



INTERNATIONAL VALUATION STANDARDS COMMITTEE

## REVIEW OF THE INTERNATIONAL VALUATION STANDARDS

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A Report of the International Valuation Standards Committee's  
Critical Review Group issued for comment

*Comments to be received by 31 October 2007*

June 2007

## INVITATION TO COMMENT

- 1 The IVSC Management Board agreed at its meeting in April 2007 that the report of the Critical Review Group should be released for public comment.
- 2 The International Valuation Standards Committee (IVSC) is a not-for-profit corporation registered in the State of Illinois, with its headquarters in London. It was originally founded in 1981 by the major real estate valuation institutes from the major economies. It has now broadened its membership to include professional associations for valuers of many types of assets, including plant and equipment, minerals, intangible assets and businesses. Its membership represents over fifty different countries. IVSC is committed to the development of a single set of global standards and requirements for the valuation of all assets and liabilities. The 8th edition of the International Valuation Standards will be published in July 2007.
- 3 At an extraordinary general meeting in April 2007, the current membership voted unanimously in favour of taking forward proposals to restructure IVSC with a broadly-based council of members. This council would appoint Trustees, who in turn would appoint a Standards Board of valuation experts that would be both autonomous, and independent, of the Trustees and any membership group. The Trustees would also appoint a Professional Board to advise on matters related to the education of and professional criteria for valuation practitioners. These proposals will enable IVSC to broaden its funding base and establish itself as a body independent of the professional institutes that currently provide funding and technical support.
- 4 The new structure will be operational during the second quarter 2008. The Management Board will review the comments received on this report of the Critical Review Group and will publish a final report in contemplation of the hand-over of the functions of its current Standards Board to a new Board. The Management Board recognises that the new Board will make its own decisions but it hopes that the outcome of the consultation on the structure and content of the International Valuation Standards will be helpful to the new Board and will contribute to making the handover as efficient as possible.
- 5 A number of specific issues have been identified on which the IVSC is seeking comments although comments are welcomed on all areas of this Report. All responses will be put on the public record unless the respondent requests confidentiality.
- 6 Questions/Comments should be submitted no later than 31 October 2007, by email to [CommentLetters@ivsc.org](mailto:CommentLetters@ivsc.org) or addressed to:  
  
7 Marianne Tissier - Executive Director  
International Valuation Standards Committee  
12 Great George Street  
London  
SW1P 3AD  
United Kingdom

Fax: +44 (0)1442 879 306



## REPORT OF THE IVSC CRITICAL REVIEW GROUP

### INTRODUCTION

#### 8 PREAMBLE

In serving the public interest, the IVSC aims to develop high quality international valuation standards that are understandable, clear and capable of consistent application, thereby enhancing the quality and uniformity of valuation practice worldwide. The IVSC seeks continually to improve the International Valuation Standards (IVS) and to respond, as appropriate, to developments affecting the valuation profession.

- 9 In April 2006, the IVSC Management Board, acting on the advice of the Standards Board, agreed the need for a comprehensive review of the structure of the International Valuation Standards. The Board recommended that a group be brought together to agree the format of an 'ideal' set of international valuation standards and to review the current edition of the International Valuation Standards against this 'ideal'.

#### 10 CRITICAL REVIEW GROUP

The Management Board invited individuals who were familiar with the IVS; and/or were preparers or users of valuation reports; and/or were familiar with standard setting processes in other (related) areas to join the Critical Review Group (the 'Group').

#### 11 Membership

The membership of the Group was:

John Edge, Group Chairman. Immediate past chairman, IVSC

David Cairns, past Secretary General, International Accounting Standards Committee

Richard Chung, New Zealand Property Institute delegate to IVSC; member IVSC Management Board and Standards Board

Hans Gronloh, Partner, Financial Services and Chairman, Real Estate, KMPG Accountants NV

Joe Vella, IVSC chairman 2005-2007

#### 12 Group Mandate

Following discussion, the Group concluded that the international valuation standards must meet the following objectives:

- 13 ▲ The standards must be of the highest quality, understandable, clear and capable of consistent application, thereby serving to enhance the quality and uniformity of valuation practice worldwide;
- 14 ▲ The standards must be seen as a body of standards in their own right to meet the needs of the global market place and to provide a basis for the convergence of national standards to international valuation standards; and
- 15 ▲ The standards must encompass requirements for the valuation of all assets, liabilities and businesses.

- 16 The Group agreed that its mandate was to propose a series of recommendations to meet these objectives.

**INVITATION TO COMMENT****ISSUES ON WHICH COMMENT IS SOUGHT**17 **Question 1**

The Group recommends that the IVS be principles-based and interprets this as meaning that the standards should contain the requirements to be complied with together with essential explanatory material to make the requirements understandable by an experienced professional valuer. (Paragraphs 43-48)

Do you agree with this recommendation?

18 **Question 2**

Valuations are performed in a variety of contexts - from financial reporting, lending purposes, business acquisitions to tax and litigation services. The Group believes that the same concepts, definitions and principles apply to all valuations whatever their purpose although there may be differences in their application and reporting. (Paragraphs 49-56)

Do you agree with the Group?

19 **Question 3**

The Group believes that the primary role of the IVS is as a body of international standards in their own right to meet the needs of the global market place and to provide a basis for the convergence of national standards to international valuation standards (Paragraphs 33-34). It therefore recommends that the IVS should not cover areas that are still subject to significant national regulation, for example valuation for taxation purposes. As a corollary to that, the Group recommends that the current Guidance Note 'Mass Appraisal for Property Taxation' (as opposed to a more generic Mass Appraisal standard) should not be included with the IVS although the IVSC could consider publishing the document in a different format.

Do you agree with the Group?

20 **Question 4**

The Group acknowledges that different jurisdictions will take different routes to the same destination of a single set of global valuation standards. While this is understandable, the Group recommends that the IVSC should seek to introduce a similar requirement to that of the International Financial Reporting Standards; i.e. that valuation reports should not be said to comply with IVS unless they comply with all the requirements of IVS. (Paragraphs 57-59)

Do you agree that the IVSC should introduce such a requirement?

21 **Question 5**

Do you agree that the proposed structure for the IVS (please refer to the chart at paragraphs 85-92) will provide for clear navigation through the standards to determine the valuation and reporting bases for a particular asset/liability and purpose?

**INVITATION TO COMMENT**

**ISSUES ON WHICH COMMENT SOUGHT contd/...**

22 **Question 6**

A number of specific questions have been raised by the Group on the proposed structure for the IVS on which comment is sought (Paragraphs 85-92):

23 **6a)** the forthcoming eighth edition of IVS will define 'fair value' in International Valuation Standard 2 *Valuation Bases other than Market Value*. Do you consider that this is sufficient or should the IVSC develop a Standard on Fair Value as a separate basis of valuation?

24 **6b)** the proposed structure for the IVS discusses the application of GAVP and the basis of valuation to specific asset and liability types before considering their application to the specific purposes of valuation. Some members of the Group believed that this order should be reversed. What are your views?

25 **6c)** a number of topics have been proposed to be covered by additional more detailed guidance notes. Do you agree with the list? Are there other issues that should be considered?

26 **Question 7**

The format for each individual standard is set out in paragraph 97. Do you agree with this proposed format? Do you agree that the IVSC should publish the 'Basis for Conclusions' as an appendix to the standard?

27 **Question 8**

The Group has proposed a number of recommendations to improve the clarity of the standards - see paragraphs 99-103. Do you agree with these? Are there other improvements you would recommend?

## THE ANALYSIS

### 28 **THE CURRENT STANDARDS**

The first International Valuation Standards were published in 1981 by what was then the International Assets Valuation Standards Committee, which subsequently changed its name to the International Valuation Standards Committee. The current edition - the 7th - was published in 2005.

29 From its inception, the IVSC worked towards harmonising national valuation standards by developing standards at an international level that could serve as a model on which national standard setters could base their own standards. These efforts have contributed to raising the level of valuation standards worldwide and reducing the number of differences. In more recent years, the growing adoption of international standards in other related areas, most notably the International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board, has led to the demand for a set of international valuation standards to support the measurement requirements of such other standards. The primary goal of the IVSC must now be to develop a body of standards in their own right to meet the needs of the global market place and to provide a basis for the convergence of national standards to international valuation standards.

### 30 **PERCEIVED WEAKNESSES OF THE CURRENT IVS**

The Group identified the following perceived weaknesses of the current IVS as critical:

#### 31 **Real estate bias**

The structure and content of the IVS reflect the historical origins of the IVSC that lay in the valuation of real property assets only. A 'real estate bias' permeates parts of the current IVS, although the latest edition is more reflective of the needs of the broader valuation profession. However, the Group welcomed the proposal to restructure the IVSC (issued January 2007) that would establish a Standards Board more reflective of the totality of the valuation profession.

#### 32 **Structure focused on financial reporting**

The early goals of the IVSC included working with the accounting profession on standards for valuation for financial reporting. The coverage of the IVS now extends beyond this to other applications of valuations. Yet the structure of IVS continues to reflect the early focus on financial reporting. For example, each IVS includes a section 'Relationship to Accounting Standards' regardless of whether any such relationship exists. An example is that such a section is included in the International Valuation Application, *Valuation for Lending Purposes*.

## THE ANALYSIS

### PERCEIVED WEAKNESSES OF THE CURRENT IVS Contd/...

#### 33 **Lack of clarity as to purpose of IVS**

The IVSC is currently a membership organisation. While the valuation concepts are fairly uniform and valuation practice is well documented in certain developed countries, many emerging economies have no established standards. The original objective of the IVSC was to develop standards as a model on which national standard setters could base their own standards. Because of this and the need to provide more detail to suit the requirements of countries with less developed valuation professions, the IVSC responded to demands for the inclusion of material that may have no place in a set of international valuation standards. What may be termed 'professional standards' are included, notably the Code of Conduct. The Group believes that it is important that valuation standards be supplemented by the development of a professional framework to encourage high quality practices by the world's valuers but it recommends that such guidance be published separately. The Group is aware that the International Federation of Accountants develops international standards on ethics, auditing and assurance, and education that are published separately from the IFRSs. The Group notes that the IVSC restructuring proposal recommends the establishment of a new Professional Board and suggests that the development of such professional guidance might fall within its remit.

34 The current IVS have been developed both to support the measurement requirements of other international standards such as IFRSs but also to assist in the development of national standards where none may exist. The Guidance Note on Mass Appraisal for Property Taxation was developed at the request of a number of member institutes, particularly in emerging economies, who themselves were developing guidance in this area. Yet valuation for tax purposes is, and is likely to remain, very jurisdiction specific. The Group recommends that the primary focus of the IVSC should to develop a body of standards to meet the needs of the global market place and to provide a basis for the convergence of national standards to international valuation standards but is not to develop standards as a model for national standards.

#### 35 **Structural and drafting improvements needed**

The development of the IVS is undertaken in the main by a board of highly committed volunteers. Changes in personnel and lack of resource have led to inconsistencies within the IVS. Presentation is generally narrative and written in an instructive-style. Extensive portions are devoted to definitions, principles, and considerations related to valuation procedures. The IVS contain different tenses and instructions like "must", "shall", "should" "will" etc. Some of these indicate different levels of obligations depending on the tense. Some languages are not capable of making these distinctions making translation difficult. There are lengthy sentences, inconsistent use of terminology or the use of the same terminology to describe different concepts which hamper translation as well.

36 Structural and drafting improvements are needed to improve the overall readability and understandability of the standards.

## THE ANALYSIS

### 37 WHAT CONSTITUTES A STANDARD?

A standard may be defined as a measure serving as a principle to which others conform or should conform and by which the accuracy or quality of the work of the professional performance of others is judged. This definition can encompass a very wide range of requirements from a high level, such as *"The valuer will normally estimate Market Value by considering the highest and best use of the property as improved"* (Concepts and Principles 6.1.2) to the detailed *'the valuer must ... indicate the annual effective rate at which periodic interest is calculated (IVS GN 9, 5.9.3.1)*

38 It was clear from the debate that 'Standards' has several meanings and the Group asked itself the question 'why do we need valuation standards'. The agreed answer was that:

- 39 ▲ Standards are required to provide consistency and comparability of valuations.
- 40 ▲ Standards should provide a consistent valuation approach in similar circumstances and which is readily available and understood by users and valuers and relevant to the purpose of the valuation, and
- 41 ▲ Standards should assist the valuer in setting out and agreeing with the user the terms under which valuations will be provided.
- 42 ▲ Standards provide a measure of the performance of a competent practitioner.

### 43 THE PRINCIPLES-BASED OR RULES-BASED DEBATE

The Group considered the debate on the principles- or rules-based approach to standard setting that has taken place in recent years in the valuation and accounting professions. It discussed the advantages and disadvantages of principles-based standards. Perhaps the primary benefit of principles-based standards is that they provide one or more principles that can be applied to numerous situations and new developments in the market place. Rules-based standards may include the same principles but also include detailed rules on their application which may be insufficiently flexible to accommodate different situations and future developments in the market place. While some rules are sometimes unavoidable, it is impossible to provide rules for every possible situation. A better approach is to direct the valuer back to the principles.

44 Principles-based standards require the application of professional judgement in order to apply the principles to different situations and new developments. This approach is substantially different from the "box-ticking" approach that is common in rules-based standards.

45 Conversely, there are potential drawbacks to a principles-based approach to standards setting. A lack of precise guidelines could create inconsistencies in the application of standards across organisations. There may be insufficient guidance to make the standards reliably operational.



## THE ANALYSIS

### 46 **THE PRINCIPLES-BASED OR RULES-BASED DEBATE Contd/...**

The Group concluded that 'principles-based' standards do not mean 'principles-only'. Rather the standards should contain the requirements to be complied with together with essential explanatory material to make the requirements understandable by an experienced professional valuer. The Group believes that standards that focus on principles and which include the guidance necessary to make the standard operational, place a significant obligation on valuers to exercise professional judgement. The Group also recognises that this may require disclosure in valuations of the basis on which those judgements have been made. The Group recognises that principles-based standards may require implementation guidance and that the level and detail of that guidance will vary depending on the subject of the standards, and issues such as whether there is or is likely to be considerable divergence in practice, and the level of technical expertise. In agreeing the appropriate amount of implementation guidance for any one standard, the Group recommends that the guidance must be consistent with the objective of the standards and should not be provided to such a level of detail that it would prescribe specific valuation approaches, methods, or techniques for specific situations.

47 There is undoubtedly a need for further educational and explanatory material, and for 'real life or how to examples' of best practice to deal with the circumstances that arise in new and emerging economies, and in new practice areas. Such material will help to ensure that professional judgement is exercised within the principles of the IVS but should not form part of the IVS.

48 The Group was concerned that principles-based standards should not become confused by a multiplicity of interpretations at a national level. It welcomed the proposal in the IVSC Restructure Proposal that an Interpretations Committee be established.

### 49 **THE COVERAGE OF INTERNATIONAL VALUATION STANDARDS**

Valuations are performed in a variety of contexts - from financial reporting, lending purposes, business acquisitions to tax and litigation services. An early recommendation of the Group was that the international valuation standards must be seen as a body of standards in their own right rather than as a framework establishing a basis of convergence among national standards. The Group discussed whether a set of international valuation standards should encompass valuation requirements for all purposes or be restricted to specific applications. Should, for example, international valuation standards be issued only to support the requirements of international standards in other areas, such as the International Financial Reporting Standards? Is there a role for international valuation standards in areas that are still subject to national regulation?

## THE ANALYSIS

## THE COVERAGE OF INTERNATIONAL VALUATION STANDARDS Contd/...

50 **Valuation for financial reporting**

Some commentators are of the opinion that valuation services for financial reporting are becoming increasingly different from other valuation services due to their interaction with accounting standards and the overall regulatory environment of the capital markets. The Invitation to Comment 'Valuation Guidance for Financial Reporting' published by the US Financial Accounting Standards Board (FASB) on 15 January 2007 asks the question "Is there a need for valuation guidance specifically for financial reporting?". The paper reads:

51 *Some constituents believe there should be valuation guidance specifically for financial reporting purposes. Those constituents believe that while valuation guidance has been developed for purposes other than financial reporting, such as mortgage lending or tax matters, that guidance is not sufficient for financial reporting purposes. They believe that application of this valuation guidance to financial reporting may result in a valuation that is inconsistent with the objectives of financial reporting. Those constituents also note that multiple sets of valuation standards exist that address, among other things, professional standards. Therefore, they believe those standards are not sufficient to result in consistent financial reporting for particular fact patterns.*

52 *Other constituents conclude that no additional valuation guidance is needed specifically for financial reporting purposes. They believe the current valuation guidance developed by the valuation community for other intended uses, while not completely harmonized, is sufficiently robust to determine a value that would satisfy the designated measurement attribute for financial reporting purposes. They believe the current valuation guidance provides an adequate conceptual framework for an entity to determine the price or value for a particular asset or liability.*

53 The Group believes that the same valuation concepts, definitions and principles apply to all valuation. Therefore, the Group does not support the need to set separate valuation standards for financial reporting. There may, however, be differences in their application and reporting for different purposes. The Group noted that the valuation standards promulgated by the RICS in the UK had, when first developed in the 1970s, only applied to valuations incorporated in published accounts. Since the 1990s, the standards have applied to virtually all valuations. The Group did stress that the international valuation standards addressing financial reporting must be written to reflect the requirements of the International Financial Reporting Standards. The Group recognized that the same degree of regulation does not exist for other valuation services although increasing globalization is emphasizing the need for a common approach.

## THE ANALYSIS

### THE COVERAGE OF INTERNATIONAL VALUATION STANDARDS Contd/...

#### 54 **Valuations for bank lending**

The Basel Committee on Banking Supervision formulates supervisory standards and guidelines and recommends standards of best practice in the expectation that individual authorities will implement them at a national level. Thus valuations for bank lending purposes are to a great extent governed by national regulation. The Group supported the continuing development of international valuation standards for bank lending based on the same concepts, definitions and principles. Such standards may be less detailed than valuation standards for financial reporting because the Basel Committee's requirements are themselves less detailed and because individual lenders require differing information, analysis and levels of detail (both from Basel and from each other) in reporting.

55 European Commission Proposals. An example of how this might be applied is the current debate within the European Union on the possibility of common valuation standards to promote an efficient and competitive pan-European mortgage funding market. According to the European Commission, property valuation is characterised by a huge diversity with respect to valuation rules and valuation traditions throughout Europe. The preferential risk weight of mortgage loans under the EU Capital Requirements Directive (that implements the requirements of Basel II) requires consistent property valuation in order to define the part of the loan which is eligible to the preferential treatment. Consistent property valuation and loan-to-value ratios are one of the core eligibility criteria of mortgage assets being accepted as cover assets for covered bond funding. The loan-to-value ratio is an important component of the mortgage securitisation business and any rating of RMBS transactions requires valuation of the mortgage assets to be securitised. Much of this business is cross-border, within Europe but also internationally.

#### 56 **Valuations for other purposes**

The Group recommends that the development of the international valuation standards to cover other valuation requirements be done in response to market needs. It doubts for example whether there will be a requirement for valuations for tax purposes to be covered at an international level but rather this will be subject to national regulation. The Group concluded that guidance on issues such as Mass Appraisal for Property Taxation, (a subject which is covered in the current IVS) may not be appropriate within the IVS. If the IVSC feels that there is a requirement for guidance in such areas, the Group recommends that this be done through the publication of separate best practice or information/technical papers. The Group does acknowledge that guidance on mass appraisal for purposes other than property taxation may warrant the development of international guidance.

**THE ANALYSIS**57 **ADOPTION AND ENFORCEMENT**

Before moving on to a more detailed consideration of the International Valuation Standards, the Group had a brief discussion on the adoption and enforcement of standards.

58 The World Bank, in preparing the *Reports on the Observance of Standards and Codes*, has found diversity regarding the adoption of IFRSs. It found that the range of adoption of IFRSs could be categorized as: full adoption of IFRSs; full adoption of IFRSs, but with time lag (usually due to translation issues); selective adoption of IFRSs; and national standards "based on" IFRSs. Selective adoption of the international standards is due mainly to the complexity of the standards, the incompatibility thereof with national culture, or potential implementation problems. According to IAS 1, Presentation of Financial Statements, financial statements shall not be prescribed as complying with IFRSs unless they comply with all the requirements of IFRSs.

59 The Group is aware that some countries incorporate national legal and regulatory requirements and national practice when adopting the International Valuation Standards. While this is to be welcomed as part of the process of international convergence, such standards should only be referred to as national standards. The Group would recommend that the IVSC seek to introduce a similar requirement to that of IFRSs, i.e that valuation reports should not be said to comply with IVS unless they comply with all the requirements of IVS. A reference to national standards that are "materially the same" or "substantially the same" as IVS is confusing and potentially misleading.

60 The Group concluded its discussion in this area by agreeing that the role of standard setters is to set standards, not to enforce them. The international valuation standards can only be enforced by others, such as national institutes, regulators, and auditors.

## THE PROPOSALS

### THE PROPOSED STRUCTURE FOR THE INTERNATIONAL VALUATION STANDARDS

#### 61 Other models

The Group looked at the structure of other valuation and accounting standards and a simplified version of their structures is summarised in this table:

62

Item	IVS	IFRS	FASB	USPAP	IFAC	RICS
Introduction	✓	✓	✓	✓	✓	✓
Framework concepts	✓	✓	✓			
Standards/rules	✓	✓	✓	✓	✓	✓
Basis for conclusions		✓	✓			
Interpretations	✓	✓	✓	✓		
Implementation guidance	✓	✓	✓		✓	✓
Glossary/definitions	✓	✓	✓	✓		✓
Application guidance	✓	✓	✓	✓		
Technical bulletins			✓			
Practice statements					✓	
Code of conduct	✓			✓	✓	

63 From this table it will be seen that most standards follow a common approach. Indeed some differences may only be differences in terminology so there may be greater overlap than is apparent at first sight.

64 The Group also reviewed the content of the valuation standards of four organisations: (see attached)

- 65
- ▲ American Society of Appraisers - Business Valuation Standards
  - ▲ Appraisal Foundation - Uniform Standards of Appraisal Practice
  - ▲ Canadian Institute of Chartered Business Valuators - Practice Standards
  - ▲ RICS - Appraisal and Valuation Standards

66 These show that there are differences in the presentation of valuation standards even though the underlying principles are the same.

## THE PROPOSALS

### THE PROPOSED STRUCTURE FOR THE INTERNATIONAL VALUATION STANDARDS Contd/...

#### 67 **Current structure of the IVS**

The current IVS has the following structure:

#### 68 **Introduction**

#### 69 **General Valuation Concepts and Principles**

#### 70 **Code of Conduct**

#### 71 **Property Types**

#### 72 **Introduction to the Standards**

#### 73 **Standards**

Standard 1 Market Value Basis of Valuation

Standard 2 Valuation Bases other than Market Value

Standard 3 Valuation Reporting

#### 74 **International Valuation Applications**

IVA 1 Valuation for Financial Reporting

IVA 2 Valuation for Lending Purposes

#### 75 **Guidance Notes**

GN 1 Real Property Valuation

GN 2 Valuation of Lease Interests

GN 3 Valuation of Plant and Equipment

GN 4 Valuation of Intangible Assets

GN 5 Valuation of Personal Property

GN 6 Business Valuation

GN 7 Consideration of Hazardous and Toxic Substances in Valuation

GN 8 The Cost Approach for Financial Reporting - (DRC)

GN 9 Discounted Cash Flow Analysis for Market and Non-Market Based Valuations

GN 10 Valuation of Agricultural Properties

GN 11 Reviewing Valuations

GN 12 Valuation of Specialised Trading Property

GN 13 Mass Appraisal for Property Taxation

GN 14 Valuation of Properties in the Extractive Industries

#### 76 **White Paper**

Valuation in Emerging Markets

#### 77 **Glossary**

**THE PROPOSALS****THE PROPOSED STRUCTURE FOR THE INTERNATIONAL VALUATION STANDARDS Contd/...**78 **Recommendations for the new structure**

The Group agreed the following:

- 79 ▲ The term 'International Valuation Standards' should encompass all pronouncements of the IVSC and that the word 'Standards' should not be applied to a limited number of pronouncements.
- 80 ▲ All pronouncements should carry equal weight.
- 81 ▲ The same valuation concepts, definitions and principles apply to all valuation although there may be differences in their application and reporting for different purposes. The navigation through the standards to determine the valuation and reporting bases for a particular purpose - e.g. for financial reporting - and all matters relevant to it, must be clear and unambiguous. This "signposting" and cross-referencing is critical to clarity and, thereby, to acceptance by users.
- 82 ▲ The IVSC should consider introducing 'Fair Value' as a basis of valuation.
- 83 ▲ The Code of Conduct should be published separately from the international valuation standards.
- 84 ▲ The White Papers, and guidance on issues such as mass appraisal should be published separately and not within the international valuation standards.

## THE PROPOSALS

## THE PROPOSED STRUCTURE FOR THE INTERNATIONAL VALUATION STANDARDS Contd/...

Proposed structure for the IVS	
85 Introduction	Explanatory comments/questions
	<p><i>The introduction will cover the fundamental principles of ethical behaviour.</i></p> <ul style="list-style-type: none"> <li>• Integrity</li> <li>• Independence</li> <li>• Objectivity</li> <li>• Professional Competence</li> <li>• Due Care</li> <li>• Confidentially</li> <li>• Professional Behaviour</li> </ul> <p><i>Reference can be made to the IVSC Model Code of Conduct for Valuers which would be a standalone document and not part of standards.</i></p>
86	<p><b>Generally Accepted Valuation Principles (GAVP)</b></p>
87	<p><b>Bases of Valuation</b></p> <ul style="list-style-type: none"> <li>Market Value</li> <li>Fair Value *</li> <li>Other Bases of Valuation</li> </ul> <p><i>* There is not unanimity within the Group as to whether FV should be treated as a separate Basis of Valuation.</i></p>
88	<p><b>Asset and Liability Types (what is being valued)</b></p> <ul style="list-style-type: none"> <li>Intangible Assets</li> <li>Personal Property</li> <li>Plant and Machinery</li> <li>Real Property</li> <li>Businesses</li> <li>Liabilities</li> <li>Others as required</li> </ul>
89	<p><b>Applications*</b></p> <ul style="list-style-type: none"> <li>Valuation for Financial Reporting**</li> <li>Valuation for Lending Purposes</li> <li>Valuation for Financial Reporting of Public Sector Assets†</li> <li>Others as required</li> </ul> <p><i>* Should this be before asset and liability types so that GAVP, bases of valuation, the purpose of valuations (applications) and valuation reporting are dealt with before getting into specific assets and liabilities?</i></p> <p><i>** To meet IFRS requirements.</i></p> <p><i>† To meet IPSAS requirements.</i></p>



## THE PROPOSALS

## THE PROPOSED STRUCTURE FOR THE INTERNATIONAL VALUATION STANDARDS Contd/...

	<b>Proposed structure for the IVS</b>	<b>Explanatory comments/questions</b>
90	<b>Guidance Notes</b> Valuation of Lease Interests* Consideration of Hazardous and Toxic Substances in Valuation The Cost Approach for Financial Reporting - (DRC)** Discounted Cash Flow Analysis for Market and Valuation Bases other than Market Value Valuation of Agricultural Properties† Valuation of Specialised Trading Property† Valuation of Properties in the Extractive Industries†	* <i>or subset of Val for Financial Reporting?</i>  ** <i>or subset of VFR or Market Value.</i>  † <i>these are all hybrids of asset types and maybe should be as a subset of Asset Types?</i>
91	<b>Valuation Reporting</b> Valuation Reporting Reviewing Valuations	<i>Although a separate and generic reporting standard may be appropriate, reporting requirements or at least those specific to a practice area need to be addressed in their respective application area.</i>
92	<b>Glossary</b>	

## THE PROPOSALS

### THE PROPOSED FORMAT OF INDIVIDUAL STANDARDS

#### 93 **Current format**

The current IVS have a prescribed format which has become more of a hindrance than help and has led to comments that the IVS do not 'read like standards'. The current format is:

- 94
- ▲ Introduction
  - ▲ Scope
  - ▲ Definitions
  - ▲ Relationship to accounting standards
  - ▲ Statement of standard/application
  - ▲ Discussion
  - ▲ Disclosure requirements
  - ▲ Departure provisions
  - ▲ Effective date

95 Guidance notes follow a similar format except that they do not contain the sections 'Statement of standard/application', 'Discussion', 'Disclosure Requirements' and 'Departure Provisions', but instead have a section entitled 'Guidance'.

#### 96 **Proposed format**

Earlier in its discussions, the Group had concluded that the IVSC should develop principles-based standards. That is that the standards should contain the requirements to be complied with together with essential explanatory material to make the requirements understandable by an experienced professional valuer. The Group recommends the following format, applicable to any of the individual standards. Each standard should contain five sections:

- 97
- ▲ Objectives - what does the standard set out to achieve;
  - ▲ Scope - when the standard applies or does not apply;
  - ▲ Definitions - limited to terms used in the standards;
  - ▲ Requirements - the principles to be complied with, together with essential explanatory material where necessary to make the requirements understandable by an experienced professional valuer being the substance including discussion/narrative and guidance on application.
  - ▲ Effective Date and transitions.

98 The Group also agreed that the 'Basis for Conclusions' should be published as an appendix to but not forming part of the standard. The purpose of this section is to explain the reasoning behind the standard, and/or its subsequent amendment.

## THE PROPOSALS

### 99 **RECOMMENDATIONS TO IMPROVE THE CLARITY OF THE STANDARDS**

The Group recommends that some conventions be agreed for the future drafting of the International Valuation Standards to improve understanding and readability, and in particular to ensure that the requirements of the standards are unambiguous.

100 IVS should be written in clear and concise form in order to make the standards transportable and translatable.

101 Drafters should make a conscious effort to use language that is simple as possible without diluting its technical meaning.

102 The use of graphics/flow charts in addition to text should also be encouraged when appropriate and applicable.

103 The Group considered the issue of duplication of material across the IVS. It recognises that duplication affects the overall flow and complexity, increases the translation burden, and introduces greater room for inconsistency. However it recognises that a certain amount of repetition may be helpful in understanding a particular standard or how the standards interrelate as a whole. The Group believes that this issue will need to be determined on a case-by-case basis as the standards are redrafted or revised.

### 104 **IVSC PUBLICATIONS**

Throughout its report, the Group has referred to the need for the IVSC to publish material that should not be contained within the IVS. In summary, the Group recommends that the IVSC should consider publishing.

- 105
- ▲ Model Code of Conduct for Valuers and other professional standards to encourage high quality practice by the world's valuers.
  - ▲ Educational and explanatory material, and 'real life or how to examples' of best practice to deal with the circumstances that arise in new and emerging economies, and in new practice areas.
  - ▲ Technical Papers that address technical issues that are not practice statements.
  - ▲ Discussion Papers published to promote debate on valuation and related issues and on issues on which the IVSC wants to consult.

### 106 **IMPLEMENTATION**

The Group recognises that, if accepted, its recommendations will result in a significant revision of the current IVS. However, it recommends that the IVS should be reviewed and redrafted and exposed for consultation as a complete package rather than adopting a piecemeal approach.

-end-

## APPENDIX

### 106 CONTENT OF VALUATION STANDARDS OF:

- (1) AMERICAN SOCIETY OF APPRAISERS
- (2) CANADIAN INSTITUTE OF CHARTERED BUSINESS VALUATORS
- (3) ROYAL INSTITUTION OF CHARTERED SURVEYORS
- (4) UNIFORM STANDARDS OF APPRAISAL PRACTICE

### AMERICAN SOCIETY OF APPRAISERS

#### 107 Business Valuation Standards

This release of the approved Business Valuation Standards of the American Society of Appraisers contains all standards approved through November 2005, and is to be used in conjunction with the *Uniform Standards of Professional Appraisal Practice* (USPAP) of The Appraisal Foundation and the *Principles of Appraisal Practice and Code of Ethics* of the American Society of Appraisers.

#### 108 GENERAL PREAMBLE

#### 109 BUSINESS VALUATION STANDARDS (BVS)

(Standards provide minimum criteria for developing and reporting on the valuation of businesses, business ownership interests, or securities.)

BVS-I General Requirements for Developing a Business Valuation

BVS-II Financial Statement Adjustments

BVS-III Asset-Based Approach to Business Valuation

BVS-IV Income Approach to Business Valuation

BVS-V Market Approach to Business Valuation

BVS-VI Reaching a Conclusion of Value

BVS-VII Valuation Discounts and Premiums

BVS-VIII Comprehensive Written Business Valuation Report

#### 110 GLOSSARY

#### 111 STATEMENTS ON BUSINESS VALUATION STANDARDS (SBVS)

(Statements clarify, interpret, explain, or elaborate on Standards. Statements have the full weight of Standards.)

SBVS-1 The Guideline Public Company Method

SBVS-2 The Merger & Acquisition Method

#### 112 ADVISORY OPINIONS (AO)

(Advisory Opinions illustrate the applicability of Standards and Statements in specific situations, offer advice for the resolution of valuation issues, and are not binding.)

AO-1 Financial Consultation and Advisory Services

#### 113 PROCEDURAL GUIDELINES (PG)

(Procedural Guidelines suggest certain procedures that may be used in the conduct of an assignment. They are not binding.)

PG-1 Litigation support:

Role of The Independent Financial Expert

**APPENDIX**

**CANADIAN INSTITUTE OF CHARTERED BUSINESS VALUATORS**

- 114      **Standard No 110 - Valuation Report Standards and recommendations**
  - Appendix A to Standard No 110 Valuation Reports
  - Appendix B to Standard No 110 Fairness Opinions
- 115      **Standard No 120 Valuation reports - Scope of Work Standards and Recommendations**
- 116      **Standard No 130 Valuation Reports - File Documentation Standards and Recommendations**
- 117      **Standard No 210 Advisory Reports - Report Disclosure Standards and Recommendations**
  - Appendix Advisory Reports Standards
- 118      **Standard No 220 Advisory Reports - Scope of Work Standards and Recommendations**
- 119      **Standard No 230 Advisory Reports - File Documentation Standards and Recommendations**
- 120      **Standard No 310 Expert Reports - Report Disclosure Standards and Recommendations**
- 121      **Standard No 320 Expert Reports - Scope of Work Standards and Recommendations**
- 122      **Standard No 330 Expert Reports - File Documentation Standards and Recommendations**
- 123      **Standard No 410 Limited Critique Reports - Reporting Standards and Recommendations**
- 124      **Standard No 420 Limited Critique Reports - Scope of Work Standards and Recommendations**
- 125      **Standard No 430 Limited Critique Reports - File Documentation Standards and Recommendations**

**APPENDIX**

**RICS APPRAISAL AND VALUATION STANDARDS** *(an abbreviated listing of contents)*

- 126      **Part 1**  
             Status and application of these Standards
- 127      **Part 2**  
             Glossary of terms used in Parts 3 and 4
- 128      **Part 3**  
             Chapter 1 - Qualifications and conflicts of interest  
             Chapter 2 - Agreement of Terms of Engagement  
             Chapter 3 - Valuation bases and applications  
                     PS3.1 Use of appropriate basis  
                     PS3.2 Market Value  
                     PS3.4 Market Rent  
                     PS3.6 Financial Statements  
                     PS3.7 Lending  
                                 Appendix 3.1 - Depreciated replacement costs  
                                 Appendix 3.2 Valuations under IFRS  
             Chapter 4 - Inspections and material considerations  
             Chapter 5 - Valuation Reports and published references to them
- 129      **Part 4**  
             GN 1 Specialised Trading Property valuations and goodwill  
             GN 2 Plant & Machinery  
             GN 3 Valuations of portfolios and groups of properties  
             GN 4 Mineral-bearing land and waste management sites  
             GN 5 Valuation uncertainty
- 130      **Part 5**  
             UK Chapter 1 Valuations for Financial Statements  
             UK Chapter 2 Valuation for Financial Statements - specific applications  
             UK Chapter 3 Valuations for loan facilities  
             UK Chapter 4 Residential property valuations (other than for mortgage purposes)  
             UK Chapter 5 Regulated Purposed Valuations
- 131      **Part 6**  
             UK GN 1 Inspections and material considerations  
             UK GN 2 Shared ownership of residential property  
             UK GN 3 Valuations for Capital Gains Tax, Inheritance Tax and Stamp Duty Land Tax  
             UK GN 4 Valuations for charities  
             UK GN 5 Local authority disposal of land for less than best consideration

## APPENDIX

### UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE AND ADVISORY OPINIONS

- 132 Each Rule and Statement is labeled as to its applicability to the various appraisal disciplines.  
The abbreviations are:
- 133 Real Property - RP  
Personal Property - PP  
Intangible Property - IP (includes business interests)  
All disciplines - ALL
- 134 Definitions (ALL)  
Preamble (ALL)  
Ethics Rule (ALL)  
Competency Rule (ALL)  
Scope of Work Rule (ALL)  
Jurisdictional Exception Rule (ALL)  
Supplemental Standards Rule (ALL)
- 135 **Standards and Standards Rules**  
Standard 1 - Real Property Appraisal, Development  
Standard 2, Real Property Appraisal, Reporting  
Standard 3, Appraisal Review, Development and Reporting  
Standard 4, Real Property Appraisal Consulting, Reporting  
Standard 6, Mass Appraisal, Development and Reporting  
Standard 7, Personal Property Appraisal, Development  
Standard 8, Personal Property Appraisal, Reporting  
Standard 9, Business Appraisal, Development  
Standard 10, Business Appraisal, Reporting
- 136 **Statements on Appraisal Standards**  
SMT-2 Discounted Cash Flow Analysis (RP)  
SMT-3 Retrospective Value Opinions (RP, PP)  
SMT-4 Prospective Value Opinions (RP, PP)  
SMT-6 Reasonable Exposure Time in Real Property and Personal Property Market Value  
Opinions (RP, PP)  
SMT-9 Identification of Intended Use and Intended Users (ALL)  
SMT-10 Assignments for Use by a Federally Insured Depository Institution in a Federally  
Related Transaction (RP)
- 137 **Addenda Reference Material (for guidance only)**  
Note - there are some 25 Advisory Opinions covering subjects such as Sales History, Inspection  
of Subject Property, Normal Course of Business, Appraising the Same Property for a New  
Client, An Acceptable Scope of Work, etc