



3 May 2013

Our ref: ICAEW Rep 67/13

IVSC  
68 Lombard Street  
London EC3V 9LJ  
United Kingdom  
[CommentLetters@ivsc.org](mailto:CommentLetters@ivsc.org)

Dear Mr Sherman

**Proposed Revisions to IVSC Exposure Draft: Amendments to the International Valuation Standards**

ICAEW is pleased to respond to your request for comments on the IVSC Exposure Draft: *Amendments to the International Valuation Standards*.

ICAEW welcomes this initiative by the IVSC and is keen to play an active role in this project. The ICAEW Valuation Group Committee would welcome a meeting for further discussion on this matter as a whole or in relation to specific points raised in the attached response.

Please contact me should you wish to discuss any of the points raised in the attached response.

I look forward to hearing from you.

Yours sincerely

Vanessa Harrison ACA  
Head of Special Interest Groups

**T** +44 (0)20 7920 8543  
**E** [vanessa.harrison@icaew.com](mailto:vanessa.harrison@icaew.com)



## ICAEW REPRESENTATION

### PROPOSED REVISIONS TO IVSC EXPOSURE DRAFT: AMENDMENTS TO THE INTERNATIONAL VALUATION STANDARDS

Memorandum of comment submitted in May 2013 by ICAEW, in response to IVSCs Exposure Draft: *Amendments to the International Valuation Standards* published on 1 February 2013.

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## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the IVSC Exposure Draft: *Amendments to the International Valuation Standards* published in February 2013, a copy of which is available from this [link](#). We have responded selectively to the questions included in the Exposure Draft; unanswered amendments have not been reproduced below.

## WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Valuation Group is the voice of Valuers within ICAEW, and the committee includes representatives from the business and practice communities. It draws together professionals engaged in valuation and its 850 members receive a range of services including an annual conference, quarterly newsletters, and regular seminars providing technical insight and practical guidance.

## MAJOR POINTS

5. We consider that where valuations are prepared for financial reporting purposes, the requirements of IFRS 13 should take precedence.
6. We consider the IVS definition of market value itself requires further clarity. Particularly around (i) what constitutes a market and who the 'usual' participants might be given paragraph 31d) which states "[...] The present owner is included among those who constitute the market"; (ii) the consequential interaction of the present owners Investment Value on Market Value; and (iii) what constitutes "compulsion", for example in the context of very low market activity/evidence of potential buyers for a given asset which has a high Investment Value to the present owner.
7. We also consider the IVS definitions of fair value requires further clarification due to the impact of the inconsistencies with the IFRS 13 definition, causing confusion among both valuation practitioners and their clients.

This is specifically notable where the IVS definition makes reference to "identified.... parties" to a transaction and their "respective interests" (para 39 IVSC framework), as this may produce a valuation inconsistent with that which may be required for reporting purposes.

The IVSC also comment that their definition of market value is generally (not wholly) consistent with the IFRS definition of fair value. This suggests that some inconsistencies may remain and these should be highlighted.

In the absence of such clarity the use of assumptions may produce an unnecessarily subjective range of outcomes and interpretation of the definition of Market Value.

## RESPONSES TO PROPOSED AMENDMENTS

### Proposed amendment: 4. IVS Framework – 25

8. The proposed definition of a '*Unit of Valuation*' does not make reference to the level at which the asset or liability is aggregated or disaggregated, which is used in the IFRS definition.

The proposed definition used is just the asset or group of assets that is the subject of the valuation. Therefore, the proposed definition may not be sufficient for its intended purpose and consideration should be given to use the concepts set out under IFRS (i.e. the reference to the level at which an asset or a liability is aggregated or disaggregated).

### Proposed amendment: 8. IVS Framework – 56

9. We considered that the addition of the sentence "Using more than one valuation approach generally provides a cross check on the valuation conclusion and is especially recommended where the inputs to the primary method are limited or inconclusive" may be insufficient to meet the supporting reason for the change and may not encourage best practice.

A risk this wording creates is that it could be read as encouraging the valuer to reach a conclusion through the use of one (primary) method and only using additional methods as a cross check.

IVSC might give consideration to clarifying the wording to:

- encourage the use of multiple approaches, where possible, and rationalising the outcomes of all these approaches in order to arrive at a reasoned conclusion;
- ensure that, where the quality of data limits the reliability of an approach or is limited by the scope or work, that approach is used as a cross-check rather than a principal approach; and
- ensure that where multiple approaches are not used, the reasons for not using more than one approach are clearly stated.

Additionally, we are of the view that this part of the Framework should be clearly identified as guidance and not a requirement as this could lead to valuations being unfairly challenged.

### Proposed amendment: 13. IVS 102 Implementation 1

10. We consider the removal of the reference to scope of work may leave ambiguity in the case where a valuer has raised a preferred route of action, although the client only agrees to a limited scope engagement (perhaps due to cost).

We suggest that the following be considered for inclusion "*and such principles should be recorded in the scope of work agreed with the client*".

### Proposed amendment: 15. IVS 102 Implementation 4

11. Whilst we agree that a valuer should not blindly accept all information, the time and cost available may limit the ability to test the information.

We suggest that the following be considered for inclusion at the end of the paragraph “*to the extent information from the client, the management or another party is relied upon by the valuer and has not been verified, this should be clearly stated with reference, as appropriate, to any representation from that party.*”

**Proposed amendment: 18. IVS 103 Reporting 5 (h)**

- 12.** This item is linked to item 15 above. Therefore we suggest that the following be considered for inclusion “*to the extent information from the client, the management or another party is relied upon by the valuer and has not been verified, this should be clearly stated with reference, as appropriate, to any representation from that party*” (or cross reference be made to the revised IVS102 Implementation 4 if this phrase is included there).

**E**      [vanessa.harrison@icaew.com](mailto:vanessa.harrison@icaew.com)

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