International Valuation Standards Council
41 Moorgate
London
EC2R 6PP

31 August 2016

Dear Sirs

Re: Exposure Drafts (EDs) for IVS 101, 102, 103, 200, 300, 400, 410, and 500

We are responding to your invitation to comment on the above EDs on behalf of PricewaterhouseCoopers.

Following consultation with several members of the PricewaterhouseCoopers network of firms, this response summarises their views. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

PricewaterhouseCoopers appreciates the efforts of the International Valuation Standards Council (IVSC) to advance an integrated set of valuation standards and welcomes the opportunity to provide comments on the EDs. We agree there is a need for high quality standards governing the preparation of valuations, and believe the EDs, with certain refinements, will provide a meaningful step toward a framework and guidance for the technical and professional practice. However, given the broad purpose of the EDs, we do have concern that they are not currently specific enough to resolve practice issues for certain public interest valuations, such as for financial reporting for listed companies. In the next phase of development of its standards, we suggest the IVSC identify and prepare guidance to assist in resolving these issues. We believe that such additional specific guidance would not generally conflict with the broader scope of the IVS.

Our key comments are set out below, while Appendix A includes responses to the questions for respondents and Appendix B includes our specific comments and editorial suggestions:

- The AICPA, ASA, and RICS are collaboratively working on issuing the "Proposed Mandatory Performance Framework for the Fair Value Initiative" (the Performance Framework). The Exposure Draft of the Performance Framework, issued for comment in May 2016, provides a set of parameters that indicates how much, in terms of scope of work and documentation, should be prepared or obtained when designing, implementing, and conducting valuations used to support management assertions made in financial statements issued for public interest reporting purposes. While the Performance Framework is primarily a United States initiative and the scope of the IVS is broader, the content of the Performance Framework project overlaps with IVS 101, IVS 102, and IVS 103. Therefore, we believe it would be beneficial for the initiatives to be coordinated and consistent with respect to the overlapping content where appropriate in the context of the broader IVS scope. For example, adjustments in the IVS may be considered for consistency with the Performance Framework in the following four areas: (i) the concept of professional scepticism; (ii) the level of assurance that should be obtained over data, inputs, and assumptions received; (iii) contradictory information; and (iv) report documentation.

- We note that in IVS EDs 200, 300, 400, 410, and 500, there is a common paragraph included as 30.1 which states that "a valuer must select the appropriate basis(es) of value when valuing." Please see the general comment in our prior letter dated July 8th, 2016 on IVS 104 question (a). We agree the valuer should be responsible for assessing and appropriately applying the basis (or bases) of value. However, we do not agree with the language provided in IVS 104 paragraph 20.2 specifying it "is the valuer's sole responsibility to choose the relevant basis (or bases) of value according to the terms and purpose of the valuation assignment." To the extent that this guidance is revised, then paragraph 30.1 should be modified or removed in EDs 200, 300, 400, 410, and 500. The phrase "a valuer must select the appropriate basis(es) of value" could be interpreted as saying that selection of the appropriate basis(es) is the valuer's sole responsibility.

Given the foundational nature of IVS 2017, we suggest the Board hold round-table discussions to further discuss comments received and to solicit input on future plans for improvements to IVS 2017. We would be happy to participate in any round-table discussions that the Board may decide to hold.

If you have any questions on the content of this letter, please do not hesitate to contact Helen Mallovy-Hicks, Global Valuations Leader (+1 416 814 5739), Romil Radia (+971 4 304 3723) or Matthew Pinson (+1 646 471 2198).

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers

Appendix A – Questions for respondents

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?

PwC Response: We believe it is important to note that in its current form, IVS 101 paragraph 20.3 not only requires the valuer to communicate the scope of the assignment to "all parties" to the valuation engagement, but also requires this communication to be performed "prior to completion of the assignment." We believe that this requirement is not a reasonable expectation because the term "all parties" is not defined. Further, even if "all parties" were defined as the permitted users, named users, and / or intended users as documented in the Engagement Letter / SOW, it is not typical practice for a valuer to communicate scope to these non-client parties prior to the completion of an assignment. We believe that scope should be agreed to with the client to the extent possible at the outset of the engagement and then should be communicated to all other named users and other recipients of the valuation via the deliverable when they receive it.

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

PwC Response: Yes, we agree that a written scope of work reflecting final terms is not always feasible to obtain at the outset of the engagement (i.e., the scope could evolve throughout the engagement, valuations performed "in house", etc.). Accordingly, we suggest that IVS 103 note that: (i) getting a signed statement of work at the beginning of the engagement is a best practice, and (ii) it is a requirement that the final deliverable include a clear and complete description of the scope of work ultimately agreed to and performed.

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?

PwC Response: We believe that additional guidance is needed on how to implement this standard in practice. In our view, IVS 102 paragraphs 20.3 and 20.4 do not sufficiently articulate the levels to which information must be evaluated and supported to be relied upon in a valuation engagement. Auditing and reviewing assertions, estimates, and data provided by third parties and clients is a practice in of itself (i.e., auditing). It has its own existing standards and is arguably distinct from the performance of valuation engagements.

We are not sure whether it is the intent of the IVS to prescribe the level of review that should be performed by the valuer to gain any level of assurance over client-provided inputs. If it is the intent of the IVS to issue guidance on reviewing information received from third parties and / or clients, then as discussed in our cover letter, we suggest a coordinated effort with the Performance Framework initiative. This will help align the IVS with the guidance set forth in the Performance Framework exposure draft in the specific areas where considered appropriate in the context of the broader IVS scope. For example, paragraphs 2.16 and 2.17 of the Performance

Framework and the Supplement to the Performance Framework require a valuer to exercise professional scepticism and to gain comfort that management's projected financial information (PFI) is a reasonable basis for the valuation. However, these Performance Framework requirements do not appear to go so far as IVS 102 paragraph 20.3 and IVS 105 paragraph 10.7, which require a valuer to "perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose." We believe that a valuer may be able to gain comfort with the reasonableness of an overall forecast in aggregate without gaining comfort with each input and assumption utilized in the PFI development. We further suggest the addition of guidance as to how a valuer should address contradictory information related to inputs, which is available in the marketplace; as noted in our cover letter, this is another area where the IVS may consider aligning with the Performance Framework.

(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?

PwC Response: We generally agree. However, we believe that additional guidance is needed on how to implement this standard in practice. Please refer to our response to question (c) in Appendix A for further discussion.

IVS 103: REPORTING

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

PwC Response: Yes, we generally agree. However, we believe the minimum reporting requirements currently presented in IVS 103 paragraph 30.1 are missing some important elements. The following items should be added to the list, at a minimum:

- The rationale for the use of the selected methodologies and key assumptions
- The sources of the key inputs and assumptions (i.e., data obtained from client, data obtained from third parties, key personnel interviewed, etc.)

Further, as noted in our cover letter, the Performance Framework guidance requires certain information to be documented in the valuation report that is not required in IVS 103 as written (i.e., subsequent events, use of alternative approaches and methods, subcontractors, third party specialists, signature requirements, etc.). We believe that aligning the guidance set forth in both projects, where considered appropriate in the broader scope of the IVS, would be beneficial.

(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?

PwC Response: Yes, we agree. However, we believe the report should have a sufficient level of detail that a reader can ascertain that IVS has been complied with.

IVS 200: BUSINESS 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?

PwC Response: Yes, we agree, subject to clarification of departure vs. exception as noted in our prior comment letter dated July 8th, 2016. We believe that legal or regulatory requirements that differ from IVS should take precedence over IVS. We believe that a valuer should be able to fully comply with all legal / regulatory requirements associated with a valuation engagement and still claim compliance with IVS so long as any potential differences in requirements are documented.

(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?

PwC Response: We generally agree that the standard in this Exposure Draft can be applied for the valuation of businesses and business interests regardless of purpose. However, it should be noted that different purposes may define certain businesses and business interests in a particular way, for example IFRS. Therefore, use of alternate definitions of businesses and business interests required by regulation or purpose should be permissible under the proposed standard.

(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?

PwC Response: Yes, we would support including discussion of the following additional concepts in IVS 200:

- The legal structure of a business potentially may impact cash flows and valuation. Pass-through entities (i.e., partnerships, sole proprietorships, and S-Corps) do not have a corporate level of taxation (all income flows through the tax return of the individual owner(s)), which may result in higher levels of after-tax profit that may be passed through to the ultimate owner(s) relative to a corporation, all else equal. The cost of equity is generally developed based on reference to returns expected for publicly traded corporations. There are several models utilized in practice to properly reflect potential differences in cash flow between pass-through and non-pass through entities.
- Businesses may be conveyed via an asset sale transaction structure (i.e., taxable) or equity sale transaction structure (i.e., non-taxable). The actual or assumed transaction structure will have an impact on the tax attributes, and resulting valuation, of a business. We suggest further discussion of the impacts of each transaction structure on pre-existing net operating losses (NOLs), tax basis, and other items. For example, in an asset sale, pre-existing NOLs are lost and tax bases are re-set for United States tax purposes, whereas in an equity sale the pre-existing NOLs may remain, subject to limitations, and existing tax bases are carried over.
- The basis of value and unit of account of a valuation may dictate the valuation of the business enterprise based on either: (i) the existing legal structure / tax bases as of the valuation date, or (ii) a contemplated / consummated or assumed / hypothetical transaction which could change the projected cash flows and/or capital structure (i.e., a hypothetical asset sale assumption with a change in control may result in a change in the tax bases, NOLs, projected synergies, etc.). Businesses exist in a legal form as of the valuation date, and it is important for the valuer to understand if the basis of value requires the valuation of the business in its existing legal form / ownership structure, a future format /ownership structure, or an interest in the business.
- Expected and / or hypothetical changes in control may result in higher valuations for the business to reflect control premiums paid for synergies, which may not be applicable to the valuation of a minority equity position based on the existing capital structure (i.e., the minority owner is "along for the ride" with regard to the decisions of the controlling owner(s)).

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 confusion amongst stakeholders as to whether the standard was mandatory. The Board's removed the "commentary" label for clarity. Do you agree with the removal of the commentary label?

PwC Response: Yes, we agree, subject to clarification of departure vs. exception as noted in our prior comment letter dated July 8th, 2016. We believe that legal or regulatory requirements that differ from IVS should take precedence over IVS. We believe that a valuer should be able to fully comply with all legal / regulatory requirements associated with a valuation engagement and still claim compliance with IVS so long as any potential differences in requirements are documented.

(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?

PwC Response: Yes, we agree.

(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?

PwC Response: We would support adding discussion of the concept of "highest and best use" in the Plant and Equipment section, along with one or more examples to clarify when the highest and best use of an asset valued on a standalone basis might differ from its highest and best use as part of a group. Additionally, we support the IVS taking up the topic of economic obsolescence more fully since this is often a challenging area in practice. We believe that additional guidance that facilitates consistent measurement and application of economic obsolescence would be beneficial.

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?

PwC Response: Yes, we agree, subject to clarification of departure vs. exception as noted in our prior comment letter dated July 8th, 2016. We believe that legal or regulatory requirements that differ from IVS should take precedence over IVS. We believe that a valuer should be able to fully comply with all legal / regulatory requirements associated with a valuation engagement and still claim compliance with IVS so long as any potential differences in requirements are documented.

(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?

PwC Response: Yes, we generally agree. However, we believe that use of the word 'responsibility' in paragraph 20.5 (c), (d), and (g) is ambiguous and that further clarification should be added. We are not sure whether it is the intention of the IVS to prescribe that the valuer assumes 'responsibility' for the assessment of these investigations (i.e., building / site measurement, specification and condition, and environmental risks). While we believe that measurement and basic specification and condition issues should be within the knowledge of the valuer, it should be noted that there are certain circumstances in which the valuer is requested to rely on third-party specialist information such as environmental reports, building surveys, and measured surveys. In such circumstances, we suggest the valuer should consider the reliability of such information, and where possible, ensure any issues arising from such reports that may potentially affect value are considered / confirmed. This may also be applicable to legal permissions / restrictions that are generally covered by legal reports on title.

(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?

PwC Response: Yes, we agree.

(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?

PwC Response: We suggest including guidance on tax attribute considerations when valuing a legal entity that solely owns real property assets vs. valuing the asset on a stand-alone basis. For example, if a legal entity owns a single power plant, the valuer should understand if they are valuing the legal entity or the power plant. There are certain tax attributes (such as pre-existing NOLs and / or the existing tax basis in the plant and equipment) which may impact projected cash flows for the legal entity but should not be attributed to the asset. The valuation of the asset (rather than the legal entity) would assume an asset sale (taxable) transaction structure whereby pre-existing NOLs would be eliminated in certain jurisdictions and the tax basis would be re-set. In our experience, this is a topic of frequent discussion in practice and we believe that additional guidance to direct consistent measurement and application related to this topic would be beneficial.

We also suggest including guidance on the treatment of transfer taxes in the valuation. Specifically, the value of a tangible real estate interest asset should only consider transfer tax where it impacts the price in exchange and is considered by a market participant. When valuing a legal entity (SPV), a NAV approach is a business valuation method that includes the tangible real estate interest value (of the assets) held within the vehicle, post transfer tax and excluding tax on the sale of the entity. Valuation of a SPV entity without transfer tax should only be considered where the market for the physical real estate is predominantly via a sale / acquisition of the building held within a SPV wrapper (i.e., where this transaction structure is the market norm).

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?

PwC Response: Yes, we agree, subject to clarification of departure vs. exception as noted in our prior comment letter dated July 8th, 2016. We believe that legal or regulatory requirements that differ from IVS should take precedence over IVS. We believe that a valuer should be able to fully comply with all legal / regulatory requirements associated with a valuation engagement and still claim compliance with IVS so long as any potential differences in requirements are documented.

(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?

PwC Response: Yes, we agree.

(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?

PwC Response: We believe the content in this section seems very detailed and specific relative to the other sections of the IVS. For example, there are no separate sections outside of IVS 210 covering the valuation of in-process research and development (IPR&D) assets even though it may be considered similar in concept from an intangible asset perspective. Further, there are six pages describing the application of the Residual Method, which is more voluminous than the guidance provided for the application of the Market Approach for the valuation of businesses. Unless it is the Board's intention to call extra attention to this topic, we suggest including this content as a sub-section of IVS 400 and adjusting the level of detail to be more in line with the guidance prescribed in other sections until or unless additional detail is provided for the other sections. Alternatively, the Board may wish to note that this section is illustrative of future detailed standards that the IVSC may undertake on other topics.

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 Board's position is that all aspects of IVS 2017 should be mandatory and this Exposure the commentary label?

PwC Response: Yes, we agree, subject to clarification of departure vs. exception as noted in our prior comment letter dated July 8th, 2016. We believe that legal or regulatory requirements that differ from IVS should take precedence over IVS. We believe that a valuer should be able to fully comply with all legal / regulatory requirements associated with a valuation engagement and still claim compliance with IVS so long as any potential differences in requirements are documented.

(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?

PwC Response: We generally agree that the standard in this Exposure Draft can be applied for the valuation of financial instruments regardless of purpose. However, it should be noted that different purposes may define certain financial instruments in a particular way; thus use of alternate definitions of financial instruments required by regulation or purpose should be permissible under the proposed standard.

(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?

PwC Response: We suggest expanding IVS 500 Financial Instruments to include a subset of financial instruments – derivative financial instruments. Derivative financial instruments are often more complex than cash financial instruments, and require the use of other valuation approaches such as closed form solutions and numerical methods. We would also support a discussion of contingent consideration, and additional details for considerations when valuing the equity instruments of privately held companies with complex capital structures.

Appendix B – Additional Comments

IVS 101: SCOPE OF WORK

General comment: This exposure draft section references the term "valuation reviews" in multiple instances. We suggest that the standards clarify what is meant by a "valuation review" in this context. The word "review" has a specific meaning in the accounting / auditing practice in some jurisdictions which may not be the same as the Board's intent. Further, there are professional auditing and review standards which specify the procedures that should be performed for an accounting firm to perform and sign an opinion / conclusion on an audit or review of financial statements to which valuation analyses may be a significant input. We are not clear from the existing ED whether it is the intent of the IVSC to produce guidance on reviewing valuation engagements in addition to performing valuation engagements. Our understanding is that the IVS were being prepared to accomplish the latter, but not the former, because we would expect "reviewers" of valuations for financial purposes to continue with their existing practices dictated by their professional standards. To the extent it is the intention of the IVSC to issue guidance on only the performance of valuation engagements, we suggest removing references to "reviews" throughout the document.

20.3: Please refer to our response to IVS 101 question (a) in Appendix A related to other intended users.

20.3 (a): We suggest defining the term "material connection."

20.3 (a): We suggest the Board consider adding language that the engagement would no longer be in compliance with IVS if the valuer is materially biased / unable to be objective rather than just disclosing the existence of the factors involved.

20.3 (d): We suggest removing the listing of items 1-6, as the types of assets which may be valued are already covered in prior sections. To the extent that it is the IVSC's intention to repeat in this section potential asset types that may be valued, then we suggest that "business" be added to the list.

20.3 (e): We suggest the scope requirement be clarified to indicate that the currency in which the final value conclusion will be denominated must be established. It is possible that there could be various currencies in the forecasts. This circumstance would be addressed as a technical issue rather than a scoping issue (i.e., converting the forecasts to a single currency using forward rates or matching the discount rate to the currency of the forecasts, then converting the resulting value indication using a spot rate).

20.3 (h): We suggest this paragraph note that the valuation date should be established as part of scoping. We do not believe that it is necessary to discuss the report date in the scoping section because it will not likely be known until close to completion of the engagement. Further, the report date will almost certainly be different than the valuation date.

20.3 (i): We suggest the addition of a cross reference to IVS 102 regarding when a limitation would lead to a departure from IVS.

20.3 (k): We believe that any significant assumptions would be known and should be documented in the final report. However, all significant assumptions may not be known at the outset of the engagement when the scoping is determined. We agree that certain hypothetical and / or non-routine assumptions and methodologies may — or should — be known at the outset of the project. We suggest revising to require communication of: (i) the expected methodology; (ii) key inputs / assumptions generally required for the expected methodology (even if all specifics are not known at the project outset); and (iii) any significant known hypothetical and / or non-routine assumptions developed as part of project scoping.

20.3 (n): We issued a comment in our prior letter dated July 8th, 2016 with respect to exceptions / departures. The language in this paragraph may need to be modified based on resolution of the prior comment.

20.3 (n): Please see our response to IVS 102 question (c) in Appendix A regarding the need for additional guidance on implementation / sufficiency of assessing the appropriateness of all significant inputs. The language in this paragraph may need to be modified based on resolution of that comment.

20.4: Please see our response to IVS 101 question (a) in Appendix A. The language in this paragraph may need to be modified based on resolution of that comment.

20.5: While we agree that it should not always be a requirement to have a formal "engagement letter" for in-house valuations, we believe the valuer would always want to have the matters contemplated within "scope of work" documented in the final deliverable or have the final deliverable reference other places where said matters are specifically covered (i.e., internal policies or procedures).

30.1 / 30.2: We suggest the reference should be to 20.3 rather than 20.2.

30.2: Please see our response to IVS 101 question (a) in Appendix A. The language in this paragraph may need to be modified based on resolution of that comment.

IVS 102: INVESTIGATIONS AND COMPLIANCE

20.3: We suggest additional clarification on how "substantial" should be interpreted in this context.

20.5: In the current form of the ED, the valuer is required to assess the credibility / reliability of the information received in order to be in compliance with the standards. Therefore, we believe that it would be important to make this section more robust since this is a critically important section for the valuer to understand in order to claim compliance with IVS. For example, the valuer will likely be getting required data / assumptions from the client, and paragraph (e) states that the valuer should consider "whether the source is independent of either the subject asset and / or the recipient of the valuation." What does "independent" mean in this context (i.e., there are many definitions) and how would the valuer's procedures need to change if the source were considered to not be "independent" in this context?

20.6: Please refer to IVS 101 question (a) in Appendix A.

30.1: We suggest rewording a portion of the first sentence as follows:

> Current text: "A record shall be kept of the work done during the valuation process (and the basis for the work)"
>
> Suggested text: "A written record shall be kept on the work performed during the valuation process (and the basis for the work and conclusions reached)..."

40.1: Please see our prior comment letter dated July 8th, 2016 regarding language on departures.

IVS 103: REPORTING

10.1: We suggest the phrase "not be ambiguous or misleading and shall" be removed from the second sentence.

10.2: We suggest providing additional clarification as to what constitutes "significant uncertainty."

10.2: We suggest the phrase "to provide comparability, relevance and credibility, the report…" be changed to "to provide useful information, the report…" as not all reports can provide comparability (e.g., a first-time valuation engagement) and the purpose of a report is not to provide credibility to the preparer.

20.3: We suggest the phrase "Any report" be replaced with "The report" as there are many reports outside the scope of the IVS.

30.1: See response to IVS 103 question (e) in Appendix A.

40: Refer to the general comment provided for IVS 101 with respect to valuation reviews. This section may need to be modified based on resolution of the prior comment.

IVS 200: BUSINESS AND BUSINESS INTERESTS

20.1: We believe that goodwill is generally calculated as the excess business value over the net identifiable tangible and intangible assets of the business. Therefore, we suggest rewording the last sentence as follows:

> Current text: "When a business' value is greater than the sum of the individual assets or liabilities that make up the business…"
>
> Suggested text: "When a business' value is greater than the sum of the recorded and unrecorded net tangible and identifiable intangible assets of the business…"

20.3: There is divergence in the valuation practice with respect to definitions of certain levels of value, such as "Enterprise Value." For example, we have seen enterprise value defined as total invested capital less cash, and also as the value of the net operating assets of the business (i.e., inclusive of a required level of operating cash), among various other definitions. If it is not the intent of the IVSC to provide standardized definitions for certain levels of value where there is currently divergence in practice, we suggest removing definitions and providing an illustrative list instead. We also suggest noting that the valuer should agree with the client on the definition of the level of value in the scoping, and should document the definition in the final deliverable. We also suggest adding the terms "Total Invested Capital" and "Operating Value" to the list, as in our experience these are levels of value commonly utilized in practice.

20.3: We suggest adding that it is also important to establish whether the valuation of the subject interest is to be performed on a: (i) controlling or non-controlling basis and (ii) marketable or non-marketable basis, if applicable. We also suggest including a reference to the Exposure Draft section that covers discounts / premiums.

30.2: We suggest that "/ or" be inserted prior to "other interpretive guidance" given that regulation, case law, and interpretive guidance will not all be applicable for every valuation.

50.2 (b): The acquisition market includes the market for controlling interests in businesses, which includes the sale of both: (i) entire businesses and (ii) partial controlling interests in businesses. Therefore, we suggest rewording 50.2 (b) as follows:

> Current text: "the acquisition market in which entire businesses are bought and sold, and"
>
> Suggested text: "the acquisition market in which entire businesses and controlling interests in business are bought and sold, and"

50.4: We suggest updating or removing the reference in 50.4 as there is no paragraph 50.8 in the current version.

50.4: We suggest that the paragraph note related to adjustments for non-operating assets and liabilities should be considered to be applied to both the subject company and the comparable targets.

60.3: Please see the comment in our prior comment letter dated July 8th, 2016 related to IVS 105 paragraph 50.5 (b). If "pre-tax" cash flows are permitted, we believe guidance regarding the assessment of pre-tax discount rates needs to be included in the standard given the lack of market-based evidence for pre-tax cost of equity.

60.8 (c): We suggest rewording the term "commercial rates" with "market rates" since we believe this term may be more broadly understood.

60.8 (f): We believe the guidance here could be misunderstood to be prescribing setting projected depreciation to a benchmark, which we do not think is appropriate guidance. If the subject business requires more fixed assets to operate and is expected to continue to operate in this way, then benchmarking projected depreciation to the depreciation levels of the comparables may not be the right answer. As such, we suggest revising or deleting this bullet point.

60.9: It is not clear to us from the current content how inventory adjustments are directly applicable to the income approach, so the comments on adjustments seem out of place here. We understand that inventory adjustments may be performed to benchmark historical performance to comparable companies that report on a different basis or to adjust the inventory on the balance sheet closer to replacement cost. However, we suggest removing the comment from the income approach section or providing additional clarification as to how the adjustments would be directly applicable to the inputs / assumptions required for the income approach (i.e., are the prescribed adjustments related to adjusting GAAP-based income forecasts to cash, assessing required levels of working capital, or other?).

60.11: The terms "debtors" and "creditors" are not commonly utilized terms in the United States for balance sheet items. We suggest updating the terms to "debt" and "receivables", respectively, or other more common terms that are recognized globally.

60.11: We suggest updating the last sentence as follows:

> Current text: "Care should be taken to ensure that the multiple used is based on analysis of other similar asset sales."

Suggested text: "Care should be taken to ensure that the multiple used is based on analysis of other similar asset sales. If there are significant differences, then adjustments for differences in assets should be considered and made as appropriate."

70.1: We suggest noting that the summation approach is the most likely or most frequently applied.

80.1: We suggest updating the referencing for 80.1 (a) through 80.1 (e) as they are not correct in the version that we reviewed.

90.3 (b): We suggest noting that a buyer may purchase / pay for control of a business (i.e., pay a control premium) which is conveyed to them either in the legal form of: (i) assets and liabilities via an asset sale (taxable transaction structure) or (ii) via the conveyance of the common stock in a stock sale (non-taxable transaction structure).

90.4 (a): We suggest that the wording be revised as follows:

Current text: "if there are multiple classes of stock, the valuation should consider the rights of the each different class, including:"

Suggested text: "if there are multiple classes of stock, the valuation should consider the rights of each different class, including, but not limited to:"

90.4 (a): We suggest the following be added to the list: calls, participation, conversion features.

100.1: We suggest this paragraph be removed since that it is covered in IVS 102 and is not repeated in any of the other sections covering the valuation of specific types of assets.

100.2: We believe the information included in paragraph 100.2 is important enough to warrant additional discussion. We also suggest that consideration be given as to whether to note that the valuer should understand the factors driving significant differences between the projected financial information of the subject company relative to the most comparable guideline public companies, if applicable.

110.1 (a): We suggest noting that the geography(ies) where a business operates and generates cash flows (including the jurisdiction(s) where it is taxed) may be more relevant than the registered location of the business' headquarters since the former impacts the level, relative risk, and denomination of the projected cash flows.

120.1: If the base of value is operating value, defined as the value of a business' net operating assets (enterprise value is sometimes also attributed this definition), then "excess" or "deficit" assets may not be relevant. Alternatively, most other bases of value, including total invested capital, equity, and the most common definitions of enterprise value (i.e., total invested capital less cash), should consider the impact of non-operating assets / liabilities, if applicable. Therefore, it is important to understand the definition of the value required and potentially the balance sheet position of the subject entity as of the valuation date.

120.4: We believe that there is some divergence in practice as to which assets / liabilities may be considered non-operating for certain businesses. We are not sure if it is the IVSC's intent to prescribe both: (i) further guidance on the identification of non-operating assets / liabilities and (ii) that cash flows associated with non-operating assets / liabilities should be excluded from the forecasts. As a practical alternative, we suggest the Exposure Draft prescribe that the value of assets / liabilities should not be double-counted in, or excluded from either (i) the cash flow forecasts or (ii) as non-operating asset / liability adjustments. For example, a valuer may choose to include pension catch-up payments in the forecasts (along with other items) if the non-operating adjustment for the underfunded pension is excluded. Similarly, the value of a pre-existing net operating loss of a business may be incorporated in the business value by either including the tax shield impact in the overall business forecasts or via a separate valuation and associated non-operating asset adjustment. If the IVSC chooses to prescribe always excluding cash flows associated with non-operating items from the cash flow forecasts, we suggest that additional guidance be added with respect to the identification of non-operating assets / liabilities.

130.2: We suggest adding additional guidance to this paragraph that discusses the following concepts:

- It is important for a valuer to understand whether the basis of value assumes the purchase of an interest with the existing capital structure or the purchase of the business with the opportunity to change the capital structure since this may impact the valuation approach / assumptions.
- It is important for a valuer to understand whether the basis of value requires valuing the interest assuming no change in control vs. a change in control transaction since this may require different assumptions to appropriately value the business (i.e., synergy forecasts, changes in tax basis, pre-existing NOL treatment, etc.).

130.3: We suggest adding additional guidance to this paragraph. For example, when equity is analogous to an at-the-money or out-of-the-money call option on the total invested capital of the subject business, the waterfall / current value allocation method may not be appropriate.

130.3: We suggest rewording the phrase "valuers should use" to "valuers should consider using" because the fair value of debt may be reasonably estimated outside of an option pricing model or probability-weighted expected return model in many situations.

IVS 300: PLANT AND EQUIPMENT

20.1: We suggest clarification be added to indicate that this ED pertains primarily to property used in manufacturing by an owner / lessee as distinguished from real property interests covered in IVS 400.

20.1: We suggest noting that a "right to use" asset could have a life different than the life of the underlying plant and equipment asset (i.e., the term of a lease vs. useful life of a building).

20.4: We suggest adding the following concept as a third bullet point: "(c) an asset may be considered to be classified as a component of the real property (i.e., an HVAC system)."

20.4: Since paragraph 20.4 is discussing specific nuances of scoping plant and equipment, we suggest updating the last sentence as follows:

> Current text: "Any necessary assumptions or special assumptions relating to the availability of any complementary assets shall also be stated…"
>
> Suggested text: "Any special assumptions or hypothetical conditions relating to the availability of any complementary assets shall also be stated…"

20.4: We suggest the reference to "para 20.3 below" be revised since 20.3 is prior to 20.4.

20.5: We suggest clarifying the second sentence as follows:

> Current text: "These items will normally form part of the real property interest."
>
> Suggested text: "These items will normally form part of the real property interest as discussed in IVS 400."

20.6: We suggest adding the following concept as a fourth bullet point: "(d) that the plant and equipment assets are valued in the context of a distressed sale or liquidation."

30.2: The paragraph notes that "the value of highly specialised equipment is particularly sensitive to different premises of value." We suggest adding further discussion of this concept along with an example.

50.1: We suggest rewording the phrase "the market approach is commonly used as there is sufficient data of recent sales of similar assets" to "the market approach is commonly used as there may be sufficient data of recent sales of similar assets." This would capture that there is not an active market for all types of homogenous plant and equipment.

60.1: We suggest noting that it is important for the valuer to understand if they are valuing the legal entity which owns the asset or the asset on a stand-alone basis. For example, if a legal entity owns a single power plant, the valuer should understand if they are valuing the legal entity or the power plant. There are certain tax attributes (such as pre-existing NOLs and / or the existing tax basis in the plant and equipment) which may impact projected cash flows for the legal entity but should not be attributed to the asset. The valuation of the asset (rather than the legal entity) would assume an asset sale (taxable) transaction structure whereby pre-existing NOLs would be eliminated and the tax basis would be re-set in certain jurisdictions.

60.1: We agree with the statement that "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" and suggest expanding upon this concept. Specifically, if the business employs intellectual property (IP) in its business model, the overall sales forecasts may be attributable to both the IP and the hard assets. An example of this would be a hotel with a well-known brand; the overall cash flow forecast may produce the combined value of the brand and the hotel unless the returns attributable to the IP were to be stripped out of the forecast by some reasonable method (i.e., a charge). Further, we also suggest noting that the income approach is most commonly employed to value the PP&E of businesses producing commodities such as power plants and oil refineries since it would be expected that minimal or no IP would be employed in these business models.

70.1: We found this paragraph hard to follow and suggest that it be reworded as shown below:

> Suggested text: "The cost approach is commonly adopted for plant and equipment, particularly in the case of individual assets that are specialised or special-use facilities.
>
> This is done by application of the Reproduction Cost or Replacement Cost Method, which results in the depreciated replacement cost. The first step is to estimate the cost to a market participant of replacing the subject asset either through reproduction or replacement. The replacement cost is the cost of obtaining an alternative asset of equivalent utility; this can either be a modern equivalent providing the same functionality or the cost of reproducing an exact replica of the subject asset. After concluding on a replacement cost, the value should be adjusted to reflect all forms of depreciation, physical obsolescence, functional obsolescence, and economic obsolescence."

70.2: In the first sentence, we suggest replacing the words "construction / creation" with "acquisition or construction."

70.2 (a): We suggest the phrase "An entity's actual costs may not be relevant as of the valuation date" be updated to "An entity's actual costs may not be relevant, or may need to be adjusted for inflation / indexation to an equivalent as of the valuation date." We believe that historical costs may be appropriately adjusted for inflation, currency changes, and / or changes in prices, among other factors, in the application of the Cost Approach.

70.2 (b): We believe there are two separate thoughts in this paragraph, which we suggest separating as shown below.

> (b) The basis of value: Particularly for bases of value that assume a transaction between market participants, an entity's own costs incurred may not be an appropriate input to measure value. For example, an asset that is only or primarily useful to a particular entity may have very little value to market participants. For example, an asset that is only or primarily valuable to a particular entity for use in its business may have very little value to other market participants on a stand-alone basis.
>
> c) For some bases of value, some amount of profit margin on costs incurred may be appropriate.

70.2 (b): We believe the phrase "...for some bases of value, some amount of profit margin on costs incurred may be appropriate" is significant enough to warrant additional commentary. In our experience, it is not common for profit margins to be applied to the valuation of PP&E under the Cost Approach. To the extent that PP&E is not self-constructed, we would generally expect the costs paid to the third-party builder to already be inclusive of their required profit. If it is the IVSC's intent to require the inclusion of a profit margin on costs in certain circumstances, we suggest additional guidance be included to specify: (i) the bases of value and situations where the inclusion of a profit margin on costs incurred would be reasonable or mandatory, and (ii) how a valuer should estimate a reasonable margin on those costs.

70.2 (c): We suggest rewording the phrase "A valuer must understand all of the costs that have been included" to "A valuer should consider all significant costs that have been included" in order to allow for the consideration of materiality levels in scoping.

70.3: Since all three types of penalties may not be applicable for every valuation, we suggest rewording the first sentence as follows:

> Current text: "Having established the replacement cost, deductions must be made to reflect physical, functional and economic obsolescence of the subject asset when compared to the alternative asset that could be acquired at the replacement cost..."
>
> Suggested text: "Having established replacement cost or reproduction cost, deductions for physical, functional, and economic obsolescence should be made as applicable to the subject asset to adjust for differences between the subject asset and the alternative asset that could be acquired"

70.4: Since there are a number of way to quantify functional and economic obsolescence, we suggest deleting the discussion of cost-to-capacity as this is only one method.

90: We do not believe that the value of tangible assets is impacted by financing arrangements. Therefore, we suggest that this section be removed or that further clarification be added accompanied by an example that illustrates the concept.

90.3: We believe the concept as explained is not clear and suggest adding further clarification and / or providing an example.

Additional comments: In the course of reviewing IVS 300, we identified two additional comments on IVS 105:

IVS 105 70.3 (c): We suggest moving this paragraph to 70.2, where it seems to fit better.

IVS 105 80.6: We suggest that a reference to depreciation be made in paragraph 80.6 for internal consistency with the replacement cost method described in paragraph 80.4.

IVS 400: REAL PROPERTY INTERESTS

20: We believe that commentary in IVS 300 paragraph 20.2 regarding the potential contribution of intellectual property to the overall cash flows of a business is good commentary that is also applicable to the valuation of real property interests. An example of this could be a hotel with a well-known / distinctive brand; the overall cash flow forecast may produce the combined value of the brand and the hotel unless the returns attributable to the IP were to be stripped out of the forecast by some reasonable method (i.e., a charge). We suggest repeating the commentary in IVS 300 paragraph 20.2 in this section since a valuer may not read both sections when looking to the IVS for guidance.

20.2: We suggest rewording the phrase "where a number of parties have the right to the share the whole interest" to "where a number of parties have the right to a share of the whole interest".

20.3: We do not believe that the point the paragraph is attempting to communicate has been made clear and suggest that this paragraph may be removed without negatively impacting the content presented in IVS 400.

20.6: We suggest adding the following as a third bullet point: "(c) the property is free and clear of hazardous substances."

30.2: We believe that financing structures should not impact the value of a property. Therefore, we suggest clarifying that the "associated liabilities" that may need to be considered in the valuation of the property should relate to the characteristics of the property (i.e., environmental liabilities) rather than financing.

50.1: We suggest adding the word "generally" between "are" and "heterogeneous" in the first sentence.

50.2: This paragraph states that "...it is usual to adopt a suitable unit of comparison. Units of comparison that are commonly used include:..." followed by an a), b), c) bullet point list of possible units. We believe the listing is too narrow and specific to be useful and suggest rewording with more general language, which adequately expresses the concept, as follows: "...it is usual to adopt generally accepted and appropriate units of comparison that are considered by market participants, dependent upon the type of asset being valued."

50.4: This paragraph lists out certain specific differences that may need to be considered in valuing real property interests. However, this listing is not an exhaustive list of items that may need to be considered (i.e., quantum adjustments, condition / repair, topography, access / infrastructure, etc.). Therefore, we suggest that qualification be added to the second sentence as follows:

> Current text: "Specific differences that may need to be considered in valuing real property interests include:"
>
> Suggested text: "Specific differences that may need to be considered in valuing real property interests include, but are not limited to:"

50.4: We suggest adding "(g) market conditions" as a seventh bullet point to the list.

60.2 (b): We suggest rewording point (b) from "Traditional discounted cash flow method" to "Discounted cash flow method" as this is not a term defined anywhere else in the IVS.

60.3: See comment on section 20 above.

60.5: We suggest rewording the phrase "cannot be reliably used where the income is expected to change in future periods to an extent greater than that generally expected in the market or where a more sophisticated analysis of risk is required" to "should not be used where a normalized growth state has not yet been reached."

60.6: We suggest changing the phrase "These vary significantly in detail" to "These vary in detail" since the relative value impact of the inclusion of one or more discrete periods in the forecast may not be high relative to the terminal value. We also suggest changing the phrase "present day values" to "present values" since we believe this is the term more commonly utilized in practice.

60.6: In the first sentence, we suggest replacing the words "can be used" with "may be used" since the discounted cash flow models cannot always be used to value real property interests.

60.6: Since the "all risks yield method" is not defined elsewhere in the IVS, we suggest rewording the fourth sentence as follows:

> Current text: "As in the case of the all risks yield method, the discount rate….."
>
> Suggested text: "The discount rate…."

60.6: We suggest clarifying the phrase "the discount rate in a discounted cash flow model will be based on the time cost of money and the risks and rewards attaching to the income stream in question" since we believe that this could be interpreted to mean that the discount rate should include an alpha / company specific risk premium. This is concerning to us given the level of subjectivity which may be involved in the quantification of the alpha. We suggest discussion of: (i) what risk premiums should be included in vs. excluded from the discount rate, and (ii) how the risk premiums should be quantified and supported, when considered appropriate.

60.6: We suggest clarifying whether a terminal value would be expected to be included in the "capital value" in addition to the sum of the present values for individual periods. The content in paragraph 60.5 seems to imply that it generally would be included (i.e., capitalizing a normalized cash flow in perpetuity results in a continuing value). Further, the term "capital value" is not a term generally associated with the present value of a projected cash flow stream in many jurisdictions. In order to increase clarity, we suggest replacing this term with a more common financial term that is recognized globally.

60.7: We suggest adding clarification that in order to determine the returns implicit in the price paid for real properties, the valuer would need to know both (i) the transaction price and (ii) the cash flow projections expected as of the transaction date. The latter of these two items may be difficult to obtain without making significant assumptions.

60.8: The first sentence in paragraph 60.8 appears to overlap with the content in 60.7 (b). Therefore, we suggest that this first sentence be removed and the remaining text in 60.8 be combined with 60.7 (b).

60.9: As noted in our comment to paragraph 60.1, we suggest discussion of: (i) what risk premiums should be included in vs. excluded from the discount rate and (ii) how the risk premiums should be quantified, when considered appropriate.

70.3: We suggest that paragraphs 70.3 and 70.5 be combined as we believe that there is considerable overlap in the content.

70.6: We suggest that the last sentence be reworded as follows:

> Current text: "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."
>
> Suggested text: "The replacement cost needs to reflect all incidental costs, as appropriate, such as the value of the land, infrastructure, design fees, finance costs, and developer profit that would be incurred by a market participant in creating an equivalent asset."

90.1: We suggest adding the words "For example," prior to continuing with the second sentence as written.

90.1: We suggest rewording the last sentence as follows:

> Current text: "A sub-lease interest will always be shorter than the head lease out of which it is created, even if only by one day."
>
> Suggested text: "A sub-lease interest will always be shorter than, or co-terminus with, the head lease out of which it is created."

100: We suggest that a discussion be added with respect to what a valuer should utilize as inputs / assumptions in their income approach valuation when market rent is different from contractual rent.

100.1: Although we acknowledge that the RICS Valuation - Professional Standards defines 'market rent' as a basis of value, we do not see the need to include it as a separate basis of value for IVS. As discussed in our prior comment letter dated July 8th, 2016 on IVS 104 section 40, we believe the market rent is an element of value in other bases of value rather than a separate and distinct basis of value.

IVS 410: DEVELOPMENT PROPERTY

20.1: For clarity, we suggest rewording the first sentence as follows:

Current text: “A development Property can generally be defined as any property, which has development potential and where its value in its current use is below the market value.”

Suggested text: “A development Property can generally be defined as any property which has development potential and where its value in its current use is not its highest and best use.”

20.2: We suggest clarifying which aspect of the acquisition would require the valuation (i.e., determining the price of an acquisition offer). We believe the listing of purposes in IVS 210 paragraph 20.10 is more developed and may be utilized here as well.

20.2: We question the inclusion of economic viability testing for development projects as a ‘purpose’ for performing a valuation of a development property, as it implies compliance for such purposes are mandatory. ‘Feasibility studies’ are generally for internal management reporting purposes and may therefore be subject to a range of ‘special assumptions’ and are not intended to return a ‘value’ but rather test for required rates of return. Internal management reporting valuations are one of the few exceptions within the RICS Valuation Professional Standards. Therefore, we suggest this ‘purpose’ is excluded from IVS to avoid confusion.

20.3: We believe the inclusion of this paragraph may be confusing and add little value as there is not a similar statement in the other IVS sections. Therefore, we suggest removing.

20.4: There is not a similar listing of additional reporting requirements for the intangibles asset section. If this paragraph remains, we would expect a similar paragraph for intangible assets. We suggest removing this paragraph from the Exposure Draft for internal consistency.

20.4 (e): We believe that “an appropriate level of detail on the key inputs to the valuation and the assumption made in determining those inputs” is more appropriately classified as a general reporting requirement for the valuation of any asset. Since the purpose of this paragraph is presumably to identify incremental reporting requirements for Development Property, we suggest removing.

20.7: We suggest rewording the phrase “…profitability of the project and the value of the part completed property” to “…profitability of the project and the value of the partially completed property.”

30.3: We suggest the phrase “…which could impact on potential future development” be updated to “…which could have an impact on potential future development.”

30.5: To repeat our comment from IVS 300 paragraph 60.1, we suggest adding commentary explaining that if the business employs IP in its business model, the overall sales forecasts may be attributable to both the IP and the hard assets. An example of this would be a hotel with a well-known brand; the overall cash flow forecast may produce the combined value of the brand and the hotel unless the returns attributable to the IP were to be stripped out of the forecast by some reasonable method (i.e., a charge).

40.1 (b): We do not believe that the residual method is a hybrid approach and suggest rewording the phrase in bullet (b) from “a hybrid of all three approaches…” to “a form of the Income Approach.” We believe that the Residual Method is a form of the Income Approach as it relies on the present value of a set of future cash flows to provide a value of the site / building as at the date of valuation. Whilst the method may include elements of other approaches, namely the Market Approach for certain developments, the mechanism remains predominantly a cash flow analysis.

40.3: The word "in" is duplicated after "movements." We suggest removing.

50.1: We suggest clarifying that the term "active market" is a relative term. We believe an active market for real estate does not need to be active in the same sense of a stock exchange, which may have millions of transactions for the same security type.

60.3: This paragraph discusses that using a nominal or real cash flow model may be appropriate, and specifies that "The more appropriate of these alternatives will be the one prevailing in the market for the class of property on the valuation date." We suggest clarifying or revising this statement because we do not believe that it is clear how a nominal or real cash flow model would be prevailing in the market. When we do see real cash flow models applied, it is generally for valuations performed in a highly inflationary environment.

60.3: We suggest moving the last sentence "Inputs from one model should not be used in the other, and the report should make clear which approach is being adopted" to IVS 103. We believe that this requirement would be applicable to any type of Income Approach-based valuation.

70.1: We suggest rewording the phrase "or which will generate no income or benefits in lieu of income" with "or which will not generate an identifiable cost / benefit stream in the form of cash (for example, a government funded project expected to produce social benefits other than net income)."

70.3: Both the Cost Approach and the Residual Method require many assumptions. Therefore, we do not believe that it is appropriate to make a blanket statement regarding the relative reliability of one method vs. other. Reliability is based on the inputs of a particular assignment. Therefore, we suggest removing the last sentence.

90: Please see our response to IVS 410 question (c) in Appendix A. There seems to be a lot of detail on the Residual Method relative to the other methods in the proposed standards. We are not sure whether it is the IVSC's intention to call extra attention to this topic. If not, we suggest reducing the level of detail on the Residual Method to be more in line with the guidance prescribed in the IVS for other methods.

90.1: We suggest clarifying that "current value" means the value of the property in its current condition as of the valuation date.

90.2: We suggest replacing the phrase "....have to be estimated and may be based on assumptions" with "have to be estimated with the use of assumptions."

90.3: The second sentence "For example, a relatively minor change in either the anticipated value on competition, the costs of completing the project or the time required to complete the project has a much greater relative impact as a percentage of the current value" appears to be incomplete. It is not clear what it is contrasting against when it says "a much greater relative impact." We suggest revising.

90.6 (h): We suggest adding clarification that the discount rate should be exclusive of any developer's profit as we believe that this distinction is important to avoid double counting impacts of required return. Assessment of real estate discount rates are generally less sophisticated than the build-up models adopted in Business Valuations, and are predominantly back-solved from transactional evidence or reflections of opportunity cost of capital from other investment returns available to a market participant. The return / profit is discounted over the full hold / development period to reflect the timing of the receipt.

90.8: The term Gross Development Value is not defined by IVS and is not a term used globally. We suggest either including a definition of Gross Development Value or using alternative language for the term such as "sales value on completion of the development."

90.17: We suggest rewording the phrase "contracts in place that can provide best evidence of cost" with "contracts in place that can provide the best evidence of cost."

90.24: We suggest rewording the phrase "These must include legal and professional costs that would be reasonably incurred by a market participant at various stages through to the completion of the project" with "These include legal and professional costs that would be reasonably incurred by a market participant at various stages through the completion of the project."

90.25: We suggest adding the words "leasing commissions and" prior to "consultant's fees."

90.28: We suggest rewording the second sentence as follows:

> Current text: "For a project where there will be individual letting units, the stabilised occupancy levels may be less than 100 per cent if market experience indicates that a number of units will always be vacant, and allowance must also be made for costs incurred by the owner during this period such as additional marketing costs, incentives, maintenance and unrecoverable service charges"
>
> Suggested text: "For a project where there will be individual letting units, the stabilised occupancy levels may be less than 100 percent if market experience indicates that a number of units may be expected to always be vacant, and allowance should be considered for costs incurred by the owner during this period such as additional marketing costs, incentives, maintenance and / or unrecoverable service charges."

90.29: We suggest further clarification of the treatment of finance costs during the construction period versus the project discount rate.

90.32: We suggest adding entitlement risk and changes in entitlements over the development period to the listing of factors that may typically need to be considered.

90.33: We suggest replacing the phrase "factors will impact on the perceived riskiness" with "factors will impact the perceived riskiness."

90.37: We suggest clarifying the phrase "the risk of those projections proving to be inaccurate should be considered and reflected in the discount rate." As written, we believe this could be interpreted to mean that the discount rate should include an alpha / company specific risk premium for projection risk. This is concerning to us given the level of subjectivity which may be involved in the quantification of the alpha. We believe that adjustments for projection risk are more appropriately and transparently made in the cash flow projections rather than through the addition of an alpha to the discount rate when possible (i.e., how should the magnitude of the alpha be quantified).

100.1: We suggest adding "sustainability" and "green initiatives" to the listing of matters that typically need to be considered.

IVS 500: FINANCIAL INSTRUMENTS

General comment: The suggestions that follow were made under the assumption that IVS 500 is meant to include all forms of financial instruments, including derivatives. If that was not IVSC's intention, we recommend clarifying the type of financial instruments under the scope of this Exposure Draft in the introduction section.

20.1: We suggest adding clarification as to what the term "other financial consideration" can represent in this context other than cash.

20.1: We suggest adding "or physical goods" to the first sentence defining what holders of financial instruments pay or receive to cover commodity contracts with physical settlement.

20.1: We suggest the addition of language specifying that interest-bearing debt is considered a financial instrument (i.e., contractual cash flows) since a significant portion of the standard discusses the valuation of debt instruments.

20.1: We suggest adding clarification that certain legal / regulatory requirements may dictate a specific unit of account in the valuation of a financial instrument. For example, IFRS does not generally permit netting for valuation purposes. We would expect this to be acceptable under IVS as it is required by an IFRS standard.

20.2: We suggest clarifying which aspect of the acquisition would require the valuation (i.e., determining the price of transaction offer). We believe the listing of purposes in IVS 210 paragraph 20.10 is more developed and may be utilized here as well.

20.2 (b): We suggest removing the phrase "and audit" from this bullet point for consistency with other IVS sections, though we acknowledge that performing an independent valuation can be done as part of audit procedures.

20.3: We suggest adding other market data such as credit ratings, implied volatilities, yields, and comparable companies' data to this listing. An additional example would be to obtain historical market data such as a stock's day close prices to measure the stock's historical volatility.

20.4: We believe that the reference to the Control Environment appears out of place in this standard since it is not discussed in any of the other Exposure Draft sections for other asset types. We are not sure if it is the IVSC's intent to discuss specific aspects of the control environment related to financial instruments. If not, we suggest that the references to Control Environment be removed from this section.

20.5: We suggest adding the basis of the common equity being valued to this list (i.e., marketable vs. non-marketable and controlling vs. non-controlling).

20.6: Please refer to our response to IVS 102 question (c) in Appendix A. We are not sure what procedures would be required to validate all market data considered based on the current guidance in IVS 102. To the extent that updates are made as a result of this comment, we suggest that this paragraph be modified or removed. Since this is the only Exposure Draft section outside of IVS 102 that includes further discussion on Investigations and Compliance, we suggest removing the section for internal consistency regardless of the resolution to our general comment on IVS 102.

20.6 (b): For clarity, we suggest rewording and expanding on point (b) as follows:

Current text: “Any model used to estimate the value of a financial instrument shall be selected to capture the contractual and financial terms of the financial instrument.”

Suggested text: “Any model used to estimate the value of a financial instrument shall be selected to appropriately capture the contractual and financial terms of the financial instrument or make appropriate approximations to them. For example, the method used to value a financial instrument with systematic risk exposure may differ from the method utilized to value a financial instrument without systematic risk exposure.”

20.6 (c): We believe that model calibration is not necessarily performed based on comparable financial instruments, but also based on available relevant market data or actual transactions related to the subject instrument. As such, we suggest rephrasing the sentence “...any model used to estimate value should also be calibrated to the similar, comparable financial instruments” to “...any model used to estimate value should also be calibrated to the available relevant market data.”

20.7 (a) / 20.7 (b): Materiality has a particular meaning in the practice of auditing financial statements and the related standards. We suggest selecting another word to avoid confusion. Further, we believe that the way that materiality is described in this bullet point as “the value of an instrument or class of instruments in relation to the total value of the holding entity’s assets and liabilities or the portfolio that is valued” may be too broad of an assessment for a valuer to make. Specifically, there are audit standards prescribing how a financial statement auditor should determine materiality and assess identified misstatements of the financial statements based on that determination. Therefore, we believe that the client, in consultation with their auditors, may be in a better position to advise on the materiality of any particular instrument or class of instruments in relation to the entity’s financial statements. It is worth noting this is one of the reasons why we do not believe that scoping should be solely the responsibility of the valuer. Alternatively, we believe that the valuer should be able to make an informed judgement as to the relative significance of the value of a particular instrument or group of instruments relative to the entire portfolio of instruments determined to be in their valuation scope. We believe that it would be beneficial to further clarify.

40.1: We suggest replacing “can all” with “may” as not all of the valuation approaches can be utilized to value each type of financial instrument.

40.1: We suggest introducing additional valuation approaches applicable for derivative instruments including:

1) Closed form solutions, such as the Black Scholes options pricing model

2) Numerical methods:

a) Lattices
b) Finite differences
c) Monte Carlo simulations

40.4: We believe that the process of calibration is more commonly associated with the Income Approach or Cost Approach (replicating portfolio) valuation methods as opposed to the market approach. Therefore, we suggest this paragraph may be more appropriately included in sections 60 and / or 70. Further, we suggest that it would be beneficial to provide additional guidance as to what a valuer should do if sufficient market information is not available to calibrate the model.

60.1: We suggest rewording the phrase "The value of a financial instrument may be determined using a discounted cash flow method" to "The value of certain types of financial instruments may be determined using a discounted cash flow method." We do not believe that it is appropriate to utilize a discounted cash flow method to value all types of financial instruments (i.e., financial instruments requiring option pricing models).

60.1 (a): Paragraph 60.1 explains that the timing of cash flows is set out in the terms of the contract. However, the timing of cash flows is defined in paragraph 60.1 (a) as "when the entity expects to realise the cash flows," which appears to be inconsistent. If it is the intent of the IVSC to indicate that there are situations where market expectations on projected cash flows are different from the timing of cash flows as stated in the contract (i.e., a loan in default), we suggest adding further clarification.

60.2: We suggest clarifying whether contractual cash flows or expected cash flows are the basis for the valuation. Many of the elements listed in bullets (a) through (e) are consistent with a yield used to discount contractual cash flow. However, many of these same elements would not be appropriate factors for a discount rate used to discount expected cash flows since many of these factors would already be reflected in the expected cash flows. The list also excludes the funding cost of the holder of the instrument (i.e., the FVA). We suggest the paragraph be modified accordingly.

60.2: Since the five bullet points do not encompass all potential risk factors that may be incorporated in a discount rate, we suggest that the first sentence be reworded as follows:

> Current text: "…it is necessary to assess the return that would be required on the instrument to compensate for the time value of money and risks related to:"
>
> Suggested text: "…it is necessary to assess the return that would be required on the instrument to compensate for the time value of money and potential additional risk factors derived from, but not limited to, the following:"

60.3: We suggest rewording the phrase "estimates of the probable income" to "estimates of the probable cash flows" as there could also be a projected cash outflow. Further, we suggest updating the term "tax flows" to "cash flows" in the last sentence.

70.1: We suggest adding further clarification that the replication approach should represent a static replication strategy that addresses all risk and rewards in the instrument. To the extent there are dynamic risks that are not statically hedged, the valuer would need to adjust the valuation. For example, a valuer can statically replicate a cancellable interest rate swap as a term swap and an offsetting swaption. However, insurance GMBD obligations hedged with exchange-traded options would typically need to be dynamically hedged.

90.1: We suggest adding examples of data sources that are objective and subjective. Some valuation inputs may be objective such as treasury yield curves, FX rates, and commodity prices. Others may be estimated / calculated by third parties such as credit ratings, broker quotations, consensus pricing services, interest rate / commodity forward curves, and the prices of comparable instruments from third party pricing services. Finally, there are also subjective inputs that may be provided by the company holding the financial instrument, such as probabilities of achieving certain milestones / probabilities of certain exit events and expected dates.

90.2: We believe that data sets may be adjusted in a variety of methods, so we suggest rewording as follows:

Current text: "As with any data set used as a valuation input, understanding the sources and how these are statistically adjusted by the provider, if any, is…"

Suggested text: "As with any data set used as a valuation input, understanding the sources and how the raw data was adjusted by the provider, if at all, is…"

90.3: We suggest expanding on the first sentence as follows:

Current text: "Broker quotations provide evidence of how market participants would price the asset."

Suggested text: "Broker quotations provide evidence of how market participants would price the asset, particularly when they represent firm commitments to transact."

90.3: We suggest adding to the listing that another significant limitation of broker quotes is that they may not represent firm commitments to purchase.

90.5: We suggest replacing the phrase "Assumptions regarding the valuation" with "Information or inputs relevant to the valuation."

100.1 (a): The considerations on the financial strength of credit support providers is included under the heading "counterparty risk." Since the credit support providers are normally not regarded as the counterparty, we suggest moving this guidance to paragraph 100.1 (f).

100.1 (a): We suggest adding further clarification to the first sentence by rewording as follows:

Current text: "The financial strength of the issuer or any credit support providers will involve consideration of not only the trading history and profitability of the relevant entity but also consideration of performance and prospects for the industry sector generally."

Suggested text: "Assessing the financial strength of the issuer or any credit support providers will involve consideration of not only historical and projected financial performance of the relevant entity but also consideration of performance and prospects for the industry sector that the business operates in."

100.1 (a): The last sentence indicates that even on a CCP, the valuer still needs to consider residual credit risk. However, paragraph 100.4 notes that the residual risk on a frequently margined trade may not be material. Since a CCP is a frequently margined trade, we suggest including a similar comment in this paragraph or adding guidance on how a valuer may be expected to reasonably quantify this residual risk in practice.

100.1 (b): We suggest rewording the last sentence as follows for clarity:

Current text: "Additionally, the more frequently any collateral is exchanged between entities, the lower the resulting credit risk."

Suggested text: "The relative level of market activity / liquidity for the collateral will generally have a direct positive relationship with the value of the collateral; therefore, the higher the liquidity of the collateral, the lower the credit risk of the instrument, all else equal."

100.1 (f): We believe that the fifth sentence ("Considering the credit worthiness…") is confusing since the second part of the sentence describes what the current position actually is. Further, we suggest rewording the phrase "might have written" to "has written" at the end of the sentence.

100.1 (f): Regarding default protection, we suggest adding a distinction between protection that is part of the unit of account (i.e., protection that would transfer with the instrument) and protection that is a separate unit of account (i.e., protection that would not transfer with the sale of the instrument).

100.2: The first sentence notes that "For parties for which limited information is available, if secondary trading in structured debt exists, there may be sufficient market data to provide evidence of the appropriate risk adjustment." We believe that secondary trading prices of financial instruments other than structured debt, such as non-structured debt and credit default swaps, may also provide relevant indications of credit risk. We suggest noting the additional options.

100.3: We suggest that there should be a clear distinction made between the credit risk of the instrument and the credit risk of the issuer. We believe that the first sentence should reference the credit risk of the instrument instead of the credit risk of the issuer.

100.4: In the first sentence, we believe that the reference should be to the instrument's own credit risk as opposed to the entity's own credit risk.

100.4: We suggest rewording the third sentence from "…might not be a material own credit risk adjustment because…" to "…there might not be material own credit risk because the counterparty…." because own credit risk may not be a separate adjustment, but rather a direct input.

100.4: Please refer to our comment on paragraph 20.7 (a) related to the use of the term "material." This paragraph may require revision depending on the resolution of the prior comment.

110.1: With respect to "financial instruments….that are agreed between the counterparties that are incapable of assignment to a third party," we suggest making a distinction between restrictions that form part of the contractual terms of the contract (and hence are taken into account in the valuation) and those that do not form part of the contractual terms (and hence are not taken into account).

110.1 / 110.2: If it is the intent of the IVSC to make a distinction between liquidity and market activity, we suggest adding further explanation as to the difference. For example, if there is no market activity, we would generally expect that an instrument would not be easily and quickly transferrable in return for cash.

120: Refer to comment on paragraph 20.4 on the control environment.