



OFICIO N° 0021-A&A-DO-17
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Sir.
Mark Zyla
Standards Review Board of the IVSC
International Valuation Standards Council
1 King Street,
LONDON
EC2V 8AU,
United Kingdom.-

We are Valuation Company based in Ecuador, South America and previously sent our comments to the Council as a contribution based on our experience and the need we feel of consistent standards. We've identified also some VPO's in the UK involved which have done great work for the valuation profession.

After 2008 experience we acknowledged the need for working by using worldwide standardized guidelines based on high quality and after a few years of studying, working and implementing IVS (where possible) se we highlight the effort from the Council.

We understand the hard work behind and also know that there's still work to be done to make IVS much more consistent and to ease its use worldwide so thinking in the future we'd like to suggest for the future to work in the following areas in order to support VPO's:

1. Much more consistent Standardized Glossary (Defining price vs. Value).
2. TIP's for quality valuation processes.
3. Environmental Valuation Standards.
4. Surveying Standards for valuation purposes.
5. IVS multilingual version rules in order to avoid misleading or misunderstanding due to the language.
6. Showing statistics upon IVS worldwide impact.

Kind regards

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IVS Gap Analysis

Questions for Respondents

Question 1: Do you agree with the current categorization and timings of the topics contained in the gap analysis and if not why?

We found the current categorization generally fine.

However, considering the global focused appliances if IVS, the relevance of Markets Susceptible to Change should be address as critical, especially for investors in emergent markets where in some areas there´s lack or there´s no trustable information.

We also believe that there´s the need (where possible) for Standardized Glossary which we suggest is to be prioritized as critical and categorized to be assessed by Discussion Paper. It´s necessary for Valuers using IVS to use consistent common concepts. This is especially crucial if among IVSC objectives is to encourage the adoption of IVS across the globe and even more where authorized IVS language translations might result in misunderstanding or misleading of a specific idea.

Question 2: Are there any other topics which you believe should be included or deleted from the IVS gap analysis and if so why? (Please state the relevant specialism, categorization and timing for any proposed additional topics).

Yes,

1. Environmental vs. biological assets. We believe it´s important to start thinking in advance in a medium-long term upon the need of putting on the base for a quiet large topic. Especial attention may be request upon standardized glossary for global correct interpretation.
2. IVS Multi lingual versions. Strong care in English into other languages translations and interpretations will be necessary due to grammar richness from the language. We noticed that Spanish version for example it is not as simple and some concepts in English are simpler and straightforward whereas in Spanish are different in some cases which might lead to misunderstanding and /or misleading.

Chapter 1 – Non-Financial Liabilities

Questions for Respondents

Question 1.1: Is the valuation of non-financial liabilities a critical area that should be addressed by the IVSC? Please explain why.

Yes, It is. If IVS Framework, paragraph 20.), 20.1), states that *the Standards can be applied to the valuation of both assets and liabilities. To assist the legibility of these standards, the words asset or assets have been defined to include liability or liabilities and groups of assets, liabilities, or assets and liabilities, except where it is expressly stated otherwise, or is clear from context that liabilities are excluded*, Then, according to the stakeholders issues and concerns as per the ITC, relating:

1. Lack of Observable Market inputs.
2. Methodology
3. Discount Rates and Accounting for Risk

It appears clear to us that, firstly, a consistent standard for **Non-Financial Liabilities** needs to be addressed under critical categorization in particularly whether valuers demands of standardized methods, concepts, approaches or valuation procedures for these kind of liabilities, all of them based upon appropriate methods for most recurrent cases despite it might be necessary to clarify or modify other standards.

Question 1.2: Should IVS provide a separate definition of liabilities? If yes, do you agree with the definitions provided by the FASB and IASB, please explain why?

Absolutely, yes. However we do believe that IASB definition is clearer, more consistent and straightforward than FASB.

When both the Boards define liability, IASB considers the consequent present obligation raised from past events which leads to the logical conclusion that it is a transaction what we are talking about whereas FASB considers as **probable** the future sacrifices of economic benefits arisen from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events, definition which might lead to misleading or misunderstanding for valuers when using translated IVS versions upon this topics.

This difference is crucial highlight in order to adopt one of them for valuation purposes, especially when issuing multilingual versions.

Question 1.3: What non-financial liabilities do you observe in practice? For each liability, what valuation methods do you most commonly see used? Which of the non-financial liabilities you listed have the greatest diversity of valuation in practice?

None.

Question 1.4: Do you agree with the decision to exclude financial liabilities from this ITC? If yes, do you think IVSC should add financial liabilities as a possible project(s) in the future?.

No.

Question 1.5: Do you think IVSC should add financial instruments, pension liabilities, and insurance liabilities as a possible project(s) in the future?

Question 1.6: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?

Alternative C as it combines the three methodologies proposed at A) but it also highlights and recognize that certain non-financial liabilities may not be appropriately valued through these methodologies. However, we believe that research upon further developments is necessary as the Board gets feedback from stakeholders.

Question 1.7: Are there methodologies and best practices utilized by the insurance industry that the Boards should consider for inclusion in future standards? If so, please discuss.

It is fine for the Board to consider them but, deep analysis and discussion upon its plus and negative aspects might be necessary.

Chapter 2 – Discount Rates

Questions for Respondents

Question 2.1: Are additional standards related to the derivation of discount rates a critical area that should be addressed by the IVSC? Please explain why.

Question 2.2: Given the extensive use of the CAPM for derivation of discount rates used in business enterprise and asset valuations, do you agree with the Boards proposal to issue new standards to target diversity in practice related to discount rate derivation? Please explain why.

Yes we do. As exactly as per other standards it is necessary to define guidelines for professional valuer upon the best practice among all the diversity in practice.

Question 2.3: Which inputs have you observed to have diversity in practice that would benefit from additional guidance in IVS and why?

We think Betas. There´s a diversity criteria upon the selection of Betas and no consensus on what´s the most commonly used and why.

Question 2.4: What other methods of deriving discount rates for business enterprise valuation do you commonly observe in practice? For each method, do you commonly observe diversity in practice in its application?.

The described on ITC are the most common.

Question 2.5: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?

Option B is the best to us for now. This is because we do believe it´s better to have a framework for multiple methods among all of them considered as best practice under IVS.

Chapter 3 – Early Stage Company Valuation

Questions for Respondents

Question 3.1: Are additional standards for the valuation of early-stage companies a critical area that should be addressed by the IVSC? Please explain why.

No, really. However, further issue´s analysis and discussion are recommended particularly upon Complex, Capital Structures in order to define standardized best practice and guidance for valuers.

Question 3.2: In which areas of the valuation of early-stage companies do you see the greatest diversity in practice? Are there additional areas of concern not noted above in this ITC? If so, please discuss.

We observe diversity in practice specially when accounting risk.

Question 3.3: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?

We do believe a further discussion might be necessary, in order to collect issues from other valuers which might be helpful as feedback so that the BV Board may assess this area in the best way possible so that The Board can issue proper standards on this regard.

Chapter 4 – Biological Assets

Questions for Respondents – Biological Assets

Question 4.1: Should IVS provide a standard of Biological Assets? If yes, do you agree with the title of this standard and the distinction provided by the FASB and IASB between Biological Assets and Agricultural Produce, please explain why?

Definitely yes. Yes we do agree with the distinction because the agricultural produce may be a raw or processed material derived from a biological asset. However but we suggest that a better and consistent definition upon a BIOLOGICAL ASSET is necessary especially whether IASB, FASB and perhaps IVSC think about developing environmental standards. A good and ambitious project.

Question 4.2: Do you observe a significant variation in valuation practice for Biological Assets? For each type of Biological Asset, what methods do you most commonly see used? Which type of the Biological Asset you listed have the greatest diversity in practice?

The most common used has been DCFM.

Question 4.3: Do you observe a significant variation in valuation practice for Agricultural produce? For each type of Agricultural Produce, what methods do you most commonly see used? Which type of the Agricultural Produce you listed have the greatest diversity in practice?

Not really.

Question 4.4 Is the valuation of Biological Assets critical area that should be addressed by the IVSC? Please explain why.

Yes it is. There´s a need for valuation standards for these kind of assets especially for these purposes:

1. Agricultural.
2. Environmental.

The Standards should include a distinction of Biological Assets for different purposes.

Question 4.5: Does the separation of value between the agricultural produce and its bearer plants cause issues within your market? Please explain why.

Not really whether the scope and purpose of the valuation is clearly defined.

Question 4.6: Do you feel that there is conceptual Issue in allocating components of Fair Value? Please explain why together with your recommendations for resolving these issues.

Not really.

Question 4.7: Do you think that potential alternative uses should be considered when valuing land as part of a Biological Asset valuation? Please explain why.

Not really. In certain areas the land uses are regulated and in some cases the market is not such dynamic for pushing land planners to change land uses. Therefore, when we talk about potential we talk about time. Then: What

this standardized time should be? What the standardized potential uses sources should be, in order to be considered as trustable?.

In other words. Uncertainty in identifying potentiality may arise in some cases.

Question 4.8: Do you think that there are four basic sampling and measurement techniques for the valuation of Biological Assets? If not, please explain what sampling techniques have seen used in practice.

Yes, we do.

Question 4.9: Do you think that there are four basic sampling and measurement techniques for the valuation of Biological Assets? Do you think that the inclusion of information on generally accepted sampling and measurement techniques would substantially reduce diversity of valuation practice and if so, how?

No, we don't. It actually would make clearer the practices.

Chapter 5 – Extractive Industries

Questions for Respondents – Extractive Industries

For this chapter we'll limit our response to all those questions where there's an established market for valuers.

Question 5.1: Should IVSC produce combined standards and guidance for Extractive Industries or produce separate pronouncements for mining and for oil and gas? If you believe the latter, please indicate the reasons why you consider separate guidance is appropriate.

First of all, the more never means unnecessary to us. However and despite has a lot to do with valuation but not considered as necessary. Surveying standards might be necessary as every of the above mentioned resources has its own features, extractive process and market.

Question 5.2: Should the standards focus just on the valuation of reserves and resources or should it extend to other assets employed in the industry and to entire businesses in the sector? Please provide reasons for your answer.

It should be focused only on reserves and sources. The valuation of other assets can be valued under other standards eg: property, plant and equipment but in that case the title should change from **Extractive Industries into Reserves and Source for Extractive Industries**

Question 5.3: Which classification code or codes are most commonly used in your industry / sector? Which code do you normally use or rely on? Are you aware of differences across your / industry sector on the classification codes used? If so please indicate whether these differences cause problems in undertaking or understanding valuations. **INTERNATIONAL VALUATION STANDARDS COUNCIL**

Not tested.

Question 5.4: When valuing with a discounted cash flow do you use internal production forecasts developed by the entity's own geological and engineering specialists, external forecasts, or a combination of both and you adjust the production forecasts for risk by reserve category?

Not tested.

Question 5.5: Please indicate what methods you use or are familiar with that fall under the Cost Approach and that are used in valuing assets in the Extractive Industries. Please indicate in your experience how the cost of an equivalent asset is determined and please indicate the three most common adjustments that are made in your



experience to reflect physical, functional or economic obsolescence, and what metrics are used to determine these adjustments?

Not tested.

Question 5.6: Please identify any intangible assets that are normally separately identified and valued; i. In transactions between entities in the Extractive Industries and ii. When accounting for the acquisition of a business in the Extractive Industries.

Not tested.

Question 5.7: In your experience what, if any, value is attributed to components of goodwill, eg an assembled skilled workforce, in corporate transactions in the Extractive Industries. Please briefly indicate any valuation techniques used to establish the value of goodwill in such circumstances.

Not tested.

Question 5.8: Please provide any examples of which you are aware of significant differences between the value of otherwise similar resources arising solely from different Governmental policies. Please indicate how “country risk” factors are reflected in the way in which you price or value extractive assets.

Not tested.

Chapter 6 – Inventory

Question 6.1: Should IVS provide separate standards for valuing inventory? Please explain why.

Despite, in general approaches and methods might be the same. In practice to have a guidance is always welcome.

Question 6.2: What methods for the valuation of inventory do you most commonly see used in practice?

Replacement cost for finished products with defined expiring date.

Question 6.3: Do you agree with the decision to focus on the application of the Comparative Sales Method? If not, please discuss the other methods that should be included in the performance framework.

We do agree. However, we believe the inclusion of Replacement Cost method for inventory with mid to short expiring time may be worth including.