *appraisal practice*.

A follow-up meeting of the working group was held on 31 May 2019. During this meeting CUSPAP, IVS and USPAP representatives (shown below) agreed that whichever valuation standard was used, the valuer should produce credible results.

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>Aida Dedajic</td>
<td>Standards Board Programme Manager, TAF</td>
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<td>Alexander Aronsohn</td>
<td>Technical Director, IVSC Tangible Assets Board</td>
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<tr>
<td>Ben Elder</td>
<td>Chair, IVSC Tangible Assets Board; IVSC Standards Review Board</td>
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<tr>
<td>David Bunton</td>
<td>President, TAF</td>
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<tr>
<td>John S Brenan</td>
<td>Vice President, Appraisal Issues, TAF</td>
</tr>
<tr>
<td>Robert Schultzze</td>
<td>Professional Standards and Guidance , AIC Director</td>
</tr>
<tr>
<td>Sir David Tweedie</td>
<td>Chairman, IVSC Board of Trustees</td>
</tr>
<tr>
<td>Thomas Boyle</td>
<td>US Bank Chief Appraiser</td>
</tr>
<tr>
<td>Wayne Miller</td>
<td>Chair Appraisal Standards Board, TAF</td>
</tr>
</tbody>
</table>

Furthermore, the representatives agreed that, although the different valuation standards may adopt slightly different requirements at different times, ultimately the requirements followed would be more or less the same. This is the same parallelism that is already demonstrated in the bridging document *A Bridge from USPAP to IVS 2018: A Guide to Producing IVS-Compliant Appraisals (the Bridge)*.

TAF and AIC representatives felt that it was neither advisable nor feasible to adopt the IVS text. This is because CUSPAP and USPAP are widely adopted in their marketplaces for tangible assets valuations and, in the case of USPAP, they are responsible for setting congressionally authorised standards and qualifications for real estate appraisers. The representatives also felt that a medium-term goal should be to align the wording of CUSPAP, USPAP and IVS where possible.

In addition, it was felt that the high degree of harmonisation that already exists amongst the three standards should be recognised. It is believed that CUSPAP, USPAP and IVS are
founded on the same core principles and are also strikingly similar in terms of the ongoing management of each existing standard.

It was felt that memorialising these core principles of valuation and the core principles of valuation standards would not only demonstrate the harmonisation already in existence but also clarify vital expectations for all standard setters.

Following the 31 May meeting, a drafting subgroup was formed, comprised of the following members:

Alexander Aronsohn  Technical Director, IVSC Tangible Assets Board
Thomas Boyle       US Bank Chief Appraiser
John S Brenan      Vice President, Appraisal Issues, TAF
Robert Schultze    Professional Standards and Guidance, AIC Director

Following John Brenan’s departure from TAF his position within TAF and the drafting subgroup was taken over by Lisa Desmarais (TAF, Vice President, Appraisal Issues).

This subgroup drafted the attached Core Principles of Valuation Standards & Core Principles of Valuation Consultation Document, which was submitted to the TAF, AIC and IVS Standards Boards for consideration and review.

On 28 July 2020 a final follow-up meeting of the working group was held, and this meeting was comprised of the following participants:

Name                  Organisation
Aida Dedajic          Standards Board Programme Manager, TAF
Alexander Aronsohn    Technical Director, IVSC Tangible Assets
Amy Timmerman         Director of Communications, TAF
Ben Elder             Chair, IVSC Tangible Assets Board; IVSC Standards Review Board
David Bunton          President, TAF
Dena Knopp            Member of the Appraisal Standards Board, AIC
JoEllen (Blass) Alberts Engagement Coordinator, TAF
John S Brenan         Vice President, Appraisal Issues, TAF
Nick Talbot           CEO, IVSC
Robert Schultze       Professional Standards and Guidance, AIC Director
Thomas Boyle          US Bank Chief Appraiser
Wayne Miller          Chair Appraisal Standards Board, TAF

At this meeting it was agreed that core valuation standard-setting principles and core valuation principles would be drafted for possible adoption by AIC, IVSC and TAF.

Additionally, the attendees felt these core principles have applicability to other markets. Therefore, they established that, having mutually agreed upon valuation definitions and core valuation principles, these could possibly be incorporated into other valuation standards publications as part of the alignment process.
Proposed Changes to IVS (effective 31 January 2020) Introduction

Glossary Excerpts

The IVSC Boards have proposed the following changes to the Glossary in order to provide additional clarification to terms used within IVS (effective 31 January 2020):

The IVSC is an independent, not-for-profit organisation committed to advancing quality in the valuation profession. Our primary objective is to build confidence and public trust in valuation by producing standards and securing their universal adoption and implementation for the valuation of assets across the world. We believe that International Valuation Standards (IVS) are a fundamental part of the financial system, along with high levels of professionalism in applying them.

Valuations are widely used and relied upon in financial and other markets, whether for inclusion in financial statements, for regulatory compliance or to support secured lending and transactional activity. The IVS are standards for undertaking valuation assignments using generally recognised concepts and principles that promote transparency and consistency in valuation practice. The IVSC also promotes leading practice approaches for the conduct and competency of professional valuers.

The IVSC Standards Review Board is the body responsible for setting the IVS. The Board has autonomy in the development of its agenda and approval of its publications.

In developing the IVS, the Board:

- follows established due process in the development of any new standard, including consultation with stakeholders (valuers, users of valuation services, regulators, valuation professional organisations, etc) and public exposure of all new standards or material alterations to existing standards,
- liaises with other bodies that have a standard-setting function in the financial markets,
- conducts outreach activities including round-table discussions with invited constituents and targeted discussions with specific users or user groups.

The objective of the IVSC is to increase the confidence and trust of users of valuation services by establishing transparent and consistent valuation practices. A standard will do one or more of the following:

- identify or develop globally accepted principles and definitions,
- identify and promulgate considerations for the undertaking of valuation, assignments and the reporting of valuations,
- identify specific matters that require consideration and methods commonly used for valuing different types of assets or liabilities.

The IVS consist of mandatory requirements that must be followed in order to state that a valuation was performed in compliance with the IVS. Certain aspects of the standards do not direct or mandate any particular course of action but provide fundamental principles and concepts that must be considered in undertaking a valuation.
The IVSC Standards Boards have taken into account the following core principles when drafting the International Valuation Standards.

**Core Principles of Valuation Standard Setting**

1. **Purpose (Objective)**
The purpose of valuation standards is to promote and maintain a high level of public trust in valuation practice by establishing appropriate requirements for valuers.

2. **Valuation Standards**
Valuation Standards should be principle based and adequately address the development of a credible opinion of value and the communication of that opinion to the intended user(s).

3. **Development and Revisions of Standards**
Standards are to be created and revised when necessary by way of a transparent process after appropriate exposure.

4. **Jurisdiction**
Departures from the standards to comply with legislative and regulatory requirements that are in conflict with the standards are allowed.

**Core Principles of Valuation**

1. **Ethics**
Valuers must follow the ethical principles of integrity, objectivity, impartiality, confidentiality, competence and professionalism to promote and preserve the public trust.

2. **Competency**
At the time the valuation is submitted, valuers must have the technical skills and knowledge required to appropriately complete the valuation assignment.

3. **Compliance**
Valuers must disclose or report the published valuation standards used for the assignment and comply with those standards.

4. **Basis (ie, Type or Standard) of Value**
Valuers must select the basis (or bases) of value appropriate for the assignment and follow all applicable requirements. The basis of value (or bases) must be either defined or cited.

5. **Date of Value (ie, Effective Date/Date of Valuation)**
Valuers must disclose or report the date of value that is the basis of their analyses, opinions or conclusions. Valuers must also state the date they disclose or report their valuation.

6. **Assumptions and Conditions**
Valuers must disclose significant assumptions and conditions specific to the assignment that may affect the assignment result.

7. **Intended Use**
Valuers must disclose or report a clear and accurate description of the intended use of the valuation.
8. **Intended User(s)**
Valuers must disclose or report a clear and accurate description of the intended user(s) of the valuation.

9. **Scope of Work**
Valuers must determine, perform, and disclose or report a scope of work that is appropriate for the assignment that will result in a credible valuation.

10. **Identification of Subject of Valuation**
Valuers must clearly identify what is being valued.

11. **Data**
Valuers must use appropriate information and data inputs in a clear and transparent manner so as to provide a credible valuation.

12. **Valuation Methodology**
Valuers must properly use the appropriate valuation methodology(ies) to develop a credible valuation.

13. **Communication of Valuation**
Valuers must clearly communicate the analyses, opinions and conclusions of the valuation to the intended user(s).

14. **Record Keeping**
Valuers must keep a copy of the valuation and a record of the valuation work performed for an appropriate period after completion of the assignment.

The IVS are arranged as follows:

**The IVS Framework**
This serves as a preamble to the IVS. The IVS Framework consists of general principles for valuers following IVS regarding objectivity, judgement, competence and acceptable departures from IVS.

**IVS General Standards**
These set forth requirements for the conduct of all valuation assignments including establishing the terms of a valuation engagement, bases of value, valuation approaches and methods, and reporting. They are designed to be applicable to valuations of all types of assets and for any valuation purpose.

**IVS Asset Standards**
The Asset Standards include requirements related to specific types of assets. These requirements must be followed in conjunction with the General Standards when performing a valuation of a specific asset type. The Asset Standards include certain background information on the characteristics of each asset type that influence value and additional asset-specific requirements on common valuation approaches and methods used.

**What is the Effective Date?**
This version of International Valuation Standards is published on 31 July 2019, with an effective date of 31 January 2020. The IVSC permits early adoption from the date of publication.
Future Changes to these Standards
The IVSC Standards Board intends to continuously review the IVS and update or clarify the standards as needed to meet stakeholder and market needs. The Board has continuing projects that may result in additional standards being introduced or amendments being made to the standards in this publication at any time. News on current projects and any impending or approved changes can be found on the IVSC website at www.ivsc.org.


Questions for Respondents

Question 1.1: Are there any revisions or additions that you would make to the Core Principles of Valuation Standard Setting? If yes, please provide full details of the recommended revisions or additions, together with your reasoning for the proposed changes.

Question 1.2: Are there any revisions or additions that you would make to the Core Principles of Valuation? If yes, please provide full details of the recommended revisions or additions, together with your reasoning for the proposed changes.
II. IVS Glossary

Background and Scope

Further to the publication of IVS (effective 31 January 2020) which included the USPAP definitions for Assignment, Client, Confidential Information, Intended Use, Intended User and Purpose the Boards have continued to review the definitions contained within IVS.

In April 2020 the IVSC Standards Review Board set up a working group to review the IVS Glossary, comprised of the following participants:

<table>
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<tr>
<th>Name</th>
<th>IVSC Board</th>
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<tbody>
<tr>
<td>Alexander Aronsohn (chair)</td>
<td>Technical Director, IVSC Tangible Assets Standards</td>
</tr>
<tr>
<td>Mauro Bini</td>
<td>IVSC Standards Review Board</td>
</tr>
<tr>
<td>Roy Farthing</td>
<td>IVSC Standards Review Board</td>
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<tr>
<td>Richard Hayler</td>
<td>IVSC Standards Review Board</td>
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<tr>
<td>David Larsen</td>
<td>IVSC Standards Review Board</td>
</tr>
<tr>
<td>Kevin Prall</td>
<td>Technical Director, IVSC Business Valuation Standards</td>
</tr>
<tr>
<td>Ahmed Sabry</td>
<td>IVSC Standards Review Board</td>
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The working group were tasked with the following aims:

1. Review definitions within the existing glossary such as valuation, value and valuer to ensure applicability across all specialisms (business valuation, financial instrument valuation and tangible assets valuation),

2. Consider the inclusion of additional definitions within IVS such as calculation, cost, model and price.

Since April 2020 the working group have met on a monthly basis and have recommended that the following additional definitions are included in the glossary to provide extra technical clarification to the use and interpretation of IVS.

- Automated Valuation Models (AVMs)
- Basis of Value
- Cost
- Discount Rate
- Investment Value
- Limited Scope Engagement
- Model
- Price
- Social Value
- Valuation
- Valuation Approach
- Valuation Engagement
- Valuation Method
- Value
- Valuer

The Boards discussed the context of additional definitions within IVS (effective 31 January 2020), and whether such definitions represent universal terms to be utilised across all specialisms and jurisdictions, or whether these terms are specific to IVS (effective 31 January 2020). The Boards agreed that not only did these additional definitions work across all specialisms, but also felt that the inclusion of these terms would help drive harmonisation across disciplines and jurisdictions.
**Proposed Changes to IVS (effective 31 January 2020) Glossary**

**Glossary Excerpts**

The IVSC Boards have proposed the following changes to the Glossary in order to provide additional clarification to terms used within IVS (effective 31 January 2020):

**Automated Valuation Model (AVM)**
A system that provides an indication of value of a specified Asset at a specified date, using calculation techniques in an automated manner. An AVM may not meet the requirements of a Model as defined in this glossary.

**Basis of Value**
The fundamental premises on which the reported Values are or will be based (see IVS 105 Valuation Approaches and Methods, para 10.1) (in some jurisdictions also known as standard of value).

**Cost**
The consideration or expenditure required to acquire or create an Asset.

**Discount Rate**
A rate of return used to convert a monetary sum, payable or receivable in the future, into a present value.

**Equitable Value**
This is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

**Fair Market Value**
1. The Organisation for Economic Co-operation and Development (OECD) defines Fair Market Value as the price a willing buyer would pay a willing seller in a transaction on the open market.

2. For United States tax purposes, Regulation §20.2031-1 states: “The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts”.

**Fair Value (International Financial Reporting Standards)**
IFRS 13 defines Fair Value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Investment Value**
The Value of an Asset to the owner or a prospective owner given individual investment or operational objectives (may also be known as Worth).

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1 United States Internal Revenue Service
**Limited Scope Engagement**
The act or process of determining an indication of Value with limitations in analyses, procedures, or scope that is not compliant with IVS (see IVS Framework, Section 60).

**Liquidation Value**
The amount that would be realised when an asset or group of assets are sold on a piecemeal basis. Liquidation Value should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation Value can be determined under two different premises of value (see IVS 104 Bases of Value, Section 80):
(a) an orderly transaction with a typical marketing period; or
(b) a forced transaction with a shortened marketing period.

**Market Value**
The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

**Model**
A Model is a formalised system requiring variables, assumptions, judgements and equations to calculate the Value under a given Basis of Value (see IVS 105 Valuation Approaches and Methods, Section 90).

**Price**
The monetary or other consideration asked, offered or paid for an Asset, which may be different from the Value.

**Social Asset**
Social Assets are assets or projects that exist primarily for the social benefit they provide. The value of these assets rarely accrues solely to the providers of capital.

**Social Value**
Social Value includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial impacts including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users.

**Synergistic Value**
The result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer then Synergistic Value will differ from Market Value, as the Synergistic Value will reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as marriage value.

**Valuation**
The act or process of determining an opinion or conclusion of Value of an Asset on a stated Basis of Value at a specified date consistent with IVS.
Valuation Approach
In general, a way of estimating Value that employs one or more specific Valuation Methods (see IVS 105 Valuation Approaches and Methods).

Valuation Assignment
The act or process of performing a Valuation for the Intended User(s) that is compliant with IVS. A valuation assignment is performed by an employed (internal) valuer (see IVS 101 Scope of Work, para 10.2a).

Valuation Engagement
The act or process of performing a Valuation for the Intended User(s) that is compliant with IVS. A valuation engagement is performed by an engaged (contracted/external) valuer (see IVS 101 Scope of Work, para 10.2b).

Valuation Method
Within Valuation Approaches, a specific way to estimate a Value.

Value
Value is an opinion, not a fact. Value is an estimate of either the most probable monetary consideration for an interest in an Asset, or the present value of the economic benefits of holding an interest in an Asset, on a stated Basis of Value.

Valuer
A valuer is an individual, group of individuals, or individual within an entity whether employed (internal) or engaged (contracted/external) possessing the necessary qualifications, ability and experience to undertake a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a valuer.

Worth
The Value of an Asset to the owner or a prospective owner given individual investment or operational objectives (may also be known as Investment Value).

Questions for Respondents
Question 2.1: Do you believe that IVS (effective 31 January 2020) should define the terms outlined above? If not, please discuss which additional definition(s) are not necessary and please provide your reasoning.

Question 2.2: Do you believe that there are any other definitions that should be included in the IVS Glossary? If so, please provide the term(s), the definition(s) together with the source, if a) applicable and b) your reasoning for why you think the inclusion of the additional definition is necessary.

Question 2.3: Do you agree with definition provided for the new defined terms noted above? If not, please provide a revised definition and the basis for the definition.
III. IVS Framework

Background and Scope

As part of the feedback received since the publication of IVS (effective 31 January 2020) from the IVS 2017 Additional Technical Revisions Exposure Draft consultation process, a number of respondents asked for clarification on whether the framework equally applied to individual valuers as well as groups of individuals.

Some respondents also felt that in order for the framework to be equally applicable to financial instruments valuers Section 20 Assets and Liabilities would also need to include reference to “present and future claims on assets and liabilities” (see Section 20 Assets and Liabilities as follows).

The Boards also received a number of comments on Section 60 Departures, with a number of respondents feeling that the current standards in relation to departures was too wide and it was potentially possible for any valuation to be compliant with IVS (effective 31 January 2020) providing the departure was due to “specific legislative, regulatory or other authoritative requirements”. The Boards therefore decided to revise to the departures section in order to narrow the scope for departures and to provide further clarification in relation to Departures. (see Section 60 as follows).

The Boards also discussed Limited Scope Engagements and whether the “act or process of determining and indication of Value with limitations in analyses, procedures or scope” was compliant with IVS (effective 31 January 2020). Further to discussions the Boards felt that it was unlikely for an engagement of this nature to be fully compliant with IVS (effective 31 January 2020). The Boards also felt that Limited Scope Engagements were similar to Departures and therefore have not only changed the nomenclature of this section to Departures and Limited Scope Engagements but have also included the requirement for the valuer to disclose the “significant ways in which they differ from the requirements of IVS”.

Further to the comments received the Boards considered these comments and have proposed the following revisions to the IVS Framework to provide additional clarification on the use of IVS (effective 31 January 2020).

Proposed Changes to IVS Framework

The Boards have proposed the following change to IVS Framework in order to provide additional clarification:

10. Compliance with Standards

10.1. When a statement is made that a valuation will be, or has been, undertaken in accordance with the IVS, it is implicit that the valuation has been prepared in compliance with all relevant standards issued by the IVSC.

10.2 In order for a valuation to be compliant with IVS the valuer must comply with the requirements contained within IVS.

10.3 A valuer can only depart from an IVS standard as described in Section 60, below.
20. **Assets and Liabilities**

20.1. The standards can be applied to the valuation of assets, liabilities and present and future claims on asset and liabilities. To assist the legibility of these standards, the words asset or assets have been defined to include liability, liabilities and financial instruments, groups of assets, or assets and liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded.

30. **Valuer**

30.1. Valuer is defined as an individual, or group of individuals, whether employed or engaged, possessing the necessary qualifications, ability and experience to undertake a valuation including the handling of data in an objective, unbiased and competent manner. In some jurisdictions, licensing is required before one can act as a valuer. Because a valuation reviewer must also be a valuer, to assist with the legibility of these standards, the term valuer includes valuation reviewers except where it is expressly stated otherwise or is clear from the context that valuation reviewers are excluded.

50. **Competence**

50.1. Valuations must be prepared by an individual or groups of individuals, whether employed or engaged, having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation.

60. **Departures**

60.1. A Departure is a circumstance where specific legislative, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS.

60.2. As required by IVS 101 Scope of Work, para 20.3 (n) and IVS 103 Reporting, para 10.2 the nature of any departures must be identified (for example, identifying that the valuation was performed in accordance with IVS and local tax regulations). If there are any departures that affect the nature of the procedures performed, inputs, data, and assumptions used, and/or valuation conclusion(s), a valuer must also disclose the specific legislative, regulatory or other authoritative requirements and the ways in which they differ from the requirements of IVS (for example, identifying that the relevant jurisdiction requires the use of only a market approach in a circumstance where IVS would indicate that the income approach should be used).

60.3. Some Valuation Professional Organisations or Regulatory regimes may allow procedures which deviate from IVS. In such circumstances, except as described in preceding paras 60.1 and 60.2, the resultant valuation would not be compliant with IVS.
Questions for Respondents

**Question 3.1:** Do you agree with the proposed revision to Section 20 Assets and Liabilities to incorporate *present and future claims on asset and liabilities*? If not please provide your reasoning.

**Question 3.2:** Do you agree with the proposed revisions to Section 30 Valuer to incorporate *an individual or groups of individuals whether employed or engaged*? If not please provide your reasoning.

**Question 3.3:** Do you agree with the proposed revisions to Section 50 Competence to incorporate *groups of individuals whether employed or engaged*? If not please provide your reasoning.

**Question 3.4:** Do you agree with the proposed revisions to Section 60 Departures and Limited Scope Engagements to include Limited Scope Engagements? Do you feel that some Limited Scope Engagements should be included in IVS *(effective 31 January 2020)*, if not please provide your reasoning?
IV. IVS 101 Scope of Work

Background and Scope
As part of the feedback received since the publication of IVS (effective 31 January 2020) and from the IVS 2017 Additional Technical Revisions Exposure Draft consultation process, some respondents questioned whether the use of the term Valuation Engagement within para 10.1 was appropriate as it implied that this section only related to engaged valuers.

Further to Board discussion it was felt that the term Valuation Assignment was more appropriate and provided additional clarification that this section applied to both employed and engaged valuers.

In addition, and in order to provide consistency across the general standards the sections within parentheses for 10.2 (a) and 10.2(b) from referring to in-house valuations and third-party valuations have been changed to refer to employed and engaged valuers.

Proposed Changes to IVS 101 Scope of Work
The Boards have proposed the following change to IVS 101 Scope of Work in order to provide additional clarification:

10. Introduction
10.1. A scope of work (sometimes referred to as terms of engagement) describes the fundamental terms of a valuation assignment or valuation engagement, such as the asset(s) being valued, the purpose of the valuation and the responsibilities of parties involved in the valuation. The requirements for a scope of work can be met using the supporting documentation that is used to provide a valuation as either an engaged or employed valuer.

10.2. This standard is intended to apply to a wide spectrum of valuation engagements and assignments, including:
   (a) valuations performed by valuers for their own employers (employed)
   (b) valuations performed by valuers for clients other than their employers (engaged); and,
   (c) valuation reviews where the reviewer may not be required to provide their own opinion of value.

Questions for Respondents
Question 4.1: Should IVS (effective 31 January 2020) change Section 10.1 to refer to valuation assignment? If not, please provide your reasons.

Question 4.2: Should IVS (effective 31 January 2020) change the words in parentheses within Section 20.1 (a) and (b) to refer to employed and engaged valuers.? If not, please provide your reasons.
V. IVS 102 Investigations and Compliance

Background and Scope

As part of the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft consultation process and further to discussions amongst the IVSC Boards it was felt that the following section on Compliance with other standards was repetitive and unnecessary as the requirements contained within were already within contained within the IVS Framework.

40. Compliance with Other Standards

40.1. As noted in the IVS Framework, when statutory, legal, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS, a valuer must follow the statutory, legal, regulatory or other authoritative requirements (called a departure). Such a valuation has still been performed in overall compliance with IVS.

40.2. Most other sets of requirements, such as those written by Valuation Professional Organisations, other professional bodies, or firms’ internal policies and procedures, will not contradict IVS and, instead, typically impose additional requirements on valuers. Such standards may be followed in addition to IVS without being seen as departures as long as all of the requirements in IVS are fulfilled.

In addition, and further to the proposed changes to IVS 500 Financial Instruments the Board felt that IVS 102 Investigations and Compliance should include a new Section 40 on Governance as a consequential amendment as Governance was an important issue in relation to all valuation specialism and should therefore be contained within IVS (effective 31 January 2020).

As a result of the addition of the new Section 40 on Governance within this chapter the Boards have changed the nomenclature for this chapter from IVS 102 Investigations and Compliance to IVS 102 Investigations and Governance.
Proposed Changes to IVS 102 Investigations and Compliance

The Boards have proposed the following change to IVS 102 Investigations and Compliance as a consequential amendment due to proposed changes within IVS 500 Financial Instruments and in order to provide additional clarification to the General Standards:

40. Governance

40.1. Valuation processes should be governed in order to ensure high quality valuations. Governance should clarify the roles and responsibilities of the parties involved in the valuation process.

40.2. A systematic approach should be used in order to ensure sound valuation results. Governance over the valuation process should include considerations such as:

a. Independence and professional scepticism of those involved in the valuation process to make certain that the valuation is free from bias
b. Pre-planning to establish a sound approach that addresses all relevant valuation factors.

c. Consistent and systematic processes to help provide completeness and accuracy.
d. Internal controls to check findings and judgements at various steps of the valuation process.
e. Transparency into the valuation approach(es) that were used and the factors that resulted in that determination.
f. Documentation (see IVS 102 Investigations and Compliance, Section 30 Valuation Record and IVS 103 Reporting) that includes a demonstrable understanding of the contractual and performance features of the unit being valued and how they are each addressed in the valuation.

40.3. Governance should clarify the roles and responsibilities of the parties involved in the valuation process.

40.4. Controls should be in place to verify the quality and observability of the inputs and tools used in the valuation process, including:

a. Sources for reliable and observable data
b. High quality modelling systems, as applicable.

Questions for Respondents

Question 5.1: Do you agree with moving Section 40 Compliance with Other Standards to the IVS Framework? If not, please provide your preferred location for this section together with your reasoning.

Question 5.2: Are there any requirements within newly titled IVS102 Investigations and Governance, Section 40 Governance that you feel should be revised, added or removed? Please provide your reasoning for any suggested changes.
VI. IVS 103 Reporting

Background and Scope

Further to discussions amongst the Boards and in order to create further alignment with financial instrument valuers, who are for the most part undertaking valuations for their own employers (employed) the Boards have recommended the following changes to make this chapter more applicable to financial instruments valuers.

Proposed Changes to IVS 103

The Boards have proposed the following change to IVS 103 Reporting in order to provide additional clarification:

10. Introduction

10.1. It is essential that the valuation report and/or supporting documentation communicates the information necessary for proper understanding of the valuation or valuation review. A report must provide the intended users with a clear understanding of the valuation. For the purposes of this section report also means supporting documentation that is used to provide a valuation as either an engaged or employed valuer.

Questions for Respondents

Question 6.1: Do you agree with the proposed changes to Section 10.1? If not, please provide your reasoning.
VII. IVS 104 Bases of Value

Background and Scope

Further to the publication of IVS 2017 Additional Technical Revisions Exposure Draft during 2019 and feedback received during the consultation process the Boards continued to discuss revisions to the proposed section on Allocation of Value to ensure that this section applied to all specialisms (business valuation, financial instruments valuation, and tangible assets valuation) and could be contained within the General Standards.

In December 2019 the Boards set up the following cross specialism allocation of value working group to review the issue of allocation of value and draft a revised text on allocation of value to be included within IVS 104 Bases of Value Section 220.

<table>
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<tr>
<th>Name</th>
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<tbody>
<tr>
<td>Alexander Aronsohn</td>
<td>Technical Director, IVSC Tangible Assets Standards</td>
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<tr>
<td>Dirk Hennig</td>
<td>IVSC Business Valuation Board</td>
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<tr>
<td>Ian Jedlin</td>
<td>IVSC Standards Review Board</td>
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<tr>
<td>Rengganis Kartomo</td>
<td>IVSC Tangible Assets Board</td>
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<td>IVSC Standards Review Board</td>
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<td>Kevin Prall</td>
<td>Technical Director, IVSC Business Valuation Standards</td>
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<tr>
<td>Jay Shaw</td>
<td>IVSC Business Valuation Board</td>
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<tr>
<td>Richard Stewart</td>
<td>IVSC Business Valuation Board</td>
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As part of the standards setting process the IVSC Standards Review Board also reviewed standards on Allocation of Value provided by other standard setters such as the Financial Accounting Standards Board have written the following standard in relation to allocation of value:

“Allocations shall be performed on a reasonable and consistent basis using a methodology appropriate in the circumstances. Facts and circumstances, such as relevant characteristics of [item(s) being valued], must be considered when making this allocation. Generally, the allocation method should be consistent with the overall valuation premise/basis.”2

Further to several working group calls and review by the Boards to ensure that the proposed section worked from both a “top down” and “bottom up” approach the proposed section on Allocation of Value has been revised to meet the needs of all specialisms.

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2 FASB ASC 820-10-35-18F
Proposed Changes to IVS 104 Bases of Value

The Boards have proposed the following change to IVS 104 Bases of Value in order to provide additional clarification on allocation of value:

220. Allocation of Value
220.1 Allocation of value is the separate apportionment of value of an asset(s) on an individual or component basis.

220.2 When apportioning value, the allocation method should generally be consistent with the overall valuation premise/basis and the valuer should:
   a. follow any applicable legal or regulatory requirements
   b. set out a clear and accurate description of the purpose and intended use
   c. use a reasonable and consistent basis
   d. adopt appropriate methodology(ies) in the circumstances
   e. consider the facts and circumstances, such as the relevant characteristic(s) of the items(s) being apportioned.

220.3 If the sum of the value of the individual allocated components differs from the value of the assets on an aggregate basis, then the valuer should expressly state the primary reason(s) for the difference.

Questions for Respondents

Question 7.1: Section 220.1 states that allocation of value is the separate apportionment of value of an asset(s) on an individual or component basis. Do you agree with this statement? If not, please provide your reasoning and suggested revision to this section.

Question 7.2: Section 220.2 provides requirements for the valuer when allocating value. Do you believe that any requirements should be added or removed from this list? Please provide details of any suggested revisions together with your reasoning.

Question 7.3: Should the valuer expressly state the primary reason for the sum of the value of the individual allocated components differing from the value of the assets on an aggregate basis as stated in 220.3? If not, please provide your reasoning.

Question 7.4: 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 include.
VIII. IVS 105 Valuation Approaches and Methods

Background and Scope

From discussions amongst the Boards it was understood that many valuation models used for financial instruments valuation may not be easily classified using the classification system contained within IVS 105 Valuation Approaches and Methods as many financial instrument models use a mix of the Market Approach, Income Approach and Cost Approach.

Further to discussions amongst the Boards and in order to create further alignment with financial instrument valuers, the Boards have suggested the inclusion of the Hybrid Approach as a fourth valuation approach within this chapter. The Boards felt that the inclusion of the Hybrid Approach would not only assist financial instruments valuers but would also assist other specialisms where other hybrid valuation methodologies such as the residual method are unable to be easily classified under the Market, Income Approach or Cost Approach.

Further to the publication of IVS 2017 Additional Technical Revisions Exposure Draft during 2019 where it was stated that “in due course the Boards are planning to include standards on data management within the General Standards” and the publication of Section 100 on Valuation Model the Boards have been discussing the inclusion of an additional section on data management.

In December 2019 the Boards set up the following IVS 101 to IVS 105 working group to review the existing General Standards and to draft a section on Data Management to be contained within IVS 105 Valuation Approaches and Methods.

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<td>Kumar Dasgupta</td>
<td>Technical Director, IVSC Financial Instruments Standards</td>
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<td>Susan DuRoss</td>
<td>IVSC Standards Review Board</td>
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<td>David Larsen</td>
<td>IVSC Standards Review Board</td>
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<tr>
<td>Andreas Ohl</td>
<td>Chair, IVSC Business Valuation Board</td>
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<tr>
<td>Kevin Prall</td>
<td>Technical Director, IVSC Business Valuation Standards</td>
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<tr>
<td>Mark Zyla (chair)</td>
<td>Chair, IVSC Standards Review Board</td>
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Proposed Changes to IVS 105 Valuation Approaches and Methods

The Boards have proposed the following changes to IVS 105 Valuation Approaches and Methods in order to provide further alignment with financial instruments valuations.

10. Introduction
10.1. Consideration must be given to the relevant and appropriate valuation approaches. The four approaches described and defined below are the main approaches used in valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution. The principal valuation approaches are:

a. market approach,
b. income approach,
c. cost approach, and
d. hybrid approach.

80. Hybrid Approach
80.1. The Hybrid Approach uses one or more of a combination of the Market Approach, Income Approach and Cost Approach but cannot be easily categorised as one of the existing valuation approaches.

The Boards have also proposed the following addition to IVS 105 in order to provide further clarification on the valuer’s requirements in relation to data management.

100. Data Management
100.1. Valuation models require the use of data inputs, and the reliability of the valuation output is directly correlated to the accuracy and appropriateness of data inputs. The valuer should perform a professional opinion as to the reliability of:

a. the source of the data
b. the independence of the data
c. the reliability of the source
d. the appropriateness of the use of the data for the specific valuation context; and
e. any risks or limitations of the use of the data in this context

100.2. Data sources should be applied in order of appropriateness and level of confidence.

100.3. Valuers involved with work that includes data must conform and demonstrate compliance to the materially relevant legislation, regulatory or other relevant authoritative requirements for the handling of such data in the context of the valuation assignment.
Questions for Respondents

Question 8.1: Do you think that IVS 105 *Valuation Approaches and Methods* should include a section on the Hybrid Approach? If not, please provide your reasoning.

Question 8.2: Do you think that IVS (*effective 31 January 2020*) should include a section within the General Standards on Data Management? If not, please provide your reasoning.

Question 8.3: Do you think that valuers should consider the elements contained within Section 100.1 on Data Management in order to ensure the accuracy and appropriateness of the data? Are there any elements that you feel should be added or removed? Please provide your reasoning.

Question 8.4: Section 100.2 provides examples of valuation data. Are there any examples that you feel should be added or removed from this list? Please provide your reasoning.

Question 8.5: Section 100.3 states that “Valuers involved with work that includes data must conform and demonstrate compliance to the appropriate legislative, regulatory or other relevant authoritative requirements for the handling of such data.” Are there any instances where you feel that this is not the case, if so, please provide examples?
IX. IVS 200 Businesses and Business Interests

Background and Scope

As part of the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft consultation process and further to discussions amongst the Business Valuation Board (BVB) and other stakeholders who were unclear as to what constituted a business or business interest the BVB have proposed the following revisions to provide additional clarification on the scope of this chapter.

Proposed Changes to IVS 200 Businesses and Business Interests

The BVB have proposed the following amendments to IVS 200 Businesses and Business Interests in order to provide additional clarification on the scope of this chapter:

20. Introduction

20.1. The definition of what constitutes a business, may differ depending on the purpose of a valuation, but generally involves an organisation or integrated collection of assets engaged in commercial, industrial, service or investment activity. Generally, a business would include more than one asset (or a single asset in which the value is dependent on employing additional assets) working together to generate economic activity that differs from the outputs that would be generated by the individual assets on their own. A collection of Plant and Equipment (IVS 300 Reporting) and/or Real Property Interests (IVS 400 Real Property Interests) without the presence of other assets, or intangible components such as a workforce, would typically not be a business.

20.2 Individual intangible assets, or a group of intangible assets might not constitute a business but would nonetheless be within the scope of this standard if such assets generate economic activity that differs from the outputs that would be generated by the individual assets on their own. If the assets do not meet these criteria, a Valuer should defer to IVS 210 (Intangible Assets) and IVS 220 (Non-Financial Liabilities).

20.3 The commercial, industrial, service or investment activity of the business may result in greater economic activity (ie, value), than those assets would generate separately. The excess value is often referred to as going concern value or goodwill. This excess value may constitute a separate asset under certain bases of value in certain situations. The absence of excess value does not automatically mean that the asset or group of assets does not constitute a business. In addition, economically, substantially all of the value of assets within a business may reside in a single asset.

20.4 Businesses can take many legal forms, such as corporations, partnerships, joint ventures and sole proprietorships. However, businesses could take other forms such as a division, branch, line of business, segment, cash generating unit, and asset group that can consist of parts of one or more legal entities.
20.5 Interests in a business (eg, securities) can also take many forms. To determine the value of a business interest, a valuer should first determine the value of the underlying business by applying these standards. In such instances, business interests should be within the scope of this standard but depending on the nature of the interest certain other standards may be applicable.

Questions for Respondents

Question 9.1: Do you agree with the revised scope of IVS 200 Businesses and Business Interests? If not, please provide your reasoning.

Question 9.2: Do you think there are any other businesses or business interests that should be added to this scope? If so, please provide your reasoning.
X. IVS 400 Real Property Interests

Background and Scope

As part of the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft consultation process and further to discussions amongst the Tangible Assets Board (TAB) and other stakeholders who were unclear as to whether this chapter included the valuation of agriculture and land the TAB have proposed the following revisions to provide additional clarification on this matter.

In addition, the TAB has also been engaged in discussions with both the World Bank and the UN in relation to the valuation of unregistered and communal land. Further to these discussions the TAB has revised the hierarchy of interests contained within this chapter to incorporate the valuation of unregistered and communal land.

Proposed Changes to IVS 400 Real Property Interests

The TAB have proposed the following change to IVS 400 Real Property Interests in order to provide additional clarification that this chapter includes the valuation of agriculture and land and to incorporate the valuation of unregistered and communal land:

20. Introduction

20.1 Property interests are normally defined by state or the law of individual jurisdictions and are often regulated by national or local legislation. In some instances, legitimate individual, communal/community and/or collective rights over land and buildings are held in an informal, traditional, undocumented and unregistered manner outside of a modern land administration and governance system. Before undertaking a valuation of a real property interest, a valuer must understand the relevant legal framework that affects the interest being valued.

20.2 A real property interest is a right of ownership, control, use or occupation of land and buildings. A real property interest includes informal tenure rights for communal/community and or collective or tribal land and urban/rural informal settlements or transition economies, which can take the form of possession, occupation and rights to use.

There are three main types of interest:

a. the superior interest in any defined area of land. The owner of this interest has an absolute right of possession and control of the land and any buildings upon it in perpetuity, subject only to any subordinate interests and any statutory or other legally enforceable constraints,

b. a subordinate interest that normally gives the holder rights of exclusive possession and control of a defined area of land or buildings for a defined period, eg, under the terms of a lease contract; and/or,

c. a right to use land or buildings but without a right of exclusive possession or control, eg, a right to pass over land or to use it only for a specified activity.
20.6 To comply with the requirements to state the extent of the investigation and the nature and source of the information to be relied upon in IVS 101 Scope of Work, para 20.3.(j) and IVS 102 Investigations and Compliance, the following matters should be considered:

a. the evidence, if available, required to verify the real property interest and any relevant related interests,

b. the extent of any inspection,

c. responsibility for information on the site area, site characteristics and building floor areas,

d. responsibility for confirming the specification and condition of any building,

e. the extent of investigation into the nature, specification and adequacy of services,

f. the existence of any information on ground conditions and soil conditions,

g. responsibility for the identification of actual or potential environmental factors,

h. legal permissions or restrictions on the use of the property and any buildings, as well as any expected or potential changes to legal permissions and restrictions.

Questions for Respondents

Question 10.1: Do you agree with including the valuation of unregistered and communal land within IVS 400 Real Property Interests? If not, please provide your reasoning.

Question 10.2: Do you agree with the proposed changes to Section 20.6 to provide additional clarification on the valuation of agriculture and land? If not, please provide your reasoning.