INTERNATIONAL VALUATION STANDARDS COUNCIL

IVS 2017: Basis for Conclusions

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General Overview

As part of ongoing efforts to improve its standard-setting process and consistent with the goals in the IVSC Purpose and Strategy Document, the IVSC believes that it should be “operating in an open and transparent way.” The IVSC believes that this document outlining the basis for many changes made in *IVS 2017* is a critical part of a transparent standard-setting process, consistent with the practices of other standard-setters around the world, such as the IASB and FASB.

The *Basis for Conclusions* do not form part of *IVS 2017*, but have been drafted to provide the reader with the rationale behind certain changes made within *IVS 2017*. This document provides bases for conclusions for certain changes made from *IVS 2013* as well as changes made as a result of the responses received as part of the *IVS 2017* Exposure Draft consultation process. The IVSC believes that this *Basis for Conclusions* document provides important insights into the standard-setting process and historical context for these standards, which may be considered in the interpretation of these standards and in future standard-setting activities.

The format and structure of *IVS 2017* is significantly different from prior versions of IVS. Overall, these changes were made to achieve two goals set by the Board:

- To make the International Valuation Standards (IVS) more adaptable to future standard-setting: The Board recognises that most standard-setters engage in targeted improvements to their standards over time, potentially adding or removing paragraphs or entire standards in response to market needs. The numbering for standards and paragraphs within standards is intended to allow greater flexibility in making targeted improvements to IVS in the future.

- To make the IVS more user-friendly: In prior versions of IVS, the asset-specific standards were organised very individually and did not seem cohesive. The Board revised and reorganised the asset standards to use a common structure and format that they believe will be easier for valuers to understand and follow. To further assist in making the standards more user-friendly, additional references were added to asset standards, referring readers to other general and asset standards as appropriate.

As part of the consultation process, the Board received approximately one hundred comment letters, many of which were written by organisations representing hundreds or thousands of stakeholders and many of the comment letters were written by committees of individuals. Many minor changes were made as a result of these comment letters, as evidenced by the redline version of *IVS 2017* published in December 2016. This *Basis for Conclusions* document is not intended to address the reasons behind every minor change made to *IVS 2017*. Rather, the following sections focus on more significant changes and the reasoning behind those changes and/or feedback that led to them.

The Board notes that there was wide diversity in views related to whether IVS should include explanatory and/or comprehensive examples. Some stakeholders believed that explanatory and comprehensive examples should not be included within the standards, particularly when the Board has clarified that the entirety of IVS is mandatory. Other stakeholders believed that the explanatory examples included in the Exposure Drafts were too specialism-specific and not necessary. Still other stakeholders requested more examples, including comprehensive examples showing the application of various valuation methods. Given the wide range of views from stakeholders on this issue, the Board has limited the amount of explanatory examples within *IVS 2017* and has not included any comprehensive examples within the standards. However, the Board believes that inclusion of explanatory and comprehensive examples could be further considered as part of future standard-setting activities, particularly if stakeholder concerns are properly addressed by describing the nature, intent, and limitations of the examples and noting that they are not intended to be used as definitive templates for valuation professionals.

There was also significant diversity in views related to the appropriate depth and level of detail in the standards. The majority of respondents agreed with the level of detail and depth in the *IVS 2017 Exposure Drafts*. However, some respondents believed that more detail would be helpful and that the standards should address additional topics not currently covered in the standards. Other stakeholders believed the *Exposure Drafts* were too detailed for standards. The Board discussed all stakeholder views in depth. Ultimately, the Board felt that the level of detail in the *Exposure Drafts* was appropriate and met the immediate needs of the IVSC and its stakeholders. However, the Board noted that additional topics could be addressed in future standard-setting and has continued to maintain a “gap analysis” of topics on which stakeholders have requested additional standards.

Introduction, Glossary, and Framework

The *IVS 2013* Introduction has been revised to reflect the revised structure of *IVS 2017*, which is as follows:

- Introduction,
- Glossary,
- IVS Framework,
- IVS General Standards, and
- IVS Asset Standards.

The "IVS applications" section from IVS 2013 has been removed as the Board felt that these sections where too narrow in scope and beyond the remit of the IVSC. However, certain aspects of these sections have been incorporated into the IVS Asset Standards.

The Board also deleted the *Technical Information Papers* (*TIPs)*, which no longer form part of *IVS 2017,* as the Board felt that these papers were too technical and general in nature for inclusion in mandatory Valuation Standards. However, certain relevant parts of the *TIPs* have been incorporated into existing General Standard and Asset Standards.

The section on IVS Definitions from *IVS 2013* was removed, as the Board felt that the included definitions were repetitive to the contents of the IVS and could be confusing when read outside of the context of those standards. Furthermore, the Board felt that there were a number of terms used in *IVS 2017* that may be used differently for other purposes and contexts. As such, a new Glossary was added that defines certain terms used in the IVS to assist in understanding the standards.

The Glossary does not attempt to define basic valuation, accounting or finance terms (such as asset, liability, cash flow, etc) as valuers are assumed to have an understanding of such terms and the definitions of such terms may vary depending on the purpose of the valuation and the jurisdiction in which it is performed.

The terms included in the Glossary, and the basis for their inclusion are:

- **Asset/Assets:** These terms were defined to assist in the readability of the standards and to avoid repetition of the phrase ""asset, group of assets, liability, group of liabilities, or group of assets and liabilities" throughout the standards.
- **Client:** This Board felt that a term was needed to describe the party for whom a valuation is performed while recognising that such a party may be a third-party or an employer.
- **Jurisdiction:** The legal and regulatory environment in which a valuation is performed is a critical part of any valuation engagement. Given the wide range of possible legal and regulatory environments in which a valuation may be performed, the Board felt that an umbrella term was needed to refer to such environments.

- **May/Must/Should:** *IVS 2017* clarifies that all aspects of the standards are mandatory. However, some aspects of *IVS 2017* require a specific action, while others require only consideration of certain factors. Many stakeholders who responded to the consultation process pointed out that the *Exposure Drafts* were not clear and consistent with regard to the language describing these requirements. The definitions of **may, must**, and **should** have been added to provide such clarity and consistency.

- **Participant:** Many bases of value require consideration of the party or parties involved in a real or hypothetical transaction. However, various bases of value define the parties in different ways (ie, market participant, willing buyer/willing seller, particular owner/synergistic buyer, etc). The term **participant** was included as a general term referring such parties and as a way to avoid the use of the term market participant throughout the IVS (as had been done previously), given that term is not applicable to all bases of value.

- **Purpose:** The purpose for which a valuation is performed is a critical part of any valuation engagement. Given the wide range of possible purposes for which a valuation may be performed, the Board felt that an umbrella term was needed to refer to such purposes.

- **Significant and/or Material:** The terms significant and material are used throughout *IVS 2013* and *IVS 2017* in varying contexts. This definition was added to clarify that in the context of IVS, significant and material refer the valuation engagement and may differ from the way those terms are used for other purposes (ie, audit materiality, material change in circumstances, etc).

- **Subject or Subject Asset:** These terms were defined to assist in the readability of the standards and to avoid repetition of phrases such as "the asset that is the subject of the valuation engagement."

- **Valuation Reviewer:** *IVS 2017* recognises that these standards may also be followed by professionals engaged to review valuations performed by other valuers and added this term to describe such professionals.

- **Valuer:** This term was defined to assist in the readability of the standards and to avoid repetition of phrases such as "individual, group of individuals, or firm performing a valuation engagement." While a similar definition of valuer was included in *IVS 2013*, the definition was expanded upon based on stakeholder feedback that it should also require an unbiased and objective opinion. Some stakeholders pointed out that the definition of valuer differs from the definition of "professional valuer" from the IVSC Professional Member Obligations. However, the Board noted that the PMO definition of professional valuer includes only professionals who are members of a VPO that enforces standards on its members. Use of that definition could therefore imply that only members of certain VPOs can comply with IVS. In contrast, the Board believes that the IVS represent standards that all valuation professionals should be encouraged to follow and believes that the definition of "valuer" used in the IVS Glossary achieves this goal.

- **Weight:** In response to the *IVS 2017* Exposure Drafts, many stakeholders felt that the proposed standards implied that valuers can/should use a single valuation method and approach. The standards were revised to make it clear that multiple methods and approaches are encouraged (but not required), and weight was defined to refer to the relative reliance placed on a particular method/approach.

- **Weighting:** In outreach with stakeholders, many raised concerns with a lack of rigour and analysis when valuers utilise multiple valuation methods and/or approaches. Weighting was defined to make it clear that the term refers to the process of analysing and reconciling indications of value from multiple methods/approaches rather than a simple averaging.

The IVS *Framework* standard in *IVS 2013* included a significant amount of foundational information on bases of value and valuation approaches and methods. After consultation with stakeholders and following the IVSC Purpose, Strategy and Structure Document consultation process the Board has relocated most of the IVS *Framework* standard to the IVS *General Standards* in IVS 104 *Bases of Value* and IVS 105 *Valuation Approaches and Methods*. The Board felt the issuance of new General Standards would assist both established and emerging markets in adopting International Valuation Standards across all valuation specialisms and provide further clarification on the mandatory part of the standards.

One of the most common comments the Board received from stakeholders was that it was not clear what was mandatory within *IVS 2013*. These stakeholders noted, for example:

- The *Framework* included information on bases of value and approaches and methods, but it was not clear whether the framework was part of the standards.

- Significant portions of the standards were labelled as “commentary” or “guidance”.

- The status of *Valuation Application* and *Technical Information Papers (TIPs*) was not clear.

As noted previously, *Valuation Application* and *TIPS* were incorporated into the IVS, where relevant, and otherwise removed from the IVS. A new paragraph was added to the *Framework* that clarifies that all of the standards within *IVS 2017* are mandatory and that valuations undertaken in accordance with IVS must comply with all relevant standards.

IVS 2017 allows valuers to seek the assistance of specialists when the valuer does not possess all of the necessary technical skills, experience and knowledge to perform all aspects of a valuation. However, the Board recognises that to claim that the overall valuation engagement was prepared in compliance with IVS, the valuer must have a certain level of knowledge and ability to review and understand the specialists’ work and whether it complies with IVS. As such, a requirement was added that the valuer must have the technical skills, experience, and knowledge to understand, interpret, and utilise the work of any specialists.

Stakeholder outreach indicated there were several issues with *IVS 2013* with regard to compliance:

- Some stakeholders were unclear as to whether they could comply with IVS when performing valuations for purposes in jurisdictions that defined terms differently from IVS (ie, fair value, goodwill, etc).

- Some stakeholders were concerned that *IVS 2013* could be interpreted to allow any and all deviations from IVS as long as such deviations were properly disclosed.

In response to this feedback, the Board added a definition of “Departures” which clarifies that, when legislative, regulatory or other authoritative requirements must be followed that may require different basis/bases of value/s or may differ from some of the other requirements within IVS, the valuer must comply with those requirements and may still state that they complied with IVS. This definition was included in the exposure draft of the IVS Framework. A number of stakeholders requested that the definition be amended to require that valuers state all of the ways that the legislative, regulatory or other authoritative requirements differ from IVS. Some Board members were concerned that this could place an unreasonable burden on valuers, whose primary responsibility is to comply with the laws and regulations governing their valuation. Other Board members agreed with the stakeholder feedback. Ultimately, the Board concluded that specific disclosure of how the legislative, regulatory or other authoritative requirements differ from IVS should only be required to the extent that the nature of the procedures performed, inputs and assumptions used, and/or valuation conclusion are significantly affected.

The *IVS 2017* Exposure Draft also included a definition of exceptions. However, several respondents pointed out that “exceptions” described circumstances where IVS was not being followed, making the definition irrelevant within IVS. “Exceptions” was therefore removed from the final version of *IVS 2017*.

IVS 101 Scope of Work: Basis for Conclusions

The Board found that IVS 101 Scope of Work from *IVS 2013* was very prescriptive in its requirements and not flexible enough to apply in a wide variety of valuations and purposes. Outreach indicated that some valuers were copying the headings and contents of IVS 101 into engagement scope of work documents without appropriately tailoring the document to the specific engagement's needs.

The standard has been refocused to be more principles-based in nature. The overarching principle of the standard is that the client must understand what is to be provided and any limitations on the valuation's use before the valuation is finalised and reported. In *IVS 2017*, it is the responsibility of the valuer to communicate the scope of the assignment to all parties of a valuation engagement rather than requiring an extensive list of specific items that must be documented in writing prior to beginning work.

IVS 2017 recognises that it is not always possible to prepare a detailed scope of work at the outset of every engagement, as many valuation engagements contemplate the valuer performing diligence and analysis to identify certain aspects included in "scope of work" are identified (assets, assumptions, methods, etc).

While a written scope of work should be prepared, *IVS 2017* does not require a written scope of work, as the Board believes that there may be circumstances where a scope of work can be communicated to all parties to the valuation without being in written form. For example, when a valuer has a longstanding relationship with a client or when the valuation is performed under a master services agreement or other long-term contract, the scope of work for each individual valuation assignment may be well understood by all parties even if not written down for each assignment.

Some items that constitute a scope of work have been revised slightly:

- The requirement to identify the client and other intended users has been separated into two separate items.
- The valuation currency has been added as an element of scope of work.
- The Board discussed the requirement in *IVS 2013* to disclose all assumptions and special assumptions as part of an engagement's scope of work. Some stakeholders felt that this may place an unreasonable burden on the valuer in certain valuation engagements that may involve many assumptions, most of which are not significant in the context of the overall engagement and would not necessarily provide useful information to someone reading the scope of work. This requirement has been changed to require disclosure of only significant assumptions and special assumptions.

IVS 102 Investigations and Compliance: Basis for Conclusions

The title of the standard was updated from “Implementation” to “Investigations and Compliance” to better reflect the content of the standard.

The Board noted that under *IVS 2013*, virtually any valuation assignment could potentially claim compliance with IVS as long as any limitations on investigations and procedures are disclosed in the scope of work and report. One of most common comments received from stakeholders as part of the IVSC’s outreach and consultation process was that compliance with IVS must become a more meaningful statement on the quality of a valuation. As such, language related to limitations on investigations has been updated to reflect that, while the extent of investigations may be limited by agreement with clients, compliance with IVS requires that the valuer perform sufficient procedures to assess all significant inputs and assumptions and their appropriateness for use in the valuation. As such, in *IVS 2017*, significant limitations that impair a valuer’s ability to take responsibility for the inputs and assumptions result in a valuation not being in compliance with IVS.

The Board noted that the assessment of whether an input or assumption is appropriate for use in a valuation will often be dependent on the basis of value and purpose of the valuation. For example, since Investment Value is an investor-specific basis of value, a valuer could easily determine that it is appropriate to use that investor’s projections in the valuation. However, for bases of value like Market Value or Fair Value (financial reporting), the valuer would need to assess whether those projections are reasonable from the perspective of a market participant.

The Board also discussed that assessing whether it is appropriate to use certain inputs and assumptions in a valuation might require investigation/due diligence related to the reliability and credibility of the source of the information and whether that source could be considered biased. Information provided to the valuer by clients or other interested parties would typically warrant more robust investigation/due diligence to assess the appropriateness of the inputs/assumptions than information gathered by the valuer. The requirements in IVS 102 Investigations and Compliance do not require valuers to audit information they have gathered from independent/unbiased sources, but the valuer must have a reasonable belief that reliance on that source is appropriate.

The following two items were removed from the list of considerations when determining whether information from third party sources can be relied upon:

- “the extent to which the information is in the public domain” was deleted because whether or not information is in the public domain has very little influence on whether it is reliable.

- “the limits on the duty to investigate included in the scope of work” was deleted as it was covered in a prior paragraph.

Some respondents objected to the requirement that valuers retain copies of draft reports in the valuation record, as they felt that this could be problematic, particularly with regard to litigation-related valuations. The Board notes that the requirement only applies to draft reports that were provided to the client and felt that it was a reasonable requirement to expect valuers to retain copies of such documents.

IVS 103 Reporting: Basis for Conclusions

The Board believes that *IVS 2013's* reporting requirements were too prescriptive to be applicable to a wide range of valuation assignments. As such, the standard has been revised to make it clear that there is no one format of report that is required to comply with IVS. Instead, the proposed IVS 103 Reporting is more principles based, allowing the report to take any form, but requiring that it set out a clear and accurate description of the scope of the assignment, its purpose and intended use and disclosure of any significant assumptions.

To achieve the principle outlined above, the Board added a paragraph indicating that a report should allow for an appropriately experienced professional with no prior involvement with the valuation engagement to understand the scope of work performed, the analysis and procedures, and the conclusion of value.

While no particular format of report is required in *IVS 2017*, the Board discussed the fact that it may be challenging to sufficiently communicate the scope of the assignment, the purpose and intended use of the report (and any limitations thereon), and disclose any significant assumptions when using certain report formats (ie, abbreviated or summary reports, oral indications of value, etc). However, despite challenges associated with complying with IVS under certain types of report, the Board did not think that it was necessary to disallow those types of reports and a valuer may use those report formats provided they take the necessary steps to achieve the objectives of the standard.

The standard now separately identifies the information that must be conveyed in a valuation report and a valuation review report as the Board felt that there are sufficient differences between the two types of project to warrant different reporting requirements.

The specific requirements related to restating the scope of work in reports have been removed. Instead, this standard now requires that the scope of work be clear in the report, and refers to IVS 101 Scope of Work for the specific items that constitute a scope of work to avoid repetition.

Based on stakeholder feedback, IVS 103 *Reporting* now allows valuers to comply with certain reporting requirements by referring to other documents, such as engagement letters, scope of work documents, internal policies and procedures, etc. This change was made as part of the general focus on more principles-based standards. Achieving the principle to communicate relevant information to clients was seen to be more important than requiring a completely self-contained report for all valuation engagements.

Some stakeholders believed that the reporting requirements in IVS 103 were not sufficient and that additional requirements should be included, such as descriptions or explanations of the basis for why each method was selected, each input and assumption made, etc. The Board believes that it is important, in every case, for a valuation report to clearly and accurately explain the work performed, the methods used, the inputs and assumptions made, how the conclusion of value was reached, and the date of the report. Further explanatory information may be appropriate in reports prepared for some valuation purposes, but not necessarily all purposes. Furthermore, the Board notes that Valuation Professional Organisations (VPOs) can set more prescriptive requirements for their members if warranted in the market.

IVS 104 Bases of Value: Basis for Conclusions

The IVS *Framework* standard in *IVS 2013* included a significant amount of foundational information on valuation concepts and approaches. After consultation with stakeholders, much of this material from the IVS *Framework* in *IVS 2013* has been relocated to two new general standards (IVS 104 *Basis of Value* and IVS 105 *Valuation Approaches and Methods*). The Board felt the issue of a new standard on IVS 104 *Bases of Value* would assist both established and emerging markets in adopting IVS across all valuation specialisms.

IVS 104 *Bases of Value* provides the overarching principles applicable to all valuations and form part of the extended General Standards Section within *IVS 2017*. The Board further noted that there was a significant amount of repetition and related confusion throughout *IVS 2013* related to bases of value and have relocated much of this information from various asset standards into IVS 104 *Bases of Value*. Each asset standard includes a brief section on specific bases of value considerations relevant to the asset class, where applicable.

Since the issuance of *IVS 2013*, the Board received feedback from many stakeholders that the sections on bases of value did not meet current market needs. More specifically, many stakeholders pointed out that valuers are often required to use bases of value that differ from those currently defined by *IVS 2013*. The Board felt the IVS content on bases of value needed to be structured in a way that allowed valuers performing valuations for a variety of purposes to stay in compliance with IVS, even if the basis of value required for that purpose (such as Fair Market Value) differed from the IVS-defined terms.

As a result of the stakeholder feedback and the Board's views on basis of value, the sections on bases of value that were included in the IVS Framework standard of *IVS 2013* have been significantly revised and restructured in this standard.

IVS 104 Bases of Value includes bases of value defined by the IVS and other bases of value defined by other organisations. The intent of the standard is not to provide a comprehensive list of all possible bases of value. Rather, the Board felt that it was important to retain the various bases of value defined by the IVS while acknowledging other bases of value that are frequently used by stakeholders.

The Board accepted that most valuation engagements require the use of one or more bases of value and felt that it was not in the remit of the IVS to dictate the circumstances under which a particular basis of value should be used. IVS 104 *Bases of Value* is based on the key concept that it is a valuer's responsibility to choose the relevant basis (or bases) of value according to the terms and purpose of the valuation assignment.

As part of the consultation process, many stakeholders felt that the exposure draft did not acknowledge that client instructions may specify a particular basis of value be used.   The Board considered this feedback and agreed that client instructions may be considered when selecting a basis of value. However, the Board felt that valuers still have a responsibility to use the appropriate basis (or bases) of value and that following client instructions could lead to a valuation engagement not being performed in compliance with IVS. As such, *IVS 2017* allows valuers to consider client instructions, but prohibits valuers from using a basis of value that is not appropriate for the intended purpose of the valuation.

An example discussed by the Board was a hypothetical client instructing a valuer to use an IVS-defined basis of value, such as Market Value, in a valuation intended for financial reporting purposes under IFRS 13. If the valuer complied with those instructions, the resulting valuation would not be in compliance with IVS, despite Market Value and Fair Value (IFRS) being similar in certain circumstances, as only an IFRS-defined basis of value should be used for a financial reporting valuation.

IVS 2017 retains most of the bases of value from *IVS 2013*. However, a number of changes and additions were made to the IVS defined bases of value:

- The Board has received considerable feedback on the existence of two varying definitions of Fair Value within *IVS 2013*, one of which potentially included additional value from a special purchaser. The Board sought further feedback on these terms from the IVSC Advisory Forum working group and other stakeholders, and it was felt that in order avoid confusion with the commonly used IFRS 13 definition of Fair Value and many other definitions of Fair Value for financial reporting and legal valuations, the nomenclature for the IVS-defined basis of value "Fair Value" should be changed to "Equitable Value". The Board also considered simply removing the IVS-defined Fair Value. However, stakeholder outreach indicated that some constituents do use the IVS definition. Those stakeholders objected to removing the definition of Fair Value altogether, but felt that renaming the term was reasonable.

- *IVS 2013* included "Special Value" as a separate and distinct basis of value. However the Board's outreach indicated that valuers seldom perform valuations using Special Value as the basis of value. Rather, valuations are typically performed using another basis of value using certain special assumptions ("hypothetical assumptions") or a specific purchaser with a special interest resulting in Synergistic Value. The Board included a question for respondents in the *IVS 2017* Exposure Drafts to confirm whether stakeholders believe Special Value should remain a distinct basis of value or whether it is an element that is contained within other bases of value such as Synergistic Value. The overwhelming majority of respondents agreed with the decision to remove Special Value as a distinct basis of value.

- In the *IVS 2017* Exposure Draft the definition of Market Rent was moved from standard IVS 230 Real Property Interests, and included as a basis of value in this standard. The Board considered the feedback received as part of the consultation process that Market Rent was often part of the calculation of Market Value and therefore should not be a separate basis of value. However, the Board and many other respondents acknowledged that clients often request Market Rent as a separate and distinct basis of value. Those respondents required further clarifications into how existing or hypothetical leases should be considered. In response to these comments this section was expanded to include a clause relating to existing leases and hypothetical leases.

- *IVS 2017* Exposure Draft included Liquidation Value as an additional IVS-defined basis of value to be incorporated within *IVS 2017* to meet market needs particularly from the Plant and Equipment and Financial Instruments sectors. The Board considered feedback from some respondents from the real estate sector that "market Value under the special assumption of a limited marketing period" is consistent with the new definition of Liquidation Value and that valuers may, under appropriate circumstances, continue to use that wording if they so choose. Further to additional comments and feedback from the consultation process the definition was amended to note that Liquidation Value should consider any costs associated with getting the assets into saleable condition and of disposal activity and that it can be calculated under either orderly or forced circumstances.

- *IVS 2017* Exposure Draft included identified Replacement Value as an additional IVS-defined basis of value to be incorporated within *IVS 2017* to meet market needs. A number of respondents commented on Replacement Value that it is most commonly used for insurance related purpose and as such the IVSC needed to make further industry engagement to ensure the suggested definition was fit for purpose. The Board agreed with this feedback and have removed it from *IVS 2017*. The Board may revisit this basis of value in the future.

A number of responses to the *IVS 2017* Exposure Draft suggested that changes be made to the definition of Market Value (and the related interpretive paragraphs). These comments included:

- Paragraph 30.2(a) notes that Market Value is "the most probable price reasonably obtainable in the market on the valuation date." Several respondents pointed out that "most probable price" has a very specific statistical meaning (the "mode" or most common observed price) which does not seem to be the intended meaning in this definition and suggested the use of "expected price" instead. The Board agreed that the meaning of "most probable price" is inconsistent with how Market Value is applied in practice and considered making this edit. However, a number of stakeholders from the real estate sector, which is the sector that most commonly uses the market value basis of value, felt that the change was unnecessary and that the definition and application of market value was already widely understood. Those stakeholders felt that any change to the wording could lead to confusion in the market. As a result, the Board discussed these matters further and felt that it was unwise to make these changes without further stakeholder engagement.

- Another stakeholder pointed out that there is a contradiction within the interpretive portion of the market value definition which states that "the estimated amount" is both the "most probable price" and the "best price reasonably obtainable." Similar to the above point, the Board generally agreed with the observation that these terms are contradictory but did not make the change at this time given the feedback from real estate sector stakeholders who were against such changes to the definition of market value. As a result, the Board discussed these matters further and felt that it was unwise to make these changes without further stakeholder engagement.

- One stakeholder pointed out that "sale and leaseback arrangements" are listed as indicative of a price being inflated or deflated (and inconsistent with "market value"), which is not true for all sale and leaseback arrangements. The Board also did not make a change with regard to this comment given the feedback from real estate sector stakeholders who were against such changes to the definition of market value.

- It was also pointed out that since the word "asset" is defined in the IVS Glossary as including liabilities, it is redundant to state that Market Value is the "estimated amount for which an asset or liability should exchange on the valuation date." However, other stakeholders pointed out that the definition of Market Value is often used in contexts that do not include the IVS Glossary, so removing the word liability could cause confusion in the market. As such, the Board decided to leave the term in the definition of Market Value.

IVS 104 also includes a non-exhaustive list of other non-IVS-defined commonly used bases of value such as Fair Value (International Financial Reporting Standards) and Fair Market Value (Organisation for Economic Co-Operation and Development). The Board acknowledges that some bases of value, which may have an identical or similar nomenclature, can produce significantly different valuations due to variances in interpretation by local jurisdictions and regulatory authorities. In these circumstances there is often additional regulation, case law and interpretive guidance outside IVS and related to bases of value which valuers must be familiar with and follow.

One example of such additional interpretive guidance discussed by the Board is blockage factors. From a conceptual standpoint, blockage factors may be appropriate when valuing a large number of publicly traded shares (or another publicly traded asset or liability) if the sale of those shares could significantly impact the publicly traded price. However, for financial reporting purposes under IASB and FASB rules, blockage factors are prohibited for assets and liabilities traded in an active market.

The Board has not attempted to summarise such additional guidance, which varies significantly depending on the valuation purpose and jurisdiction in which the valuation is performed and used. The Board does not consider additional guidance on these matters to be part of their remit, although it would encourage VPOs to provide additional guidance on these matters to improve market efficiency when needed. As such, this standard notes that valuers using any basis of value are responsible for understanding the additional appropriate regulation, case law and other interpretive guidance related to any basis of value utilised.

Since valuers often need to perform valuations using bases of value defined by other organisations, the Board decided that this standard should include certain commonly used bases of value. However, the Board does not intend to continuously monitor those other organisations to ensure any changes to their definitions are reflected in IVS. As such, a statement was added in this standard that valuers are responsible for ensuring they are using the correct and up-to-date definition.

IVS 2017 includes four bases of value defined by other organisations:-

- Fair Value (IFRS) and Fair Value (legal statutory) were included as these are commonly required bases of value across all specialisms. They also illustrate the point that bases of value with the same nomenclature have different definitions and interpretations.

- Fair Market Value (OECD) and Fair Market Value (US IRS) were included as these are commonly required bases of value across all specialisms and further illustrate the point that bases of value with the same nomenclature have different definitions and interpretations.

As part of the *IVS 2017* Exposure Draft consultation process stakeholders were asked whether *IVS 2017* should include any additional bases of value. The majority of respondents commented that the bases of value included were sufficient and many respondees specifically commented that they would object to the inclusion of any further bases of value as it may erroneously give the impression that this was a comprehensive list rather than a few illustrative examples.

Further to feedback received the Board have also created a new section on Premise of Value/Assumed Use, which describes the circumstances of how an asset or liability is used. This incorporates and extends the previous section within *IVS 2013* on “forced sale” and also incorporates “highest and best use, “current use/existing use”, and “orderly liquidation” as further premises of value. These are premises that are commonly, but inconsistently used across markets and therefore the Board have provided high level definitions of these terms to improve understanding and increase market consistency.

Some respondents commented that IVS should separate assumptions into three types (assumption, extraordinary assumption and hypothetical condition) as used by USPAP instead of the two types of assumptions (Assumptions and Special Assumptions) adopted in *IVS 2017*. The Board felt that Assumptions and Special Assumptions were already commonly used and understood in a number of markets and any variation in these definitions could cause confusion. Furthermore, the Board noted that the recently published Bridging document between IVS and USPAP (*A Bridge from USPAP to IVS*) already gave clarification on the difference in these definitions and therefore felt that it was unnecessary to alter the nomenclature for these commonly used definitions. The Board noted that the Appraisal Foundation was also in the process of updating USPAP, including potential changes to the way assumptions are defined.

IVS 105 Valuation Approaches and Methods: Basis for Conclusions

The IVS *Framework* standard in *IVS 2013* included a significant amount of foundational information on valuation concepts and approaches. After consultation with stakeholders, much of this material from the IVS *Framework* in *IVS 2013* has been relocated to two new general standards (IVS 104 and IVS 105). The Board felt the issue of a new standard on IVS 105 *Valuation Approaches and Methods* would assist both established and emerging markets in adopting IVS across all valuation specialisms.

IVS 105 *Valuation Approaches and Methods* provides the overarching valuation approaches and methods applicable to all valuations and form part of the extended *General Standards* Section within *IVS 2017*. The Board further noted that there was a significant amount of repetition throughout *IVS 2013* related to valuation approaches and methods, including a *TIP* on the discounted cash flow method (*TIP 1*) and have relocated much of this information throughout the standards and *TIP* into IVS 105 *Valuation Approaches and Methods* in order to eliminate some of the repetition and related confusion as well as to highlight the mandatory nature of the material by including it in a general standard.

Since the issuance of *IVS 2013,* the Board received feedback from many stakeholders that the sections on valuation approaches comprising market approach, income approach and cost approach were insufficiently detailed to meet current market needs. These stakeholders generally had a number of concerns:

- Considerable diversity in practice among valuers regarding choice of valuation approaches and methods, and
- Inconsistency in how valuation approaches and methods are applied.
- Lack of rigor and analysis in weighting multiple valuation methods, particularly when the methods result in widely divergent indications of value.

As a result of the stakeholder feedback and the Board's views on valuation, the sections on valuation approaches and methods that were included in the IVS Framework standard of *IVS 2013* have been significantly revised and restructured in this standard. The new structure includes:

- An introductory section on Valuation Approaches and Methods describing the process for choosing one or more valuation approaches and methods and weighting them to reach a conclusion of value.
- More detailed sections on each of the three approaches describing the circumstances under which the each approach should be chosen as the sole or primary basis of a valuation or used in combination with other approaches, and
- Non-comprehensive sections on certain valuation methods within each valuation approach highlighting the key steps and guidelines for each method.

In drafting this standard, the Board acknowledged that valuation inherently involves significant professional judgment on the part of valuers and accept that some level of diversity in practice is inevitable. However, the Board believes that the framework in IVS 105 *Valuation Approaches and Methods* will limit diversity in practice and reduce circumstances where unsuitable approaches and methods are applied.

In addressing stakeholder concerns with lack of rigour and analysis weighting multiple valuation methods to reach a conclusion of value, the Board agreed that a simple averaging should not be acceptable practice under IVS and defined “weighting” in the IVS Glossary as a “process of analysing and reconciling differing indications of values.” However, in discussions, the Board noted that after thorough analysis, a valuer might determine that equal weight should be applied to multiple valuation methods, effectively resulting in an averaging. This was not viewed as a “simple averaging” and would be allowed under *IVS 2017* in appropriate circumstances.

The new standard was exposed for public comment in April 2016 and responses to the new standard were overwhelmingly positive. However, a number of changes were made as a result of the consultation process.

A number of respondents raised concerns that the exposure draft of IVS 105 *Valuation Approaches and Methods* seemed to encourage the use of only one method, when multiple methods may be more appropriate in many circumstances and lead to a more supportable conclusion of value. The Board considered this feedback and made edits throughout the document to make it more clear that multiple valuation methods are encouraged, including:

- Clarified that multiple approaches and methods should be considered and may be applied (para 10.4).

- Changed the language in the selection framework under each approach to clarify that there are circumstances when each approach should be applied and other circumstances where each approach may be applied. However, the revised language removed references to using any approach as a “primary method of valuation,” as the Board agreed with stakeholders that the exposed language could be interpreted to encourage or require the use of a single approach and method.

Several respondents to the *Exposure Draft* requested that the paragraph related to Control Premiums be revised to be more consistent with the recent work being done by the Appraisal Foundation related to Market Participant Acquisition Premiums. The Board agreed with the comments and made several revisions to the paragraph, including mentioning that Control Premiums are sometimes referred to as Market Participant Acquisition Premiums and emphasising that participants’ willingness to pay a premium for control would typically be a factor of what economic benefits they could achieve by exercising that control.

Some stakeholders also asked for further clarification related to probability-weighted expected cash flows as the exposure draft could imply valuers would need to explicitly forecast every possible cash flow scenario for a subject asset. The Board agreed with the feedback and clarified that valuers may calculate probability-weighted expected cash flows by developing a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. The Board notes that this clarification of probability-weighted expected cash flows is consistent with how that term is interpreted by other standard setters.

The exposure draft explicitly addressed what the Board viewed as the three most common methods for calculating a terminal value in the discounted cash flow method. Some stakeholders requested that the standard address a number of other methods for calculating a terminal value. The Board discussed this feedback and decided that the standard should not attempt to present an exhaustive list of all possible ways to calculated terminal values (just as it does not attempt to provide an exhaustive list of all possible valuation methods). However, the Board decided to add a sentence noting that a terminal value may be calculated using any reasonable method. The final version of *IVS 2017* also notes that if a terminal value is calculated using a market approach/exit value, the valuer must comply with the market approach section of the standard.

Many stakeholders requested additional details within IVS 105 *Valuation Approaches and Methods,* such as discount rate derivation, valuation discounts/premiums, and option-pricing methodologies. While the Board considered expanding the standards in these areas, ultimately they felt that they are very broad topics that would be difficult to fully address within IVS 105 *Valuation Approaches and Methods*, potentially warranting separate standards. These topics are some of the many topics that the Board may consider for future standard-setting projects.

Some stakeholders requested that the standards include “pros and cons” of each valuation method. The Board did not believe that such material was appropriate for standards, as pros and cons are very subjective and circumstance specific. Valuers should, of course, be knowledgeable of the pros and cons of any method they apply, but that is considered to be basic valuation knowledge.

IVS 200 Business and Business Interests: Basis for Conclusions

Discussions with stakeholders indicated that there was a significant amount of confusion related to what content in IVS 200 *Business and Business Interests* represented mandatory standards versus non-mandatory commentary. The Board notes that in IVS 200 *Business and Business Interests* (like many other *IVS 2013* standards), all substantive portions of the standard were labelled as "commentary" with the exception of the scope and effective date sections. The Exposure Draft of IVS 200 eliminated the "commentary" label to make it clear that the contents are mandatory for compliance with IVS.

The Board believes that one of the primary purposes of standards is to reduce diversity in practice. The IVSC performed outreach to stakeholders and identified several areas of diversity in practice related to the valuation of business and business interests. As a result of that outreach, the Exposure Draft of IVS 200 *Business and Business Interests* included new requirements related to:

- An overview of business and business interests and the circumstances in which they are valued,
- The selection of valuation approaches and methodologies,
- How debt and capital structure should be considered in certain valuations, and
- Treatment of non-operating assets.

Respondents to the *IVS 2017* Exposure Drafts generally agreed with the changes made to IVS 200 *Business and Business Interests*. However, a number of changes and clarifications were made as a result of the feedback received from stakeholders.

Stakeholders agreed that the term "business" can be used to refer to a number of different assets and that a critical aspect of a business valuation is the identification of the specific interest to be valued. Some respondents requested additional examples of the types of business interests that are commonly valued. While the Board did not want to prepare an exhaustive list of all potential business interests, after consideration of the stakeholders views on this topic, two additional descriptions were added (total invested capital and operating value). The Board felt that the expanded list of four types of business interest was sufficiently inclusive and further added a requirement that the type of interest valued must be appropriate to the purpose of the valuation, placing a responsibility on the valuer to select the proper interest as part of the scope of the valuation engagement.

Some stakeholders further requested additional requirements surrounding how each type of "business" should be valued, for example, requiring that the weighted average cost of capital (WACC) be used when determining enterprise value. The Board felt that going into such detail as the specific method for developing a discount rate was too in-depth for these standards and would be difficult to write in a way that applies to all valuation purposes and markets globally.

The Exposure Draft of IVS 200 *Business and Business Interests* included a statement that income approach and market approach were more common than the cost approach. The Board considered feedback from stakeholders and removed the statement for two reasons:

- The statement was more of an observation about common practice than a "standard" that could be followed.

- If valuers follow the framework for selection of approaches and methods contained in IVS 105 when valuing businesses, it will result in the income approach and market approach being applied more frequently than the cost approach, making the statement in IVS 200 unnecessary.

Paragraph 60.9 from the IVS 200 Exposure Draft was removed due to feedback from stakeholders that the paragraph was too specific to markets that allow both LIFO and FIFO inventory accounting.

The Exposure Draft included language related to the income approach potentially requiring adjustments for marketability and/or control. While stakeholders generally agreed with the point, they raised concerns that such discounts/premiums could be double counted, as these factors may be reflected in the cash flows. The Board discussed the feedback and added a cautionary note to the relevant paragraph that adjustments should not be made for factors already reflected in the cash flows.

Some stakeholders noted that IVS 105 *Valuation Approaches and Methods* and IVS 200 *Business and Business Interests* do not address multi-scenario models under the income approach in any depth. The Board discussed the comments regarding multi-scenario models and agreed that they commonly used and accepted methods of valuation, particularly when there is significant uncertainty. However, the Board felt that addressing multi-scenario models in depth in the standards was not feasible in *IVS 2017* but that the topic could be considered for future standard-setting.

Some stakeholders asked for clarification regarding why it is important to differentiate between rights and obligations inherent to a business interest versus rights and obligations applicable only to a particular owner. Based on this feedback, an additional sentence was added to note that, while bases of value generally allow consideration of rights and obligations inherent to a subject interest, some bases of value prohibit consideration of rights and obligations specific to a particular owner.

The Exposure Draft for IVS 200 included a section on consideration of which assets are operating versus non-operating in nature. Respondents generally agreed with the inclusion of the section as well as its contents. However, some stakeholders pointed out that such an analysis (and potential adjustments) should not be considered/performed only for the subject business, but should also be considered for any guideline companies used in the market approach.

Some respondents requested standard-setting in other areas related to business valuation including the option pricing method, the probability-weighted expected return method, the lives of businesses, and the valuation of business-related debt. The Board believed that these requests were not feasible as part of the *IVS 2017* project, but that some of these requests could warrant future standard-setting projects and noted that there are already efforts underway to develop a standard on the valuation of liabilities, which would include debt.

IVS 210 Intangible Assets: Basis for Conclusions

Discussions with stakeholders indicated that there was a significant amount of confusion related to what content in IVS 210 *Intangible Assets* from *IVS 2013* represented mandatory standards versus what content represented non-mandatory commentary. The Board notes that in IVS 210 (like many other *IVS 2013* standards), all substantive portions of the standard were labelled as “commentary”, with the exception of the scope and effective date sections. The Exposure Draft eliminated the “commentary” label to make it clear that the contents are mandatory for compliance with IVS.

The Board’s outreach also indicated that there was some confusion related to the publication of guidance related to the valuation of intangible assets in two documents, IVS 210 *Intangible Assets* and *TIP 3 The Valuation of Intangible Assets*. Based on that feedback, the Board incorporated certain relevant parts of *TIP 3* into the Exposure Draft. Upon finalisation of the proposed IVS 210, the Board rescinded *TIP 3* as a standalone document.

Some stakeholders pointed out that in *IVS 2013*, the intangible assets standard was too high level and did not meet the needs of the market and stakeholders. In addition, some stakeholders felt IVS 210 was too focused on valuation of intangible assets for financial reporting purposes. For example, IVS 210 used the IFRS/US GAAP criteria to describe when an intangible asset is separable from the other assets of a business. The Board recognises that intangible assets may be valued for a variety of purposes and this standard has been written in a way that the Board believes is more inclusive of the variety of purposes under which intangible assets may be valued.

The Board believes that one of the primary purposes of standards is to reduce diversity in practice. The IVSC performed outreach to stakeholders and identified several areas of diversity in practice related to the valuation of intangible assets. As a result of that outreach, the revised IVS 210 includes new requirements related to developing or selecting an appropriate discount rate and determining the economic lives of intangible assets.

While IVS 210 acknowledges that the definition of goodwill differs depending on the purpose of a valuation, several respondents pointed out that even goodwill is often divided into different parts for certain purposes. As a result of that feedback, the Board noted that for certain purposes goodwill needs to be divided into transferable goodwill and non-transferable or “personal” goodwill. Some respondents requested additional details on different definitions of goodwill. However, the Board did not believe that it was feasible or appropriate to try to repeat or summarize all of the many possible definitions.

Some respondents felt that the section on the multi-period excess earnings method (MPEEM) did not go into enough depth and detail regarding the nature of contributory assets. While the Board did not believe that IVS 210 should go into the level of depth in a guide like the Appraisal Foundation’s toolkit on the Identification of Contributory Assets and Calculation of Economic Rents, they agreed that some additional detail on contributory assets was appropriate.

The Exposure Draft effectively prohibited contributory asset charges for goodwill as a whole (though charges for identifiable parts of goodwill such as workforce were allowed). Respondents generally agreed with the sentiment, but encouraged the board to take a more nuanced stance on the topic. Consistent with this feedback, the Board revised the standard to note that charges should generally only be taken on identifiable parts of goodwill, but that charges for other parts of goodwill may be appropriate in certain circumstances. As such, the standard now requires that valuers must have a strong basis for taking a contributory asset charge on any element of goodwill other than assembled workforce.

The Exposure Draft of IVS 210 referred to the “Premium Profit Method” as the same thing as the “With-and-Without Method”. A number of respondents noted that the “With-and-Without Method” is the common name for this method and that it was unnecessary to include the second name. Further outreach by the board found that the IVSC was the only organisation that commonly referred to the “With-and-Without Method” as the “Premium Profit Method” and decided that it was appropriate to remove that term to better align with stakeholders.

The Board intends IVS 210 *Intangible Assets* to be applicable to valuation of intangible assets regardless of the purpose of the valuation and asked, in the Exposure Draft, whether stakeholders agreed that it was applicable to all purposes. While most respondents agreed that the standard met this objective, several stakeholders noted that the treatment of taxes would not be applicable to valuations for transfer pricing purposes, which are performed on a pre-tax basis. As a result, the Board clarified that steps related to tax-effecting cash flows should be skipped in valuations performed for purposes that require the use of pre-tax cash flows.

Some stakeholders requested that the standards include “pros and cons” of each valuation method. The Board did not believe that such material was appropriate for standards, as pros and cons are very subjective and circumstance specific. Valuers should, of course, be knowledgeable of the pros and cons of any method they apply, but that is considered to be basic valuation knowledge.

IVS 300 Plant and Equipment: Basis for Conclusions

The Board has changed the numbering of many of the asset standards to allow for more flexibility in future standard-setting activities. As a result, this standard, which was IVS 220 in *IVS 2013*, has been re-numbered to IVS 300.

The Board believes that one of the primary purposes of standards is to reduce diversity in practice. The IVSC performed outreach to stakeholders and identified several areas of diversity in practice related to the valuation of real property interests. As a result of that outreach, this Exposure Draft includes new requirements related to:

- An overview of plant and equipment and the circumstances in which they are valued, and
- The selection of valuation approaches and methodologies.

Further to comments received during stakeholder outreach and the consultation process many respondents commented that the standard should also apply to the valuation of the right to use an asset, for example arising out of a lease of machinery and equipment. The Board discussed and reviewed this comment and noted that accounting standards had recently included the right to use assets within balance sheets and therefore the Board felt this was a necessary addition for the standard to be of practical use in the market. The Board also noted that as a result of this inclusion they would also need to distinguish between the lifespan of an asset and the service life of an asset, which takes into account both preventive and predictive maintenance. Discussion of leases was also added to the section in relation to Financing Arrangements.

Stakeholder feedback also commented that the concept of highest and best use needed to be clarified particularly in relation to plant and machinery and the consistency of assumptions related to highest and best use for assets that form part of a system. The Board discussed this further and felt that this point was so critical to the valuation of plant and machinery that it should be included in the overview section of the standard.

Further stakeholder feedback commented that plant and machinery should not be valued without physical inspection. The Board discussed this principal and generally agreed with the concept, but felt that an unconditional responsibility could be too onerous in some circumstances. For example the Board discussed that certain mass appraisals of large numbers of similar assets may not require inspection of all the assets and therefore revised the text accordingly.

Some respondents suggested additional items for the lists of asset related, environment related and economic factors that need to be considered. The Board discussed these additions and incorporated a number of these suggestions into *IVS 2017*, though have not attempted to supply an exhaustive list.

In relation to the valuation of plant and equipment a number of respondents commented that care must be taken when using the income approach to ensure that elements of value relating to intangible assets, goodwill and other contributory assets are excluded. The Board discussed this addition, felt this was helpful and also felt that this section should refer back to IVS 210 *Intangible Assets*.

IVS 400 Real Property Interests: Basis for Conclusions

The Board has changed the numbering of many of the asset standards to allow for more flexibility in future standard-setting activities. As a result, this standard, which was IVS 230 in *IVS 2013* has been re-numbered as IVS 400.

Some comments were received that, prior to IVS 400 defining the three main types of property interest, it was necessary to understand the relevant legal framework and restrictions that affect the interest being valued. The Board discussed this comment and felt that this was a critical part of any real estate valuation and therefore adjusted the overview section to incorporate a section on the relevant legal framework and restrictions towards the beginning of IVS 400.

A number of comments were also received suggesting additional Special Assumptions that are commonly used within the valuation of real property. The Board discussed these comments further and acknowledged that though they were not intending to produce an exhaustive list the following Special Assumptions should be included:

- That the interest is being valued without taking into account other existing interests, and
- That the property is free from contamination or other environmental risks.

Some respondents commented that the Market Approach should include a requirement for valuers to use bases of comparison that are commonly adopted by participants in the market. These stakeholders were concerned that in some markets valuers may adopt unusual/unorthodox units of comparison for the asset being valued. The Board discussed this matter and revised this section to state that valuers should adopt generally accepted and appropriate units of comparison that are considered by participants, dependent upon the type of asset.

Additional comments were also received in relation to additional specific differences that should be considered in valuing real property interests. The Board discussed this matter further and, though not intending to provide an exhaustive list of specific differences, agreed that in light of current political and economic uncertainty in many markets the following should be included as an additional factor;

- Market conditions at the time of the relevant transactions and how they differ from conditions at the valuation date.

Some respondents suggested that the section within the Income Approach on real property interests, where the income-generating ability of the property is closely tied to a particular use or business/trading activity (ie, hotels, and golf courses), should be expanded and include reference to the profits method. The Board discussed these comments and agreed with these recommendations and revised this section accordingly.

Further comments were also received in relation to the Rent Section of Special Considerations for Real Property Interests. The majority of respondents felt that the condition based on the valuer to consider the contract rent when valuing either a superior interest that is subject to a lease or an interest created by a lease was not sufficiently onerous. The Board discussed these comments and were in accordance with this point of view and have revised this section to state that valuer must consider the contract rent.

Finally a number of stakeholders requested that either additional details or additional topics be covered by the standard. In some instances, the Board felt that the suggestions were too detailed or specific to particular jurisdictions which the Board did not think were appropriate for inclusion in the standards. However some of the suggestions, were considered by the Board to be appropriate for future standard-setting activities despite not being addressed in *IVS 2017*.

IVS 410 Development Property: Basis for Conclusions

The Board has changed the numbering of many of the asset standards to allow for more flexibility in future standard-setting activities. As a result, this standard, which was IVS 233 in *IVS 2013* has been re-numbered to IVS 410.

Some respondents pointed out that property should be valued as development properties even when no redevelopment is contemplated providing redevelopment provides its highest and best use. The Board considered these comments and felt that they were valid and as such the standard was amended to note that development properties are defined as interests where redevelopment delivers the highest and best use, or where improvements are either being contemplated or are in progress at the valuation date.

Other respondents felt that the list of purposes for which a development valuation was needed was incomplete. The Board discussed these comments and felt they had much merit and as such extended the list of circumstances to provide further description and detail.

Some stakeholders commented that for the valuation of a development property the valuer needed to be particularly careful when there was a degree of third party reliance, which may not always be known at the outset of the valuation. The Board discussed this matter and to a certain extent felt that this was true of any valuation but after further discussion acceded that this may be of particular importance when valuing a development property, particularly when revised valuations may be needed for each stage of the development process and all the third parties may not be known at the outset of the engagement. The Board therefore added a clause to highlight this matter in this standard despite it being true of all valuations

A number of stakeholders felt that the sections on valuation approaches were too detailed, particularly considering that much of the pertinent detail on the valuation approaches was already contained in IVS 105 *Valuation Approaches and Methods*. The Board discussed these comments and felt that part of this section was too detailed to be included in the standards and therefore reviewed the contents to remove some of these sections while keeping the parts that were particularly relevant to development property.

Further respondents commented on the placement of the section on residual feeling that it should be included in either the Market, Cost or Income Approach. The Board discussed this matter and felt that the residual value could be seen as a hybrid of all approaches and it was better to keep this approach within the Special Considerations section, while making some reference to it in the other sections.

Stakeholders also commented on the existing asset section stating that the list of matters that typically need to be considered for specific investigation when undertaking a valuation of a development property before a project commences was not sufficiently exhaustive. The Board, though not intending to provide an exhaustive list, reviewed these comments and added some further elements which they felt should be included.

IVS 500 Financial Instruments: Basis for Conclusions

As noted in the exposure draft of IVS 500 *Financial Instruments*, the IVSC is engaging with stakeholders in the financial instrument space and working to create a Financial Instrument Task Force comprised of various stakeholders to identify and execute financial instrument valuation projects. This Task Force will be a private sector group representing both the users and preparers of financial and regulatory information, and will include representatives from financial institutions, prudential and securities regulators, valuation practitioners, accounting standards setters, financial data providers, pricing services, investors and audit firms.

The IVS 500 *Financial Instruments* Exposure Draft was presented as a placeholder until the Financial Instrument Task Force is established to execute on financial instrument valuation projects.

Even though IVS 500 was presented as primarily a placeholder until future standard-setting activities are conducted, the Board received a significant amount of comment letters related to this standard and decided to make certain changes as part of *IVS 2017* rather than defer those changes until the Financial Instrument Task Force is formed.

Several respondents pointed out that the term “financial instruments” encompasses a wide variety of instruments including derivatives, contingent instruments, hybrid instruments, fixed income, and structured products. However, they noted that the standard primarily defined financial instruments in terms of equity instruments. The Board agreed that the term “financial instruments” is broad and encompasses a wide range of instruments. While they did not believe IVS 500 could accurately present an exhaustive list of financial instruments, they agreed that the existing description of what constitutes a financial instrument was too limited and expanded upon it accordingly.

Some comment letters noted that the nature of investigations when valuing financial instruments are sufficiently different from the nature of investigations related to the valuation of other asset classes to warrant more detail in IVS 500. In response to this feedback from stakeholders, the Board added some additional information/requirements related to how valuers of financial instruments should comply with the requirements of IVS 102 *Investigations and Compliance*.

A number of stakeholders raised concerns that the use of pricing services and/or broker quotes was one of the most challenging areas globally with regard to the valuation of financial instruments. The Board discussed whether the IVS should provide further detail on the use of pricing services and/or broker quotes. Ultimately, the Board believed that the requirements of IVS (specifically IVS 102 *Investigations and Compliance*) already require that valuers perform sufficient investigation and analysis to understand the reasonableness of all significant inputs and assumptions in their valuation. As such, while pricing services and broker quotes can be used by valuers complying with IVS, they must understand the nature of the pricing service or broker quote and how the prices/quotes were derived for their valuation to comply with the requirements of IVS 102 *Investigations and Compliance* (and IVS 500 *Financial Instruments*).

The Exposure Draft of IVS 500 included the “replication method” under the section on the cost approach. Some respondents objected to this categorisation, as they saw the replication method as more of market approach method or a blend of the market and cost approaches. After discussion, the board determined that the information included on the replication method was duplicative with the requirements of IVS 105.

Many stakeholders raised concerns with the section of the exposure draft addressing the Control Environment, particularly with regard to valuations performed by third parties. After discussion, the Board significantly amended the section to make it clear that for valuations performed internally by a company, the valuer should ensure that an appropriate control environment is in place. However, while an external valuer may not have the ability to affect or change the control environment, they do have a responsibility to assess the control environment to the extent they rely on information provided by their client.

