

International Valuation Standards Council
68 Lombard Street
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30 April 2013

Submitted through email to CommentLetters@ivsc.org

Dear Sirs

Invitation to comment – Exposure Draft of Amendments to the International Valuation Standards (IVS)

Thank you for the opportunity to respond to your exposure draft on the proposed amendments to the IVS.

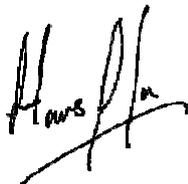
We warmly welcome this exposure draft by the IVSC and encourage its aim of clarifying the guidance provided in IVSs, and improving the manner that valuation reviews and valuers' reliance on information are addressed in the IVSs.

We provide our comments on the proposed amendments in the Appendix of this letter.

Should you wish to discuss the contents of this letter with us, please contact myself at +65 6309 6741, Eric Teo at +65 6309 6548, or Lim Yuan Sing at +65 6309 6659, from our Valuation & Business Modelling practice.

Thank you.

Yours faithfully



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APPENDIX – Comments on the proposed amendments in the exposure draft

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.

Reason: In drafting the emerging TIPs on financial instruments it has been pointed out that the concept of the valuation date may be insufficiently precise in this context as instruments can and do have different values on the same day. An alternative would be to introduce “time of valuation” as either a replacement or alternative definition. However, since “valuation date” is widely understood and used within other definitions (eg market value) introducing an alternative could create confusion and some significant redrafting challenges.

1. We acknowledge the reason cited for the proposed amendment. However, we oppose to the amendment as we believe it is not necessary because its applicability is likely to be limited to valuation subjects that are actively traded e.g. listed shares. Existing market practices for such valuation subjects would already have resulted in valuations that are specific at a point in time within the valuation date according to the needs of the users. There is no need to be explicit about this requirement.
2. In addition, there is currently no explicit requirement within International Financial Reporting Standards (“IFRS”) with regards to specifying a time within the valuation date. If a fair value measurement is expected to vary materially during the valuation date, it is implicit that professional judgement needs to be applied to determine the necessity and basis for a valuation that is specific at a point in time within the valuation date.

2. Definitions:

Proposed Change:

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

Reason: The proposed change results from the Board’s project to clarify the applicability of the IVSs to valuation reviews

1. We support the clarification of the applicability of IVS to valuation reviews and the inclusion of its definition in IVS. We believe that further developments of technical guidance on the nature and extent of valuation review procedures under IVS are critical in ensuring the practicality of applying IVS for the purposes of valuation reviews.
2. However, we suggest that the aforementioned definition should be reworded to provide more clarity to the objective of a valuation review. We recommend that a valuation review be defined as “The act or process of developing and reporting an opinion on whether a valuation undertaken by another party is in accordance with IVS, or another specified standard.”

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.

Reason: Since the standards were published in 2011 the IVSC Professional Board has published the Code of Ethical Principles for Professional Valuers and it is considered appropriate that the IVS Framework should make specific reference to this. Although the intention of the existing reference to “independence” was to the need for independence of thought, it is often interpreted as meaning an absence of any connection with the subject, client or user of the valuation (or any combination thereof). The IVSC Code lists “objectivity” as one of the Fundamental Principles of professional conduct and provides guidance on threats to objectivity and safeguards that may be taken to avoid or mitigate such threats, but does not use the word “independence”. The proposed change brings consistency with the Code.

1. We acknowledge the reasons cited for the proposed amendment and agree with the thought process behind it. However, we oppose the amendment due to our concerns that the proposed amendment of removing the word “independence” from IVS’s terminology is incongruent with users’ expectations.

We observe that market practices mandate the use of professional valuers that are separate entities from the subject, client or user of the valuation (or any combination thereof) for the purposes of valuations that may be material to the intended users. The descriptions of these professional valuers and their valuation opinions are commonly preceded by the term “independent”. There is an expectation in the market that a professional that undertakes a valuation and expresses a valuation opinion ought to be independent in both substance and appearance. Consequently, there is an expectation that virtually all valuations that are material to the intended users would need to be “independent valuations”.

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.

Reason: The concept of “unit of account” is used in IFRS and widely understood. Many valuers try to apply the concept to valuation. An early draft of TIP 2 *The Cost Approach for Tangible Assets* used the term “unit of account” to describe a combination of potentially separable assets that is to be valued as one. However, it was recognised that it would cause confusion to take an accounting term and adapt it to valuations. The concept was renamed “unit of valuation” in the published TIP 2, although no definition as such was provided.

For comparison the IFRS Definition of “unit of account” is:

The level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes

The relevance of the “unit of account” when undertaking valuations for financial reporting is discussed in IVS 300 para 3. No change is considered necessary to this narrative.

1. We support the proposed amendment as it would add clarity in respect of the granularity of the subject of valuation. However, we highlight that the use of the terms “associated assets” without further clarification may create ambiguity on whether it has the same meaning as “complementary or related assets”. In a case whereby the unit of valuation is a group of complementary assets, it is unclear whether such a unit of valuation could still

have ‘associated assets’ that need to be specifically assumed to be either available or not available to the buyer.

2. We would also suggest clarifications be made to answer consequential questions on whether a unit of valuation that is a group of complementary assets may also include complementary liabilities such as in the case of a business unit; and also whether the concept of unit of valuation is also applicable to valuation of liabilities. In respect of the latter, the applicability of the unit of valuation to valuation of liabilities would more closely align the “unit of valuation” and “unit of account” concepts and this is expected to be beneficial to valuation for financial reporting under IFRS.

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)

Reason: In consultations on some of the emerging TIPs a number of examples have come to the Board’s attention where different components within the unit of valuation, eg land and improvements or assets within a business, are being valued separately, sometimes by different valuers, and then added together in an attempt to value the whole. The proposed new paragraph is intended to make it clear that this will not necessarily provide the true value of the *unit of valuation*.

1. We support the proposed amendment as it is relevant to many valuations of subjects such as the aforementioned (e.g. land and improvements or assets within a business). However, we believe that the current proposed amendment can be interpreted as generally prejudicial against sum of parts methods of valuation. If the said prejudice is intended by the IVSC, we strongly encourage further technical elaborations within the paragraph to substantiate the position.
2. If however, the aforementioned prejudice is not intended by the IVSC, we propose that editorial changes be made as follows:

“...the sum of the individual assets or components ~~is often greater or less than the~~ is not necessarily the same as the value of the *unit of valuation*.”

We believe that the foregoing wording is more closely aligned with the IVSC’s stated intention of the proposed amendment.

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.

Reason: Recent feedback from various specialist working groups assisting with our projects indicate that there are still problems caused by valuers putting too much weight on a single method, or in other words if the maths used in the model is right then it follows that the valuation must be. This can result in unjustifiable changes in value simply because a different method has been adopted. The method should always be a tool to indicate the result; it should not dictate it. IVS 102 para 7 encourages the use of more than one method where there are insufficient factual or observable inputs for a single method to produce a reliable conclusion, and the proposed addition to the Framework reinforces this.

1. We support the intention behind the proposed amendment. However, we believe that the use of the adjective “inconclusive” for inputs to the primary method would make the intended assessment extremely subjective and difficult if no further clarifications on the assessment bases are provided. We suggest that the proposed amendment be revised to be consistent with the wordings in IVS 102 as follows:

“Using more than one valuation approach or method generally provides a cross check on the valuation conclusion and is especially recommended where there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. ~~the inputs to the primary method are limited or inconclusive.~~”

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.

Reason: The proposed change results from the Board's project to provisions in the IVSs relating to the valuer's reliance on information.

1. We support the proposed amendment. However, we would suggest, for the purposes of enhancing clarity of the provision, that the proposed amendment be revised as follows:

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

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.

Reason: The proposed change results from the Board's project to clarify the applicability of the IVSs to valuation reviews

1. We suggest revising the proposed amendment to not exclude the applicability of items (e) "Basis of value" and (f) "Valuation date" from a report of a valuation review, if so agreed in the scope of work. This would provide for engagements whereby a valuation reviewer is also required to form an opinion and report on whether the "Basis of value" and/or "Valuation date" is appropriate or reasonable for the purposes of the valuation.

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.

Reason: The proposed change results from the Board's review of provisions in the IVSs relating to the valuer's reliance on information. It represents a corresponding change to that proposed to IVS 101 2(h). It also ties in with the final bullet point in the proposed IVS102 para 4, ie if the terms of the Scope of Work limit the investigations and verification required this should be explicitly disclosed in the report.

1. Although we support the purpose of the proposed amendment, we believe that the requirement for the valuer to make statement on the lack of reason to doubt the credibility or reliability of the information used to be unduly onerous. There is also ambiguity in the nature and extent of due diligence that a valuer would be required to undertake to make such as a statement. Consequently, we would suggest that the requirement be revised as follows:

“ In cases where verification was not undertaken a statement should be included reflecting the fact that no matters have arisen during the course of the valuation that caused the valuer to question the valuer had no reason to doubt the credibility or reliability of the information used.”

19. IVS 103 Reporting 5 (I)

Proposed Change

5(I) 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.

Reason: The proposed change results from the Board’s project to clarify the applicability of the IVSs to valuation reviews

1. We believe that there may be situations whereby it is specifically agreed in the scope of work of a valuation review engagement that the valuation review report shall not include the supporting reasons. Consequently, we suggest that the proposed amendment be inserted as the second paragraph instead of the third, and that the existing second paragraph be revised as follows:

“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.

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.

~~This requirement does~~ These requirements do 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.

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*

Reason: The reference to including an inflation component in the existing wording is potentially ambiguous. If expected inflation is added to cash flows based on current prices it could be understood that inflation is being “included” but if a fixed future periodic cash flow is adjusted downwards to take into account the effect of expected inflation, inflation is “excluded”. Both are “adjusting for inflation”. Also, the current wording does not consider

the possibility of needing to reflect expected deflation. The proposed rewording brings the commentary into line with the wording in TIP 1 Discounted Cash Flow, and a reference is included to this document.

1. We support the proposed amendment, but would suggest a slight change of wording to enhance the clarity of the provision as follows:

“C25 If a forecasted cash flow is expressed in nominal terms, a discount rate that takes into account the expectation of future price changes (inflationary or deflationary ~~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 inflationary or deflationary price changes should be used.”