

International Association of Consultants, Valuators and Analysts

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International Valuation Standards Council
41 Moorgate
LONDON EC2R 6PP
United Kingdom
By email: CommentLetters@ivsc.org

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of your organization as well as the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters covering 55 countries, listed in the appendix, serving about 10,000 members who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of guidance and standards related to valuation.

We appreciate the opportunity to comment on the Discussion Paper "*Amendments to the International Valuation Standards*". Our responses to the indicated questions are as follows:

1. Definitions:

Proposed Change

Valuation Date: The date on which the opinion of value applies. The valuation date shall also include the time on which it applies if the value of the type of asset can be observed as changing materially in the course of a single day.

We concur with the proposed change.

2. Definitions:

Proposed Change

Valuation Review: The act or process of developing and reporting an opinion about a valuation undertaken by another party.

We concur with the proposed changes. However we suggest the definition make it clear the a "valuation review typically does not include a separate amount for the value

conclusion, but rather focuses on the approaches and methods adopted and the reasoning (including support) within the original valuation report.

3. IVS Framework – 3 and 4.

Proposed Change:

Independence and Objectivity

~~3 Many states have laws or regulations that only allow certain persons to value particular classes of assets for various purposes. Additionally, many professional bodies and valuation providers have ethical codes that require the identification and disclosure of potential conflicts of interest. The purpose of these standards is to set internationally recognised principles and definitions for the preparation and reporting of valuations. They do not include regulations on the relationship between those commissioning valuations and those undertaking them, as~~

~~4 While specific conduct rules for valuers are outside the scope of these standards, it is nevertheless a fundamental expectation that when applying these standards appropriate controls and procedures are in place to ensure the necessary degree of independence and objectivity in the valuation process so that the results can be seen to be free from bias. The IVSC Code of Ethical Principles for Professional Valuers provides an example of an appropriate framework of conduct rules. Where the purpose of the valuation requires the valuer to have a specific status or disclosures confirming the valuer's status to be made, the requirements are set out in the appropriate standard. Matters relating to the conduct and ethical behaviour of valuers are for Valuation Professional Organisations or other bodies that have a regulatory role over individual valuers.~~

We believe that the term “independence” should be included in the revised paragraph 4 as it is an important ethical position, rather than the more legal concept. A valuator can be objective but due to personal relationship may not be legally “independent”.

4. IVS Framework – 25

Proposed Change:

Aggregation Unit of Valuation

24 (no change)

25 Where a valuation is required of assets that are held in conjunction with other complementary or related assets, it is important to clearly define the unit of valuation, whether it is the group or portfolio of assets that is to be valued or each of the assets individually. If the latter, A unit of valuation may consist of a single inseparable asset or a group of complementary assets. Where the unit of valuation is associated with other assets that are excluded from the valuation it is also important to establish whether each asset the unit of valuation is assumed to be valued:

- a) ~~as an individual item but assuming that the other associated assets are available to a buyer, or~~
- b) ~~as an individual item but assuming that the other associated assets are not available to a buyer.~~

Introduce the following definition into the list of IVS Definitions:

Unit of Valuation: The asset or group of associated assets that is the subject of the valuation.

We do not agree with the proposed changes. We object to the proposed introduction of a new phrase “unit of valuation” to replace the term “unit of account” long ago adopted by IASB and FASB; this has achieved general acceptance and a change now is likely to increase confusion difficulties. In general, using terms different than those of FASB/IASB for any particular matter will result in difficulties. The purpose of the proposed changes should be to reduce confusion. This is best done by adopting common definitions rather than choosing terms that are different or unfamiliar.

5. IVS Framework – insert new para 26

Proposed Change:

26 Where the *unit of valuation* comprises a number of separately identifiable assets or components that are capable of valuation individually, the sum of the individual assets or components is often greater or less than the value of the *unit of valuation*.

(Subsequent paras to be renumbered)

We concur with the proposed changes, subject to our objection to the new term addressed in answer 4, above.

6. IVS Framework: 30

Proposed Change:

30 *Market value* is the estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

We concur with the proposed changes.

7. IVS Framework: 31 (c)

Proposed Change:

(c) "on the *valuation date*" requires that the value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective *valuation date*, not as of either a past or future date. ~~The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made;~~

We concur with the proposed change.

8. IVS Framework: 56

Proposed Change:

56 One or more valuation approaches may be used in order to arrive at the valuation defined by the appropriate *basis of value* (see paras 26 to 29 above). The three approaches described and defined in this Framework are the main approaches used in valuation. They all are based on the economic principles of price equilibrium, anticipation of benefits or substitution. Using more than one valuation approach or method generally provides a cross check on the valuation conclusion and is especially recommended where the inputs to the primary method are limited or inconclusive.

We concur with the proposed change but would go further and require the use of more than one method (not necessarily more than one of the three approaches) whenever practical. However weighting or averaging should be discouraged.

9. IVS 101 Scope of Work 1

Proposed Change:

1. There are many different types and levels of valuation advice that may be provided. The IVSs are designed to apply to a wide spectrum of valuation assignments including valuation reviews where the reviewer is not required to provide their own opinion of value. A valuation and the work undertaken in its preparation must be appropriate for its intended purpose. ~~and~~ It is also important that the recipient of the valuation understands what is to be provided and any limitations on the use of the valuation before the valuation is finalised and reported. ~~A scope of work sets out the agreed purpose of the valuation, the extent of investigation, procedures that will~~

~~be adopted, assumptions that will be made and the limitations that will apply. The scope of work may be prepared at the outset or during the progress of the valuation assignment but before the valuation and report are finalised.~~

We do not agree that the last two sentences are redundant and should be deleted.

10. IVS 101 Scope of Work 2

Proposed Change:

2 A scope of work shall be prepared and confirmed in writing that addresses the matters set out below. For certain asset classes or applications there may be variations from this standard or additional matters to be included or considered in preparing the scope of work.

These are found in the relevant Asset Standard or Valuation Application. References to a valuation or valuation assignment in this standard shall include valuation reviews.

We concur in principle with the proposed change, but suggest that the opening sentence should read "A scope of work or engagement letter should typically be"

11. IVS 101 Scope of Work 2 (e)

Proposed Change:

(e) Bases of Value

The valuation basis must be appropriate for the purpose. The source of the definition of any *basis of value* used shall be cited or the basis explained. The valuation bases recognised by IVS are defined and discussed in the IVS *Framework*, but other bases may be used. It may also be necessary to clarify the currency in which the valuation will be reported. If a valuation review is being undertaken where the reviewer is not required to provide an opinion of value this shall be confirmed.

We concur with the proposed change. However, as previously mentioned (answer 2) a valuation review usually does not include a value conclusion. Therefore the last sentence should read "where the reviewer is required...confirmed in writing".

12. IVS 101 Scope of Work 2 (h)

Proposed Change:

2 h) Nature and source of the information to be relied upon

The nature and source of any relevant information that is to be relied upon during the valuation process and the extent of any verification that shall be undertaken shall be agreed and recorded.

We concur with the proposed change, but would add "in writing" to the end of the paragraph.

13. IVS 102 Implementation 1

Proposed Change:

General Principle

1 Valuation assignments shall be conducted with regard to those principles set out in the IVS Framework that are appropriate for the intended purpose for which the valuation is required. ~~In this standard and the terms and conditions set out in the scope of work~~

We do not agree that the last sentence be removed. The same effect would be better given by adding the phrase "as amended" at the end of the paragraph.

14. IVS 102 Implementation 2

Proposed Change:

2 Investigations made during the course of a valuation assignment must be adequate having regard to the purpose for which the valuation is required and the *basis of value* to be reported. References to a valuation or valuation assignment in this standard shall include valuation reviews

We concur with the proposed change.

15. IVS 102 Implementation 4

Proposed Change:

Insert new para 4:

5 When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration shall be given as to whether the information is credible or that the information may otherwise be relied upon without adversely affecting the credibility of the valuation opinion. In cases where the valuer has doubts as to the credibility or reliability of information, such information shall either not be used or the valuer's concerns highlighted in the report. In considering the credibility and reliability of information provided account shall be taken of matters such as:

- the purpose of the valuation,
- the materiality of the information to the valuation conclusion,
- the expertise of the source in relation to the subject matter,
- whether the source is independent of either the subject or the recipient of the valuation,
- the extent to which the information is in the public domain and
- the limits on the duty to investigate included in the scope of work.

(existing para 4 and all subsequent paras to be renumbered)

We concur with the proposed change.

16. IVS 103 Reporting 1

Proposed Change

1 This standard applies to all valuation reports or reports on the outcome of a valuation review whether printed on paper or transmitted electronically. References to a valuation or valuation assignment in this standard shall include valuation reviews. For certain asset classes or applications there may be variations from this standard or additional requirements to be reported upon. These are found in the relevant Asset or Valuation Application.

We concur with the proposed change.

17. IVS 103 Reporting 5

Proposed Change

5 All valuation reports shall include reference to the matters listed below. Where the report is of a valuation review items (e), (f) and (m) in this list are not applicable. Items (a) to (k) in this list relate to matters that should be recorded in the scope of work (see IVS 101 *Scope of Work*). It is recommended that the scope of work be referred to in the report.

We concur with the proposed change except to the extent that it encourages a valuation reviewer to set out an alternative conclusion of value.

18. IVS 103 Reporting 5 (h)

Proposed Change

5 (h) Nature and source of the information relied upon

The nature and source of any relevant information relied upon in the valuation process, and the extent of any steps taken to verify that information without specific verification by the valuer shall be disclosed. In cases where verification was not undertaken a statement should be included reflecting the fact that the valuer had no reason to doubt the credibility or reliability of the information used.

We concur with the proposed change.

19. IVS 103 Reporting 5 (l)

Proposed Change

5(l) Valuation approach and reasoning

To understand the valuation figure in context, the report shall make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusions reached. This requirement does not apply if it has been specifically agreed and recorded in the scope of work that a valuation report shall be provided without reasons or other supporting information. Where the report is of a valuation review it shall state the reviewer's opinions and conclusions about the work under review, including supporting reasons.

We concur with the proposed change.

20. IVS 200 Businesses and Business Interests C25

Proposed Change

~~C25 When the forecasted income or cash flow is expressed in nominal terms, ie current prices, nominal rates which include an inflation component should be used. When the forecasted income or cash flow is expressed in real terms, real rates which do not include an inflation component should be used. If a forecasted cash flow is expressed in nominal terms, a discount rate that takes into account the expectation of future price changes (inflation or deflation) should be used. If a forecasted cash flow is expressed in real terms, a discount rate that takes no account of expected price changes should be used.*~~

**(footnote) For further information on discounted cash flow techniques see TIP1 Discounted Cash Flow*

We concur with the proposed change, provided that the phrases "nominal" and "real" terms are defined; they are not common in many parts of the world.

21. IVS 230 Real Property Interests 3

Proposed Change

Include the following additional bulleted point to the matters to be considered:
□ legal permissions or restrictions on the use of the property and any buildings

We concur with the proposed change.

22. IVS 230 Annexe – Historic Property

Proposed Change

Remove the annexe from the IVSs

We do not believe that the annexe should be removed until the final TIP or Specialized Public Sector Assets is issued. Otherwise, there is no source of relevant guidance.

23. IVS 233 Investment Property Under Construction C10 and C11 Proposed Change

C10 A valuation of *investment property* under construction may be undertaken using. A ~~growth-implicit model, which uses current cost and value inputs, or a growth-explicit model which uses estimated future cost and value inputs either a nominal or a real cash flow model~~ *. In either model, the objective is to estimate the value on the *special assumption* that the property is complete, from which appropriate deductions are then made in order to estimate the value of the property in its present condition. The more appropriate of these alternatives will be the one prevailing in the market for the class of property on the *valuation date*. Inputs from one model should not be used in the other, and the report should make clear which approach is being adopted.

C11 The exact valuation inputs used will vary with the valuation model being used but will normally include those listed in this section. The inputs will also vary depending on whether a ~~growth-implicit or growth-explicit model is nominal or real cash flow inputs are~~ being used, see para C10 above. Typical inputs include:

(a) Completed property

~~If a growth-implicit model is used, this will reflect the value of the *investment property* as if complete, ie The value of the completed property may be based on current values on the *special assumption* its value on the assumption that on the *valuation date* it had already been completed in accordance with the current specification or . If a growth-explicit model is used, this will reflect the projected value of the property upon completion, ie the expected value of the property on the date when it is anticipated to be complete. The choice will depend upon the availability of data to support either current or projected values and should also be consistent with the other cash flows reflected in the model. Care must also be taken to ensure that the discount rate used is commensurate with the valuation of the completed property, ie regardless of whether the completed value is based on current values or projected values the discount rate must also be derived on the same basis.~~

(b) Leasing

If lessees for the property after completion have still to be identified, allowance will need to be taken of the time and costs that it would be realistic to allow for stabilised occupancy to be reached, ie the period required to reach realistic long-term occupancy levels. The costs during this period could include fees, marketing, incentives, maintenance and unrecoverable service charges. ~~The income from anticipated future leases may be based on current *market rents* if a growth-implicit model is used or anticipated future rents if a growth-explicit model is used.~~ If there are leasing agreements in place that are conditional on the project, or a relevant part, being completed, these should be reflected in the valuation.

(c) Construction costs

The benefit of any work carried out prior to the *valuation date* will be reflected in the current value, but will not determine that value. Similarly, previous payments under the actual building contract prior to the *valuation date* are not relevant to current value. In contrast, the sums remaining to be paid under any binding construction contract in existence at the *valuation date* are often the best evidence of the construction costs required to complete. However, if there is a material risk that the contract may not be fulfilled, eg due to a dispute or insolvency of one of the parties, it may be more appropriate to reflect the cost of engaging a new contractor to complete the outstanding work. If there is no fixed price contract in place ~~and a growth-explicit model is being used, then it may be appropriate to use prospective cost, ie reflecting the reasonable expectation of market participants on the *valuation date* of costs on the dates when they are likely to be incurred.~~

(f) Buyers profit and risk
(second para)

All significant risks should be identified and evaluated. Typical risks associated with any partially completed construction project will include variations in construction cost, finance costs and the construction programme. Additional risks associated with *investment property* under construction include fluctuations in the value of the completed project between inception and completion, and the time that will be required to secure lessees and a stabilised income. The risks associated with generating income from the property after completion should be identified and evaluated separately from the risks associated with completing construction. If ~~a growth-implicit model is used~~, the valuation inputs will reflect current values and costs so the risk of these changing between the *valuation date* and the anticipated completion date should be evaluated. If ~~a growth-explicit model has been used~~ the valuation inputs are based on prospective values and costs, the risk of those projections proving to be inaccurate should be evaluated.

* (footnote) *For further information on nominal versus real discounted cash flow techniques see TIP1 Discounted Cash Flow*

We concur with the proposed change.

**24. IVS 300 Valuations for Financial Reporting 10
Proposed Change**

10 The report shall also contain any information that the reporting entity is required to disclose about the valuation by the relevant Financial Reporting Standards. Examples of disclosures required about fair value measurements include methods and significant assumptions used in the measurement and, or whether, the measurement was determined by reference to observable prices or recent market transactions. Some standards also require information about the sensitivity of the measurement to changes in significant inputs.

We concur with the proposed change.

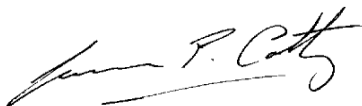
**25. IVS 300 Annexe – Property Plant & Equipment in the Public Sector:
Proposed Change**

25. Remove the annexe from the Standards

We believe that the proposed changes be deferred on the final TIP on Specialized Public Sector Assets is issued. See answer to Question 22.

Should a Board or staff member wish to discuss this matter further, they may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of IACVA
Per



James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CGMA, CFE
Chair

Appendix

IACVA List of Countries

Americas

Bahamas
Canada
Grenadine Islands
Guatemala
United States
Mexico
Puerto Rico
Argentina
Brazil

Africa

Ghana
Kenya
Nigeria
South Africa
Uganda

Europe

Austria
Germany
Netherlands
Switzerland
Romania
Ireland
United Kingdom

Asia/Pacifica

China
Taiwan
Japan
South Korea
Hong Kong
Singapore

Malaysia
Thailand
Australia
India

Middle East

Lebanon
Egypt
Syria
Jordan
Kuwait
United Arab Emirates
Saudi Arabia
Israel
Bahrain

Commonwealth of Independent States

Armenia
Azerbaijan
The Republic of Belarus
Kazakhstan
Kyrgyzstan
Moldova
Russia
Tajikistan
Turkmenistan
Ukraine
Uzbekistan
Georgia
Estonia
Latvia
Lithuania