



IVSC Purpose, Structure and Strategy

This document provides an extract from an initial overview of the aims of the IVSC and the structure needed to achieve these as at October 2015.

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Why is the IVSC needed?

The world of business is becoming increasingly global in nature and with continuously changing flows of investment and cash, is full of uncertainty compounded by the different standards and levels of professionalism in relation to valuation existing within different countries. Markets have expanded to become global, local practices have become barriers to market efficiency and stakeholders don't always get reliable information which they need for decision making and use for comparative purposes. This is because there can be a wide variation in valuation methodologies and approaches across markets making it difficult to compare valuations, potential investments and secured lending decisions on a like for like basis.

Moreover international investors, lenders and other stakeholders do not have the levels of transparency, comparability and ultimately confidence in the valuations which are performed sometimes nationally as well as internationally and this can lead to a higher level of inherent risk when making secured lending decisions. This is especially important when one considers that according to the World Bank 50–70% of the world's wealth is in Land or Real Estate (before even getting to Business Valuation and Financial Instruments) and therefore it is in the global public interest to have international valuation standards in place.

The last financial crisis demonstrated the impact of ineffective controls (including quality valuations) in relation to everything from Real Property through to Financial Instruments. Challenging times continue with difficulties in markets such as Greece, Brazil, Russia, China and will recur at some point on a wider basis. Regulators have expressed concerns about valuations even in leading Western economies and may intervene unless we take action as a standard setter and a profession. Regulators seek reliable information that allows them to regulate the markets in the public interest without adding unnecessary bureaucracy and stifling market participation.

Valuations form a key part of audited accounts which should provide transparency and comparability in relation to the value of companies and therefore impact share prices. This is of interest to anyone with a pension or investment, and more broadly society who wish to see financial market stability because of the link to a stable economy. This is not however achievable without a consistent approach to performing quality valuations.

Valuations also have a significant impact on the transfer of intellectual property rights between related parties in different tax jurisdictions, as well as in connection with determination of global transfer pricing arrangements. According to the EU Commission, 72% of profit shifting that takes place in the EU is done via the channels of transfer pricing and location of intellectual property; spurious valuations of assets transferred between one jurisdiction and another are contributing to the erosion of countries' national tax bases. Research by the IMF covering 51 countries concludes that profit shifting between tax jurisdictions results in an average revenue loss of about 5% of current corporate income tax revenue – almost 13% in non-OECD countries. Again, profit shifting is largely based on valuation of those assets that are transferred between one tax jurisdiction and another. There is a clear public interest need for globally applicable valuation standards.

The world's economy has benefitted from the growth of international standards on a number of fronts including financial regulation, accounting and auditing standards etc. Many of these areas depend on the work of the various valuation professions. However, the development of international valuation has not progressed in line with other professions.

Vision

IVSC will work in partnership with Valuation Professional Organisations (VPOs) and co-operate with other key stakeholders to serve our profession and our commitment to the public interest by expanding the use of International Valuation Standards (IVS) as the primary core set of standards used for property, business, and financial instrument valuations. IVSC will do this by increasing the quality of its standards by working in partnership with national valuation standard setters, by being seen as a strong partner to valuation organisations many of who have strong existing expertise, and increasing its legitimacy by cooperating closely with other institutions representing the public interest.

It will unite and bring credibility to the global valuation profession, and bring transparency, comparability and confidence to valuations through quality IVS and support for these.

Values

The **values** of the IVSC are:

- 1) We act in the “Public Interest”;
- 2) We emphasise consistency and transparency in our operations and standards;
- 3) We believe in improving our standards continuously through a process that engages all of our interested parties;
- 4) We wish to promote credibility and respect in a global valuation profession; and
- 5) We strive to be ethical and agile in our way of working.

“Public Interest” means operating in the best interests of society. Typically this means producing and achieving adoption of IVS which bring transparency, consistency and confidence to markets across the world. IVSC should be working for the general good, not for the benefit of a single stakeholder group.

What does the IVSC want to achieve?

The core strategic objectives of the IVSC are to:

- 1) Develop high quality international valuation standards which underpin consistency, transparency and confidence in valuations across the world;
- 2) Be seen and referred to as the standard setter for valuation with international valuation standards which are recognised and over time adopted by key stakeholders around the world; and
- 3) In achieving the above add status to IVSC member and sponsor organisations and the valuation profession.

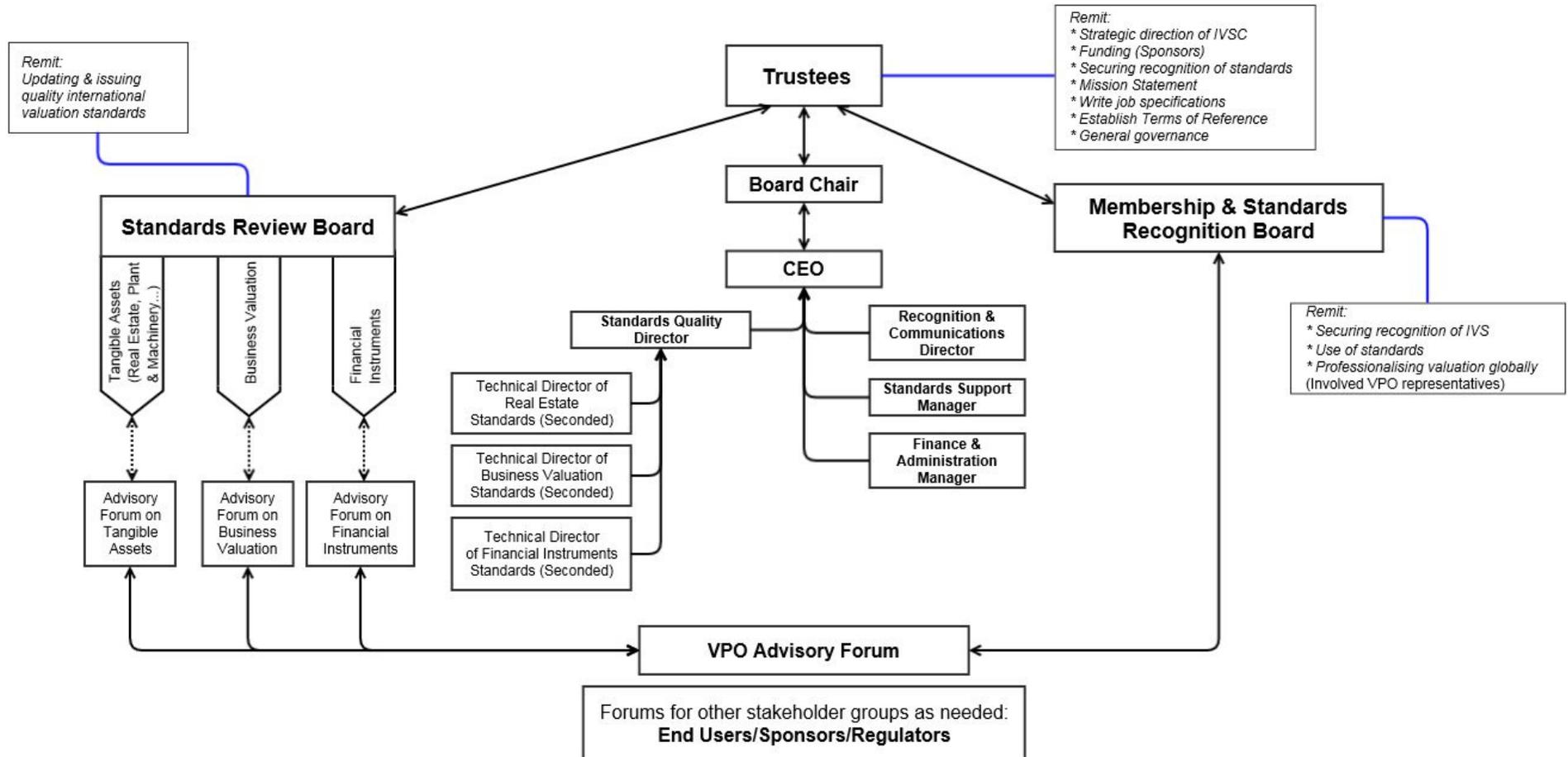
Working in partnership with VPOs and other key stakeholders

The IVSC recognises that VPOs are at different stages of development around the world, some are very mature highly professional organisations, some are only recently formed which creates a variety of stakeholder needs.

The IVSC will work closely in collaboration with VPOs and other key stakeholders. The IVSC is a platform to create high quality globally consistent International Valuation Standards but in order to achieve that, input and buy in is needed from VPOs and their experts, who then also need to provide locally relevant guidance, education, qualifications and quality control to establish a globally respected profession.

Proposed structure to achieve the IVSC aims

IVSC Org Chart



Approach to improving and developing high quality International Valuation Standards (IVS)

The approach to developing high quality International Valuation Standards will be more focused than hitherto in order to achieve a higher level of quality and support. This will be achieved through a combination of subject matter expertise boards as well as increased leadership from IVSC through secondee subject matter specialists and greater involvement of VPOs. There will be an overarching Standards Review Board to oversee the subject matter expertise boards and the outputs from a Quality and Consistency point of view. The performance of the Standards Board is overseen by the Board of Trustees who are also responsible for the selection of the Standards Review Board and subject matter expertise board members via the Nominating Committee.

Standards Review Board

Purpose

- Through ongoing consultation, amend and approve International Valuation Standards.
- Have the necessary combined knowledge, experience, skills – both technical and communication – to ensure the quality, level and appropriateness of IVSs.
- Be independent and act in the public interest. Neither the Board nor individual members will represent any specific region, sector or organisational interest but membership of the board will come from a variety of technical and geographic backgrounds.
- Ensure IVSs add value and can be implemented by valuation professional organisations.
- Help achieve stakeholder recognition of IVS.

Members and Structure

- The Standards Review Board will ensure consistency and quality with three focused subject matter expertise boards beneath it:
 - o **Tangible Assets Standards Board (Covering Real Estate, Plant & Machinery, Personal Property. 5 members plus non voting Tangible Assets secondee Director);**
 - o **Business Valuation Standards Board (5 members plus non voting BV secondee Director);** and, at the appropriate time:
 - o **Financial Instruments Standards Board (5 members plus non voting FI secondee Director)** *(providing there is clear buy in/support from stakeholders. Work is underway with different stakeholders to define the FI issues and what, if any, the role of the IVSC should be. Funding and resource would be expected to come from stakeholders operating in this field).*

(Future consideration could also be given to a separate Personal Property Board)
- The Standards Review Board will have a separate Chairman and up to 6 other members including 3 independent generalist valuation members plus the Chair of each subject matter expertise board. The Standards Quality Director will attend but not have a vote;
- Subject specialists will form the subject matter expertise boards and working groups leveraging VPO knowledge will work on a project basis to propose changes to IVS;
- Individual members will be appointed by a Nominating Committee and have the necessary proven independence, skills, experience and expertise. (This will ideally include prior standard setting experience, strong standing in the valuation community and in a world region, work as a decision maker for a globally known organisation, demonstrated understanding of valuation and corporate finance concepts, including prior publications; experienced in the valuation field; and a strong understanding of the fundamental valuation theories of each core valuation area).
- The length of service on the board will be the 3 years plus the potential for 3 years renewal.

Authority and Responsibility

- The Standards Review Board will have the sole and final authority to approve and confirm the plans to review and amend IVSs and final IVS. (*Standards would be rejected if incoherent, without sufficient consultation and general stakeholder buy-in or if inconsistent with other asset class IVS.*)
- The Standards Review Board must make sure due process has been followed to ensure IVS are fit for purpose and have the general support and are able to be implemented by VPOs.
- The subject matter expertise boards have delegated authority to:
 - o Liaise with end users, VPOs, regulators, and other interested parties to determine areas where improvements to standards are needed and the level of detail required with consideration to what materials already exist, and propose these to the Standards Board;
 - o Propose amendments to IVS through Exposure Drafts and Invitations to Comment and ensure sufficient general buy in from end users, VPOs, regulators and any other interested parties.

Each of the subject matter expertise boards will be supported by a seconded part-time specialist who will lead the development of the relevant IVSs and also be the key point of liaison and regular interaction with the Advisory Forum and VPOs to make sure that the collective expertise and knowledge is leveraged to create the highest quality standards which are also at the right level of detail for VPOs and valuers to utilise effectively. The Advisory Forum will split according to VPO subject interest in order to facilitate more structured dialogue with VPOs with one specialist interest (eg. at present Tangible Assets and Business Valuation). Where there is a high workload and additional resource is offered to support a particular initiative or project that resource will report in to the seconded part-time specialist.

A higher degree of interaction with VPOs in particular will be achieved through regular meetings between the seconded specialists and the VPOs and National Standard Setters. A key interaction will be that between the specialists and the AFWG. VPOs can decide to either let the AFWG participate on their behalf, or can respond to consultations and attend public sessions of the board separately. The interaction between Standards Board and the AFWG and VPOs is important in order to determine the right level and detail of IVS, and what local guidance is needed from VPOs (eg. in relation to a specific local market issue or legality) on how to apply IVS. Where a VPO does not have responsibility for setting national standards it will also be important to engage with the entity which does (in some cases governmental) as well as other related standard setters eg. accountancy.

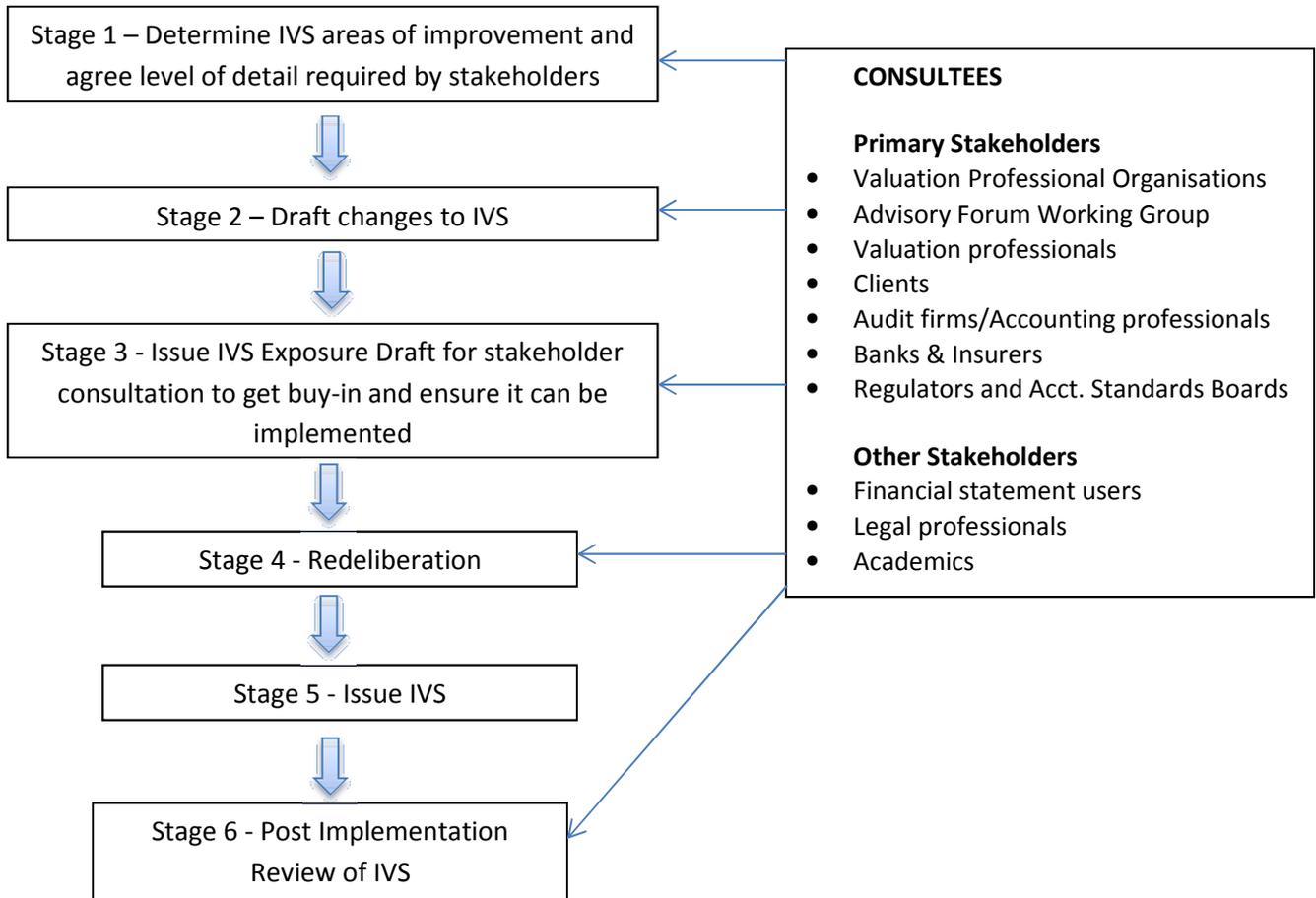
Revised approach

The Standards Board needs to make sure that the approach to the standards agenda and changes to standards incorporates the following:

- Ensuring that communication is established with key stakeholders, including VPOs, regulators, users etc. to determine the public need for any proposed project and to gain a clear understanding as to the purpose and scope of the project;
- Performing a basic analysis to understand the resource needs and the benefits prior to commencement of projects;
- Acquiring sufficient resource expertise to work on IVS changes;
- Clarifying what is and is not mandatory within the IVS;
- Constantly communicating during drafting to ensure that all concerns and issues around how the standards will impact the various stakeholders are surfaced;
- Providing a “basis for conclusions” for each standard that describes the Board’s deliberative process for each key issue and explains how its conclusions were reached;
- Allowing sufficient time for stakeholders to provide input on proposed standards;

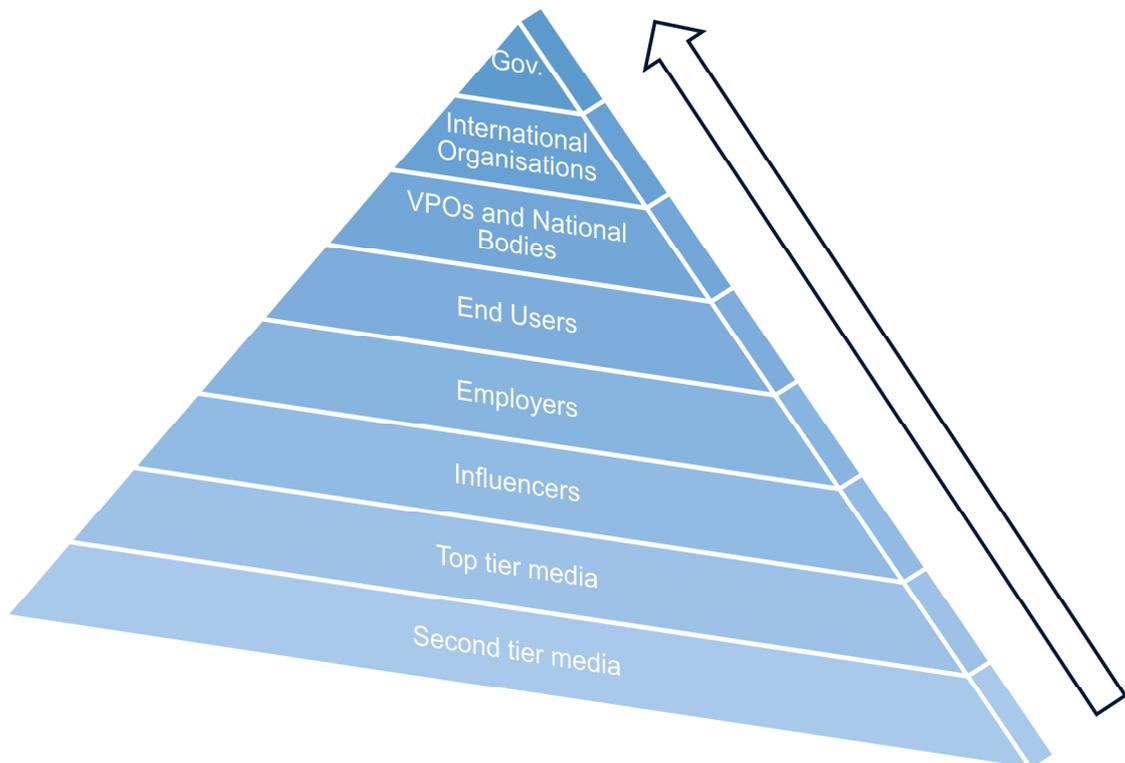
- Operating in an open and transparent way; and
- Performing post implementation reviews of new standards, including an assessment of how the standards are performing and a plan for future revisions and updates to the standards. The post implementation review should also include key performance metrics for the Boards and the staff to measure the success of stakeholder engagement.

A draft overview of the process (*subject to further consultation*) for revision of standards would be as follows:



Approach to Promotion and Recognition of International Valuation Standards

To serve the Public Interest, International Valuation Standards need to be of high quality. Once this is achieved it is paramount that they then also need to be used and complied with in order to for them to deliver transparency, consistency and confidence across different markets, and provide increased status to the valuation profession.



A concerted effort is needed to achieve recognition of International Valuation Standards with the stakeholder groups defined in the pyramid above. To meet this objective IVSC staff need the support of board members, VPOs and Sponsors to meet with external stakeholders and achieve this. Increasing international confidence in a national market should be of benefit to the country in question, as well as the VPOs and valuers within it who work to International Valuation Standards. Valuers should be trained in IVS as well as additional relevant local practice by their VPOs.

Stakeholder groups are ranked in increasing importance in the above pyramid. Staff should create the recognition plans and work with the different boards and VPOs to achieve these.

The aim should be to stimulate demand in Government bodies such as regulators, International Organisations, National Bodies and End Users to request valuations in accordance with International Valuation Standards.

Employers should embed International Valuation Standards in their services to clients, highlighting that they do so in all valuation reports, and requiring employees to be trained and qualified in an approach which incorporates International Valuation Standards.

To meet the demand VPOs should explicitly train, qualify and quality control valuers in relation to IVS. This should help improve the status of the professionals through international relevance to investors within their geography as well as facilitating relevance overseas.

Media should also be targeted in order to increase the awareness of the benefits of IVS.

Completion of Professional Board work

The Professional Board should complete its current work programme to set out the professional obligations of a member VPO and the basic requirements underpinning the accreditation of a qualified valuer (entry requirements, competencies, work experience, ethics, continuing professional education and disciplinary approach). Once the current work programme is complete this board will cease to exist.

After careful consideration of what is needed to create a successful IVSC it is considered however that it would be valuable to put in place a new board building on the vital initial work of the Professional Board but with a different focus is needed which will both leverage and benefit the VPOs and other stakeholders. This board will be called the Membership and Standards Recognition Board with a key role in achieving recognition, and compliance with IVS. This new board will have an independent Chair appointed by the Board of Trustees who are also responsible for making sure the Membership & Standards Recognition Board fulfils its remit. The board will be formed of up to 8 VPO representatives elected by the Advisory Forum taking into account expertise and geographic knowledge. It will operate as follows:

Membership & Standards Recognition Board

Purpose to:

- Leverage the former Professional Board framework defining professionalism in the valuation profession. Champion the framework and help the profession in developing markets;
- Confirm Members of the IVSC ie. VPOs that meet Membership requirements (VPOs which do not meet the requirements may become Associate Members);
- Encourage the development of an internationally agreed professional designation for each of Tangible Assets, Business Valuation and, eventually Financial Instruments. The international designation would be issued by the confirmed members and identify the quality practitioners who comply with IVS and belong to a full member VPO;
- Lead and ensure market recognition of the IVSs;
- Ensure the positive partnership and teamwork between the IVSC and valuation profession;
- Work with IVSC towards one set of agreed set of high quality standards.

Members and Structure

- Elected VPO representatives should form the board. These representative VPOs will be specifically responsible for ensuring the partnership and teamwork between VPOs and the IVSC.

Authority and Responsibility:

- The Membership & Standards Recognition Board will proactively advise and consult with the Standards Board on technical matters; but in an advisory role only. The Membership and Standards Recognition Board has no authority over the content of the IVS; this is solely the role of the independent Standards Board.
- Produce a framework defining Valuation Professionalism to be championed by VPOs and to aid developing markets.
- Lead communications and engagement with VPOs, and through the leadership of the Trustees, the wider market, particularly with a view to enabling adoption of International Valuation Standards.
- Provide market insight and trends to the IVSC Trustees and Standards Board.

- Develop and enact an engagement plan for IVSC Members and the whole of the profession.

The Board will be supported by the CEO and a member of staff with the remit of devising recognition targets, as well as providing the link to leverage the Board of Trustees and the Standards Board as necessary.

Roles of the Board of Trustees, Chair, Staff and AFWG

Board of Trustees

Purpose and Authority to:

- Set and monitor the IVSC strategy to create and implement IVSs in conjunction with the valuation profession and related stakeholders
- Initiate discussions to ensure secure and ongoing funding for the IVSC
- Approve decisions related to resource allocation
- Represent the IVSC and help achieve recognition of International Valuation Standards
- Set the terms, remit and provide oversight and guidance to the executive staff of the IVSC and the Boards
- Appoint members of the Standards Board
- Oversee performance of the Secretariat, Standards Board Chair and Membership & Standards Recognition Board Chair
- Ensure that Standard setting follows due process
- IVSC Governance

Members and Structure:

- The Board of Trustees will consist of a Chair and up to 14 other individuals with the combined skill, knowledge and experience required

IVSC Board of Trustees Chair

- Represents IVSC publicly in particular with key international standard setters, regulators, financial institutions and governments
- Provides oversight and guidance to CEO from a governance and strategy perspective
- Provides leadership to the Board of Trustees in setting the strategy, and driving forward funding and recognition for IVSC

Permanent Staffing

CEO

- Represents IVSC publicly in particular with key international standard setters, regulators, financial institutions and governments on issues of strategy, policy, and operations
- Works with the Trustees to develop and implement strategy, performance targets and plans for board approval
- Is accountable to the Trustees on the execution of the strategy
- Leads and manages staff
- Focuses on achieving adoption and recognition of standards, including the management of the relationships with global and national regulatory bodies and key stakeholders and members
- Manages finances of the organisation, including assisting in the funding of the IVSC
- Helps achieve funding goals
- Makes day to day decisions on non-technical matters (in liaison with Chair as needed)

Standards Quality Director

- Manages the secondees
- Reviews the progress and quality of outputs
- Ensures key communication is effective with VPOs in relation to standards
- Supports the overarching Standards Board
- Helps achieve adoption and recognition of standards using technical expertise
- Responsible for publications

Recognition and Communications Director

- Develops IVS recognition plan, in conjunction with the Board and CEO Co-ordinates recognition activity across IVSC staff and boards
- Represents IVSC at request of CEO
- Generates content for press releases which can be used internationally
- Keeps Stakeholder groups informed
- Drafts E-news and other stakeholder communications

Finance and Admin Manager p/t

- Deals with accounts payable and receivable
- Processes membership applications
- Supports AGM organisation
- Produces cash-flow in conjunction with accountants
- Manages IT and general office

Standards Support Manager (*Ideally an individual to be developed for succession planning purposes*)

- Minutes board meetings
- Supports Standards development as needed
- Helps Standards Quality Director and Recognition & Communications Director as needed.

Seconded Staffing (part time)

Tangible Assets Specialist Director

- Provides leadership on identification of issues and changes needed to these components of IVS
- Leads work on proposing changes
- Consults fully with different stakeholder groups
- Acts as a subject matter specialist to help gain recognition of IVS

Business Valuation Specialist Director

- Provides leadership on identification of issues and changes needed to BV components of IVS
- Leads work on proposing changes
- Consults fully with different stakeholder groups
- Acts as a subject matter specialist to help gain recognition of IVS

Financial Instruments Specialist Director

- *Provides leadership on identification of issues and changes needed to FI components of IVS*
- *Leads work on proposing changes*
- *Consults fully with different stakeholder groups*
- *Acts as a subject matter specialist to help gain recognition of IVS*

Advisory Forum

A monthly forum for VPOs to meet virtually to:

- Focus on better meeting the needs of end users of valuations
- Discuss common issues and a channel to share best practice
- Use VPO specialists to interact in a co-ordinated way with relevant Standards Board sections
- Engage with the Membership & Standards Recognition Board
- Strengthen the global valuation profession
- Play a key role in development and adoption of International Valuation Standards

A forum for the IVSC and the profession to engage with other key stakeholders including:

- Sponsors
- Regulatory Bodies
- End Users

Appendix A – IVS Revision Gap Analysis and Plan (Further detail to be added)

Goal/Vision: Priority is to expand the quality and depth of International Valuations Standards and ensure they are fit for purpose and provide much needed clarity and market efficiency.

Gap Analysis: Further to discussion with the Standards Board and other stakeholders the Technical writers have carried out a preliminary alphabetised gap analysis on IVS 2013 and have identified the following areas shown below. The gap analysis will need prioritisation in due course and the Standards Boards are open to receiving additional topics to include:

- Analysis of Commercial Lease Transactions
- Bases Of Value and Valuation
- Contracts
- Depreciated Replacement Cost Method of Valuation for Financial Reporting
- Discounts and Premia
- Early Stage/Development Stage Valuations
- Expected Cash Flow
- Inspections and Material Considerations
- International/Multinational Valuations
- Liabilities
- Use of Observable vs. Unobservable Inputs
- Valuation of Individual Trade-Related Properties
- Valuation in Markets Susceptible to Change: Certainty and Uncertainty
- Valuation of Personal Property including Art and Antiques.
- Valuation of Portfolios, Collections, and Groups of Properties / Assemblage Value
- Valuation of Residential Properties
- Valuations for Taxation purposes including taxes and tax flow-through Entities

Technical Writers (Adam Smith and Alexander Aronsohn) will work in conjunction with the relevant Standards Board to agree the gap analysis and solicit input and feedback from a variety of primary stakeholders such as the Advisory Forum and other stakeholders (identified below) as part of the standard setting process to determine what improvement is required and the depth of detail required taking into account any pre-existing information.

Primary Stakeholders:

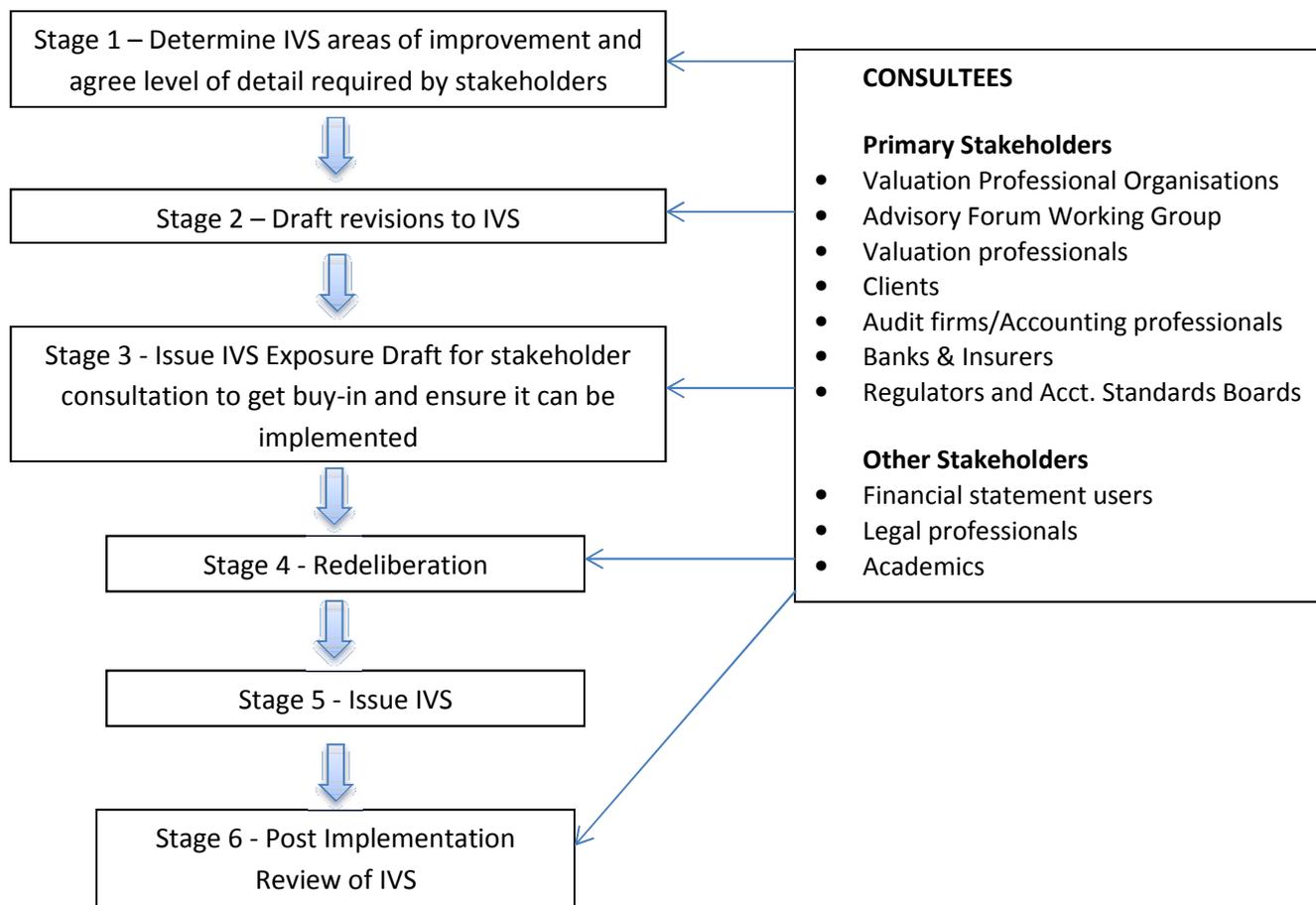
Valuation professionals
Clients
VPOs (AFWG)
Audit Firms/Accounting Professionals
Banks and Insurers
Regulators and Acct. Standards Boards

Other Stakeholders:

Financial statement users
Legal professionals
Academics

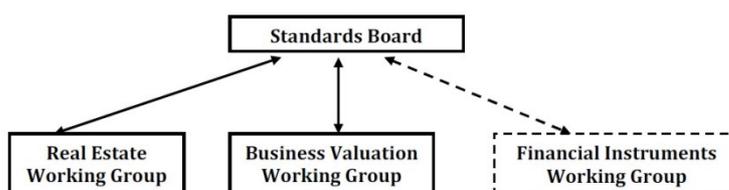
The below gives an overview of the proposed approach to IVS setting:

Standard Setting Process: The flowchart below provides a brief overview of a six stage consultation process. Further details on each stage are contained below;



Stage 1 - Review of IVS 2013: This is the current stage where the Technical Writers (Adam Smith and Alexander Aronsohn) are working in conjunction with the Standards Board to agree the gap analysis and solicit input and feedback from a variety of primary stakeholders and other stakeholders, in particular the Advisory Forum Working Group and Valuation Professional Organisations. As part of this process the Standards Board and Technical Authors are looking to define any issues or areas of improvement within IVS 2013 and to agree the depth and focus needed for IVS 2016.

Proposed Standards Board Structure



Stage 2 - Draft IVS 2016: This is the drafting stage where the Technical Authors are to work

with the relevant specialism related standards board (see above) and stakeholders to revise IVS 2016 and to prepare a consultation document and questions.

Stage 3 - Issue IVS 2016 Exposure Draft for Public: This is the consultation stage, where IVSC will proactively consult and engage with VPOs and other primary and secondary stakeholders to gain their buy in and ensure changes are practical to implement. In order to ensure that viewpoints from all stakeholder groups are obtained this stage may also include an outreach stage to seek out feedback from individuals and groups that may not take the time to submit a comment letter.

Stage 4 - Redeliberation: At this stage the comments received from the consultation stage will be reviewed and the Standards Board will decide whether a secondary consultation stage is necessary prior to the issue of the revised standard.

Stage 5 - Issue IVS 2016: This is the final stage, where IVSC issue IVS 2016 with an agreed effective date after the issue of the standards so members have the opportunity to embed the revised standards in their business practices.

Stage 6 - Post Implementation Review of IVS 2016: Standard setting is a continual process and therefore as part of this process the IVSC feel that it is necessary to have a post implementation review to identify future areas for further standards development and to check that IVS 2016 meets market needs.