



Consultation Paper:

Proposed IVSC Business Valuation Quality Mark

Consultation launch: May 2018

Consultation close date: 1 August 2018

Responding:

Anyone is welcome to provide comments on this consultation. The IVSC is particularly keen to hear feedback from business valuation stakeholders.

Consultation responses can be sent via email to comments@ivsc.org. There is no set format and responses can be as concise or as detailed as you wish.

Where an aspect of the proposal is not supported, the IVSC is eager to hear constructive ideas for alternative approaches which help address the stated objective.

This consultation is being run on behalf of the IVSC's Membership and Standards Recognition Board (MSRB). Upon completion of the consultation this board will review all feedback and determine whether or not the IVSC should launch a quality mark and, if so, through what approach.

Conclusions:

A report setting out responses to the consultation will be published on the IVCS website after 01 August 2018.

If you require further assistance or information please contact Jaselle Gill at jgill@ivsc.org



Consultation Paper: Proposed IVSC Business Valuation Quality Mark

1. General background

There are significant inconsistencies in the quality of business valuations around the world. Furthermore, some countries have established Valuation Professional Organisations (VPO or VPOs), which have a sophisticated approach to professionalism and standards, and some other countries have either no VPOs or VPOs with very little or no standards and required professionalism in place. The variation in the quality of business valuations applies to both developed and developing countries.

The lack of consistent standards and professionalism creates risk in the financial system both in terms of what feeds into financial reporting as well as to investors who are expecting a professional and competent output on which to be able to base their investment decisions.

Where countries do not have established business valuation (BV) VPOs with strong standards and professionalism, there have been publicised examples of unprofessional and/or incompetent output, which are damaging to the whole business valuation profession.

Because of this and the desire to have effective and consistent approaches to BV, regulators across the world are showing increasing interest in this area.

BV needs to develop as a profession and become globally recognisable as such. While the Certified in Entity and Intangible Valuation (CEIV)¹ credential should help identify those high quality valuers who perform valuations for US financial reporting purposes, the International Valuation Standards Council (IVSC) has received feedback that the CEIV credential doesn't cover a significant proportion of the business valuers either in the US, or globally.

Currently the designations CA (Chartered Accountant) and CPA (Certified Public Accountant or Chartered Professional Accountant) identify high quality accountants globally and signify professionalism. There is a similar need to identify high quality business valuers around the world.

¹ A credential created by the American Institute of Certified Public Accountants (AICPA), the American Society of Appraisers (ASA) and Royal Institution of Chartered Surveyors (RICS).

IVSC believes that as a global valuation standard setter acting in the public interest it has a role to play in encouraging the development of high quality VPOs to provide enhanced BV professionalism. Just getting acceptance of IVS in a country does not guarantee high quality business valuations, professionalism is key. Identifying and recognizing high quality VPOs which specialise in BV is a key step in establishing a globally recognized BV profession.

As Tangible Assets and Financial Instruments are in very different stages of evolution, the quality mark concept will only apply to Business Valuation. In the future, should key stakeholders in those areas put forward a sufficiently strong case for those other asset classes, these will be considered; however, there is not currently a consensus or the same rationale for this.

2. Purpose

IVSC believes:

- It is in the public interest that the International Valuation Standards (IVS) be used by business valuers across the world, and that it should be possible for stakeholders to easily identify which business valuers belong to a high-quality BV VPO and offer a service with technical and professional standards that is in accordance with IVS;
- A globally recognized BV profession needs both high quality valuation standards and professionalism; and
- To embed IVS in a market there needs to be a VPO offering qualifications specialising in BV (as opposed to the current state where it is sometimes simply an add-on or not covered).

With the public interest in mind, IVSC is proposing to offer international recognition of qualified VPOs that meet a high quality level of BV technical and professional standards. With an IVSC quality mark, IVSC hopes to encourage:

- Adoption of the IVS as the global BV standard; and
- A high quality level of rigour and professionalism of BV members of qualified VPOs, using adoption of the IVSC's Professional Membership Obligations (PMO) as a baseline.

Qualified VPOs will be able to permit their qualified BV members to use an IVSC approved VPO BV member quality mark, so that high quality providers of business valuations are identifiable globally.

3. Requirements

The IVSC will grant the right to use of the IVSC BV quality mark to a VPO that meets the following requirements:

- 1) Be an IVSC member in good standing:

- i) Promotes IVS and PMOs; and
 - ii) Is up to date with IVS membership dues.
- 2) Provide an accreditation to its BV members, which meets the following criteria:
- i) Covers the technical competencies outlined in paragraphs 27 to 30 and 34 to 41 of PMO 103, including components such as exchange rate regimes, tax and legal of various jurisdictions, macroeconomics of less developed economies, stock exchanges of various countries and international cost of capital;
 - ii) Incorporates the Professional Skills outlined in paragraph 15 of PMO 102;
 - iii) Appropriate Practical Experience requirements as outlined in PMO 104, with a minimum of 1,500 hours covering relevant areas and evidenced; and
 - iv) Evidence of an effective competencies assessment approach covering the above, which meets the needs, identified in PMO 105.
- 3) Provide and monitor its BV members continued education, which meets the following criteria:
- i) Updates to IVS;
 - ii) Changes and evolutions in the BV world; and
 - iii) Evidence of monitoring approach, which ensures members do appropriate hours and quality of continued education, as outlined in PMO 201.
- 4) Provide IVS training and assessment to its BV members, which meets the following criteria:
- i) Training covering the IVS General Standards (IVS 101 to IVS105, inclusive);
 - ii) Training for IVS 200 and IVS 210 covering Business and Business Interests; and Intangible Assets; and
 - iii) Evidence of an effective competencies assessment approach covering the above.
- 5) Have an ethics code and an approach to educating its BV members on ethics, which meets the following criteria:
- i) An ethics code equivalent to or better than the IVSC's Code of Ethical Principles for Professional Valuers or the ethical standards more recently issued by the International Ethical Standards Coalition;
 - ii) Covers ethics education as outlined in PMO 102 (paragraph 20 onwards); and
 - iii) Evidence of an effective assessment approach covering the above.
- 6) Have a practice inspection process in place for its BV members, which meets the following criteria:
- i) An approach to reviewing a sample of work of a member;
 - ii) Demonstrates suitable independence e.g. VPO contracted or full time valuer with no conflicts of interest; and
 - iii) An independent oversight board with a majority of non-members to demonstrate independence to regulators.

- 7) Have an independent disciplinary mechanism to investigate complaints against its BV members, which meets the following criteria:
 - i) A panel with majority of non-members to oversee any cases;
 - ii) Appropriate sanctions for any breaches;
 - iii) Evidence of mechanism and sanctions taken; and
 - iv) An independent oversight board (same board which oversees the practice inspection process) with a majority of non-members to demonstrate independence to regulators.

- 8) If not already in place, a commitment to adopt IVS within the next 3 years. Submitting an application for the BV quality mark includes a signed commitment to adopt IVS within the next 3 years. It will be possible to withdraw at any point with 3 months' notice; however, this would include the withdrawal from the BV quality mark for the VPO and their relevant members.

4. Approach to assess the VPO

The responsibility for assessing the VPO will be, at least initially, the remit of a committee formed from the Membership & Standards Recognition Board along with a Trustee to ensure independence (BV Quality Mark Committee).

The basic process would be as follows:

- 1) The VPO would submit an application form to IVSC along with evidence of the different areas specified under requirements.
- 2) IVSC staff would check that the application form is fully completed and that the form provides the relevant evidence.
- 3) Quarterly, the BV Quality Mark Committee would review the application form and the evidence against the requirements and either:
 - a) Approve the application and recommend the BV quality mark be awarded; or
 - b) Reject the application, asking for further development in specified areas, and evidence of this.
- 4) IVSC staff would notify the VPO. If approved, the IVSC staff would provide an electronic version of the BV quality mark for use by the VPO and the VPO's qualified BV members. The IVSC staff would also make relevant updates to the website and announce on Enews.

5. Ongoing assessment

Ongoing assessment would be once every two years, with the review using the approach as per the original application process.

6. Use

The VPO can use the BV quality mark logo on its website and in publications. The use of it is encouraged.

The VPO can award the IVSC approved VPO BV member quality mark logo to its BV members provided that each BV member is:

- A BV member in good standing of the VPO;
- Has taken the IVS course or courses that meet the competencies required by IVSC; and
- Has demonstrated the competencies through appropriate assessment.

The VPO BV member can use the IVSC approved VPO BV member quality mark on their emails, business cards and work products.

7. Quality Marks

The following are examples of potential quality marks for both the VPO and BV member of the VPO. Please provide feedback on which you prefer.

a.



b.



8. Proposed Fees

Non-sponsor application fees (one-off application fee):

- US\$10,000 for members in World Bank classified high income countries;
- US\$7,500 for members in World Bank classified upper middle income countries;
- US\$5,000 for members in World Bank classified lower middle income countries; and
- US\$2,500 for members in World Bank classified low income countries

In recognition of members who are also major sponsors, there would be reduced application fees given to sponsors as follows (one-off application fee):

- US\$0 for sponsors contributing US\$50,000 or more; and
- US\$2,500 for sponsors contributing between US\$25,000 and US\$49,999.

Fee levels for ongoing assessment on a two yearly basis would be at 50% of the proposed application fees.