IVSC Standards Board
1 King Street
LONDON
EC2V 8AU

By email to: commentletters@ivsc.org

2 June 2016

Dear Sirs

Response to Exposure Draft
IVS 2017 Introduction and Framework
Please find attached our comments on the above exposure draft.

The directors of Valuology have considerable experience of valuation standard setting generally and knowledge of the existing IVSs and their evolution.

If you would like any additional information in relation to our responses or comments, please do not hesitate to contact us

Yours faithfully,

[Signature]

C G Thorne
Director
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Comments on Exposure Draft of IVS 2017

Introduction and Framework

Answers to Questions in ED

(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?

We agree with the removal of the Commentary label. The proposal that all guidance relevant to the application of the requirements in a particular standard should be appended to that standard, given the title “Application Guidance” and a clear explanation of its relationship with the rest of the standard provided was included in the 2015 ED.

We do NOT agree with the proposal to make all aspects of IVS 2017 mandatory. The reasons for this are explained in our detailed comments on proposed changes to the Framework and the individual standards. It runs contrary to feedback received to all consultations since 2010 that the standards should a) contain both rules or requirements and supporting guidance, and b) that a clear distinction should be made between the two.

(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?

No. This material should not and cannot be mandatory. This is explained in our comments on the proposed changes to the Framework and the proposed IVS 104. No example is provided of repeated guidance in the current standards. The Board has sought to avoid repetition wherever possible in recent versions of the standards.

(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?

No. This material should not and cannot be mandatory. This is explained in our comments on the proposed changes to the Framework and the proposed IVS 105.

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

No. The proposed wording in section 60 of the new Framework appears to have the same intent as the existing standards. The wording under the heading “Application of these Standards” in the Introduction to IVS 103 is more concise, easier to understand and therefore more effective.
General Comments

Previous Consultations
In March 2015 the IVSC Standards Board issued an Exposure Draft (ED) which reflected changes proposed by the Board in response to the consultation carried out in 2014 into the future Structure and Scope of the IVSs. No mention is made of this 2015 ED, or to the responses received, in this latest ED. Some of the changes proposed in that draft are not reflected in the current draft, with no clear explanation of why the Board has changed its view, or why comments received from respondents to the Structure and Scope Review are being disregarded.

The results of other consultations that have taken place over the past five years have also been disregarded. A major structural change is proposed which runs contrary to the views expressed in these consultations and the previous decisions of the Board to reflect these. Responses to previous drafts have revealed many differing opinions about the extent of supporting guidance that should be included in the standards. However, a common theme is that, whatever guidance is included, this should be clearly distinguished from the mandatory rules. Instead of improving the distinction that exists at the moment, the current draft proposes to remove it altogether by purporting that everything in the standards is mandatory, even where this is clearly impossible, for example where various possible solutions are discussed or a principle is being illustrated.

Consultations during the development of existing content have also been ignored, for example in the proposed new standards on the Cost Approach and Intangible Assets. In the case of the former, a radical redefinition of the existing approach is proposed. No detailed reasons are given for the Board proposing these changes.

This lack of transparency, continuity and disregard of previous consultations (and Board decisions based on those consultations) is disappointing.

Existing Commitments and Agreements with Other Organisations
During recent years the IVSC has been actively collaborating with some of its member organisations and other standard setters in an effort to a) reduce differences between standards and b) improve the recognition and acceptance of the IVSs. These collaborations are discussed below, but the proposals so far released by the Board do not reference commitments previously made by the IVSC or make changes in pursuit of these commitments. Indeed, in some cases changes are proposed that run directly contrary to commitments or agreements made with others.

IFRS Foundation
In 2014 the IVSC signed a Statement of Protocols with the IFRS Foundation. This acknowledged that the organisations have a common interest in ensuring that standards and guidance developed by the IVSC through its standard-setting boards on how to measure fair value is consistent, where appropriate, with IFRS, and is comprehensive and well-developed. The current draft indicates the IVSC apparently now has no intention of ensuring that its material on how to measure fair value is “comprehensive and well developed”. Instead it is proposing to remove IVS 300 Valuations for Financial Reporting from the standards entirely, on the grounds that this is “too technical” and “beyond the remit “of the IVSC. The current IVS 300 was developed with considerable input from IFRS staff, who indicated that it complimented IFRS as it provided useful guidance on some matters on which the accounting standards were silent, for example the practicalities of allocating value for depreciation or lease accounting. The one valuation purpose that is truly international remains valuation under IFRS, so many will find the...
apparent decision to ignore valuations for financial reporting and IFRS in particular difficult to understand and a backward step.

Valuation Professional Organisations
In 2014 the IVSC signed a Memorandum of Agreement (MoU) with twenty Valuation Professional Organisations (VPOs). This MoU contains commitments to enable those organisations that have already adopted the IVSs or that issue standards that are Compliant with the IVSs to maintain that status. This memorandum also contains commitments to enable those organisations that issue standards that are not currently Compliant with the IVSs to either adopt the IVSs or make their own standards Compliant within a three-year period. This MoU was signed following extensive negotiations with the VPOs as to what was meant by “Compliant” with the IVSs. The MoU defines this as compliance with the “Requirements” in the IVSs which are defined as:

The contents of IVS 101, IVS 102 and IVS 103, together with all those matters under the heading of “Requirements” in IVS 200, IVS 210, IVS 220, IVS 230, IVS 233, IVS 250, IVS 300 and IVS 310.

The 2015 ED issued by the Board proposed minor changes to both IVS 102 and 103 which included using the heading “Requirements” for consistency with other standards and pursuant to what had been agreed in the MoU. However, in the current draft, IVSs 104 and 105 do not contain identified Requirements although the text suggests that they are mandatory. The proposed amended IVS 210 does contain a heading “Requirements” which simply says that the “principles” (not the requirements) in the General Standards apply. There also statements that the Board intends that ALL the contents of the standards shall be mandatory, not just the identified Requirements. Rather than adding clarity to assist the objectives of the MoU, the current proposals will make it considerably more difficult for organisations to maintain or attain compliance with the IVSs.

The Appraisal Foundation
A MoU was signed with the Appraisal Foundation in 2014, which followed an earlier MoU in 2006. The latest MoU set the goal of removing any remaining obstacles to a valuation undertaken and reported in accordance with USPAP also complying with the Requirements in the IVSs by end of 2017. The mandatory Requirements in the current IVSs are almost entirely in the three General Standards IVS 101, 102 and 103. Approximate equivalents in USPAP can be found in The Scope of Work Rule, Standard 1 Real Estate Appraisal Development and Standard 2 Real Estate Appraisal Reporting, and the development and reporting standards for other asset classes. The current ED shows no obvious attempt by the IVSC to address any of the matters that the two parties have jointly identified as needing to be addressed to achieve the objective of the 2014 MoU. More seriously the proposal to introduce new mandatory requirements for Bases of Value and Valuation Approaches take the IVSs in the opposite direction from USPAP and significantly increases the differences between the two sets of standards. There are no equivalent requirements in USPAP, and if approved these changes will surely frustrate the previously agreed objectives.

International Actuarial Association
Since 2013 there has been collaboration with the International Actuarial Association with regard to the valuation of liabilities. The objective of this collaboration was to ensure that nothing in the IVSs conflicted with the standards being developed by the IAA, and also that the IVSs
contained sufficient material on the valuation of liabilities to enable the IAA to reference them in its own standards rather than developing pure valuation standards of its own. Sub groups of each organisation’s Standards Board were established to work on and agree proposed changes to the IVSs, and then to develop more detailed guidance. A number of changes were proposed in the 2015 ED. These have not been carried forward into the current ED. No explanation has been given for this exclusion. Although no formal agreement exists with the IAA, it represents a significant potential user group for the IVSs. Discarding the work which has been done already will not help improve the recognition or status of the IVS.

Comments on Changes to Framework

General Comments

The IVS Framework was introduced in last major rewrite which resulted in IVS 2011. This was in response to criticism of the preceding ED and previous versions of the IVSs, which all had included defined bases of value, discussion of the major valuation approaches and common valuation concepts in the standards and declared them to be mandatory. The point was made strongly by a majority of respondents that these matters could not and should not be made mandatory and therefore it was confusing to give these the same status as those matters which could and should be mandatory. Nevertheless, many respondents, including a majority of those pointing out that this material could not be mandatory, indicated that they found the information useful and did not want to see it excluded from the standards altogether.

The Board looked at the examples of other sets of standards and found that others included a Framework section which included discussion of overarching concepts and options that should be taken into account in interpreting and applying the mandatory requirements but that contained no actual requirements itself. It therefore adopted this model for IVS 2011.

The responses to the 2014 Consultation on the Scope and Structure of the IVSs did not give a mandate for substantially changing the Framework. A majority of respondents confirmed their view that the standards should include not only mandatory requirements but also supporting guidance and information, but that a clear distinction should be made between the two. This is something the Framework helps to achieve.

The Board is now proposing to reverse the decision taken in 2010 and ignore the 2014 consultation. Firstly, the new draft moves the definitions of bases of value and explanation of the major valuation approaches to the proposed IVS 104 and 105, thus giving them the status of mandatory standards. This runs contrary to the consistent calls from users to improve the distinction between the mandatory and advisory parts of the standards.

Secondly it is proposed to remove entirely the discussion of concepts that help promote common understanding and therefore application of the standards that currently appear in the Framework. These include the concepts that have long been included in the IVSs eg, price, cost and value, the market, market activity, market participants, identification of what is valued and the effect on value of how assets are aggregated. All of these have proved useful to users, and many queries received by previous IVSC boards have led to these explanations being refined over the years as misunderstanding of these fundamentals is a common source of confusion and inappropriate valuation. Removing these explanatory “anchors” from the IVSs will be detrimental to their consistent application. It is instructive to note that at about a quarter of the IASB’s accounting standard IFRS 13 “Fair Value Measurements” consists of discussion of similar valuation concepts in
the context of applying the accounting standard, something that was clearly felt necessary to ensure
its consistent application.

Specific Comments
Framework or Introduction?
The purpose of a Framework in standard setting, is to provide background information on matters
that need to be considered and overarching concepts that need to be understood across many
individual standards in the way that the standard setter intends, but that of themselves cannot be
presented as rules that have to be followed in every case. The Framework avoids the need to repeat
explanation of these concepts and principles across all the standards to which they apply.

The proposed Framework is very much reduced and now contains matters that are included in the
Introduction to the existing standards. Directions on when the standards apply and description of
their content do not belong in a Framework.

Sections 10, 20 and 60 in the draft Framework should properly be removed back to the Introduction,
although in the response to question (d) we indicate that the existing paragraph in the Introduction
concerning Applications and Departures is preferable to the convoluted and verbose proposal in
Section 60 of the draft.

The Valuer
The existing Framework indicates the need for judgement, objectivity and competence in applying
the requirements in the standards and briefly explains these concepts without seeking to prescribe
or limit who may prepare valuations under the standards.

In the existing standards the Board made a conscious decision to avoid stating what the “valuer”
should do, but instead to specify the attributes of an IVS valuation. This was in response to criticisms
that the pre 2010 IVSs read more like a set of professional rules than a set of standards for valuation
because they were addressed to the valuer. It was pointed out that Financial Reporting Standards
do not address what “the accountant” should do. Adopting this convention also helped clarify the
distinction between the roles of the IVSs and that of the membership rules of the professional
bodies in membership. It is the latter who can accredit, regulate and discipline valuers and there
was resistance from some to the IVSs defining or stipulating criteria for valuers or apparently
instructing them what to do.

The IVSC Professional Board was established as a separate entity to establish common global criteria
for valuers and in parallel with this draft have issued draft International Professional Standards
(IPSs). The IPSs include definitions for a Professional Valuer. The IVSs should therefore avoid
references to the valuer and particularly including definitions which differ from those in the IPSs.
IVSC Standards Board  
1 King Street  
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By email to: commentletters@ivsc.org  

2 June 2016  

Dear Sirs  

Response to Exposure Draft  
IVS 2017: IVS 104 Bases of Value  

Please find attached our comments on the above exposure draft.  

The directors of Valuology have considerable experience of valuation standard setting generally and knowledge of the existing IVSs and their evolution.  

If you would like any additional information in relation to our responses or comments, please do not hesitate to contact us.  

Yours faithfully,  

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Comments on Exposure Draft of IVS 2017

IVS 104 Bases of Value

Answers to Questions in ED

(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. This is a requirement of the existing standards, IVS 101 2(e), IVS 102 6-8 and IVS 103 5(e).

(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?

The question is incorrect when it posits that prior versions of the IVSs included special value and synergistic value as distinct bases of value. Nowhere in IVS 2011 or 2013 are they described as such. They are both elements of value that may arise in different bases. For example, synergistic value can arise in market value if the synergies are realisable by multiple market participants, in equitable value where the synergies are shared between two parties or in investment value when the synergies are only available to the current owner. Although some constituents have always made a distinction between special value and synergistic value, this is not shared or understood by all. However, special value is specifically excluded from market value, see 30(a) of current IVS Framework. If it is no longer identified and defined in the IVSs, this will need attention.

(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?

Yes. This was also proposed in the 2015 ED

(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?

No. It is not a description of a type of value but of a disposal scenario. See the General Comments on this draft below, lines 42 -51.

(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?

No. As defined in the draft it is not a value but a cost. There are other problems with this definition which are explained in the General Comments on this draft, lines 52 -72.
(f) Are there other bases of value defined by other entities/organisations that should be mentioned in IVS 104? Which ones? Why?

No. See General Comments on this draft below, lines 74-95.
General Comments

This draft Standard starts with a highlighted statement that “Compliance with this mandatory standard requires a valuer to select the appropriate basis (or bases) of value and follow all applicable requirements associated with that basis of value whether those requirements are included as part of this chapter (for IVS-defined bases of value) or not (for non IVS-defined bases of value).”

This is effectively a replication of the current Requirements in IVS 101 2(e), IVS 102 6-8 and IVS 103 5(e) and is therefore redundant. The rest of this standard includes nothing which can be made mandatory as while definitions are provided, there is not requirement to use the defined bases in any given situation and it is acknowledged that many other bases exist beyond those identified which may be the appropriate in order to comply with this requirement. An unlimited list of options cannot be mandatory. This was the very reason why the Board responded to the comments received during the 2010 consultation by removing the proposed standard on bases of value to the newly created the Framework.

The current IVS Framework identifies three types of bases – exchange between two unconnected parties in the market, exchange between two specific parties in private transaction and value to a specific entity. The proposed Introduction (10.4) assumes all bases reflect a transaction, in spite of the fact that non-transactional bases are included in this standard. As it is, the examples in 10.4 make no sense, for example, how can an assumed transaction also be an actual transaction?

Further, it purports that a purchase transaction can be distinguished from a sale transaction in valuation terms, disregarding the fact that any transaction involves both a buyer and a seller and it is the interaction of the two that determines the price, and therefore any valuation based on a premise of a transaction. Egregious statements such as this may encourage diverse interpretations or manipulation of values, and cause confusion to those who provide or rely on valuations.

The draft does include the proposal made in the 2015 exposure draft of renaming “fair value” for purposes outside of financial reporting as “equitable value” to avoid the inevitable confusion with the IFRS definition, which is to be welcomed.

It also proposes to add two more basis of value, “Liquidation Value” and “Replacement Value”. Neither of these represents a useful addition to the bases currently defined by the IVSC, as is explained below. Also, the proposed addition of “/Worth” to “Investment Value” is not only contrary to the outcome of the specific consultation carried out in 2010 as to the most appropriate term for an entity specific bases of value, but to research undertaken on behalf of the Board that revealed that in many languages other than English, “Value” and “Worth” translate as the same word, so the intended distinction would be confusing to many constituents.

However, “Discharge Value” which was proposed by the Board in the 2015 ED as an entity specific value applicable to liabilities has been omitted. This is in spite of the proposed definition having been developed in conjunction with the International Actuarial Association following broad support for the need for a basis to reflect the current cost to an entity of discharging a future liability in the responses to the 2013 Discussion Paper on Liabilities.

Synergistic Value

As indicated in the response to question b), this is not a basis of value but is the description of an element of value that can arise in in valuations undertaken on a number of different bases.
As defined in the draft, “Liquidation Value” is not a basis of value but a description of how the assets being valued are presented to the market, in other words a disposal strategy. In the current standards, the need to consider what is being valued and in particular how separable assets are aggregated for valuation purposes is part of the Framework. The introduction of Liquidation Value does not address this issue as comprehensively or with the same clarity. It also fails to recognise that in a liquidation situation, the previously defined bases, Market value, Equitable Value and Investment Value can all be applicable depending on the circumstances of the liquidation. While the Market Value of a business’s assets assuming liquidation makes sense, the Market Value on the assumption of Liquidation Value does not.

The proposed “Replacement Value” is both an oxymoron and contradictory. It is an oxymoron as the definition in 90.1 indicates it is a cost. The difference between cost, price and value is something that does cause confusion, especially among valuation users, and is the reason why this is explained in the current Framework. This is an immediate example of how the proposed removal of concepts that underpin the IVSs would lead to a loss of clarity and lead to incorrect interpretations.

The rest of 90.1 appears to be based on a definition that might appear in a buildings’ insurance policy. The Board has received a number of requests over the last 20 years to include “insurance values” in the IVSs. On each occasion it has concluded while a valuation may be required to estimate the required amount of insurance cover, the variation in the types of cover available for different types of asset (e.g. reinstatement, indemnity, first loss, etc) and the variations in the policy wording between different insurers would mean, at best, any IVSC definition would serve little purpose. At worst, an IVSC definition could cause difficulties if it was not consistent with the relevant policy, which would be the case in the majority of cases where its use may be contemplated.

It is contradictory because paragraph 90.1 states that it is the cost of replacing an asset in its current form, whereas 90.2 says that it can be the cost of a modern equivalent. In the current IVSs (TIP2) Replacement Cost is defined as “the current cost of a similar asset offering equivalent utility”. Replication Cost is defined as “the current cost of recreating a replica of the asset.” These are both alternative cost inputs that can used when applying the depreciated replacement cost approach, and are not valuation bases.

The draft includes a random list of other bases of value, primarily different definitions of “fair value” and “fair market value”. While this list is stated in 20.1 to be “non-exhaustive” its limited scope is nevertheless unhelpful, not least because some actual definitions are provided. By including the definitions themselves it creates issues of copyright (it is noted that no copyrights or sources are acknowledged) and of maintaining consistency in the event of another organisation changing its material. Above all their inclusion in part of the standards declared to be mandatory will surely confuse users of the IVS as to which is the authoritative source.

The limited list is also hardly representative as it is dominated by North American examples. The reality is that the number of defined bases that may need to be used is vast. For example, in the field of financial reporting alone, while IFRS is used in 130 countries, in most cases that is only for publicly
listed companies. There are many cases where national standards apply to non-listed or public
sector entities, which if they require valuations, do not follow IFRS. Likewise, many valuations are
required on the terms set out in private contracts ranging from business sale agreements through
shareholder agreements to sale or purchase options, the majority of which will have provisions for
price determination which differ significantly from the limited examples referenced here. The
variations in tax definitions of value, even within a single country, can be significant. Overlaying this
multitude of definitions are the interpretations made on those definitions by the courts in each
jurisdiction. Paragraph 28 of the current IVS Framework deals with this issue succinctly and
attempting to add a limited list of examples can only serve to limit comprehension of the principle
that the IVS can be used with any basis providing it is appropriate for the intended purpose and that
the source of its definition is cited.

**Highest and Best Use**

Paragraph 150 contains an embellished version of the text in the current IVS Framework paras 32-
34. The principal addition is in paragraph 150.2, where the second sentence suggests that if
different from the current use, the costs to convert an asset to its highest and best use would impact
the value. An example is then given. Particularly when considered with the example, this makes no
sense as it muddles cause and effect. The value for an alternative use must take into account the
costs of converting to that use. Therefore, in the example given, if the current value for the
alternative use of the land is CU 120m this value must reflect the all costs of redevelopment. Setting
aside the unlikely scenario of redevelopment costs of only CU 20m being incurred on site worth CU
120m, the statement that the HABU would be the value for the existing use if the redevelopment
costs were less than CU 20m is mathematically and conceptually wrong. If an example is needed,
notwithstanding that previously the Board has been sympathetic to those respondents who oppose
the inclusion of examples in the standards, a more coherent one is provided as Example 2 in the
Illustrative Examples that accompany IFRS13.

The other alteration in the proposed 150.3 is also unhelpful as well as being unnecessary. The more
straightforward wording that appears in the final two sentences of the Framework paragraph 32 in
the current standards say all that is needed. The proposed wording obfuscates the concept
expressed in the current standards by introducing the criterion that an asset must be being used
“optimally” in order to for that use to be the HABU. This is untrue, as an asset may be used sub
optimally but still be more valuable in that use than any other. Also, the suggestion that “orderly
liquidation” might represent the HABU is misleading. Liquidation in any form is not a use, it is a
disposal strategy.

A major omission from this section is the paragraph that was proposed in the 2015 ED that explained
the application of the HABU principle to assets with no identifiable alternative uses and to liabilities.
The Board agreed to include this in after receiving questions about how HABU related to a machine
with only one possible use, and discussions with the International Actuarial Association on the
application of the concept to liabilities.

**Existing / Current Use**

The proposed paragraph 160 is a statement of the obvious and is unnecessary.

**Orderly Liquidation**

Again paragraph 170 incorrectly describes “orderly liquidation” as a type of value when it is an
example of a disposal strategy, alongside going concern, or presumably “disorderly liquidation”. If
the discussion in the standards extends to include disposal strategies then logically it should also discuss methods of disposal, eg private treaty, auction, private tender, public tender etc. It would appear odd to extend the scope of guidance into such matters when discussion of key valuation concepts that apply regardless of the disposal strategy or method are being removed from the standards.

**Forced Sales**

It is noted that the current guidance in paragraphs 53-54 of the Framework has been retained but a further paragraph 180.3 has been added which purports to list no fewer than nine conditions that would normally indicate a forced sale. By their very nature the circumstances that lead to a sale being forced will be infinitely variable and therefore unpredictable and it is extremely misleading to attempt to catalogue the conditions that will be found in a forced sale beyond what is already said in paragraph 180.1. Notwithstanding this fundamental problem with the whole paragraph, the list itself is problematic, for example (g) is a repeat of (a) and the final condition that states that the price will reflect the “normal consideration for the property sold” contradicts everything that precedes it explaining why the consideration in a forced sale will be lower than normal.

**Entity Specific Factors**

It is noted that section 190 is the same as paragraphs 20-22 in the current Framework, with the only change being the proposed unhelpful and unnecessary addition of /Worth.

**Synergies**

In Section 200 the draft expands the discussion on Synergies compared with the current IVS Framework, and generally this is a helpful and welcome addition, albeit misplaced in a mandatory section of the standards. It also illustrates that “Synergistic Value” is not a basis, see response to Question b). However, the wording of the opening sentence of 200.01 is misleading as it implies synergies only arise through the combination of assets with liabilities. We believe that it is intended to say that synergies can arise from the combination of different assets or different liabilities, or from combining both assets and liabilities.

It is again unfortunate that an additional paragraph agreed with the International Actuarial Association explaining how synergies can affect the value of liabilities which was included in the 2015 ED has been omitted.

**Assumptions and Special Assumptions**

Section 210 expands the guidance in the existing Framework, principally by including examples of special assumptions. Subject to the overriding point that none of this can be or should be mandatory, the additional material is helpful. It also reinforces the inappropriate categorisation of liquidation as a type of value, as the examples of assumptions in 210.3 all describe the disposal scenario assumed, one of which is analogous to a liquidation scenario.

**Transaction Costs.**

The examples in 220.2 are flawed. Many readers would struggle to understand how transaction costs are relevant to HABU and not Market Value, when the former is inherent in the latter. Also, the reference to “a valuer” doing something has been avoided in the IVSs as explained in our comments on the Introduction and Framework. Paragraph 220 could be improved as follows:

*Most bases of value represent the estimated exchange price of an asset without regard to transaction costs. Consequently, the reported value is not generally adjusted to reflect the*
seller’s costs of sale, the buyer’s costs of purchase, or any taxes payable by either party as a
direct result of the hypothetical transaction.

However, transaction costs and taxes may need to be considered as part of the valuation
process, for example when analysing relevant sales data or when preparing cash flow
forecasts. Transaction costs may also be relevant when determining the market in which an
asset will normally exchange and identifying likely market participants
IVSC Standards Board  
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By email to: commentletters@ivsc.org

2 June 2016

Dear Sirs

Response to Exposure Draft
IVS 2017: IVS 105 Valuation Approaches
Please find attached our comments on the above exposure draft.

The directors of Valuology have considerable experience of valuation standard setting generally and knowledge of the existing IVSs and their evolution.

If you would like any additional information in relation to our responses or comments, please do not hesitate to contact us

Yours faithfully,

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Comments on Exposure Draft of IVS 2017

IVS 105 Valuation Approaches and Methods

Answers to Questions in ED

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,

   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 considerations would you add to or remove from this list?

Yes. However, all of these are effectively covered by the requirements in the current IVS 102, which would be further strengthened if the minor amendments originally proposed by the Board to this standard in the 2015 ED were implemented. There is no justification for introducing a separate new standard which covers the same or similar requirements to one that already exists.

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?

No. For reasons see the General Comments on this draft standard.

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

The IVSC could produce further guidance on a range of practical valuation considerations, although the degree of support for this will vary significantly. However, there should be no pretence that such material can be mandatory, and if developed it should be clearly separated from the standards so there can be no inference that by publishing such guides the IVSC is in anyway prescribing or limiting the methods that a valuer may use.
General Comments

It states in the Introduction to the ED:

“Since the issuance of IVS 2013, the Board received feedback from many stakeholders that the sections on valuation approaches comprising the market approach, income approach and cost approach were insufficiently detailed to meet current market needs. Furthermore, the Board felt the IVS content on valuation approaches and methods needed to be contained within the General Standards to highlight the mandatory nature of this part of the standard.”

The occasion or source of this feedback is not provided. The responses received during consultation on the fundamental rewrite ahead of IVS 2011, on IVS 2013 and on the 2014 Structure and Scope Review are all available on the IVSC website. These certainly do not support the IVSs containing more detail on approaches and methods. Most VPOs expressed opposition to the IVSC publishing material that could be deemed educational in any form, some of them vehemently so. Although other respondents did consider IVSC could usefully provide more technical guidance on approaches and methods, most caveated this with the proviso that it should not be part of the IVSs, and could not be mandatory.

Notwithstanding the strongly expressed opposition to the IVSs including material on approaches and methods, the Board has previously considered that reference in the IVSs to the main valuation methods normally used for each class is important in order to achieve the aim of reducing diversity of practice. It also considered that a basic description of these was necessary, not to educate valuers on how to use them but to help those commissioning or relying on valuation understand, at a high level, what was involved in the interests of transparency. Basic descriptions also help promote consistency in the usage of valuation terminology, which helps avoid misunderstanding across borders. It is for this reason that the current IVSs include a very limited description of the principal valuation approaches and methods, either as part of the background information in the Framework, in relation to specific asset types or in the TIPs produced on the Cost Approach and Discounted Cash Flow.

It would be very surprising if a majority of the IVSC’s constituents have now changed their view. Although comments on the contents of this proposed standard follow below, these are all subject to the overriding view that this proposed standard is ill founded and should be abandoned. If deemed necessary, any material on the detailed application of different approaches and methods should be issued outside of the standards, and be clearly stated as having no authoritative status in the application of the standards.

Introduction

Unlike the proposed IVS 104 this standard does not commence with a highlighted statement indicating that it is mandatory, nor are any requirements indicated. To assist comprehension of the standards there should be consistency in the way they are presented. This change of style may be a tacit acknowledgement that the content is incapable of being mandatory, as is indicated by the lack of clear requirements or use of imperative language in the text. Valuation methods evolve and the role of a professional valuer is to adopt the most appropriate method available at the time, which is why no other set of valuation standards has ever attempted to prescribe or limit the use of methods or approaches.
The draft is addressed to alternatively the “valuer” or the “professional” with even the “appraiser” making an appearance. Apart from the lack of consistency within this draft, this also indicates the unsuitability of the material for inclusion in the IVSs, which address the specification for an IVS compliant valuation, not actions that the individual preparing it should take. This distinction is important given that the IVSC has no enforcement powers over individual valuers. This is the domain of the VPOs.

**Market Approach**

In 20.1 it is stated that when reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach. The ED for IVS 2011 contained a similar statement, but this attracted very significant opposition both in the written responses and in the three roundtable consultations. This may be summarised that any such pronouncement by a standard setter, particularly one operating at a global level, could compromise the professional valuer’s responsibility to adopt the most appropriate method or approach based on the facts of the individual case and the market in which they operate. This applies to similar statements in the draft about other approaches being preferred.

**Income Approach**

In spite of the stated intention of providing more detail, this section only references DCF as an example of a method. In contrast the current IVS Framework also identifies the income capitalisation method and option pricing as methods under this approach.

**Cost Approach**

This section departs significantly from well-established principles and terminology used in the cost approach, as represented in the current and previous versions of the IVSs. If the Board believes that the current material is so fundamentally incorrect, it should identify a separate project to review this, not make such radical changes as part of a general review of the IVSs.

The Board should of course be aware that some concerns about the explanation of the cost approach in the standards arose in the course of the development of IVS 2011. This led to a dedicated project to review the guidance. A cross industry working group was established and, following the usual consultation protocols, TIP 2 was issued in late 2012. Like all such publications, it reflects the best consensus that could be reached between various contrasting views, and while a few may disagree with certain aspects, there is no obvious mandate for such a radical redefinition of what the approach represents and how it is implemented.

In paragraph 70.1 the current definition of the cost approach has been augmented with the words “unless undue time, inconvenience, risk or other factors are involved.” Although these words appear in the subsequent paragraph in the current IVS Framework, concatenating them with the definition in this draft has changed their context and meaning. The cost of an asset of “equal utility” will necessarily include the costs, if any, associated with time, inconvenience, risk or other factors, otherwise it would not be equal. Adding these words to the definition may lead to readers believing that having identified an alternative asset of equal utility, a separate adjustment is then necessary to establish the price that a buyer in the market would pay. If the current paragraph 63 is not included in its entirety, then these words should be deleted from 70.1.

Notwithstanding the inappropriate identification of circumstances when the Cost Approach should be used, 70.2 contains significant errors.
• In 70.2 a) the proviso that “the asset could be recreated quickly enough that a market participant would not be willing to pay a significant premium for the ability to use the subject asset immediately” is illogical and incorrect. The time taken to create an asset of equivalent utility is something that has to be taken into account in comparison with the subject asset. The type of specialised asset to which the cost approach is typically applied is often either unusual (if not unique), large or both. All of these factors would indicate that procuring a replacement “off the shelf” is unlikely and an extended time would be needed for an equivalent to be created.

• 70.2 c) makes no sense at all and contains very basic errors. The use of the cost approach to indicate value on a number of different bases is well established. Its identification as a means of estimating accounting Fair Value in IFRS 13 and ASU Topic 820 is testament to this. This error is compounded by suggesting that it is particularly appropriate for establishing “reinstatement value”. Reinstatement Value is normally associated with the insurance of buildings under a certain type of policy (see comments on the draft IVS 104, section 90). A reinstatement value in insurance terms is the cost of replacing the actual building, and has nothing at all to do with the cost approach which has the objective of establishing the economic value of an asset by making deductions to reflect all forms of obsolescence that exist between the replacement (which may not be the same design or specification as the subject) and the subject asset. If a valuer applied the cost approach to estimate the reinstatement cost of a building it would almost certainly result in significant underinsurance with the adverse consequences this would bring for all involved.

Paragraph 70.3 is equally flawed. The erroneous exclusion of the cost approach where there are time delays in creating a replacement is highlighted above. Secondly, the example in 70.3 b) is inappropriate; the cost approach is no more likely indicate whether a business valued as a going-concern might be more valuable on a liquidation basis than any other approach.

Cost Approach Methods

This section completely disregards current guidance on the cost approach, both in the IVSs and other literature.

In summary:

• Replacement cost is NOT a method but the current cost of a similar asset offering equivalent utility. It is therefore an alternative input to reproduction cost used in the cost approach

• Reproduction cost is NOT a method but the current cost of recreating a replica of the asset. It is therefore an alternative input to replacement cost used in the cost approach.

• Summation is a method that calculates the value of an asset by the addition of the separate values of its component parts. As the name implies it is an addition of the separate values of components which probably have been valued individually using different approaches and methods. It is not an example of the cost approach, unless every component has been valued using that approach. Even then, use of a method unrelated to cost may be required to reflect any effect on value of the aggregation of the individual assets into a single unit of valuation. It is questionable whether Summation can be correctly described as a valuation method, but it certainly cannot be presented as an example of the Cost Approach.
In the current IVSs two methods are identified under the Cost Approach. One is Depreciated Replacement Cost (although confusingly in some countries this is simply known as the cost approach). The other is (portfolio) replication method, referenced in IVS 250. This is where a portfolio of illiquid financial instruments is valued by reference to the cost of assembling an alternative “synthetic” portfolio of liquid instruments that will produce the same cash flows with the same risk profile as the subject portfolio. This appears to have been overlooked.
IVSC Standards Board
1 King Street
LONDON
EC2V 8AU

By email to: commentletters@ivsc.org

2 June 2016

Dear Sirs

Response to Exposure Draft
IVS 2017: IVS 210 Intangible Assets
Please find attached our comments on the above exposure draft.

The directors of Valuology have considerable experience of valuation standard setting generally and knowledge of the existing IVSs and their evolution.

If you would like any additional information in relation to our responses or comments, please do not hesitate to contact us

Yours faithfully,

[Signature]

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Comments on Exposure Draft of IVS 2017

IVS 210 Intangible Assets

Answers to Questions in ED

(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?

We agree with the proposal to relabel the Commentary. This change was also proposed in the 2015 ED. However, it is incorrect to say that “all substantive portions of the existing standard” are labelled as Commentary. The Requirements in the existing standard are mandatory and are obviously “substantive”. The Commentary contains information and guidance to support the application of the Requirements.

We do not support the proposal that the whole standard, including the merged commentary and TIP 3 guidance can be deemed mandatory. Much of the content is in the nature of guidance as to what is normally considered best practice in selecting or applying a given method, and uses permissive language. The most appropriate method to use will always depend on the facts of each case, and it is unrealistic to expect any standard to cover every possible scenario. Accordingly, any suggestion that the use of a particular method in a particular way is compulsory is inappropriate. Such guidance should be clearly distinguished from the Requirements, or rules, in a standard which are clear statements of actions that HAVE to be taken in order to comply with the standard. See General Comments on this draft standard, lines 2-41.

(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. This was proposed by the Board in the 2015 ED. We have highlighted some important omissions from the ED in the General Comments.

(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. While the existing TIP gives guidance on situations where use of a particular method may be appropriate it does not pretend to be mandatory. Standards should not prescribe or limit methods. They may go as far as requiring certain matters to be considered in selecting a method but no further. As indicated in the General Comments the premise that discussion of methods and information about intangible assets can be deemed mandatory is seriously flawed.
(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 with the Board’s objective of “purpose neutrality”. However, we note that in at least one case, the description of goodwill, the existing neutral wording has been replaced by the criteria for recognition in financial statements under IFRS which undermines this. See General Comments, lines 71-87.
General Comments

This is the first “Asset Standard” in the current 200 series that has been revised and released for comment. It is presumed that the style adopted in this ED is indicative of the changes that are being made to other standards in this series.

The existing Asset Standards all start with a clear list of Requirements which, as the word implies, are mandatory. This is followed by a “Commentary” that provides supporting information and guidance on how the principles and concepts in the Framework and the Requirements in the standard are applied in practice when valuing that class of asset. In 2014 the Board had concluded that while this structure enabled the clear distinction between mandatory requirements and supporting guidance requested by most users, there was confusion as to the respective status of the guidance in the commentaries and that appearing in any related TIPs. This was reinforced by comments received during the Structure and Scope Review. Consequently, at its meeting in October 2014 the Board agreed that any TIP content that was in the nature of supporting guidance should brought into the relevant standard and identified as Application Guidance.

Accordingly, the 2015 ED included the following proposals:

- To include the contents of the current TIP 4 Valuation Uncertainty as Application Guidance for IVS 103 Reporting.
- To merge the contents of TIP 3 Intangible Assets with the Commentary for IVS 210 Intangible Assets in order to create a single source of guidance on this subject.
- To include the guidance on CVA and DVA approved in October 2014 as Application Guidance for IVS 250 Financial Instruments.

This latest draft has in essence, merged TIP 3 with the Commentary in IVS 210, in line with the Board’s earlier decision, although some changes have been made. However, under the heading Requirements there is simply the following sentence:

The principles contained in the General Standards apply to valuations of intangible assets and valuations with an intangible assets component.

This does not even refer to the Requirements in the General Standards. Neither does it give any indication of the status of the remaining 99.5% of the standard. This is not identified as Application Guidance or any alternative term to indicate its status. It includes a mixture of information about what an intangible asset is, reasons why a valuation of an intangible asset may be required, a brief mention of accounting requirements, and methods that may be used, including the history of some methods. The content and language used generally does suggests the bulk of the content is neither capable of nor intended to be mandatory, although occasionally a statement is made that suggests the contrary. For example, in paragraph 30.2 it states that a “valuer must follow the requirements of IVS 105 Valuation Approaches, including paragraph 10.3.” A Requirement to consider the relevant and appropriate valuation approaches is in the current IVS 102 so should be the more appropriate reference because 10.3 of the proposed IVS 105 includes no clear requirement. Setting aside the specific problems with this reference, the conflation of mandatory requirements and guidance material that is exemplified in not only this draft standard but in the changes being proposed to the IVSs generally is contrary to the consistently repeated requests of most constituents that where the standards contain both elements, a clear distinction between the two is necessary.
While the detailed text of the proposed draft covers many of the same topics as the existing TIP 3 we have noted a number of changes. Some of these are positive, but elsewhere existing guidance has been omitted or changed for no apparent reason. The existing guidance for discount rates and remaining useful lives has been extended, which some will find helpful, although the more limited detail in TIP 3 was a reflection of the opposition expressed by many to the IVSC issuing guidance on the use and application of methods that could be deemed too prescriptive.

TIP 3 was effectively a republication of the last of the old style Guidance Notes (GN 16) published in 2010 following a three-year project that involved engagement and input with the global firms involved in the valuation of businesses and intangible assets. While some updating may be necessary, eg if different methods have been developed, practice has evolved or cross references have changed, caution should be exercised before changes are made given the extensive scrutiny there has been of the current material.

The changes include:

**Categories of Asset**
The current TIP identifies marketing, customer, artistic and technology as the main types of Intangible asset, with a note that any of these may be contractual or non-contractual. The ED identifies contractual assets as a separate category alongside the other four. The wording in the TIP followed the categories described in the guidance to IFRS 3 *Business Combinations* that was current when GN16 was being finalised. This point was the subject of specific consultation in the 2009 ED that preceded GN16. Of those who expressed a view, the preference was for consistency with the IFRS categories. However, IFRS no longer refers to categories in the revised application guidance in Appendix B of IFRS 3. The need for consistency with IFRS is therefore no longer relevant, but the fact remains that most types of intangible asset can be either contractual or non-contractual.

**Identifying the Asset**
Paragraphs 3.7 and 3.8 of TIP 3 refer to the need to consider the statutory framework and the protection this affords to intellectual property. There is no equivalent in the proposed revision, and no reason is provided for the omission. Establishing the rights that a party has to an intangible asset is fundamental to any valuation and therefore excluding this guidance diminishes the usefulness of the standard.

**Goodwill**
Goodwill is defined in TIP 3 as *Any future economic benefit arising from a business, an interest in a business or from the use of a group of assets which is not separable.* In 3.12 it further explains that it is an unidentifiable intangible asset because it is not separable from the business to which it relates. The current ED does not contain definitions for the terms used in the document. In paragraph 20.6 it explains that goodwill is any future economic benefit arising from a business, an interest in a business or from the use of a group of assets which has not been separately recognised in another asset. This is a quite different meaning to that in TIP 3. It appears from the following paragraph 20.7 that the word “recognised” is used in an accounting context. In other contexts, the proposed wording implies a less precise definition of goodwill, as the test is not whether it cannot be separately identified but whether it has been, which may be a matter of choice.

TIP 3 does not discuss the recognition criteria for goodwill in accounting standards for the reason that the Board has made a conscious effort not to imply that accounting conventions apply to
valuations for every purpose. Where a valuation is required for financial reporting, IVS 300 describes any specific accounting criteria that define what is to be valued and how it is to be valued.

The definition and explanation of goodwill in GN16/TIP3 was the subject of significant consultation and debate and no reasons have been given to justify the change implicit in the revised wording.

**Prospective Financial Information**

TIP 3 includes guidance in paragraphs 6.2-6.11 on matters that should be considered in developing and using prospective financial information (PFI) in applications of the Income Approach. The ED does not include equivalent guidance, which seems a significant omission. PFI is a principal input to the valuation of many types of intangible assets which involves the consideration of issues that do not arise when developing cash flows for other asset types.

**Distributor Method**

This is added to the list of methods under the Income Approach in the current TIP. This is an example of a comparatively recent variation of the MPEE method and if it has become widely accepted as a valid method for valuing customer relationships then there is a case for its inclusion.

**Discount Rates**

The discussion in section 8 of TIP 3 has been extended in the ED section 160. The current TIP only mentions WACC, although it acknowledges that this may not always be appropriate if the subject intangible asset has a distinct risk profile from the rest of the assets and liabilities utilised in the business or if there is other evidence that indicates an alternative discount rate. The extended discussion and examples of other discount rate sources that may be appropriate is helpful. However, it is illogical to improve and extend the guidance on discount rates while excluding the current guidance on PFI.

**Economic Life**

The discussion on remaining useful life in TIP 3 (paragraph 8.4) has been extended by the ED section 170 on “Intangible Asset Economic Lives”. This additional guidance ensures that another important valuation consideration is dealt with in greater depth, but not all constituents of the IVSC will welcome this, given previous resistance to material that could be deemed “educational” being included in the standards.