IVS Exposure Draft
Response to invitation to comment on
IVS 200: Business and Business Interests

31 August 2016
31 August 2016

Dear Sir/Madam,

Response to IVS 200: Business and Business Interests

Thank you for your invitation to comment on the IVS 200: Business and Business Interests. We, Deloitte LLP, have set out our response to your specific questions and observations/questions on certain parts of the Exposure Draft.

Please contact me at +1 (404) 220-1983 or Stamos Nicholas at +1 (212) 436-2357 should you wish to discuss any of the points raised in the attached response.

Sincerely,

Mark Pighini
Managing Director, Global Valuation & Modeling
Deloitte LLP
mpighini@deloitte.com
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Response to Questions for Respondents

In your Exposure Draft (publication date 2 June 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our comments on the Exposure Draft in the next section giving background to our comments and where relevant a proposed alternative and/or additional wording. You have also asked specific questions at the start of the Exposure Draft which we have commented on below.

Comments on your specific questions:

(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?

Yes, we agree in the removal of the commentary label. As the guidance is meant to be general in nature, and is meant to assist arguably those new to valuations, the removal of ‘commentary’ is helpful. The continued non-use of mandatory is helpful, as given the unique nature of individual intangible assets it is not possible to provide an all-inclusive list of considerations that must be made.

(b) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of business and business interests regardless of the purpose of the valuation (acquisitions, mergers and sales of businesses, taxation, litigation, insolvency proceedings and financial reporting). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?

The level of guidance in terms of being a broad framework for the review of potential methodologies can be used across purposes – as it is the underlying assumptions (e.g., fair value on a market participant basis, arm’s length principle) that will likely drive the underlying requirement of the valuation – given the specific purposes and definition of value. We note that it should be made clear that the requirements of a specific valuation may trump those suggested in the Exposure Draft (e.g., a specific clause in a legal agreement setting a specific valuation methodology). However, the valuer should be able to explain the obvious deviation and therefore still be in alignment with the Exposure Draft.

(c) Are there any further topics or special considerations that you feel the Board should add or remove from IVS 200 Business and Business Interests? If so, what are they and what is your rationale?

No other further topics or special considerations have been identified, other than as noted in our specific comments below.
Specific comments on the Exposure Draft

2.1. Paragraph 20.2 – “…applicable standard for that type of asset or liability (IVS 210 for intangible assets, IVS 230 for real property, etc.)”

Comment: The reference to the real property standard should be IVS 400.

2.2. Paragraph 50.2 (a) – “public stock markets in which ownership interests of similar businesses are traded”

Comment: We would recommend that this wording be amended as follows: “multiples implied by trading prices quoted on public stock markets in which ownership interests of similar businesses are traded”.

2.3. Paragraph 50.2 (b) – “the acquisition market in which entire businesses are bought and sold”

Comment: We would recommend that this wording be amended as follows: “multiples implied by the acquisition market in which entire businesses are bought and sold”.

2.4. Paragraph 50.2 (c) – “prior transactions in shares or offers for the ownership of the subject business”

Comment: We would recommend that this wording be amended as follows: “multiples implied by prior transactions in shares or offers for the ownership of the subject business”.

2.5. Paragraph 50.4 – “When applying a market multiple, adjustments such as those in para 50.8 may be appropriate.”

Comment: Paragraph 50.8 is not included in the Exposure Draft.

2.6. Paragraph 60.3 – “…Income and cash flow related to a business or business interest can be measured in a variety of ways and may be on a pre-tax or post-tax basis, although the use of post-tax income is more common…”

Comment: We would recommend that this wording be amended as follows: “although the use of post-tax income or cash flow is more common…”

In addition, should the Exposure Draft explicitly comment that various generally accepted valuation approaches have been historically adopted by appraisers for specific industries? For example, in the financial services industry, the income approach is typically based on an expected dividend model.

2.7. Paragraph 60.4 (a) – “…Enterprise value is typically derived using cash flows before debt servicing costs and an appropriate discount rate …”

Comment: Additional guidance should be included to suggest that a weighted average cost of capital (WACC) is normally considered as an appropriate discount rate in this situation.

2.8. Paragraph 60.4 (b) – “…Equity value may be derived using cash flows to equity, that is, after debt servicing costs and an appropriate discount rate …”

Comment: Additional guidance should be included to suggest that a cost of equity is normally considered as an appropriate discount rate in this situation.

2.9. Paragraph 60.10 – “When using an income approach it may also be necessary to make adjustments to the valuation to reflect matters that are not captured in either the cash flow forecasts or the discount rate adopted. Examples may include adjustments for the marketability of the interest being valued or whether the interest being valued is a controlling or non-controlling interest in the business.”
Comment: Adjustments relating to marketability and control/minority positions are not unique to the income approach. These adjustments would also be relevant in determining a value under the market and cost approaches. We would recommend moving this paragraph to the "Special Considerations" section or combining this concept with section 80 (Ownership Rights).

2.10. Paragraph 60.11 – “Small and medium-sized businesses are often transferred as an asset sale rather than by transfer of the equity interest…"

Comment: Is it appropriate to include such a general statement within the standards? We have seen many examples of small and medium-sized businesses being transferred as an equity interest.

2.11. Paragraph 60.11 – “…In such cases it is common for items such as debtors, creditors and working capital to be excluded and for the value of the assets to be determined by applying an appropriate valuation multiple to the earnings before interest, tax and depreciation. Care should be taken to ensure that the multiple used is based on analysis of other similar asset sales.”

Comment: This point is not clear; an example would be useful. Is this referring to an estimate of enterprise value as opposed to equity value? In addition, it is not clear as to why working capital would be excluded since a market participant would expect some level of working capital when acquiring the business interest.

2.12. Paragraph 80.1 – “The following sections address a non-exhaustive list of topics relevant to the valuation of businesses and business interests:”

Comment: The related section numbers do not correspond with the subsequent sections. For example, (a) Ownership Rights should be section 90.

2.13. Paragraph 90.4 (a) 4. – “put rights”

Comment: We would recommend that this wording be amended as follows: “put and call rights.”
IVS Exposure Draft
Global Deloitte response to invitation to comment on IVS 300 : Plant and Equipment

31 August 2016
31 August 2016

Dear Sir/Madam,

Response to IVS 300: Plant and Equipment

Thank you for your invitation to comment on the IVS 300: Personal Property. Deloitte LLP, on behalf of our Global Valuation network have set out our response to your specific questions and observations/questions on certain parts of the Exposure Draft.

Please contact me at +1 (404) 220-1983 or Stamos Nicholas at +1 (212) 436-2357 should you wish to discuss any of the points raised in the attached response.

Sincerely,

Mark Pighini
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1 Response to Questions for Respondents

In your Exposure Draft (publication date 2 June 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our comments on the Exposure Draft in the next section giving background to our comments and where relevant a proposed alternative and/or additional wording. You have also asked specific questions at the start of the Exposure Draft which we have commented on below.

Comments on your specific questions:

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?

Yes, we agree in the removal of the commentary label as it relates to the Plant and Equipment standards for which compliance is mandatory. Professional appraisal standards are meant to promote and maintain a high level of public trust by establishing requirements for valuers of plant and equipment assets to follow. It is essential that valuers develop and communicate their analyses, opinions, and conclusions plant and equipment assets in a manner that follows mandatory standards. The use of the "commentary" label may suggest to providers of valuation services that all or parts of the standards are voluntary. We do believe, however, that the "commentary" label can be useful in the context of general guidance to illustrate the applicability of IFV standards in specific situations that valuers of plant and equipment assets may encounter.

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

Generally, we agree that the standard can be applied to most, if not all, property and equipment valuations regardless of their intended purpose. It should be clearly stated, however, that the scope of work, inclusive of the standards outlined in IVS 300, performed by a valuer of property and equipment is highly dependent on the intended use and purpose of the appraisal. As a result, the scope of work for one purpose may be different for another. As an example, the scope of work relating to a valuation of property and equipment for the purpose of secured lending will be different relative to the expected scope of work for a financial reporting purpose. The key is the premise of value applied which will serve to differentiate the scope of work given the purpose and intended use of the appraisal. This is appropriately noted in Section 30.2 of the standard. In addition, it may be useful for the Board to consider including commentary in the standard that more appropriately addresses the responsibilities of the valuer of not allowing assignment conditions to limit the scope of work or valuation approaches used to such a degree that the assignment results are not credible in the context of the intended use.

c) Are there any further topics that you feel the Board should add or remove from IVS 300 Plant and Equipment? If so, what are they and what is your rationale?

We believe that the standards as drafted are appropriately focused on the development of an appraisal of property and equipment, which appears to be the intent. Inclusive of the contents and guidance of IVS 2017, there are no other topics that should be added to the standard as it relates to property and equipment.
2 Specific comments on the Exposure Draft

2.1. **Paragraph 20.2** – Intangible assets fall outside the classification of plant and equipment assets. However, an intangible asset may have an impact on the value of plant and equipment assets. For example, the value of patterns and dies is often inextricably linked to associated intellectual property rights. Operating software, technical data, production records, and patents are further examples of intangible assets that can have an impact on the value of plant and equipment assets, depending on whether or not they are included in the valuation. In such cases, the valuation process will involve consideration of the inclusion of intangible assets and their impact on the valuation of the plant and equipment assets. When there is an intangible asset component, the valuer should also follow IVS 210 Intangible Assets.

*Comment:* We agree with the inclusion of this paragraph. The wording that indicates “depending on whether or not they are included in the valuation” may be misleading. This may imply that if Intangibles are not in the scope of the appraisal, there would be no impact on the value of plant and equipment assets. We recommend that it be clear that regardless of scope, the potential impact of the existence of Intangible assets, as well as the overall earnings of the underlying, need to be considered in terms of the impact on the value of plant and equipment assets. This is appropriately noted in Section 20.8 of the standard.

2.2. **Paragraph 30.2** - Using the appropriate basis(es) of value and associated premise of value (see IVS 104 Bases of Value, sections 140–180) is particularly crucial in the valuation of plant and equipment because differences in value can be pronounced depending on whether an item of plant and equipment is valued under an “in use” premise, orderly liquidation, or forced liquidation. The value of highly specialised equipment is particularly sensitive to different premises of value.

*Comment:* We agree that the use of the appropriate basis of value and associated premise of value is a key element of developing a credible opinion of value of property and equipment. It is also important to note that the selection of the appropriate basis and premise of value is dependent on the intended use of the appraisal. The board should consider including language to emphasize this be clearly indicated in the communication of appraisal results to avoid misinterpretation and misuse of valuations.

2.3. **Paragraph 60.1** – The income approach to the valuation of plant and equipment can be used where specific cash flows can be identified for the asset or a group of complementary assets, eg where a group of assets forming a process plant is operating to produce a marketable product. However, some of the cash flows may be attributable to intangible assets and difficult to separate from the cash flow contribution of the plant and equipment. Use of the income approach is not normally practical for many individual items of plant or equipment.

*Comment:* Consider strengthening this language with respect to the difficulty of separating the cash flows that are attributable to intangible assets or that it is not normally practical to apply the income approach to individual items of plant and equipment. While this may technically be true, this type of language often provides an easy excuse for valuers not to incorporate the income approach in any form when valuing plant and equipment. When cash flows can be identified for the asset or group of complimentary assets, it is often possible to understand whether these cash flows are sufficient to support the indicated value of the underlying assets whether tangible or intangible. While the valuer may not be able to separate the cash flows between intangible and tangible assets, simply understanding whether the cash flows support the underlying value of all of the assets is very helpful to understanding the potential existence of economic obsolescence.
2.4. **Paragraph 70.1** – “The latter is only appropriate where the cost of a replica would be less than the cost of a modern equivalent or where the utility offered by the subject asset could only be provided by a replica rather than a modern equivalent”

**Comment:** Since the use of the reproduction costs i.e. trending method of the cost approach is quite common, this language seems to be restrictive. There are many instances when the cost of reproducing and exact replica is likely a greater cost than a modern equivalent, however the availability of cost information for a modern equivalent can be difficult or impractical to obtain for some plants and equipment, especially when valuing facilities where there are few if any recent examples with known costs. While it should certainly be noted that it is preferred to use direct replacement cost information, valuers should still be given the flexibility to use the reproduction cost in certain circumstances.

2.5. **Paragraph 70.2** – “An entity’s actual costs incurred in the construction/creation of an asset may be appropriate for use as the replacement cost of an asset under certain circumstances. However, prior to using such historical cost information, the valuer should consider the following.”

**Comment:** We would recommend adding language that the valuer also consider the possibility that the entity’s costs incurred may not be historical in nature due to prior purchase accounting or the purchase of used plant and equipment assets.
IVS Exposure Draft
Response to invitation to comment on
IVS 400: Real Property Interests

31 August 2016
31 August 2016

Dear Sir/Madam,

Response to IVS 400: Real Property Interests

Thank you for your invitation to comment on the IVS 400: Real Property Interests. We, Deloitte LLP, have set out our response to your specific questions and observations/questions on certain parts of the Exposure Draft.

Please contact me at +1 (404) 220-1983 or Stamos Nicholas at +1 (212) 436-2357 should you wish to discuss any of the points raised in the attached response.

Sincerely,

Mark Pighini
Managing Director, Global Valuation & Modeling
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In your Exposure Draft (publication date 2 June 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our comments on the Exposure Draft in the next section giving background to our comments and where relevant a proposed alternative and/or additional wording. You have also asked specific questions at the start of the Exposure Draft which we have commented on below.

Comments on your specific questions:

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?

Yes, we agree in the removal of the commentary label as it relates to the real property interests standards for which compliance is mandatory. Professional appraisal standards are meant to promote and maintain a high level of public trust by establishing requirements for valuers of real property interests to follow. It is essential that valuers develop and communicate their analyses, opinions, and conclusions in real property interests in a manner that follows mandatory standards. The use of the “commentary” label may suggest to providers of valuation services that all or parts of the standards are voluntary. We do believe, however, that the “commentary” label can be useful in the context of general guidance to illustrate the applicability of IFV standards in specific situations that valuers of real property interests may encounter.

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, in principle we agree that is the valuer’s responsibility to not only state the extent of the investigation and source of the information relied on, but to also do so as a function of the overall scope of work to be performed as mandated in IVS 101 Scope of Work. The elements outlined in Section 20.5 are viewed to be minimum requirements as they relate to the extent of the investigation and the nature/source of the data relied upon by the valuer of an interest in real property. However, it is recognized that the appropriate scope of work may be different from one assignment to the next. It is ultimately the responsibility of the valuer to establish an appropriate scope of work, inclusive of Section 20.5, based on the specific assignment conditions presented as part of the appraisal problem and the intended use of the appraisal. The valuer should refrain from relying on sources of information such as those elements in Section 20.5 that are not credible. In addition, we believe that in some circumstances, it may be necessary for the valuer to also disclose the nature of the research and sources of data that were not used.

(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 or 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?

Generally, we agree that the standard can be applied to most, if not all, real property interest valuations regardless of their intended purpose. It should be clearly stated, however, that the scope of work, inclusive of the standards outlined in IVS 400, performed by a valuer of a real property interest is highly dependent on the intended use and purpose of the appraisal. As a result, the scope of work for one purpose may be different for another. As an example, the scope of work relating to a valuation of a real property interest for the purpose of secured lending will be largely inadequate relative to the expected scope of work for a financial reporting purpose. This is appropriately noted in Section 30.2 of the standard. In addition, it may be useful for the Board to consider including commentary
in the standard that more appropriately addresses the responsibilities of the valuer of not allowing assignment conditions to limit the scope of work or valuation approaches used to such a degree that the assignment results are not credible in the context of the intended use.

(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?

We believe that the standards as drafted are appropriately focused on the development of an appraisal of a real property interest, which appears to be the intent. Inclusive of the contents and guidance of IVS 2017, there are no other topics that should be added to the standard as it relates to real property interests.
Specific comments on the Exposure Draft

2.1. Paragraph 30.3 – “Under most bases of value, a valuer must consider the highest and best use of the real property, which may differ…”

Comment: We agree that consideration of a property’s highest and best use is a key element of developing a credible opinion of value, particularly as it relates to Market Value and Fair Value definitions. However, given the importance of highest and best use in these instances, the Board should consider strengthening the requirement beyond requiring that a valuer “consider” highest and best use. In the context of credibility and the expectations of users of appraisal services, the Board should require valuers to develop an opinion of the highest and best use that is communicated in accordance with the IVS 103 – Reporting standard. “Consideration” of highest and best use may suggest to valuers that communicating the conclusion of highest and best use and the rationale for the conclusion is not required.

2.2. Paragraph 50.4 – “The reliance that can be applied to any comparable price data in the valuation process is determined…….Specific differences that may need to be considered in valuing real property interests include:”

Comment: While the six differences denoted in this paragraph are valid relative to a property being valued and the comparable transaction data, the Board should consider including other differences that are common to the adjustment process in valuing real property interests. These include, but are not limited to, financing influences on a property’s sale price, expenditures made by the buyer immediately after purchase (perhaps to cure a deficiency, e.g. deferred maintenance), other physical characteristics that influence sale prices such as property size, access and visibility, as well as economic characteristics that may have an impact on the sale price of comparable properties relative to the property being valued. Valuers should not be limited to considering only those differences that are listed in this paragraph of the standard.

2.3. Paragraph 60.7 (b) – “… or from hypothetical market participants’ required rates or return or weighted average cost of capital.”

Comment: Sentence should be corrected to state “required rates of return…….”

2.4. Paragraph 70.6 – “…replacing it with a modern development. The replacement cost needs to reflect all incidental costs such as the value of the land, infrastructure, design fees and finance costs that would be incurred by a market participant in creating an equivalent asset.”

Comment: It is noted that this paragraph does not include a provision for entrepreneurial profit or incentive that a market participant would expect to receive for coordinating the efforts of purchasing the land, obtaining necessary permits and approvals, and constructing the horizontal and vertical improvements. Most modern valuation theories and concepts relating to the cost approach explicitly consider entrepreneurial incentive in developing estimates of replacement cost new and reproduction cost new. While entrepreneurial incentive may be dependent on the nature and intended use of the property being valued, the Board should include it as an additional element that may need to be considered by valuers of real property interests when the circumstances and prevailing market standards warrant such considerations.
IVS Exposure Draft
Response to invitation to comment on
IVS 410: Development Property

31 August 2016
31 August 2016

Dear Sir/Madam,

Response to IVS 410: Development Property

Thank you for your invitation to comment on the IVS 410: Development Property. We, Deloitte LLP, have set out our response to your specific questions and observations/questions on certain parts of the Exposure Draft.

Please contact me at +1 (404) 220-1983 or Stamos Nicholas at +1 (212) 436-2357 should you wish to discuss any of the points raised in the attached response.

Sincerely,

Mark Pighini
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Comments on your specific questions:

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?

Yes, we agree in the removal of the commentary label as it relates to the real property interests standards for which compliance is mandatory. Professional appraisal standards are meant to promote and maintain a high level of public trust by establishing requirements for valuers of real property interests to follow. It is essential that valuers develop and communicate their analyses, opinions, and conclusions in real property interests in a manner that follows mandatory standards. The use of the “commentary” label may suggest to providers of valuation services that all or parts of the standards are voluntary. We do believe, however, that the “commentary” label can be useful in the context of general guidance to illustrate the applicability of IFV standards in specific situations that valuers of real property interests, including development property, may encounter.

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 (ie. 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?

Generally, we agree that the standard can be applied to most, if not all, commercial and residential development property valuations regardless of their intended purpose.

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?

We believe that the standards as drafted are appropriately focused on the appraisal of development property, which appears to be the intent. It is noted, however, that the timely recognition of developer’s or entrepreneurial profit in measuring fair value or market value for financial reporting purposes has recently become an increasingly important topic. This issue is addressed on a higher level in Paragraph 70.3, but the Board may want to explore appropriate methods of explicitly recognizing and measuring profit depending on where development properties may fall within the construction life cycle. Aside from this topic, and inclusive of the contents and guidance of IVS 2017, there are no other topics that should be added to the standard as it relates to real property interests.
Specific comments on the Exposure Draft

2.1. **Paragraph 70.1.** – “The cost approach may be more relevant than other approaches as a means of indicating the value of development property……”

*Comment:* We agree that the cost approach may be more relevant in certain cases to value a development property. This holds true for a development property that is 1) being constructed in accordance with its highest and best and 2) is economically and financially feasible as of the valuation date. It is important to note that the Board should consider including conditions where the use of the cost approach may be more challenging. An example might be a development property that is impacted by changing economic or market conditions and therefore results in a distressed asset situation.

2.2. **Paragraph 70.3.** – “Another difficulty in applying the cost approach to development property is in determining the profit level, which is its “utility” to a prospective buyer. Although a developer may have a target profit at the commencement of a project, the actual profit is normally determined by the value of the property at completion. Moreover, as the property approaches completion, some of the risks associated with the development are likely to reduce, which………”

*Comment:* We agree that the profit level of a development property may be difficult to quantify depending on the phase of the development and the construction life cycle. For properties undergoing development, both the appraisal and reporting process can prove difficult as many of the elements of traditional valuation analysis are non-existent. Few, if any, sales of comparable projects transacted mid-construction exist, aside from distressed situations, from which meaningful market value indications can be derived. As a result of this lack of relevant and applicable market data, value tended to be based on the total investment dollars expended from land acquisition through the date of valuation. Currently, there is much diversity in practice with some advisors valuing development assets at the cumulative cost of construction until the structure is physically complete or a predetermined occupancy level is achieved. Once a designated threshold is obtained, the development property is appraised and only then will any gain or loss be recognized. As a result, simply reporting aggregated construction costs as value tends to understate actual asset value and waiting until an appraisal is obtained following project completion and/or stabilization will not recognize the profit (or loss) achieved during development and initial leasing. Based on these observations, and because of the diversity of methods used by valuers, it is important for the Board to emphasize the importance of measuring total profit to be earned so that an appropriate amount may be calculated or measured depending on the risks mitigated as of the valuation date. This requires not only consideration of relevant actual costs, but also appropriate measurement of the property’s value upon completion and an understanding of the risk mitigation at each phase before actual completion.
IVS Exposure Draft
Response to invitation to comment on IVS 410: Development Property

31 August 2016
31 August 2016

Dear Sir/Madam,

Response to IVS 410: Development Property

Thank you for your invitation to comment on the IVS 410: Development Property. We, Deloitte LLP, have set out our response to your specific questions and observations/questions on certain parts of the Exposure Draft.

Please contact me at +1 (404) 220-1983 or Stamos Nicholas at +1 (212) 436-2357 should you wish to discuss any of the points raised in the attached response.

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Response to Questions for Respondents

In your Exposure Draft (publication date 2 June 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our comments on the Exposure Draft in the next section giving background to our comments and where relevant a proposed alternative and/or additional wording. You have also asked specific questions at the start of the Exposure Draft which we have commented on below.

Comments on your specific questions:

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?

Yes, we agree in the removal of the commentary label as it relates to the real property interests standards for which compliance is mandatory. Professional appraisal standards are meant to promote and maintain a high level of public trust by establishing requirements for valuers of real property interests to follow. It is essential that valuers develop and communicate their analyses, opinions, and conclusions in real property interests in a manner that follows mandatory standards. The use of the “commentary” label may suggest to providers of valuation services that all or parts of the standards are voluntary. We do believe, however, that the “commentary” label can be useful in the context of general guidance to illustrate the applicability of IFV standards in specific situations that valuers of real property interests, including development property, may encounter.

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 (ie. 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?

Generally, we agree that the standard can be applied to most, if not all, commercial and residential development property valuations regardless of their intended purpose.

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?

We believe that the standards as drafted are appropriately focused on the appraisal of development property, which appears to be the intent. It is noted, however, that the timely recognition of developer’s or entrepreneurial profit in measuring fair value or market value for financial reporting purposes has recently become an increasingly important topic. This issue is addressed on a higher level in Paragraph 70.3, but the Board may want to explore appropriate methods of explicitly recognizing and measuring profit depending on where development properties may fall within the construction life cycle. Aside from this topic, and inclusive of the contents and guidance of IVS 2017, there are no other topics that should be added to the standard as it relates to real property interests.
Specific comments on the Exposure Draft

2.1. **Paragraph 70.1.** – “The cost approach may be more relevant than other approaches as a means of indicating the value of development property……”

*Comment:* We agree that the cost approach may be more relevant in certain cases to value a development property. This holds true for a development property that is 1) being constructed in accordance with its highest and best and 2) is economically and financially feasible as of the valuation date. It is important to note that the Board should consider including conditions where the use of the cost approach may be more challenging. An example might be a development property that is impacted by changing economic or market conditions and therefore results in a distressed asset situation.

2.2. **Paragraph 70.3.** – “Another difficulty in applying the cost approach to development property is in determining the profit level, which is its “utility” to a prospective buyer. Although a developer may have a target profit at the commencement of a project, the actual profit is normally determined by the value of the property at completion. Moreover, as the property approaches completion, some of the risks associated with the development are likely to reduce, which………”

*Comment:* We agree that the profit level of a development property may be difficult to quantify depending on the phase of the development and the construction life cycle. For properties undergoing development, both the appraisal and reporting process can prove difficult as many of the elements of traditional valuation analysis are non-existent. Few, if any, sales of comparable projects transacted mid-construction exist, aside from distressed situations, from which meaningful market value indications can be derived. As a result of this lack of relevant and applicable market data, value tended to be based on the total investment dollars expended from land acquisition through the date of valuation. Currently, there is much diversity in practice with some advisors valuing development assets at the cumulative cost of construction until the structure is physically complete or a predetermined occupancy level is achieved. Once a designated threshold is obtained, the development property is appraised and only then will any gain or loss be recognized. As a result, simply reporting aggregated construction costs as value tends to understate actual asset value and waiting until an appraisal is obtained following project completion and/or stabilization will not recognize the profit (or loss) achieved during development and initial leasing. Based on these observations, and because of the diversity of methods used by valuers, it is important for the Board to emphasize the importance of measuring total profit to be earned so that an appropriate amount may be calculated or measured depending on the risks mitigated as of the valuation date. This requires not only consideration of relevant actual costs, but also appropriate measurement of the property’s value upon completion and an understanding of the risk mitigation at each phase before actual completion.
IVS Exposure Draft
Response to invitation to comment on
IVS 500: Financial Instruments

31 August 2016
31 August 2016

Dear Sir/Madam,

Response to IVS 500: Financial Instruments

Thank you for your invitation to comment on the IVS 500: Financial Instruments. We, Deloitte LLP, have set out our response to your specific questions and observations/questions on certain parts of the Exposure Draft.

Please contact me at +1 (404) 220-1983 or Stamos Nicholas at +1 (212) 436-2357 should you wish to discuss any of the points raised in the attached response.

Sincerely,

Mark Pighini
Managing Director, Global Valuation & Modeling
Deloitte LLP
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Response to Questions for Respondents

In your Exposure Draft (publication date 7 April 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our comments on the Exposure Draft in the next section giving background to our comments and where relevant a proposed alternative and/or additional wording. You have also asked specific questions at the start of the Exposure Draft which we have commented on below.

Comments on your specific questions:

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?

   Yes, we agree in the removal of the commentary label. As the guidance is meant to be general in nature, and is meant to assist arguably those new to valuations, the removal of ‘commentary’ is helpful. The continued non-use of mandatory is helpful, as given the unique nature of individual financial instruments it is not possible to provide an all-inclusive list of considerations that must be made.

b) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of financial instruments regardless of the purpose of the valuation (acquisitions, mergers and sales of businesses or parts of businesses, financial reporting, regulatory requirements, internal risk and compliance procedures and regulatory requirements). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?

   Yes, in principle we agree. The standard presented in this Exposure Draft are general enough in nature that we believe that it could be applied in the valuation of financial instruments for most valuation purposes.

c) Are there any further topics that you feel the Board should add or remove from IVS 500 Financial Instruments? If so, what are they and what is your rationale?

   While we agree that credit risk is an important consideration for the valuation of many financial instruments, we do not agree that it is an important aspect of valuing all financial instruments. Further, credit risk should be either explicitly or implicitly addressed in the valuer’s choice of valuation approach. We would recommend reducing this section to only provide general guidance or significantly expanding it to be clarify the application of this guidance. If expanded, consideration should be given to the reference to the interim guidance on Credit and Debit Valuation Adjustments. It is unclear how this interim guidance would fit within IVS 500.

   The importance of model risk with respect to the valuation of financial instruments is particularly acute. We recommend expanding on the example provided in 120.4 to provide for independent validation of valuation models, consistent with robust model risk management internal controls.
Specific comments on the Exposure Draft

2.1. Paragraph 20.1 – “A financial instrument is a contract…”
   
   **Comment:** We note that cash is also a financial instrument, albeit usually easy to value.

2.2. Paragraph 20.2 – “… (subject to any specific requirements set by the relevant authority)…”
   
   **Comment:** We note that regulatory bodies may have specific requirements as it relates to the valuation of financial instruments. However, we believe that the same could be said of other items on that list (e.g., tax and litigation), where the valuation approach may be dictated by statute or contract. As such, we suggest a broader statement in 20.2 that acknowledges this. Further, the basis of value discussed in Paragraph 30 may make this clause unnecessary.

2.3. Paragraph 20.6 (a) “All market data used or considered as an input into the valuation process must be understood and validated.”
   
   **Comment:** We suggest modifying the sentence to conclude with the following “…and validated when appropriate,” otherwise the proposed language sets too high a threshold for inputs that may not be material and/or may not be capable of validation.

2.4. Paragraph 20.6 (c) – “Where observable prices of, or market inputs from, similar financial instruments are available, any model used to estimate value should also be calibrated to the similar comparable financial instruments.”
   
   **Comment:** This requirement is too specific to apply in all cases. While we agree that observable prices and inputs for similar instruments should generally be considered, we do not agree that it is necessary or desirable in all cases to calibrate a model to those prices or inputs.

2.5. Paragraph 90 – “Valuation inputs may come from a variety of sources…implied inputs can be derived from such observable sources.”
   
   **Comment:** This could be potentially misleading and may cause an inexperienced valuer/review of valuations to draw unreasonable conclusions. Not all valuation inputs for all financial instruments are derived from observable prices.

2.6. Paragraph 90 – “Valuation inputs may come from a variety of sources. Commonly used valuation input sources are broker quotations, consensus pricing services, and the prices of comparable instruments from third party pricing services. Implied inputs can be derived from such observable prices.”
   
   **Comment:** The Exposure Draft provides specific consideration about broker quotes and consensus pricing. We note that valuers should also attempt to understand how third party pricing providers determine their estimates of value before relying on them.

2.7. Paragraph 100 – “Understanding the credit risk is an important aspect of valuing any financial instrument.”
   
   **Comment:** While we agree that credit risk is an important aspect for many financial instruments, we do not believe that specific consideration of credit risk is required for all financial instruments.

2.8. Paragraph 100.2 – “…if secondary trading in structured debt exists, there may be sufficient market data to provide evidence of the appropriate risk adjustment.”
   
   **Comment:** We do not understand why the sentence specifies “structured debt” as an example of market data that would be relevant in the example situation.