

July 7, 2016

IVSC Standards Board
1 King Street
London EC2V 8AU
United Kingdom

Submitted by email to: Commentletters@IVSC.org

RE: Comments on Proposed Amendments to the International Valuation Standards – Introduction and Framework; IVS 104: Bases of Value; IVS 105: Valuation Approaches and Methods; IVS 210: Intangible Assets

Dear IVSC Standards Board:

Thank you for the opportunity to comment on proposed revisions to the International Valuation Standards. The Appraisal Institute recognizes that to serve the public interest the IVS, must be understandable and capable of consistent application. The Appraisal Institute provides the following comments with the hope that they will assist the IVSC with improving the understandability and applicability of the IVS.

We are presenting our comments in three separate sections:

1. General comment
2. Comments on content of Exposure Drafts
3. Responses to questions posed in Exposure Drafts

1. **General Comments**

The Appraisal Institute has had valuation Standards and a Code of Ethics – and enforced both – since 1932. The Appraisal Institute believes that professional valuation Standards should be concise, direct and easy to understand. A Standard should be a straightforward statement that includes a specific prohibition or exhortation, “do this”, “don’t do that.” The Appraisal Institute believes that information concerning valuation theories and methodologies does not belong in a Standards document. The Appraisal Institute has published a textbook, *The Appraisal of Real Estate*, since 1951. This textbook is now on the 14th edition, and it contains 847 pages. This textbook contains methodology, valuation theory and basic valuation principles. The IVS, both existing and proposed, read more like a condensed version of such a textbook rather than a set of valuation Standards.

Real estate valuers are – with good reason -- sensitive to “Standards creep.” In the U.S., real estate valuers are licensed, and subject to strict enforcement of “Standards.” Other valuation disciplines are not subject to the same strict enforcement and licensing regimes.

In addition to Standards, the current edition of IVS and the Exposure Drafts contain a mix of methodology, valuation theory and basic valuation principles. The Appraisal Institute understands that one rationale for this mix is that there is a need for methodology, valuation theory and basic valuation principles for developing countries and/or for other less developed valuation disciplines. However, current and proposed versions of the IVS may be less helpful to developing entities than a concise,

direct and easy to understand set of valuation Standards and separate educational resources that cover methodology, valuation theory and basic valuation principles.

2. Comments on content of Exposure Drafts

IVS 2017: Introduction and Framework

Application of These Standards

- Lines 3-5. This section does not seem to address the actual application of IVS. Some alternative wording could be:

The IVS apply to the work of valuers. IVS compliance is required when the valuer is compelled to comply by law, regulation or agreement, but IVS itself does not determine when one must comply.

Valuer

- Lines 13-18. The definition of valuer as “one who possesses the necessary qualifications, ability and experience to execute a valuation” does not include any reference to the expectation on the valuer to be unbiased which is one of the foundational principles of the valuation profession and to the identity of a valuer. Examples of other valuation standards that reference this foundational principle are:

- USPAP

Appraiser: One who is expected to perform valuation services competently and in a manner that is independent, impartial and objective.

- Appraisal Institute, Standards of Valuation Practice

Valuer: One who is expected to provide services related to the value of property in an unbiased and competent manner.

Objectivity

- Lines 21-23. The statement “For a valuation to be credible, it is important that those judgments are made in an environment that promotes transparency and minimizes the influence of any subjective factors on the process” is unclear. What is the “environment”? Is it the valuer’s office? Or is it the all of the conditions surrounding an assignment? Depending on how environment is defined, the valuer may have limited control over it. A more direct statement concerning objectivity would be:

The credibility of a valuation analysis, opinion and/or conclusion depends on the valuer providing the valuation services in an unbiased and competent manner.

- Lines 23-25. The statement “Judgement used in a valuation must be applied objectively and should not be used to overstate or understate the valuation result” focuses on the resulting valuation opinion as opposed to the whole valuation process. A more encompassing statement would be:

Judgement used in a valuation should be applied objectively to avoid biased analyses, opinions and conclusions.

- Line 26 -27. The statement “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 the results are free from bias” seems to move the responsibility for ensuring objectivity to certain controls and procedures. The fundamental expectation should be that “when applying these standards, valuers must act objectively to develop analyses, opinions and conclusions that are free from bias.”

Competence

- Line 33. The phrase “because valuation requires the exercise of skills and judgement” is unnecessary.
- Line 35: The phrase “the market in which it trades” implies that the standard of value will always be a market value. The standard of value is not market value in all valuations.
- Line 38. Adding the word “credible” in front of the word “valuation” would help to clarify this requirement.
- Lines 40-42. The statement “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” is, on the one hand, vague; what constitutes “a significant amount”? On the other hand, it seems unnecessarily restrictive and could prevent a valuer from gaining competency in a particular type of assignment. The focus should be on whether the valuer, with the assistance of a specialist, could produce a credible valuation. If yes, the valuer should be able to accept the valuation assignment.

Exceptions and Departures

- General Comment. It would be meaningful to require an explicit statement about the nature of any departure in any report. This would specify which legislative, regulatory or other authoritative requirement was prompting departure. The intention may be that section 60.3 covers this, but the phrasing of that section seems vague.
- Lines 44-46. The definition of exception is not clear, especially with regard to who determines what is inappropriate – the valuer? The client?
- Lines 44-46. If a valuer is asked to comply with Standards other than IVS (rather than in addition to IVS), it is not an exception to IVS; it is simply an assignment performed under whatever Standards the valuer applied. It may be possible to comply with more than one set of standards at once.
- Lines 58-59. These lines are unnecessary as Lines 48-49 contain a definition of the term

departure and the matters described in Lines 58-59 do not fall within that definition.

IVS 104: Bases of Value

- General Comments:
 - This section does not belong in a Standards document. It contains material that is more appropriate for a textbook and/or educational course.
 - This section contains very few requirements (prohibitions or exhortations).
 - Other valuation standards – notably USPAP – do not define different types of value. Standards should apply to all types of value so it should not matter what type or definition is used.
- Introduction to Exposure Draft. The statement “IVS 104 *Bases of Value* is based on the key concept that it is a valuer’s sole responsibility to choose the relevant basis (or bases) of value according to the terms and purpose of the valuation assignment,” and a similar statement at Lines 60-61, do not seem to reflect the way that a basis of value is determined for a valuation assignment. While the appraiser has ultimate responsibility for the determination, the valuer “identifies” or “figures out” the type of value based on the valuation problem to be solved – i.e., what type of value the client needs to know about.

Introduction

- Line 5. The term “assumptions” is used in a way that is not consistent with the definition of “assumption.” A better word in line 5 might be “premises.”

Bases of Value

- Lines 65-66. Are valuation bases still part of the IVS Framework?

IVS-Defined Basis of Value – Market Rent

- It is difficult to clearly follow the mixture of terms between market and contract rent and the respective ownership interest. Yes, the valuer should analyze contract and market rents, especially when they differ. However, this text does not discuss that an encumbrance denotes a different interest in the real property rights.

Premise of Value/Assumed Use

- Line 266. Premises of value. Should the title to IVS 104 and and/or the introduction indicate that there is more in this section than bases of value?

Premise of Value – Highest and Best Use

- Lines 278-279 and Lines 293-302. Lines 278 -280 lists four components of highest and best use whereas Lines 293-302 only lists three components of highest and best use.
- Lines 280-285, 288-289 and 130-134: “For example....” The use of examples in Standards is questionable. A more appropriate place for examples would be in guidance or educational material.

- Line 294. Should the word “physically” be inserted in front of the word “possible”?

Entity Specific Factors

- Line 356. Entity specific factors. Should the title and/or introduction indicate that there is more in this section than bases of value?

Assumptions and Special Assumptions

- Lines 395-396. Assumptions and Special Assumptions. Should the title and/or introduction indicate that there is more in this section than bases of value?
- Line 423. The phrase “that a” is repeated.
- Lines 415-430. We note that IVS uses “assumption” differently from the way the term is defined in USPAP or the SVP. Under USPAP and the SVP an “assumption” is something taken to be true, when it is uncertain whether it is true, while a “hypothetical condition” is something taken to be true when it is known it is not true. The IVS combines both concepts into one term.

IVS 105: Valuation Approaches and Methods

- General Comment. This section mixes methodology, suggestions, requirements, guidance, discussion, and description. This section does not appear to belong in a Standards Document. It contains material that is more appropriate for a textbook and/or course and seminar information. Including this type of material in a Standards document creates confusion as the individual trying to comply with the standards cannot easily identify the requirements.

The technical content of a standard should specify the minimum requirements necessary to achieve the objectives of the standard not the methodology to achieve it. In other words Standards should focus on what is to be achieved and what is required, i.e. a credible valuation and reporting requirements, rather than a prescribed methodology for achieving it.

Adding methodology to Standards:

- Stifles the growth of a profession as judgement and the ability to innovate are discouraged when Standards prescribe methodologies.
- Creates dense Standards that are hard to understand by practicing professionals, regulators and the public.
- Creates ambiguity, which can lead to misinterpretation.
- Creates Standards that are slow to adapt to change.
- Creates Standards that are hard to teach.
- Creates content that overlaps with basic appraisal principals and procedures courses.

- Forces practitioners to scour multiple sections of the document to find requirements.
- Leads to regulatory enforcement of suggestions and recommendations.
- Line 44. This statement applies only when the value type is a market value.
- Line 54. In the U.S., “market approach” is a dated term. All approaches use market data. In the U.S., this approach is known as the “comparison approach” or “sales comparison approach”.
- Line 153. Adjustments per se are not always called for but analysis is. The following rephrasing may better clarify the valuer’s responsibility: “A professional should analyze material differences between comparable transactions and the subject asset.”
- Lines 498-507. We would add another caveat: (d) the valuer is able to develop defensible estimates of physical, functional and external depreciation.
- Line 644-648. The terms “external obsolescence” and “economic obsolescence” are used interchangeably. We prefer the term “external obsolescence” as it more accurately reflects the cause of this type of loss in value.

IVS 210: Intangible Assets

- General comment. See General Comment in regards to IVS 105 above.
- Lines 3-4. Directs a valuer to go back to the General Standards to review the principles.

3. Responses to questions posed in exposure drafts

Introduction and Framework

(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?

What does the phrase “all aspects of IVS 2017 should be mandatory” mean? Is every single statement in the document mandatory? The Standards should identify any commentary as commentary so that valuers and users of valuation services will not confuse commentary with requirements.

(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?

This action does not add any real clarity to the Standards. This section contains an extensive amount of material that should be in textbooks and educational courses not in a Standards document.

(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?

Again, this action does not add any real clarity to the Standards. This section contains an extensive amount of material that should be in textbooks and educational courses not in a Standards document.

(d) Do you agree with the IVS definition of Exceptions and Departures? If not, why?

The Exposure Draft does not clearly explain the definitions of and reporting requirements related to Exceptions and Departures. Also

- Lines 44-46. The definition of exception is not clear, especially with regard to who determines what is inappropriate – the valuer? The client?
- Lines 44-46. If a valuer is asked to comply with Standards other than IVS (rather than in addition to IVS), it is not an exception to IVS it is simply an assignment performed under whatever Standards the valuer applied.
- Lines 58-59. These lines are unnecessary as the Exposure Draft defines the term “departure” above and the matters described in these lines do not fall within that definition.

IVS 104: Bases of Value

(a) Do you agree that valuers should be responsible for choosing the appropriate basis (or bases) of value according to the terms and purpose of the valuation assignment, and that the basis of value may not be one defined by the IVSC? If not, why?

- Agree, but the proposed phrasing does not reflect the way that a basis of value is determined for a valuation assignment. While the appraiser has ultimate responsibility for the determination, the valuer “identifies” or “figures out” the type of value based on the valuation problem to be solved – i.e., what type of value the client needs to know about.

(b) Prior versions of international valuation standards included Special Value as a separate and distinct basis of value. The Board generally believes that valuers seldom perform valuations using Special Value as a distinct basis of value. Rather, valuations are typically performed using another basis of value predicated on certain hypothetical assumptions (“special assumptions”) or a specific purchaser (resulting in synergistic value). Do you agree with the removal of *Special Value* as a separate and distinct basis of value? If not, please describe the circumstances in which you use Special Value as a distinct basis of value?

We agree with the removal of Special Value.

(c) The IVSC has retitled the previously defined Fair Value as Equitable Value in order to avoid confusion with other definitions of Fair Value. Do you agree with this change, if not why not?

We have no objection to this change.

(d) Liquidation Value has been added as an additional basis of value. Do you agree with its inclusion within IVS 2017 and are you in accordance with the definition used? If not, why not?

As noted previously in these comments, the Appraisal Institute does not believe that content of this type belongs in a Standards document.

(e) Replacement Value has been added as an additional basis of value. Do you agree with its inclusion within IVS 2017 and are you in accordance with the definition used? If not, why not?

As noted previously in these comments, the Appraisal Institute does not believe that content of this type belongs in a Standards document.

(f) Are there other bases of value defined by other entities/organisations that should be mentioned in IVS 104? Which ones? Why?

No

IVS 105: Valuation Approaches and Methodologies

1) Do you agree that when selecting appropriate valuation approaches and methods a valuer should consider the following?

a) the appropriate bases of value, determined by the terms and purpose of the valuation assignment,

Standards should not be confused with methodology. It is the valuer's responsibility to determine what methods he or she needs to employ to develop credible analyses, opinions and conclusions.

b) the respective strengths and weaknesses of the possible valuation approaches and methods,

This consideration should be Standards based as methodology and strengths and weaknesses can change with time.

c) the appropriateness of each method in view of the nature of the asset, and the approaches or methods used by participants in the relevant market,

This is for the valuer to establish and should not be a part of Standards.

d) the availability of reliable information needed to apply the method(s), and

Again the valuer's responsibility to know, not an area that Standards should dictate.

e) if not, why? What considerations would you add to or remove from this list?

This should be Standards not methodology.

2) Under each valuation approach, this exposure draft includes criteria for when the approach should be used. Do you agree with the criteria presented under each approach? If no, what changes would you make? Why?

Standards should not be confused with methodology and telling the valuer how to do his or her job.

3) Are there areas of this chapter that you feel should be expanded upon in future board projects (eg, discount rates, discounts/premiums, etc)?

No, The IVS should stick to standards and allow the valuers the flexibility to practice their profession.

IVS 105: Valuation Approaches and Methodologies

(a) In IVS 2013, all substantive portions of IVS 210 *Intangible Assets* were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was 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?

What does the phrase “all aspects of IVS 2017 should be mandatory” mean? Does that mean every single statement in the document is mandatory? The Standards should identify any commentary as commentary so that valuers and users of valuation services will not confuse commentary with requirements.

(b) Do you agree with the decision to incorporate relevant portions of TIP 3 into IVS 210 and to eliminate TIP 3 as a standalone document? Are there any other elements of TIP 3 that you believe should be incorporated into IVS 210?

This action seems to be incorporating more non-standards material into the Standards.

(c) In addition to the contents of IVS 105, this Exposure Draft includes criteria that should be used by an appraiser in selecting an appropriate valuation approach and method for the valuation of intangible assets. Do you agree with the criteria presented under each approach? If no, what changes would you make? Why?

No. Should be standards based and allow valuers the flexibility to determine what methods will lead to credible results.

(d) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of intangible assets regardless of the purpose of the valuation (financial reporting, tax, transactions, litigation, etc.). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?

It may be okay as long as it is Standard based and not reflecting methodology as a certain type of value may require different methodology.

Thank you for your consideration of our comments.

Sincerely,

Leslie P. Sellers (electronic signature)

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