Australian Property Institute

AUSTRALIAN VALUATION STANDARDS COMMITTEE

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Owner	National Manager – Professional Standards & Australian Valuation Standards Committee

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Comments on Exposure Drafts by the
API Standards Committee (AVSC)

IVS 2017 Introduction and Framework

(1) 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?

Yes, the clarity in relation to the mandatory aspects of the standards is supported.

(2) 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?

Yes, it makes sense to have a single chapter on the Bases of Value as it highlights its importance. By having one chapter any subsequent changes can also be readily tracked and communicated.

(3) 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?

Yes, it makes sense to have a single chapter on Valuation Approaches. By having one chapter any subsequent changes can be readily tracked and communicated.

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

Yes, we agree with the IVS definition of Exceptions and Departures in sections 60.1- 60.4, they are clear and unambiguous.

IVS 210 Intangible Assets

(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?

The AVSC agrees with both:

- **the contention that the commentary label introduced ambiguity and**
- **the decision to remove the label**

(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?

The decision to incorporate relevant sections of TIP 3 into IVS 210 is supported. The AVSC does not believe there are other aspects that lend themselves to incorporation in the proposed standard, other than the illustrative examples which add depth to some of the inclusions from the TIP to the revised standard.

(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?

The AVSC is comfortable with the proposals within this standard as drafted. Please refer to our responses on the exposure draft IVS 105 Valuation approaches for discussion on general approach selection.

We consider though that the delineation of approaches implies that cross checking between approaches is not desirable. We recommend that cross checking across multiple approaches would increase the robustness and defensibility of the primary approach adopted, and wording to this effect in the proposed standard would be useful.

(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?

Generally, this would be a helpful way to think about the application.

However, in many contexts, the accounting standards are law. Case law may exist that may be interpreted as contrary to the standard as proposed (for example goodwill is defined under the accounting framework but in legal contexts it is defined as the attractive force that develops custom, which includes some customer related intangibles).

It may be helpful to provide a carve out to enable practitioners to use legally established rules in precedent to the standard (but perhaps require an elaboration of the reason for the departure) in each jurisdiction.

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?

Whilst we believe valuers have an important role in helping clients understand which basis of value is most appropriate, and should aim to adopt an IVSC defined basis such as Market Value. In some cases the basis of value may be mandated by law or determined by a third party (e.g. under a contract, by an instructing lawyer, etc.) and may not be a basis of value defined by the IVSC.

Generally it is the instructing party who determines the basis of value.

(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 believe it was helpful to include a definition of Special Value for situations where other mainstream IVSC definitions, such as Market Value or Fair Value, are not appropriate.
Special Value has a distinct meaning in compensation law and statute in Australia and defined by the court precedence. As it is part of the Australian valuation jurisdiction reference to this would be desirable rather than complete removal. Not sure if definition would be beneficial due to wide variances in application around world.

(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?

It was confusing having two different bases of value with very similar names so this looks like a sensible and pragmatic solution.

(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?

It is useful to include a definition for Liquidation Value as this is a basis of value commonly used for tangible assets in many jurisdictions to reflect a specific disposal situation.
It could be expanded to better define situation as it may have little reference to property as currently expressed.

(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?

The basis of value will typically be determined by the insurance policy however in the absence of an insurance policy, a definition would be helpful. A better term might be Reinstatement Value or Replacement Cost as these distinguish this basis of value from terms used in completing valuations under the cost approach.
Reinstatement value is correct term if you are including "add-ons" as distinct from just the direct construction costs.

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

As a general rule the IVSC should only include definitions for bases of value that have universal use or wide use across multiple jurisdictions. We therefore agree with the inclusion of the above two additional bases of value however the definition relating to Fair Market Value (IRS) should be removed as it only has application in one country.

Other comments

40.4 The last sentence states that a "A valuation of market rent should only be provided in conjunction with an indication of the principal lease terms that have been assumed". Perhaps there could be reference to acknowledge that a market rent may have to be assessed based on terms of an existing lease e.g. for rental determination purposes where the lease terms are existing and therefore not to assumed as part of a notional lease.

IVS 105 Valuation Approaches

(1) Do you agree that when selecting an 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,

Agreed this is fundamental to the process and ideally involve more than one method.

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

Agreed and we note that this will depend on the amount of information provided and the availability and comparability of evidence.

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,

Yes we support this statement and agree that the method/s should ideally reflect the method used participants in the relevant market. All the methods referenced are well known and widely used in the market and their appropriateness easily understood.

(d) the availability of reliable information needed to apply the method(s), if not, why? What considerations would you add to or remove from this list?

The list is extensive and would cover most situations encountered in a valuation scenario. There will always be some exceptions.

(1) 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?

Yes

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

No the chapter provides a good overarching guide and further refinement may become over prescriptive.