



INTERNATIONAL VALUATION STANDARDS COUNCIL

# IVS 2017: Introduction & Framework

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Comments on this Exposure Draft are invited before 7 July 2016. All replies may be put on public record unless confidentiality is requested by the respondent. Comments may be sent as email attachments to:

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## Introduction to Exposure Draft

### Why is the International Valuation Standards Board (IVSB) Issuing IVS 2017 Introduction and Framework?

In October 2015 the IVSC published its *Purpose and Strategy Document* which stated that the priority of the IVSC is to expand the quality and depth of International Valuations Standards (IVS) and ensure they are fit for purpose and provide much needed clarity and market efficiency. Further to discussions with the Standards Board (“the Board”) and other stakeholders the technical writers carried out a preliminary alphabetised gap analysis on IVS 2013 and revisions to the IVS Introduction were seen as a fundamental part of this process.

Based on preliminary comments received from stakeholders the Board felt it was a necessity to concurrently distribute the IVS 2017 *Introduction and Framework Exposure Draft* to provide context for the Exposure Drafts on IVS 104 *Bases of Value*, IVS 105 *Valuation Approaches and Methods* and on IVS 210 *Intangible Assets*.

The IVS Framework chapter in IVS 2013 included a significant amount of foundational information on valuation concepts and approaches. After consultation with stakeholders the Board has relocated most of the IVS Framework chapter to the IVS General Standards. The Board felt the issue of a revised introduction and framework would assist stakeholders in understanding the context of additional General Standards and Asset Standards Exposure Drafts within the proposed revised architectural Framework of IVS 2017.

### What are the Main Provisions?

As a result of the stakeholder feedback and the Board’s views, the Introduction and the IVS Framework chapter of IVS 2013 have been significantly revised and restructured. The new structure includes:

- an abbreviated introduction section including a revised description of the IVS Framework and no longer including sections describing IVS Application Standards and Technical Information Papers (TIPs) which will not be part of IVS 2017, and
- a revised and truncated IVS Framework including new sections on Application of these Standards, Assets and Liabilities, The Valuer, and Exceptions and Departures.

The Introduction Section states that a standard will do one or more of the following:

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

The IVS Framework consists of general principles for valuers following IVS with regard to objectivity, judgement, competence and acceptable departures from IVS. The framework recognises that in some circumstances a valuer may depart from IVS due to legislative, regulatory or other authoritative requirements and still state that the “valuation was performed in accordance with IVS”.

## How do the Proposed Provisions Compare with IVS 2013?

As a result of the stakeholder feedback and the Board's views and proposed changes within IVS 2017, the introduction and framework of IVS 2013 has been significantly revised and restructured in this chapter. The revised introduction no longer includes:

- comments on “information or guidance that does not mandate any particular course of action” as the Board felt that IVS 2017 should only include mandatory standards and that the provision of information or guidance was outside the remit of the IVSC,
- a paragraph on IVS Valuation Applications as the Board felt that Valuation Application Guidance did not constitute standards within the remit of the IVSC, and
- a paragraph on TIPs as the Board felt that they did not constitute standards. Where possible the Board has included elements of the TIPs within IVS 2017 as mandatory elements of the standards.

The IVSC Framework section has also been significantly revised and much of the contents on “Basis of Value” and “Valuation Approaches” has been incorporated, along with additional mandatory requirements, into the new IVS General Standards: IVS 104 *Bases of Value* and IVS 105 *Valuation Approaches and Methods*.

The sections on price, cost and value, the market, market activity, market participants, entity-specific factors and aggregation were removed from the IVS framework, as stakeholders and the Board considered those sections to be too educational and general in nature to be included in IVS 2017. Their removal is not meant to imply that valuers should not be familiar with these concepts and consider them in a valuation.

The Board has included a new section on application of these standards, which states as an overarching principle that “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”.

A section on Assets and Liabilities that was included in the Introduction section of IVS 2013 has been moved to the Framework chapter stating that the use of the word asset or assets within these standards “includes deemed to include liability or liabilities and groups of assets, liabilities, or assets and liabilities, except where it is expressly stated otherwise”.

A section has been added on the term “valuer”, which has been defined as “one who possesses the required qualifications, professional and technical skills, ability, and experience to execute a valuation and/or membership of a VPO. In some States, licensing is required before one can act as a Valuer”. This definition is also deemed to include a valuation reviewer, where applicable within the context of the Standards.

A section has been added on Exceptions and Departures. An exception is defined as “any circumstance where the mandatory application of IVS as a whole may be inappropriate or where the valuer is asked to comply with standards other than IVS”. In respect of an exception “a valuer must not state that the valuation was performed in accordance with IVS”.

A departure is defined as “a circumstance where legislative, regulatory, or other authoritative requirements must be followed that differ from some of the requirements within IVS”. In respect of a departure a “valuer may still state that the valuation was performed in accordance with IVS” but must also disclose what other authoritative guidance is being followed.

## Questions for Respondents

The Board invites individuals and organisations to comment on all matters in this proposed update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

- (a) In IVS 2013, all substantive portions of the standards were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standards were mandatory. The Board’s position is that all aspects of IVS 2017 should be mandatory and this exposure draft has removed the “commentary” label for clarity. Do you agree with the removal of the commentary label?
- (b) Do you agree with the Board’s decision to remove the section on Bases of Value from the IVS Framework and produce a single chapter on Bases of Value in order to clarify the mandatory nature of this section and to avoid repeating certain guidance throughout the IVS? If not, why?
- (c) Do you agree with the Board’s decision to remove the section on Valuation Approaches from the IVS Framework and produce a single chapter on valuation approaches and methodologies in order to clarify the mandatory nature of this section and to avoid repeating certain guidance throughout the IVS? If not, why?
- (d) Do you agree with the IVS definition of Exceptions and Departures? If not, why?

## Introduction

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 IVSC is an independent, not-for-profit private sector organisation with an objective of building confidence and public trust in the valuation profession by producing standards and securing their universal adoption and implementation for the valuation of assets across the world.

The IVS are standards for undertaking valuation assignments using generally recognised concepts and principles to assist the consistent interpretation of those principles. The IVSC also promotes standards for the conduct and competency of professional valuers.

The IVSC Standards 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 IVS 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 asset or liability.

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 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 the IVS with regard to objectivity, judgement, competence, and acceptable departures from the 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 to which the standards are applied.

### ***IVS Asset Standards***

The Asset Standards include specific 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 in This Book?**

This book includes the IVS Framework, the IVS General Standards and the IVS Asset Standards approved by the IVSC Standards Board as at tbd 2016.

### **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 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](http://www.ivsc.org).

## **Framework**

### **10. Application of These 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.

### **20. Assets and Liabilities**

- 20.1 The standards can be applied to the valuation of both assets and liabilities. To assist the legibility of these standards, the words asset or assets are deemed to include liability or liabilities and groups of assets, liabilities, 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 The definition of valuer is “one who possesses the necessary qualifications, ability, and experience to execute a valuation. In some States, licensing is required before one can act as a Valuer”. Because a valuation reviewer must also be a valuer, to assist 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.

### **40. Objectivity**

- 40.1 The process of valuation requires the valuer to make impartial judgements as to the reliability of factual data and assumptions. For a valuation to be credible, it is important that those judgements are made in an environment that promotes transparency and minimises the influence of any subjective factors on the process. Judgement used in a valuation must be applied objectively and should not be used to overstate or understate the valuation result.
- 40.2 It is a fundamental expectation that when applying these standards appropriate controls and procedures are in place to ensure the necessary degree of objectivity in the valuation process so that the results are free from bias. The IVSC Code of Ethical Principles for Professional Valuers provides an example of an appropriate framework for professional conduct. However, matters relating to conduct and ethical behaviour are not within the scope of IVS.

### **50. Competence**

- 50.1 Because valuation requires the exercise of skill and judgement, valuations must be prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market in which it trades and the purpose of the valuation.

50.2 If a valuer does not possess all of the necessary technical skills, experience and knowledge to perform a valuation, it is acceptable for the valuer to seek assistance from specialists in certain aspects of the overall assignment, providing this is disclosed in the scope of work (see IVS 101 *Scope of Work*). However, if the valuer lacks a significant amount of the technical skills, experience and knowledge needed to perform a valuation, the valuer should not accept the valuation assignment.

## **60. Exceptions and Departures**

60.1 An exception is any circumstance where the mandatory application of IVS as a whole may be inappropriate or where the valuer is asked to comply with standards other than IVS (rather than in addition to IVS). In such circumstances, a valuer must not state that the valuation was performed in accordance with IVS.

60.2 A departure is a circumstance where legislative, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS. Departures are mandatory in that a valuer must comply with legislative, regulatory and other authoritative requirements appropriate to the purpose of the valuation to be in compliance with IVS. A valuer may still state that the valuation was performed in accordance with IVS when there are departures due to legislative, regulatory or other authoritative requirements.

60.3 As required by IVS 101 2(k) and IVS 103 5(k), the nature of any departures shall be identified (for example, identifying that the valuation was performed in accordance with IVS and local tax regulations).

60.4 Departures that are not the result of legislative, regulatory or other authoritative requirements are not permitted in valuations performed in accordance with IVS.

## **IVS 2017 Introduction and Framework Bases of Conclusions (This Section will not be Included in the Finalised Standards)**

In October 2015 IVSC published their *Purpose and Strategy Document* which stated that the priority of the IVSC is to expand the quality and depth of IVS and ensure that they are fit for purpose and provide much needed clarity and market efficiency. Further to discussions with the Board and other stakeholders the technical writers carried out a preliminary gap analysis on IVS 2013 and IVS 2017 Introduction and Framework was seen as a priority chapter to be issued in conjunction with the Exposure Drafts to be issued in March 2017 in order to provide the necessary context.

The IVS 2013 Introduction has been revised to show the following revised Framework for IVS 2017, which includes the removal of the previous sections on IVS:

- Introduction,
- IVS Framework,
- IVS General Standards, and
- ICS Asset Standards.

The previous framework section on IVS applications has been removed from the standard as the Board felt that these section were too technical and beyond the remit of the IVSC. Furthermore the Board felt that guidance on most of these matters was already provided by valuation professional organisations. However relevant mandatory requirements from these sections have been incorporated into the IVS Asset Standards.

The Board have also deleted the TIPs, which no longer form part of IVS 2017 as the Board felt that these papers were too general in nature and not fit for inclusion in a mandatory Valuation Standard. However where practical, parts of the TIPs have been incorporated into existing IVS General Standard and Asset Standards.

The IVS Framework chapter in IVS 2013 included a significant amount of foundational information on bases of value and valuation approaches and methods. After consultation with stakeholders and the IVSC Purpose, Strategy and Structure Document consultation process the Board has relocated most of the IVS Framework chapter to the IVS General Standards in IVS 104 *Bases of Value* and IVS 105 *Valuation Approaches and Methods*. The Board felt the issue of new General Standards chapter would assist both established and emerging markets in adopting International Valuation Standards across all valuation specialisms and provide further clarification on the mandatory part of the standards.

As a result of the stakeholder feedback and the Board's views on IVS 2017, the IVS Framework chapter of IVS 2013 has been significantly revised and restructured in this chapter. The new structure includes:

- a new section on the application of these standards stating that all valuations undertaken in accordance with the IVSs must be in compliance with all relevant standards issued by the IVSC,
- a new section defining the term "valuer" stating that where relevant the term valuer includes valuation reviewer, and
- a new section on Exceptions and Departures stating when a valuation is outside IVS 2017 and when a valuation is in compliance with IVS 2017 even if certain aspects of the valuation are outside the standard due legislative, regulatory or authoritative requirements.