



THE APPRAISAL FOUNDATION

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Standards and Appraiser Qualifications*

July 5, 2016

International Valuation Standards Council (IVSC)

Via electronic mail: [commentletters@ivsc.org](mailto:commentletters@ivsc.org)

Re: Comments on the Exposure Drafts of:

- A. IVS 2017: Introduction & Framework
- B. IVS 104: Bases of Value
- C. IVS 105: Valuation Approaches
- D. IVS 210: Intangible Assets

To Whom It May Concern:

As the body charged with the promulgation of the *Uniform Standards of Professional Appraisal Practice* (USPAP), the Appraisal Standards Board (ASB) of The Appraisal Foundation issues exposure drafts of proposed changes as the need arises. As a result, we understand the importance of public exposure of proposed changes, and we appreciate the opportunity to provide comment on the proposed revisions to the International Valuation Standards.

A special Working Group (WG) of ASB members was appointed by the ASB Chair to review the IVSC draft documents and prepare the requested response. This response has been based on opinions of the WG rather than the entire ASB. The ASB is currently in the process of preparing exposure drafts for the 2018-19 USPAP, having published a First Exposure Draft in April 2016. Review by the total Board was not possible as the present time due to the current work schedule.

The ASB looks forward to continuing the efforts of harmonizing USPAP and IVS, as evidenced by the recently published Bridge Document. It is our hope that any revisions to USPAP and IVS will keep this objective of harmonization in mind.

We are pleased that the IVSC is considering revisions to the International Valuations Standards for 2017. We have previously expressed concerns about the use of or lack of use of the terms “must” and “should.” We have not provided any opinions regarding IVS 105: Valuation Approaches and IVS 210: Intangible Assets, as they would be under the purview of the Appraisal Practices Board (APB) of The Appraisal Foundation. While USPAP does incorporate the use of three approaches to value (Cost, Income, & Sales Comparison), it does not establish Rules or Standards as to how and when these approaches are specifically required in valuation or review assignments. USPAP uses the term “Sales Comparison Approach” rather than “Market Approach” because all these

approaches should be market derived. Our comments regarding the other two drafts are as follows:

A. IVS 2017: Introduction & Framework

1. The ASB recognizes the distinction that International Valuation Standards must recognize the global perspective of the IVS which must include flexibility for local departures “from IVS due to legislative, regulatory, or other authorization requirements.” USPAP identifies these type exceptions as Jurisdictional Exceptions rather than departures.
2. The ASB supports the clarifications in the updated IVS as to what is a requirement versus what is suggested as a best practice (i.e., “must” vs “should”).
3. As you are aware, USPAP is a combination of valuation standards and ethical requirements within the same document. It is also a combination of rules- and principles-based requirements. Over 25 years USPAP has been the recognized set of performance standards and rules for competent and ethical valuation practice in the United States. Users, providers of valuation services, and regulators have recognized that in order to be fairly and adequately enforced, certain rules must be established within the standards document. Otherwise, enforcement becomes very difficult, if not impossible. However, care must be taken so as to not be overly complex, thereby restricting the appraiser’s (valuer’s) ability to provide needed services to users. Of primary importance is of the obligation of appraisers to provide credible services with appropriate, clear, and conspicuous disclosure to avoid communicating misleading assignment results.

Answers to Questions

- 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?

Answer: Yes

- 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?

Answer: Yes

- 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?

Answer: Yes

- D. Do you agree with the IVS definition of Exceptions and Departures? If not, why?

Answer: Yes, provided adequate, clear, and conspicuous disclosures are required.

B. IVS 104: Bases of Value

1. A major difference between USPAP and IVS is that USPAP does not include a definition of Market Value. However, USPAP does, in the Definitions section, provide a description of what conditions are generally included in such a definition:

“MARKET VALUE: a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal.

Comment: Forming an opinion of market value is the purpose of many real property appraisal assignments, particularly when the client's intended use includes more than one intended user. The conditions included in market value definitions establish market perspectives for development of the opinion. These conditions may vary from definition to definition but generally fall into three categories:

1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
2. the terms of sale (e.g., cash, cash equivalent, 101 or other terms); and
3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).

***Appraisers are cautioned to identify the exact definition of market value, and its authority, applicable in each appraisal completed for the purpose of market value.”***

The most commonly used definition in the United States was developed primarily in conjunction with federally regulated financial institutions. It is as follows:

“*Market value* means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) Buyer and seller are typically motivated;
- (2) Both parties are well informed or well advised, and acting in what they consider their own best interests;
- (3) A reasonable time is allowed for exposure in the open market;
- (4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- (5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”

Note: This definition generally includes provisions addressed in the IVS Market Value definition (a) through (i) with one exception: Item (g) “after proper marketing” which would be a good addition to the US definition.

2. Since USPAP does not specifically address the various definitions of value utilized in the marketplace, we will not comment further on the definitions addressed in IVS 104.
3. USPAP does address assumptions made by appraisers in their various appraisal and appraisal review assignments. This is a major concern and we are aware of the various differences among the valuation standards established by various standards setters around the world.

Currently, USPAP’s definitions make distinctions between a (general) assumption, an assumption that is -specific to the assignment (extraordinary), and a condition that is known to be false (hypothetical). For your convenience, the three definitions are as follows:

**ASSUMPTION:** that which is taken to be true.

**EXTRAORDINARY ASSUMPTION:** an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser’s opinions or conclusions.

Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

**HYPOTHETICAL CONDITION:** a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.

Comment: Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

It is noted, however, that based on comments reviewed over several years, the ASB is, through current exposure drafts, seeking alternative definitions and clarifications based upon current appraisal practices in the United States.

The suggestions in the First Exposure Draft for possible changes to the 2018-19 USPAP are as follows: (Please note that these are draft proposals which will possibly be modified in future exposure drafts.)

## **DEFINITIONS**

~~**ASSUMPTION:** that which is taken to be true.~~

~~**EXTRAORDINARY ASSUMPTION:** an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions.~~

~~Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.~~

~~**GENERAL ASSUMPTION:** that which is generally accepted as true and the appraiser has no reason to doubt, but which, if found to be false, could alter the appraiser's opinions and conclusions.~~

~~**SPECIFIC ASSUMPTION:** an assumption about which the appraiser has reasonable grounds for uncertainty and which, if found to be false, could alter the appraiser's opinions or conclusions in an assignment as of its effective date.~~

~~Comment: Specific assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.~~

Based on feedback received from the ASB's First Exposure Draft of Proposed Changes for the 2018-19 edition of USPAP, there was support for changing the definitions of Assumption and Extraordinary Assumption, but little support for changing the label Extraordinary Assumption. No change is being explored to the definition of Hypothetical Condition.

The IVS does not make a distinction between assumptions that the appraiser has reasonable grounds for uncertainty (specific) and those that are known to be false (hypothetical). The ASB believes this distinction is **critical**. Both could alter the appraiser's opinions and conclusions, as would be the case for general assumptions. We recommend the IVSC also consider making a similar distinction which would further promote harmonization between the standards.

#### Answers to Questions

- 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?

Answer: Yes

- 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?

Answer: Yes, but separating the difference between general assumption, special assumption, and hypothetical assumption.

- C - F

Answers: No responses

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If any of the above comments require further clarification or explanation, please feel free to contact Aida Dedajic, Standards Administrator with The Appraisal Foundation, by calling (202) 624-3058, or via e-mail at [aida@appraisalfoundation.org](mailto:aida@appraisalfoundation.org).

Respectfully submitted,

A handwritten signature in cursive script that reads "Margaret A. Hambleton". The signature is written in black ink on a white background.

Maggie Hambleton

Chair

Appraisal Standards Board