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commentletters@ivsc.org

Dear Sirs

I refer to the IVSC invitation to comment on the IVS 2017 Exposure Drafts, and would like to submit supplementary comments with regard to the IVS 104 Exposure Draft, following my previous submissions to the Standards Board in mid-2015 in relation to the inclusion of the word "**or liability**" into the IVS 2013 Market Value definition.

I do this, having been the South African Institute of Valuers representative at the 1993 IVSC Meeting in Melbourne, Australia, at the start of my 10 year Elected Board Membership of the IVSC Management Board.

At such Meeting the wording of the current IVSC **market value** definition wording was thrashed out, being duly amplified by the inclusion of conceptual framework comments with regard to each of the elements of such definition.

The *market value* definition was subsequently amended by the Standards Board to require that "**the definition of market value shall be applied in accordance with the conceptual framework.**" In effect, this application requirement is part of the mandatory framework of IVS 2017.

My supplementary submissions are as follows :-

1. **"or liability"**

The IVS 2017 Exposure Draft Clause 30.1 definition of "Market Value" reiterates the IVS 2013 definition wording, including the words "**or liability**", together with the mandatory Clause 30.2 statement that "**The definition of Market Value shall be applied in accordance with the following conceptual framework.**"

2. **Clause 20.1**

Clause 20.1 of the Introduction and Framework relating to Assets and Liabilities, previously included in the Introduction section of IVS 2013, states that :-

"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."

With this Clause 20.1 wording, the inclusion of the words "or liability" in the Market Value definition of an asset would seem to be unnecessary, particularly as they refer to a liability in the singular and as a stand alone liability, rather than the wider description of liabilities in Clause 20.1.

The omission of such "or liability" words from the Market Value definition would therefore avoid what seems to be the inappropriateness of a number of the mandatory individual conceptual framework requirements, when the somewhat questionable market value in exchange of such a stand alone liability is to be considered.

3. Market Value Definition

As a practising valuer, I regard the definition of Market Value, together with its mandatory conceptual framework, to be the core of IVS, and the integrity of such definition would seem to have been somewhat compromised by the inclusion of such “or liability” wording, unless consequential amendments of the elements of the conceptual framework and ensuing paragraphs are incorporated or, preferably, the words are removed, in the light of the following comments :-

3.1 Clause 30.2.(a) In the case of an incurable liability within a portfolio of assets and liabilities, the negative value attributable to such liability would effectively be acceptable to the seller to be set against and as a deduction from the positive overall Market Value of the remaining assets payable by the buyer.

In the case of an incurable stand alone liability in isolation, its marketability in exchange is likely to be questionable in any event, and the likelihood of such market occurrences is considered to be exceedingly small, as compared with the market exchange of assets throughout the world, unless such liability or liabilities form portion of a group of assets, as envisaged by Section 20.1.

The fact that the non-profitable BHS group was sold a year ago by the then owner for £1, and the non- profitable OK Bazaars Group in South Africa many years ago was sold for R1 would both seem to be artificial figures, required from a financial reporting viewpoint, which is unlikely to have been representative of Market Value, particularly having regard to the subsequent happenings with regard to BHS.

3.2 Clause 30.2.(b) The estimated amount at which a stand alone liability “should exchange” seems rather strong, and would be better phrased as “might exchange”, particularly having regard to the mandatory requirement that the purchaser must have acted prudently.

At the Standards Board Meeting in London in June last year I gave the Board an example of an incurable liability from a market value viewpoint, in relation to the 2010 Cape Town Stadium, built for the 2010 World Cup at a cost of R4.4 Billion Rand, and now probably used for perhaps 20 – 30 days per annum. It is now losing nearly R50 Million pa in net operating return, and the City proposed lease of which to its only potential tenant, the Western Province Rugby Football Union was declined.

The costs of demolition of such Stadium are likely to be considerably more than the underlying value of the resultant vacant land. As a result, the Stadium property as it stands is highly likely to be non-saleable at any negative price, leaving the Cape Town City and its ratepayers with an ongoing major liability.

3.3 Clause 30.2.(e) In the case of a liability in isolation, “a willing seller” “prepared to sell at any price” might well reflect the payment of an amount to get rid of such liability, equivalent to negative value. The component goes on to exclude “or liability” from the second paragraph, effectively referring to the “best price obtainable” by the seller for such a liability in isolation.

3.4 Clause 30.2.(g) The “after proper marketing” Clause, only refers to “asset”, creating the problem that, in the case of a liability in isolation, it is likely to be a negative value, or the “least price reasonably payable” by the seller.

3.5 Clause 30.2.(h) “where the parties had each acted knowledgeably, prudently” once again refers only to an asset, and its contents could be reconsidered to cover the liability in isolation implications.

3.6 Clause 30.3 The Clause only deals with Market Value comments on an asset in terms of highest and best use, Can there be a highest and best use for an incurable liability other than the breakup value of its underlying asset components?

4. Summary

- 4.1 I would hope that, as a result of these comments, the Standards Board would review the appropriateness of the inclusion of the words “or liability” in the Market Value definition, having regard to the overriding Clause 20.1 instruction in the IVS 2017 Introduction and Framework.
- 4.2 In the case of an incurable stand alone liability, as would appear to be the case with BHS, the breakup value of such business entity might include the underlying vacant possession based asset value of the individual property components plus the asset values of the residual shop fittings and stock in trade, and thereby fall within the Market Value asset definition.
- 4.3 If the wording is to be retained, consequential amendments of the conceptual framework components should in my view be incorporated, to take into account the inappropriateness of some portions of the mandatory conceptual framework wording in relation to the consideration of the Market Value of a liability in isolation, as is envisaged by the specific “or liability” wording.
- 4.4 I put forward these views as a practising valuer, who has not been involved for many years in financial reporting.

As a result, there may well have been financial reporting implications which have been taken into account by the Standards Board in deciding to retain the words “or liability” in the IVS 2017 Market Value definition, but which could have been more explicit, so as to avoid the above inappropriate inferences as a result of the inclusion of the “or liability” wording without further qualification.

- 4.5 I would also confirm that the above views are my own, but that last month I raised this issue with the South African Institute of Valuers at its Annual General Meeting, which endorsed my proposal to make further representations to the IVSC Standards Board with regard thereto.

5. Conclusion

As a further alternative for the Board to consider, paragraph 3.2 of the IVS 2005 Market Value Basis of Valuation, Standard 1, included the following words :-

“Each element of the definition has its own conceptual framework”

The IVS 2013 inclusion of the words “or liability” in the Market Value definition constituted an additional element to such definition.

In view of the above representations, if such wording is to be retained by Board, as it previously decided following my representations to the Board in relation thereto last year, then this should in my view merit the inclusion of an additional conceptual framework paragraph by the Board, to elucidate the rationale and purpose behind the retention of such wording inclusion, taking into account the fact that this is in fact already covered by the provisions of Clause 20.1 of the Introduction and Framework.

With kind regards

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cc – General Secretary, South African Institute of Valuers