

International Valuation Standards Council
68 Lombard Street
London EC3V 9LJ
United Kingdom

10 October 2014

Dear IVSC Members,

Invitation to comment – IVSC Standards Board Agenda Consultation

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Valuation Standards Council (IVSC) Standards Board Agenda Consultation

Please find in the attached appendix our responses to the specific questions raised in the consultation paper.

To the extent that the IVSC intends to address valuations in a financial reporting context, we continue to encourage the joint development of such guidance with accounting standard setters, such as the International Accounting Standards Board (IASB).

Should you wish to discuss the contents of this letter with us or require further information, please contact Sven Schieszl (sven.schieszl@de.ey.com) or Philipp Lindenmayer (philipp.lindenmayer@de.ey.com).

Yours faithfully

Ernst + Young Global Limited

Appendix: Responses to the specific questions in the Consultation Paper

General Criteria for Content

Q1a: Should the IVSC supplement its current standards with additional standards for subsets of assets that fall within the high level categories currently covered in IVSs 200 – IVS 250?

If yes, please indicate the nature of the subsets that you would like to see included and any criteria that you believe that the Board should take into account in determining the priority to be given to these.

We consider the current structure of the IVSC standards to be adequate.

Q1b: Should the IVSC create additional standards to deal with the application of the principles in the existing IVSs to valuations for different purposes?

If yes, please indicate any purposes other than those already covered in IVSs 300 and 310 (Financial Reporting and Real Property for Secured Lending) that you would like to see included and any criteria that you believe that the Board should take into account in determining the priority to be given to these.

We consider the current structure of the IVSC standards to be adequate.

Extractive Industries

Q2a: Do you or your organisation encounter valuations of assets in the Extractive Industries? If no, please proceed to Question 3a.

If yes, please indicate the nature of the assets involved and the purposes for which the valuations are required.

We do encounter such valuations for financial reporting purposes.

The nature of the assets involved in the mining sector range from exploration assets through to the development and exploration of mines. Within these, valuations are also undertaken in respect of reserves (proven and probable), separately from resources (measured, indicated and inferred) separate from the entire mine or project.

Q2b: Do you have experience of problems or inconsistency in the way in which assets in the Extractive Industries are valued? If so please also indicate whether, in your experience, these are:

- i) specific to a particular country or jurisdiction or are common across borders,
- ii) arise across all the extractive industries or are specific to a particular sector (eg mining) or subsector (eg metal ores).

Valuation problems or inconsistencies are not specific to a country or jurisdiction. However, inconsistent definitions of reserves and resources in certain jurisdictions sometimes limit comparability.

In addition, cost estimation (for operating and capital costs), which remains an engineering input in long-range mine plans, can be impacted by varying degrees of optimism or conservatism. Therefore, it is difficult to adjust the impact of such varying judgments in a valuation analysis.

We note that some of the challenges in the extractive industries relate to testing assets for impairment and the measurement of assets and liabilities in a business combination.

Q2c: Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Since the valuation of assets in the extractive industries is an issue that requires thorough research, we believe that its inclusion on the Board's agenda should be a medium priority.

Forestry

Q3a: Do you or your organisation encounter valuations of forests or woodland used primarily for timber production? If no, please proceed to Question 4a.

If yes, please indicate the nature of the forests and geographic region involved and the purposes for which the valuations are required.

Q3b: Do you have experience of problems or inconsistency in the way in which commercial forests or woodlands are valued? If yes please indicate whether, in your experience, these are:

- i) specific to a particular country or jurisdiction or are common across borders,
- ii) broadly applicable across all the types of commercial forest or to be specific to a particular sector or type of forest.

Q3c: Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda

Trade Related / Going Concern Property

Q4a: Do you or your organisation produce or rely on valuations of real property that is normally bought and sold at a price which reflects the potential earnings that can be made from operating a particular type of business from the property? If no, please proceed to Question 5a.

If yes, please indicate the type or types of real property that you are aware are generally valued using this approach.

Yes, our organization produces valuations of real properties mainly being represented by their earnings gained out of the particular type of business. Those properties are e.g.: Hotels, leisure and gastronomy properties, and operator-related properties like sport arenas. In some instances, retail properties can be valued over the potential income generated.

Q4b: Do you consider that it would be beneficial for the Board to produce guidance on the method of valuation of a real property interest that uses the income that can be generated by a business in occupation as an input?

Yes, in our opinion valuations under the consideration of the IFRS framework would benefit from guidance for the valuation of the above described properties.

Q4c: If you have answered yes to question 4b, please indicate the issues that commonly cause difficulty or inconsistency in applying this approach.

Besides other things, the following parameters and things to consider should be included in a guidance note:

- Derivation of capitalization parameters (i.e. yield)
- Sustainability of earnings (e.g. income streams out of football stadiums vary significantly depending on the league the main soccer team is playing in)
- Consideration of marketability within the valuation, i.e. there is no market for certain kinds of unique real properties which gain money
- Consideration of fixtures and furnishings, i.e. depending on the furniture and the service the class of a hotel and therefore the income can vary dramatically

Q4d: Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

We consider this topic to be of medium priority.

Specialised Public Sector Assets

Q5a: Do you or your organisation value or rely on valuations of real property, plant and equipment held in the public sector? If no please proceed to question 6a. If yes, please indicate the purpose or purposes for which the valuations are required.

Yes, our company is relying on and producing valuations on real property, plant and equipment held in the public sector for the following purposes:

- Audit work in public companies/subsidiaries
- Decision support for the public sector with respect to properties (e.g. sell and lease back)
- Privatisation processes
- Accounting Advisory, particularly when methodologies change

Q5b: Do you have experience of problems or inconsistencies in the way in which these assets are valued? If yes, please indicate whether these:

- i) arise from the nature of the asset,
- ii) arise or are likely to arise across borders,
- iii) arise because of the need to comply with specific legislation or regulation.

- i) Yes, publicly held properties vary significantly in nature. Some are comparable to other non-publicly held properties such as offices of authorities etc. Some properties cannot be traded on real estate markets such as jail buildings, bridges etc. Therefore, a usual approach is to use the cost approach based on historical construction costs. But there is no direct relation between the historical costs and the value of a property a third party would pay. Sometimes real properties are built far too expensive which does not reflect the real value of the property (e.g. Berlin Airport). Therefore the view on values is differing depending on the view one has on the property.
- ii) Yes, this will also be a problem of different countries.
- iii) In Germany, problems of "Kameralistik" vs. "Doppik" with their special requirements of valuation arise out of their different concepts and the benchmarks to be used for valuation purposes.

Q5c: Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

We believe this should be of high priority.

Derivatives

Q6a: Do you or your organisation value or rely on valuations of derivatives? If no, please proceed to question 7a.

Q6b: Please indicate which of the listed underlying asset classes you believe should be given priority in the next phase of the Derivatives project.

We do value and rely on valuations of derivatives.

In the next phase of the derivatives project, we believe that priority should be given to valuation of Credit and Commodities.

In developing such guidance, we would encourage the IVSC to engage with financial institutions and commodity traders to understand practice globally.

Funding Valuation Adjustments

Q7a: Please indicate whether you have encountered problems or inconsistencies in the way in which funding valuation adjustments are applied. If not please proceed to question 8a.

Q7b: Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

We acknowledge that this is an emerging issue that is currently topical. We observe that the use of funding valuation adjustments (FVA) is not yet widespread for financial reporting purposes. As such, principles-based guidance may be helpful.

Valuations for Resolution and Recovery

Q8a: Please indicate whether you or your organisation has to value or rely on valuations to support restructuring or corporate recovery. If no please proceed to question 9.

We do value and rely on valuations to support restructuring or corporate recovery.

Q8b: If yes, please indicate any valuation issues that you currently experience or anticipate arising under emerging regulations.

Valuation principles for highly indebted companies is a topic of interest that should be reflected.

Q8c: Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

We believe the topic mentioned above should be of medium priority for inclusion on the Board's agenda.

Invitation to Suggest Projects

Q9: Do you wish to suggest any additional projects for inclusion in the Board's agenda?
If yes, please identify the nature of the suggested project as precisely as possible and provide the information requested in para 42 above.

We would like to suggest the following projects for inclusion in the Board's agenda:

- Valuations in emerging markets with a focus on valuation under limited data availability
- Valuations of investment funds with a focus on net asset values not reflecting exit prices. We would encourage interaction with the International Private Equity Valuations (IPEV) Board.
- Valuation of in process research and development (IPR&D) assets.
- Biological assets, other than forestry, and agricultural produce, including produce on growing on a bearer plants.