

IVSC EXPOSURE DRAFTS – IVS 2017 Comments

I should preface this comments email that the views expressed are my own. I am not corresponding on an official basis for either of the professional Bodies of which I am a member or on behalf of my Company, but as an individual Plant and Equipment Valuer with 42 years experience.

My comments are limited to particular points I consider important, as I appreciate, having contributed to standards writing before just how much work people will have done to reach this point and how easy it is to criticise everything without trying to be positive in criticism.

IVS 300 Plant and Equipment

Over the years I have been approached regularly by other valuers saying that we (whether that be IVSC or RICS or other bodies) do not provide enough guidance on P&E valuation compared with real property valuation and in a way I agree. I used to think that the less prescription there was, the greater the flexibility to use different methods and assumptions necessary to form an opinion of value on a wide range of assets for a wide range of purposes. However I have seen more and more valuations in recent years where this has been abused. It is too late for this publication but maybe this should be looked at in more detail for subsequent editions.

20.3 (a) Asset related

I believe having spent most of my life valuing in process industries that the additional costs associated with additional equipment, transport, M&E installation, supports etc are very important as a factor too.

Also re item **(a) 2**, I suggest *economic life* replaces *physical life*. Stonehenge physically exists but hasn't been used for its original purpose for thousands of years. Howard Hughes' Spruce Goose aeroplane still physically exists but it only flew once but it wasn't economic to fly as an aircraft.

20.5 Whilst I understand that elevators is an American word for a lift but it has other meanings such as a grain elevator or a vertical conveyor with unfortunate connotations here in the UK due to our local taxation laws. I suggest the addition of *passenger or goods carrying* elevators. Just a small qualification to the word.

30.3 The end of a lease is not the only timeframe limitation. An additional month or quarters rent being due (plus local taxes) may cause a reduced marketing period. I also believe that diminution in value due to moving plant from its working location should also be considered in the second paragraph.

50.1 I am unhappy with the implication in this paragraph that a Market Value can be properly be assessed using just a cost approach. The default position for any "in exchange" valuation premise such as a liquidation value should always have regard to the market. (I would agree that an "in use " valuation premise such as for financial accounting purposes often needs to use a cost approach and perhaps that should be said here).

I give an example. I was reviewing a valuation by a spreadsheet 'valuer' and within the valuation a piece of equipment had been valued using a cost approach in a valuation model

in the spreadsheet at £9607 for liquidation purposes. Putting aside the ridiculous unrounded figure, I know having been involved with the sale of many of these particular plant items that assuming they aren't new, they never sell for more than £2500 and possibly could be nearer to £0. There has to be a stand back "Is that possible?" market approach.

In the same valuation other items valued at £0 because they were beyond the "life" used in the model. This was items which always sell easily even when old, but the valuer had no market knowledge or ability.

I have had to use a cost approach many times myself because there was no evidence but it should not be encouraged here to be used without any market experience or knowledge.

70 Cost Approach

I believe that advice should be given on assessing economic lives within this section or at least caution that excessive lives (short or long) should not be used as they often appear, or manipulated because the assets "haven't been used much".

Again an example where two 30 year old cranes were given a remaining economic life of 30 years, despite newer cranes having had very expensive refits after just 15 to 20 years.

IVS 102 Investigations and Compliance

Question (c) Yes I agree wholeheartedly. There are now many spreadsheet "valuations" where the so called valuer, has never seen the assets or understands the assets, never mind checked that the assets exist. Using exclusions in the scope of work to say the spreadsheet is taken as correct, I would say they are not only non-compliant, but are not a valuation.

I believe there should be a statement in the valuation report to clearly state whether the assets have been inspected and the spreadsheet is a true representation of the physical assets. (Or at least a representative sample of the main assets)

I understand the economic necessity of spreadsheet computations and sometimes the scale or the timescale will not allow a full inspection, but this should be the exception rather than the rule in my opinion.

Here in the UK asset registers are very poor and almost never checked for accuracy other than when they are revalued. I have personally never seen one that is correct in over 40 years. I even looked at a 2 year old facility where 3 items (of about 40 main items) had already gone and there were many other assets on site that were not on the asset register.

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