



INTERNATIONAL VALUATION STANDARDS COUNCIL

IVSC STANDARDS BOARD AGENDA CONSULTATION

Responses to this Consultation Paper are invited before **10 October 2014**. All replies may be put on public record unless confidentiality is requested by the respondent. Comments may be sent as email attachments to:

CommentLetters@ivsc.org

or by post to IVSC, 1 King Street, London EC2V 8AU, United Kingdom.

Copyright © 2014 International Valuation Standards Council. All rights reserved. Copies of this document may be made for the purpose of preparing comments to be submitted to the IVSC provided such copies are for personal or intra-organisational use only and are not sold or disseminated and provided each copy acknowledges IVSC's copyright and sets out the IVSC's address in full. Otherwise, no part of this document may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without permission in writing from the International Valuation Standards Council. Please address publication and copyright matters to:

International Valuation Standards Council
1 King Street
London EC2V 8AU
United Kingdom
Email: ivsc@ivsc.org
www.ivsc.org

The International Valuation Standards Council, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Notes for respondents:

In order for us to analyse and give due weight to your comments, please observe the following:

- Responses should be made in letter format, where appropriate on the organisation's letter heading. Respondents should indicate the nature of their business and the main purpose for which provide or rely on valuations.
- Comments should not be submitted on an edited version of the Consultation Paper.
- Unless anonymity is requested, all comments received may be displayed on the IVSC website.
- Comment letters should be sent as an email attachment in either MS Word or an unsecured PDF format and no larger than 1MB. All documents provided will be converted to secured PDF files before being placed on the website.
- The email should be sent to **commentletters@ivsc.org** with the words "Agenda Consultation" included in the subject line.
- Please submit comments before **10 October 2014**.

IVSC Standards Board

Agenda Consultation

Contents

	Paras	Page
Introduction	1 - 4	2
Objectives of Standards	5 - 6	2
Project Criteria	7 - 8	3
Nature of Projects	9 - 12	3
Projects In Progress	13 - 14	4
Scope and Structure of Standards	15 - 17	4
Consultation	18 - 20	5
General Criteria for Content	21 - 26	5
Projects Currently in Agenda	27	6
Extractive Industries	28 - 29	7
Forestry	30	8
Trade Related / Going Concern Property	31 - 33	8
Specialised Public Sector Assets	34 - 36	9
Derivatives	37	10
Funding Valuation Adjustments	38	11
Valuations for Recovery	39	11
Invitation to Suggest Projects	40 - 41	12
Appendix 1 – Projects Expected to be Completed Before End of 2015		i

Introduction

1. Under the bylaws of the IVSC the IVSC Standards Board (the “Board”) has autonomy in setting its agenda. Since the restructuring of the organisation in 2008 the Board’s priority was firstly to undertake a comprehensive rewriting and organisation of the standards to better identify the core principles of good valuation practice and the broad spread of asset classes that needed to be addressed. That project was completed in 2011. For the past three years the Board has been working on topics which had been identified as requiring further attention during the general rewriting project.
2. The Board is undertaking this public consultation to help inform its agenda priorities for the three years commencing January 2015. Existing projects which are well advanced and expected to be concluded before the end of 2015 are excluded from this consultation. However, respondents are invited to indicate what they believe should be the Board’s priorities among those projects that are already in the agenda but at an early stage of development and to suggest any others that they feel the Board should undertake.
3. If a respondent wishes to suggest a new project not identified in this document it will be helpful if the specific valuation problems encountered can be identified along with the circumstances under which these have arisen. The Board also has to consider whether the problem identified is one that has international implications. Accordingly any information that respondents can include that indicates that the problem is one encountered in different countries or jurisdictions will be helpful.
4. The Board is interested in the views of valuation users and any others who rely on valuations for decision making, as well as valuation providers, valuation professional organisations and organisations with responsibility for oversight or regulation of valuation.

Objectives of the Standards

5. The objectives of the International Valuation Standards are:
 - Building Confidence and Trust:** The Board has issued and maintains requirements for providing transparency in the setting up, execution and reporting of valuation assignments, including appropriate disclosures.
 - Narrowing Differences in Valuation:** The Board undertakes projects to identify matters that require consideration when valuing different types of asset for various purposes, to identify generally accepted methods of valuation for different types of asset or liability and the circumstances under which their use is appropriate.
 - Promoting Convergence:** The Board will continue to consider any changes to the current International Valuation Standards that will assist their increased use and adoption.
6. The Board expects to give greatest priority to projects that are consistent with these objectives. However, this does not preclude the Board including other projects in its agenda where it is clear that they meet the criteria in para 7 – 8 below and where there is clear need or benefit from a standard being developed.

Project Criteria

7. The Board takes into account the following factors when considering whether to add a project to its agenda.
 - Is the project one which addresses the needs of valuation users across different jurisdictions?
 - Is there evidence of diversity in practice that could be resolved by either introducing a new standard or other form of IVSC pronouncement or by amendments to a current standard or pronouncement?
 - Is there evidence that a broad spectrum of users and providers of valuations in the sector and across jurisdictions would support IVSC developing a standard or guidance on the topic?
 - Will the project produce an overall benefit for users and providers of valuations?
 - Will the project increase the possibility of achieving the convergence of valuation standards in different jurisdictions?
 - Is the project achievable with regard to current or attainable resources and other current work priorities?
8. The Board will not consider projects to address an issue that is specific to a particular country or jurisdiction unless there is evidence that this could arise elsewhere. An example of where the Board would consider a project is where a country may be a first or early adopter of an internationally agreed regulation and as a consequence is the first to identify any consequential valuation issues.

Nature of Projects

9. The resources required and the time required for a project to be completed will vary significantly. The Board also has to balance its limited resources between maintenance and improvement of the existing standards and expanding the standards to cover topics not previously addressed.
10. A project that is narrow in scope may be an issue that can be dealt with by amending an existing standard. If the Board sees no need to form an expert group to advise on the matter, it can normally move quickly towards an Exposure Draft to invite the views of constituents on the proposed changes. These can then be finalised by the Board in public session after consideration of the views received.
11. Other projects may be wide in scope, and often significant research and consultation is required before the Board can identify the issues that can be addressed in an international context and the form of pronouncement that is appropriate. The Board will often form an expert working group to help advise on the topic and to assist in the development of its pronouncements. A wide scope project will typically start with an initial Discussion Paper to seek public input on matters that might need to be addressed and be followed by targeted consultation with parties that are affected by valuation issues in the sector before any proposed new pronouncement can be developed.

12. Based on input received from expert working groups, responses from public exposure, etc the Board may determine a project does not meet the Project Criteria in paragraph 7 – 8 as originally anticipated and withdraw the project.

Projects in Progress

13. During 2014 and 2015 the Board anticipates concluding a number of projects in its current work plan, subject to the outcome of ongoing or impending consultations. These are listed in Appendix 1 together with a brief summary of each project and its progress at the date this Consultation Paper was issued. More information on these and other projects can be found on the projects page of the IVSC website: <http://www.ivsc.org/workplan>.
14. The above projects are excluded from this consultation which is focused on projects at an earlier stage of development or those that should be considered for inclusion in the agenda.

Scope and Structure of Standards

15. Separately from this consultation on its future agenda, the Board has agreed that it is appropriate to consult on the scope and structure of future standards. Historically the IVSs have had at least five different categories of pronouncement that reflected the different types of content that were deemed necessary in a comprehensive set of standards. Major changes were made to the style and content as a result of the Standards Improvement Project between 2009 and 2011 which culminated in the issue of IVS 2011 and its associated Technical Information Papers. Since 2011 questions have been raised by some constituents as to the relationship between these various pronouncements and whether some are part of the standards or not. Others have pointed out inconsistency between the type of content included within each category.
16. The Board intends to issue a consultation document in parallel with this Agenda Consultation that will seek views on the best way to categorise and present the standards. The responses to this Agenda Consultation should therefore be confined to suggesting topics for inclusion in the agenda rather than the form of any pronouncement that might result.
17. The objective is to complete the Scope and Structure review by late 2014 so that any changes can be incorporated in pronouncements made from 2015 onwards.

Consultation

18. In this Consultation Paper we seek views on projects in the Board's current agenda and possible future projects. In order to help us analyse the reviews received we have asked similar questions on each group of projects. These are intended to provide a consistent structure for the comments on each project but should not be regarded as limiting the comments that can be made. Any additional points that respondents feel are relevant to the Board's decision of the priority to give to any project are welcome, especially if they demonstrate how the project relates to the strategic objectives, priorities and the project criteria outlined earlier in this paper.
19. Not all questions need to be answered, but to assist in the analysis of responses received, please use the question numbers in this paper to indicate to which project your comments are directed.
20. The Board will consider all comments received in deciding what its agenda priorities should be. The comments will be displayed on the IVSC website (unless a respondent requests anonymity) and a summary of the responses will be discussed at a future Board meeting. Board meetings are open to registered observers. The IVSC staff may contact individual respondents to discuss a comment submitted but comment letters will not be routinely acknowledged.

General Criteria for Content

21. The Board is undertaking a concurrent consultation on the scope and structure of the IVSs, see paras 15 – 17. Respondents who wish to comment on the type of pronouncement that should be included in the standards are requested to refer to that consultation paper and respond to the issues raised and questions asked therein. The first question that is examined in this consultation paper is the degree to which the five principal categories of asset for which standards currently exist should be supported by additional standards for either sub categories of the asset or for specific types of valuation purpose.
22. At present the IVS Framework and IVS General Standards (IVSs 101 – 103) are designed to be generic and applicable to the valuation of most types of asset or liability and for most purposes for which valuation is required. The IVS Asset Standards (IVSs 200 – 250) provide supplementary requirements and commentary to assist the application of the generic principles to each of the following five major asset classes, Businesses, Intangibles, Plant & Equipment, Real Property and Financial Instruments. The IVS Application Standards (IVS 300 – 310) provide additional requirements and guidance for specific valuation purposes.
23. The Board has previously received requests to produce guidance for sub sets of the principal asset classes included in the IVS Asset Classes. Some of these are included in its current programme. The Board recognises that the degree to which specific types of asset or liability are suitable for inclusion in international standards will vary but is also concerned that considering each suggested topic on a case by case basis may lead to an apparently random selection of topics being addressed in the standards.

24. For example, the Board accepted that there was significant diversity between different parts of the world in the way in which commercial forests are valued, that this was a topic that meets the criteria set out in its Due Process (see paras 7 – 8) and therefore added the Forestry project to its agenda (see para 30 below). However, since trees grow on land, this is a subset of real property, and many would argue that it is a sub-subset, because forestry is often classified as a type of agricultural property. The Board does not issue a standard for agricultural property, nor for any other types of agricultural property, for example arable land, orchards or grazing land.
25. The problem of how granular the standards should be is particularly acute in relation to real property, for example an argument can be made that specific guidance be produced for residential, commercial, industrial, agricultural or even subsets of these categories, such as hotels, data centres, shopping malls etc. Each of these may have some distinct valuation considerations that meet the criteria set out in the Board's Due Process.
26. The problem is not confined to real property, but also arises in relation to some of the other main asset classes. For example, the IVSC could produce guidance on how the principles in its Business Valuation standard (IVS 200) are applied in different business sectors. Likewise there are different types of intangible asset, eg intellectual property, brands, assembled workforce, and the Board is interested in views on whether it should be examining the relevant valuation considerations in greater detail in the standards.

Question 1a

Should the IVSC supplement its current standards with additional standards for subsets of assets that fall within the high level categories currently covered in IVSs 200 – IVS 250?

If yes, please indicate the nature of the subsets that you would like to see included and any criteria that you believe that the Board should take into account in determining the priority to be given to these.

Question 1b

Should the IVSC create additional standards to deal with the application of the principles in the existing IVSs to valuations for different purposes?

If yes, please indicate any purposes other than those already covered in IVSs 300 and 310 (Financial Reporting and Real Property for Secured Lending) that you would like to see included and any criteria that you believe that the Board should take into account in determining the priority to be given to these.

Projects Currently in Agenda

27. The Board has commenced the following projects but is not anticipating these being concluded within the next twelve months. Because these will still require resources to complete during the three year period to which this consultation relates, respondents' views are invited on the extent to which they encounter difficulties as a result of there being a lack of a globally recognised

valuation standard on the relevant topic. **Other comments on each of these projects, such as on the proposed scope or representations as to the conclusions that should be reached, should be avoided. There will be opportunities to comment on the detail of each project when Exposure Drafts are issued**

Extractive Industries

28. This is a project which potentially has a very wide scope. A Discussion Paper was issued in 2012 which sought views on a wide range of issues that had been brought to the Board's attention. Due to resource constraints and the granularity of many of the issues raised in paper the analysis of the responses made was not completed until the third quarter of 2013.
29. The Extractive Industries include mining and quarrying but also the extraction of energy sources such as oil and gas. While some valuation considerations, such as the identification of the reserve and the rate at which it is depleted, are common across the sectors, some of the more detailed issues identified are specific to either the mining or energy sectors, or to subsectors of those two main categories. The Board has agreed that further research is required, including consultation with a wider range of industry participants to help identify those issues that will benefit from clarification in an international standard. This will enable the Board to determine the nature and extent of the pronouncements necessary, following which drafts will be prepared for public consultation. It is not anticipated that the Board will be in a position to issue any public exposure drafts before 2015.

Question 2a

Do you or your organisation encounter valuations of assets in the Extractive Industries? If no, please proceed to Question 3a.

If yes, please indicate the nature of the assets involved and the purposes for which the valuations are required.

Question 2b

Do you have experience of problems or inconsistency in the way in which assets in the Extractive Industries are valued? If so please also indicate whether, in your experience, these are:

- i) specific to a particular country or jurisdiction or are common across borders,**
- ii) arise across all the extractive industries or are specific to a particular sector (eg mining) or subsector (eg metal ores).**

Question 2c

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Forestry

30. The Board had been alerted to various problems arising when valuing commercial forests, including the impact of the tax incentives commonly given by governments for investment in forest enterprises and inconsistencies in the approach to providing separate values for the biological asset (the trees) and the land in order to comply with the accounting requirements in IAS 41 Agriculture. An Exposure Draft was issued for comment in late 2012. The responses to that Exposure Draft revealed an unexpected degree of diversity that went beyond the issues that the Board had originally sought to address. The Board agreed that further research is required, including consultation with producers and investors who operate across borders before a decision can be made on the scope and form of any future pronouncement on this topic.

Question 3a

Do you or your organisation encounter valuations of forests or woodland used primarily for timber production? If no, please proceed to Question 4a.

If yes, please indicate the nature of the forests and geographic region involved and the purposes for which the valuations are required.

Question 3b

Do you have experience of problems or inconsistency in the way in which commercial forests or woodlands are valued? If yes please indicate whether, in your experience, these are:

- i) specific to a particular country or jurisdiction or are common across borders,**
- ii) broadly applicable across all the types of commercial forest or to be specific to a particular sector or type of forest.**

Question 3c

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda

Trade Related / Going Concern Property

31. The IVSs in issue prior to 2011 contained a Guidance Note on "Trade Related Property", which was described as any type of real property which is normally purpose built for a specific type of business and normally changes hands at a price that reflects the trading potential of the property for the business for which it was designed. A typical example is a hotel, but it can also include many types of real property that has specialised buildings or other structures designed for a specific business activity and which cannot be readily used for another purpose. The Board initially proposed carrying forward an update of the previous Guidance Note but following consultation decided that further research was required.

32. A Discussion Paper was issued in 2012, but this attracted very few responses, mostly from one country. The Board suspects that the low interest in this topic may be that the term Trade Related Property is not widely recognised internationally. There is also a question as to whether there is any purpose in attempting to define a class or genre of real property where the only common factor is the valuation approach normally used, which is a variation of the income approach.
33. Notwithstanding the lack of response to the Discussion Paper, the Board has received anecdotal evidence of some material problems and inconsistencies in the way in which the income generated by a business in occupation of a property is analysed and value allocated between all the assets employed in the business, including the property interest.

Question 4a

Do you or your organisation produce or rely on valuations of real property that is normally bought and sold at a price which reflects the potential earnings that can be made from operating a particular type of business from the property? If no, please proceed to Question 5a.

If yes, please indicate the type or types of real property that you are aware are generally valued using this approach.

Question 4b

Do you consider that it would be beneficial for the Board to produce guidance on the method of valuation of a real property interest that uses the income that can be generated by a business in occupation as an input?

Question 4c

If you have answered yes to question 4b, please indicate the issues that commonly cause difficulty or inconsistency in applying this approach.

Question 4d

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Specialised Public Sector Assets

34. In 2011 the IVSC Professional Board commenced a project to develop guidance on the valuation of certain types of real property assets for which there are seldom active markets and which are typically held by public sector entities to provide a public service. In 2012 an Exposure Draft was issued on Specialised Public Service Assets. The title had been chosen as it had established that similar assets may be held in either the private sector or the public sector in different jurisdictions and the valuation considerations related to the characteristics of the asset rather than of the owner.

35. Notwithstanding, the majority of respondents saw the proposed guidance as relating exclusively to the public sector, and many of those indicated that valuations of public assets were only required for financial reporting. However, it was also clear from the responses that there is currently little international uniformity in public sector accounting regarding what assets may be valued or in the assumptions that have to be made when valuations are required.
36. The Standards Board has now assumed responsibility for this project. It has been questioned by some as to whether different valuation approaches are appropriate for assets held in the public sector rather than the private sector beyond any stipulations that are imposed by law or regulation in the specific jurisdiction. Others consider that the issues that arise in valuing specialised property for which there is no active market apply equally in the private sector. A third view is that any of the asset types covered in the IVSs, business interests, intangibles, plant and equipment, real property and financial instruments can and are held in both the private and public sectors. Accordingly, if there is a case for standards or guidance specifically for the public sector this should not be confined to specialised property or plant and equipment.

Question 5a

Do you or your organisation value or rely on valuations of real property, plant and equipment held in the public sector? If no please proceed to question 6a.

If yes, please indicate the purpose or purposes for which the valuations are required.

Question 5b

Do you have experience of problems or inconsistencies in the way in which these assets are valued? If yes, please indicate whether these:

- i) arise from the nature of the asset,**
- ii) arise or are likely to arise across borders,**
- iii) arise because of the need to comply with specific legislation or regulation.**

Question 5c

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Derivatives

37. The Board agreed that its project to develop guidance on the valuation of derivatives should be phased by underlying asset class. The first asset class to be developed was Equity Derivatives. This part of the project is well advanced and more details are included in the list of projects in progress at Appendix 1. The Board has agreed that the next paper in this series will be fixed income and this will be commenced as soon as the format and scope of the Equity Derivatives paper is settled. The remaining asset classes the Board intends to include in this project are credit, foreign exchange and commodity derivatives.

Question 6a

Do you or your organisation value or rely on valuations of derivatives? If no, please proceed to question 7a.

Question 6b

Please indicate which of the listed underlying asset classes you believe should be given priority in the next phase of the Derivatives project.

Funding Valuation Adjustments

38. An increasing number of financial institutions are making an adjustment during the valuation process to reflect the cost of funding an uncollateralised instrument or position. However, there are different views as to when and if such adjustments are appropriate and diversity in how they are calculated. The Board agreed to add this project to its agenda in March 2014 and anticipates issuing a paper for consultation in early 2015. This project has a close relationship with the credit and debit valuation adjustment project which is expected to be completed in 2014, see Appendix 1.

Question 7a

Please indicate whether you have encountered problems or inconsistencies in the way in which funding valuation adjustments are applied. If not please proceed to question 8a.

Question 7b

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Valuations for Resolution and Recovery

39. Valuations of an entity's assets are frequently required when it is in financial difficulty. The assumptions and available inputs for valuations under these circumstances are quite different from those required for other purposes and these are not currently covered in the IVSs. This will be a broad scope project that will have relevance to all types of asset and to any entity undergoing restructuring to avoid insolvency, or where an insolvency event has occurred. However, the initial focus will be on the appropriate valuation principles required to support the emerging regulations in various jurisdictions for strengthening and aligning regulations for the resolution of financial institutions, in accordance with the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*. The project aims to introduce a new standard for valuations for this purpose with appropriate guidance on the application to specific types of recovery or resolution scenario.

Question 8a

Please indicate whether you or your organisation has to value or rely on valuations to support restructuring or corporate recovery. If no please proceed to question 9.

Question 8b

If yes, please indicate any valuation issues that you currently experience or anticipate arising under emerging regulations.

Question 8c

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Invitation to Suggest Projects

40. The Board welcomes suggestions for other projects for inclusion in its future agenda. These suggestions could be for topics which are not covered in the IVSs at present or that are covered but for which you would like to see greater detail.
41. Please support any suggestions with your reasons. It would also be helpful if you could indicate how you believe your suggested topic meets the Project Criteria set out in para 9 of this paper, or any additional criteria that you may have identified in your response to Questions 1a or 1b.

Question 10

Do you wish to suggest any additional projects for inclusion in the Board's agenda?

If yes, please identify the nature of the suggested project as precisely as possible and provide the information requested in para 42 above.

Projects Expected to be Completed before end of 2015

The following projects are in the Board's current agenda and are expected to be completed within 2014 or 2015. They are listed here for information only and are **excluded** from this consultation, which is to help the Board establish agenda priorities for the period to the end of 2018. In each case there will have been, or will be, opportunity to comment on the detailed proposals.

More detailed information on each project including up to date information on progress can be found by visiting www.ivsc.org/workplan

Credit and Debit Valuation Adjustments

This is a project to develop greater understanding of the principles involved in calculating adjustments to the value of financial instruments to reflect changes in the credit status of the counterparties and to identify best practice. An Exposure Draft of a proposed paper providing technical information and guidance was issued in December 2013 and after considering any changes required to reflect comments received during the consultation process, the Board expects to issue the final paper in late 2014.

Equity Derivatives

This is the first of a planned series of papers to provide technical information and guidance on best practice when valuing different types of derivative instruments. An Exposure Draft was issued in July 2013 with a three month comment period. The Board considered the comments received and agreed that a number of changes were appropriate to the scope and content of the paper. Because of the extent of the changes a second Exposure Draft is planned for release in the second quarter of 2014. The Board expects to issue its final paper before the end of 2014.

Investment Property

The Board issued a Discussion Paper in late 2012 that sought views on how a number of issues that had been raised by trade associations and others active in the investment property market should be addressed in the standards. Following analysis of the comments, the Board is proposing various amendments to IVS 230 *Real Property Interests* and IVS 300 *Valuations for Financial Reporting*. It is also proposing to withdraw the current IVS 233 *Investment Property under Construction* and to replace it with guidance that is applicable to all types of real property where construction is in progress or contemplated, ie Development Property. Exposure Drafts on these proposed changes were issued in early 2014, and after analysis and consideration of any changes that are suggested during the consultation process, the Board expects to finalise these changes by late 2014.

Development Property

This project has evolved from the Investment Property project described above and is proceeding in parallel with it.

Liabilities

The current IVSs indicate that they apply to the valuation of liabilities as well as assets. However a number of constituents have argued that not all of the concepts in the IVS Framework can be readily applied to liabilities, and that more specific requirements are needed in other standards. Also, the increasing adoption of International Financial Reporting Standards around the world is driving a new requirement for many liabilities to be valued. A Discussion Paper was issued in early 2013 which sought views on the need for amended or additional standards and guidance for the valuation of liabilities and the types of liabilities that should be included in the scope. Based on the responses received the Board has agreed that a review should be undertaken of the existing standards to identify where amendments or additional material may be required and what additional guidance is required. It is proposed that liabilities arising under financial instruments, pensions and insurance contracts should be outside the scope of this project.