

August 31, 2016

IVSC Standards Board
1 King Street
London EC2V 8AU
United Kingdom

Submitted by email to: Commentletters@IVSC.org

RE: Comments on Proposed Amendments to the International Valuation Standards – IVS 101 Scope of Work, IVS 102 Investigation and Compliance and IVS 103 Reporting, IVS 200 Businesses and Business Interests, IVS 300 Plant and Equipment, IVS 400 Real Property Interests, IVS 410 Development Property, IVS 500 Financial Instruments

Dear IVSC Standards Board:

Thank you for the opportunity to comment on proposed revisions to the International Valuation Standards. The Appraisal Institute recognizes that to serve the public interest the IVS, must be understandable and capable of consistent application. The Appraisal Institute provides the following comments with the hope that they will assist the IVSC with improving the understandability and applicability of the IVS.

We are presenting our comments in three separate sections:

1. General comment
2. Comments on content of Exposure Drafts
3. Responses to questions posed in Exposure Drafts

1. **General Comment**

The Appraisal Institute has had valuation Standards and a Code of Ethics – and enforced both – since 1932. The Appraisal Institute believes that professional valuation Standards should be concise, direct and easy to understand. A Standard should be a straightforward statement that includes a specific prohibition or exhortation, “do this”, “don’t do that.” The Appraisal Institute believes that information concerning valuation theories and methodologies does not belong in a Standards document. The Appraisal Institute has published a textbook, *The Appraisal of Real Estate*, since 1951. This textbook is now on the 14th edition, and it contains 847 pages. This textbook contains methodology, valuation theory and basic valuation principles. The IVS, both existing and proposed, read more like a condensed version of such a textbook rather than a set of valuation Standards.

Real estate valuers are – with good reason -- sensitive to “Standards creep.” In the U.S., real estate valuers are licensed, and subject to strict enforcement of “Standards.” Other valuation disciplines are not subject to the same strict enforcement and licensing regimes.

In addition to Standards, the current edition of IVS and the Exposure Drafts contain a mix of methodology, valuation theory and basic valuation principles. The Appraisal Institute understands that one rationale for this mix is that there is a need for methodology, valuation theory and basic valuation principles for developing countries and/or for other less developed valuation disciplines. However, current and proposed versions of the IVS may be less helpful to developing entities

than a concise, direct and easy to understand set of valuation Standards and separate educational resources that cover methodology, valuation theory and basic valuation principles.

2. Comments on content of Exposure Drafts

IVS 101: Scope of Work

“Scope of work” is a very different concept in IVS compared to Uniform Standards of Professional Appraisal Practice (USPAP) and Standards of Valuation Practice (SVP). Under IVS, “scope of work” is required to be written into an agreement for services with the client (“terms of engagement.”) In USPAP and SVP, scope of work is determined by the appraiser and disclosed in the report, not the agreement for services. Neither USPAP nor SVP require an agreement for services; in fact, an agreement for services not used at all in many valuations. Under IVS, scope of work incorporates the identification of assignment elements. In USPAP and SVP, the identification of assignment elements (client, intended user, intended use, date of value, type of value, relevant property characteristics and assignment conditions such as assumptions) is what we call Problem Identification (Step 1 of the Valuation Process.) It is then followed by Scope of Work Determination (Step 2 of the Valuation Process.) IVS combines what we distinguish as Steps 1 and 2 of the Valuation Process. Also, under USPAP and SVP, scope of work relates solely to the development of the value opinion, not to reporting, while IVS blurs this line.

This section uses the term “intended purpose.” USPAP and SVP use the term “intended use”, and in both, it is a defined term with a very specific -- and significant -- meaning.

Section 20.2 uses the term “intended recipients.” Again, USPAP and SVP use the term “intended user” and it is a defined term with a specific meaning. Section 20.3(m) could be modified if IVS had a similar “intended user” concept and definition.

Section 20.3(h) suggests there may be circumstances in which the date of report and date of valuation need not be distinguished. We are unable to envision such a circumstance.

Section 30.2. Again, this section indicates that client agreement is required regarding scope of work. In USPAP and IVS, the valuer is responsible for determining the scope of work. Client input is considered, but ultimately the scope of work is the valuer’s decision and responsibility. Also, it may not be practical to notify the client of all changes to the scope of work, some of which may be relatively minor.

IVS 102 Investigation and Compliance

Section 30.1 requires that copies of draft reports be retained by the valuer. This would be problematic especially for litigation work. Valuer’s, in the U.S. and other countries, don’t always know the legal theories attorneys are pursuing and early writings may be inappropriate for an attorney’s objectives.

Section 40.1. We suggest not using the term “departure”. It is unnecessary given the rest of the sentence. In the U.S., “departure” is a term with a lot of negative history and connotation.

Section 40.2. Why make the presumption stated in the first sentence? It may or may not be true.

IVS 103: Reporting

Section 20.3: We suggest deleting “with no prior involvement in the valuation engagement”. It will be confused with “no prior involvement valuing the same property” and is not necessary.

Section 30.1: What is the difference between (b) and (c)? Conversely, in (d), “key inputs” and “assumptions” should be distinguished; they are separate entities.

Section 30.1(f) and 40.1(d): We suggest changing “date the report was prepared” to “date of report”, to mean the date the report is transmitted to the client. This would be consistent with USPAP and SVP.

IVS 105: Valuation Approaches and Methods

General Comment. This section mixes methodology, suggestions, requirements, guidance, discussion, and description. This section does not appear to belong in a Standards document. It contains material that is more appropriate for a textbook and/or course and seminar information. Including this type of material in a Standards document creates confusion as the individual trying to comply with the standards cannot easily identify the requirements.

The technical content of a standard should specify the minimum requirements necessary to achieve the objectives of the standard not the methodology to achieve it. In other words Standards should focus on what is to be achieved and what is required, i.e. a credible valuation and reporting requirements, rather than a prescribed methodology for achieving it.

Adding methodology to Standards:

- Stifles the growth of a profession as judgement and the ability to innovate are discouraged when Standards prescribe methodologies.
- Creates dense Standards that are hard to understand by practicing professionals, regulators and the public.
- Creates ambiguity, which can lead to misinterpretation.
- Creates Standards that are slow to adapt to change.
- Creates Standards that are hard to teach.
- Creates content that overlaps with basic appraisal principals and procedures courses.
- Forces practitioners to scour multiple sections of the document to find requirements.
- Leads to regulatory enforcement of suggestions and recommendations.

Line 44. This statement applies only when the value type is a market value.

Line 54. In the U.S., “market approach” is a dated term. All approaches use market data. In the U.S., this approach is known as the “comparison approach” or “sales comparison approach”.

Line 153. Adjustments per se are not always called for but analysis is. The following rephrasing may better clarify the valuer’s responsibility:

“A professional should analyze material differences between comparable transactions and the subject asset.”

Lines 498-507. We would add another caveat: (d) the valuer is able to develop defensible estimates of physical, functional and external depreciation.

Line 644-648. The terms “external obsolescence” and “economic obsolescence” are used interchangeably. We prefer the term “external obsolescence” as it more accurately reflects the cause of this type of loss in value.

IVS 210: Intangible Assets

General comment. See General Comment in regards to IVS 105 above.

Lines 3-4. Directs a valuer to go back to the General Standards to review the principles.

IVS 200: Businesses and Business Interests and IVS 300 Plant and Equipment

No specific comments, however, our general concerns about standards vs “textbook” would apply equally to these sections.

IVS 400: Real Property Interests

This section in particular reads like a condensed version of a valuation textbook rather than a set of valuation Standards.

This section uses the words “building” or “buildings”. We suggest replacing “building” or “buildings” with “improvements.” Real property consists of interests in real estate, which is land and improvements to the land. Those improvements may be other than buildings.

Section 30.2: The second sentence through the end of the paragraph (“For example....”) is confusing.

Section 30.3: Highest and Best Use must be considered when the type of value is a market value.

Section 60.2: The income capitalization approach includes (1) direct capitalization (net income divided by capitalization rate = value) and (2) yield capitalization (DCF analysis.)

IVS 410: Development Property:

We have the same concerns that we have for IVS 400

IVS 500: Financial Instruments

No specific comments, however, our general concerns about standards vs. “textbook” apply equally to these sections.

3. Responses to questions posed in exposure drafts

IVS 101 Scope of Work

(a) Do you agree that it is the valuer’s responsibility to communicate the scope of the assignment to all parties to the valuation engagement? If not, why?

[The scope of work that was applied in the valuation process should be discussed in the valuation report. The SVP and USPAP do not require disclosure of the scope of work to the client or other intended users at the outset of the requirement.](#)

(b) Do you agree that a written scope of work for each valuation engagement is not always possible or necessary? If not, why?

[See previous response.](#)

IVS 102 Investigations and Compliance

(c) Do you agree that a valuer must perform sufficient investigations and procedures to assess the appropriateness of all inputs and assumptions? If not, why?

[The selection of methodology and the degree to which data is investigated and verified are scope of work determinations made by the valuer. While inputs and assumptions](#)

should be reasonable and appropriate for the intended use of the valuation, in some cases the valuer can base the valuation on special assumptions about information that is uncertain. For example, it may be unknown, at the time of the valuation, whether the subject property is environmentally contaminated. In such case, it may be reasonable to complete the valuation based on the special assumption that it is not contaminated. Such special assumption would need to be clearly and conspicuously disclosed in the valuation report.

(d) Do you agree that significant limitations that impair a valuer's ability to assess the appropriateness of the inputs and assumptions should result in a valuation not being in compliance with IVS? If not, why?

A valuer's scope of work (including extent of information research) cannot be so limited that the valuations results are not credible given the intended use.

IVS 103 Reporting

(e) Do you agree with moving from a prescriptive to a principle-based reporting format? If not, why?

Yes, standards should be principle-based as methodologies and terminology changes with the times.

(f) Do you accept that a report can take any form providing it sets out a clear and accurate description of the scope of the assignment, its purpose and intended use and discloses of significant inputs assumptions? If not, why?

Yes.

IVS 200: Businesses and Business Interests

(a) In IVS 2013, all substantive portions of IVS 200 Business and Business Interests 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?

What does the phrase "all aspects of IVS 2017 should be mandatory" mean? Is every statement in the document mandatory? The Standards should identify any commentary as commentary so that valuers and users of valuation services will not confuse commentary with requirements.

IVS 300: Plant and Equipment

(a) In IVS 2013, all substantive portions of IVS 220 Plant and Equipment 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?

What does the phrase "all aspects of IVS 2017 should be mandatory" mean? Is every statement in the document mandatory? The Standards should identify any commentary as commentary so that valuers and users of valuation services will not confuse commentary with requirements.

IVS 400: Real Property Interests

(a) In IVS 2013, all substantive portions of IVS 230 Real Property Interests 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?

What does the phrase "all aspects of IVS 2017 should be mandatory" mean? Is every statement in the document mandatory? The Standards should identify any commentary as commentary so that valuers and users of valuation services will not confuse commentary with requirements.

(b) Do you agree with Section 20.5, which states it is the valuer's responsibility to state the extent of the investigation and source of the information to be relied on? If not, why not?

Yes.

(c) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of real property interests regardless of the purpose of the valuation (secured lending, sales of real property, taxation, litigation, insolvency proceedings and financial reporting, etc.). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?

It is the valuer's responsibility to determine the methodology needed and this standard is not principle-based. The approaches to value should not be in a Standards document.

(d) Are there any further topics that you feel the Board should add or remove from IVS 400 Real Property Interests? If so, what are they and what is your rationale?

IVS should require that recognized methods and techniques be applied in the valuation, but should not address what those methods and techniques are or should be in any given situation. Please refer to our General Comments.

IVS 410: Development Property

(a) In IVS 2013, all substantive portions of IVS 233 Investment Property Under Construction 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?

What does the phrase "all aspects of IVS 2017 should be mandatory" mean? Is every statement in the document mandatory? The Standards should identify any commentary as commentary so that valuers and users of valuation services will not confuse commentary with requirements.

(b) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of both commercial and residential development property regardless of the purpose of the valuation (i.e. establishing whether proposed projects are economically viable, loan security, acquisition, taxation, litigation, financial reporting etc.). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?

It is the valuer's responsibility to determine the methodology needed and this standard is not principle-based. The approaches to value should not be in a Standards document.

(c) Are there any further topics that you feel the Board should add or remove from IVS 410 Development Property? If so, what are they and what is your rationale?

IVS should require that recognized methods and techniques be applied in the valuation, but should not address what those methods and techniques are or should be in any given situation. Please refer to our General Comments.

IVS 500: Financial Instruments

(a) In IVS 2013, all substantive portions of IVS 500 *Financial Instruments* 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?

What does the phrase “all aspects of IVS 2017 should be mandatory” mean? Is every statement in the document mandatory? The Standards should identify any commentary as commentary so that valuers and users of valuation services will not confuse commentary with requirements.

Thank you for your consideration of our comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Leslie P. Sellers". The signature is fluid and cursive, with the first name being the most prominent.

Leslie P. Sellers, MAI, SRA
Chair, Professional Standards and Guidance Committee
Appraisal Institute