

Comment on IVS Exposure Drafts by the Property Institute of New Zealand Standards Board

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?

Yes, we are in agreement with the removal of the “commentary” label considering that there appears to have been confusion with regard to the standards being mandatory. It may be useful for the standards to include a paragraph in the introduction and preamble reaffirming that all aspects of IVS 2017 are “mandatory”.

- 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?

Yes, we agree with the decision to remove the section on the basis of value from the framework section and produce a single chapter on the subject for the purposes of clarity and efficiency.

- 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?

Yes, we agree with the Board’s decision to remove the section on Valuation Approaches from the IVS Framework section and produce a single chapter on valuation approaches and methodologies for the same reasons as describe above in our response to question b.

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

Yes, in general, we agree with the proposed IVS definition of Exceptions and Departures. However, it would be helpful if some examples of exceptions as defined under 60.1 could be identified under this section in order to provide further clarity with regard to such circumstances were mandatory application of IVS as a whole maybe inappropriate.

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?

Yes a valuer should be able to choose the basis of value but only if the Scope of Works with the requesting party dictates that it should be something other than Market Value or that it is dictated by local statute.

- 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?

Yes we agree

- c) The IVSC has re-titled 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?

Yes we agree. This removes the confusion.

- 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?

Yes we agree

- 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?

Yes we agree – but the definition at para 90.1 and 90.2 is two pronged referring to replacing an asset (which infers replication) and replacing with modern equivalent. The term Replication Value therefore should also be considered as an IVS defined value, particularly in relation to heritage assets. Or alternatively the term should be Insurance Value which could include both descriptions of Replacement and Replication Values

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

See below

180 Premise of Value: Forced Sale

We do not support the use of the term 'forced sale', while the term has traditionally been used in bank foreclosures there is no basis or premise of value. The valuer should consider the 'likely realisable price' based on defined special circumstances – i.e. 1-month marketing period, sub optimal marketing spend etc.

30 IVS – Defined Basis of Value – Market Value

We question the use of "sale and leaseback arrangements" as a valid example. Sale and leaseback arrangements can introduce circumstances where the estimated price is inflated or deflated, but not in all cases. We suggest that the words "in some cases" are added after "sale and leaseback arrangements".

IVS 105 Valuation Approaches

- a) 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
 - b) The respective strengths and weaknesses of the possible valuation approaches and methods
 - 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.
 - d) The availability of reliable information needed to apply the method(s), and
 - e) If not, why? What consideration would you add to or remove from this list?

1a) Yes we agree in general. The starting point will always be the basis of value, after which the valuer will determine the best approach(es). There could be situations where the basis of value is influenced by external forces (e.g. statute, contract or an unusual brief) and in these cases the valuer needs to be particularly careful in choosing the correct approach(es).

Under section 10.4 it states that 'Valuers are not required to use more than one method for the valuation of an asset'. Whilst this is correct, it is our understanding that it would be best practice to use more than one method, with the valuer then considering all relevant approaches, to reach a single conclusion. The weighting/relevance of each approach to the final value would be based on the degree of confidence in the accuracy and reliability of the methods, and the correlation with how the market would view the property. We believe more emphasis should be placed on the consideration of more than one approach in determining value, if possible.

1b) Yes we agree with this statement.

1c) Yes we agree with this statement.

1d) Yes we agree with this statement.

1e) Nothing to add or remove.

Section 10.8 – wording appraiser should also include valuer e.g. appraiser/valuer

- b) 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?

20.1: we do not agree with the statement, “When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach”. This statement could apply whilst also conflicting with paragraph 40.2 (a) and (b) (which says the Income approach is the primary approach under specified circumstances). The reality is that for commonly traded, generic income producing investment properties the valuer should give equal consideration to both the market and Income approaches.

20.2, (a), (b) and (c) – at the end of each of these you should say “ and/ or “, otherwise the reader can’t tell if one or all of the circumstances apply. For instance, if one is valuing an asset that hasn’t sold (so doesn’t meet criteria 20.2 (a), one would still aim to meet criteria 20.2 (b) and (c).

30.4, after the statement “ rent per square foot “, insert the words “ (or per square meter) “

- c) 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, everything is well covered.

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?

Yes, we agree with the removal of the ‘Commentary’ label. Use of the label may suggest that the paragraphs located under that label have a lesser authoritative standing than paragraphs stating a requirement of the standard. However, commentary paragraphs are intended to amplify the meaning of the requirement paragraphs and therefore should be regarded as having equal standing to a requirement paragraph. The label is thus unhelpful.

- 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?

Yes, on efficiency grounds, we agree with the decision to merge TIP3 with IVS 210 and eliminate TIP 3 as a standalone document. In our view, documents outside the standards should be reserved for

discussion of topics such as (i) emerging valuation issues, with the aim of narrowing the range of acceptable valuation methods, or (ii) local guidance on jurisdiction specific issues.

Our view is that the Exposure Draft incorporates all the useful material contained in TIP 3. Furthermore, the Draft helpfully expands the set of income methods discussed and provides useful additional coverage of the choice of the discount rate, assessment of the economic life of an intangible asset, and the tax amortisation benefit. The Draft does not carry over the examples from TIP 3. We agree with this omission. Examples may be included in a standard for the purpose of illustrating the requirements of the standard. However, they generally prove to be unhelpful as they inevitably come to be regarded as defining the standard and, in particular, limiting the scope of the 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?

We agree with the criteria presented under each approach.

- 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?

We agree that the standard can be applied in a wide range of applications. However, while the standard recognises that valuation of intangible assets may take place for financial reporting purposes, additional guidance on that application would be helpful. A future review of IVS300 may result in expanded coverage of valuation of intangible assets for financial reporting purposes but in the meantime there is no specific coverage of this topic.