



INTERNATIONAL VALUATION STANDARDS COUNCIL

**IVS 101: SCOPE OF WORK
IVS 102: INVESTIGATIONS &
COMPLIANCE
IVS 103: REPORTING**

EXPOSURE DRAFT

Publication date: 2 June 2016

Comments on this Exposure Draft are invited before 31 August 2016. All replies may be put on public record unless confidentiality is requested by the respondent. Comments may be sent as email attachments to:

commentletters@ivsc.org

Or by post to: IVSC, 1 King Street, LONDON EC2V 8AU, UK

Copyright © 2016 International Valuation Standards Council. All rights reserved. Copies of this Exposure Draft may be made for the purpose of preparing comments to be submitted to the IVSC provided such copies are for personal or intra-organisational use only and are not sold or disseminated and provided each copy acknowledges IVSC's copyright and sets out the IVSC's address in full. Otherwise, no part of this Exposure Draft may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without permission in writing from the International Valuation Standards Council.

Please address publication and copyright matters to:

International Valuation Standards Council
1 King Street
LONDON
EC2V 8AU
United Kingdom
Email: ivsc@ivsc.org
www.ivsc.org

The International Valuation Standards Council, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Introduction to Exposure Draft

Why Is the International Valuation Standards Board (IVSB) Issuing IVS 101 Scope of Work, IVS 102 Investigations and Compliance and IVS 103 Reporting?

In October 2015 the IVSC published its *Purpose and Strategy Document* which stated the priority of the IVSC is to expand the quality and depth of International Valuations Standards and ensure they are fit for purpose and provide much needed clarity and market efficiency.

This Exposure Draft includes various changes made to the following General Standards that are the result of the Board's general review of the IVS:

- (a) IVS 101 *Scope of Work*
- (b) IVS 102 *Investigations and Compliance* (formerly *Implementation*)
- (c) IVS 103 *Reporting*

What Are the Main Provisions?

Overall, the proposed chapters address the same topics as IVS 2013 related to how valuers should establish a scope of work, comply with the IVS, and report their findings.

How do the Proposed Provisions Compare with IVS 2013?

The proposed standards include many of the elements from IVS 2013. However, the proposed standards are more principles-based and less prescriptive in nature, to allow them to be applied in a wider variety of circumstances.

The primary changes in each chapter are addressed below.

IVS 101 Scope of Work

IVS 2013 required a specific set of items to be explicitly disclosed in a written scope of work prior to the start of an engagement. The overarching principle behind the proposed IVS 101 *Scope of Work* is that it is a valuer's responsibility to ensure that all parties to the valuation engagement understand the scope of the assignment. Whilst a written scope of work is the most effective way to ensure compliance, the Board recognizes that it may not be feasible or necessary in all circumstances, particularly in the case of valuers performing valuations for their employer.

IVS 102 Investigations and Compliance

The name of this chapter was updated from "Implementation" to better reflect its contents. In addition, the Board noted that under IVS 2013, virtually any valuation engagement could claim compliance with IVS as long as any limitations on investigations and procedures are disclosed in the scope of work and report. One of the significant findings of the IVSC's organisational review was that stated compliance with IVS must become a more meaningful statement on the quality of a valuation. As such, language related to limitations on investigations has been updated to reflect that, whilst the extent of investigations may be limited by agreement with clients, compliance with IVS requires that the valuer perform sufficient procedures to assess the appropriateness of all significant inputs for use in the valuation. As such, significant limitations that impair a valuer's ability to assess the appropriateness of the inputs and assumptions may lead to a valuation not being in compliance with IVS.

IVS 103 Reporting

The chapter has been revised to make it clear that there is no one format of report that is required to comply with IVS. Instead, the proposed IVS 103 *Reporting* is more principles-based, allowing the report to take any form, but requiring that it set out a clear and accurate description of the scope of the

assignment, its purpose and intended use and disclosure of any significant assumptions.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

IVS 101 Scope of Work

- (a) Do you agree that it is the valuer's responsibility to communicate the scope of the assignment to all parties to the valuation engagement? If not, why?
- (b) Do you agree that a written scope of work for each valuation engagement is not always possible or necessary? If not, why?

IVS 102 Investigations and Compliance

- (c) Do you agree that a valuer must perform sufficient investigations and procedures to assess the appropriateness of all inputs and assumptions? If not, why?
- (d) Do you agree that significant limitations that impair a valuer's ability to assess the appropriateness of the inputs and assumptions should result in a valuation not being in compliance with IVS? If not, why?

IVS 103 Reporting

- (e) Do you agree with moving from a prescriptive to a principle-based reporting format? If not, why?
- (f) Do you accept that a report can take any form providing it sets out a clear and accurate description of the scope of the assignment, its purpose and intended use and discloses of significant inputs assumptions? If not, why?

IVS 101 Scope of Work

10. Introduction

- 10.1. A scope of work (sometimes referred to as terms of engagement) describes the fundamental terms of a valuation engagement such as the asset(s) being valued, the purpose of the valuation, and the responsibilities of parties involved in the valuation.
- 10.2. This standard is intended to apply to a wide spectrum of valuation assignments, including:
- (a) Valuations performed by valuers for their own employers (“in-house valuations”).
 - (b) Valuations performed by valuers for clients other than their employers (“third-party valuations”).
 - (c) *Valuation reviews* where the reviewer may not be required to provide their own opinion of value.

20. General Requirements

- 20.1. All valuation advice and the work undertaken in its preparation must be appropriate for the intended purpose.
- 20.2. It is important that the intended recipient(s) of the valuation advice understands what is to be provided and any limitations on its use before it is finalised and reported.
- 20.3. It is a valuer’s responsibility to ensure that the scope of work has been communicated to all parties to a valuation assignment prior to completion of the assignment, including:
- (a) Identity of the valuer: The valuer may be an individual, group of individuals, or a firm. If the valuer has any material connection or involvement with the subject asset or the other parties to the valuation assignment, or if there are any other factors that could limit the valuer’s ability to provide an unbiased and objective valuation, such factors must be disclosed. If the valuer needs to seek material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance must be clear.
 - (b) Identity of the client(s) (if any): Confirmation of those for whom the valuation assignment is being produced is important when determining the form and content of the report to ensure that it contains information relevant to their needs.
 - (c) Identity of other intended users (if any): It is important to understand whether there are any other intended users of the valuation report, their identity, and their needs to ensure that the report content and format meets those users’ needs.
 - (d) Asset(s) being valued: The subject asset in the valuation assignment must be clearly identified. For example, the subject asset may be:
 - 1. An asset
 - 2. A liability
 - 3. A group of assets and/or liabilities

4. An ownership interest in any of the above
 5. A right to use any of the above
 6. An asset that is utilised in conjunction with other assets. In such cases, it will be necessary to further clarify whether those assets are included in the valuation assignment, excluded but assumed to be available or excluded and assumed not to be available.
- (e) The valuation currency: The currency for the valuation must be established. For example, a valuation might be prepared in Euros or US Dollars. This requirement is particularly important for valuation assignments involving assets in multiple countries and/or cash flows in multiple currencies.
- (f) Purpose of the valuation: The purpose for which the valuation assignment is being prepared shall be clearly identified as it is important that valuation advice is not used out of context or for purposes for which it is not intended. The purpose of the valuation will also typically influence or determine the basis/bases of value to be used.
- (g) Basis/bases of value used: As required by IVS 104 *Bases of Value*, the valuation basis must be appropriate for the purpose of the valuation. The source of the definition of any basis of value used shall be cited or the basis explained. This requirement is not applicable to a valuation review where no opinion of value is to be provided and the reviewer is not required to comment on the basis of value used.
- (h) Valuation date: The valuation date may be different from the date on which the valuation report is to be issued or the date on which investigations are to be undertaken or completed. Where appropriate, these dates should be clearly distinguished.
- (i) The nature and extent of the valuer's work, and any limitations thereon: Any limitations or restrictions on the inspection, inquiry and/or analysis in the valuation assignment must be identified. If relevant information is not available because the conditions of the assignment restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see IVS 104 *Bases of Value*, paras 210.1–210.5) made as a result of the restriction must be identified.
- (j) The nature and sources of information upon which the valuer relies: The nature and source of any relevant information that is to be relied upon and the extent of any verification to be undertaken during the valuation process must be identified.
- (k) Identify any significant assumptions and/or special assumptions: All significant assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified.
- (l) The type of report being prepared: The format of the report, that is, how the valuation will be communicated, must be established.
- (m) Restrictions on use, distribution and publication of the report: Where it is necessary or desirable to restrict the use of the valuation advice or those relying upon it, the restrictions must be clearly communicated.
- (n) That the valuation will be prepared in compliance with IVS and that the valuer will assess the appropriateness of all significant inputs: The nature of any departures must be explained, for example, identifying that the valuation was performed in

accordance with IVS and local tax regulations. See IVS Framework paras 60.1–60.4 related to exceptions and departures.

- 20.4. When possible, the scope of work should be established and agreed between parties to a valuation assignment prior to the valuer beginning work. However, in certain circumstances the scope of a valuation engagement may not be clear at the start of that engagement. In such cases, as the scope becomes clear, valuers have a responsibility to ensure that all parties to the engagement understand that scope.
- 20.5. A written scope of work may not be necessary in certain circumstances, particularly for in-house valuations. However, since valuers are responsible for ensuring that all parties to the valuation engagement understand the scope of work, a written scope of work is strongly encouraged. In addition, a written scope of work is beneficial to the extent that a valuation engagement is viewed or relied upon at a later date.
- 20.6. Some aspects of scope of work may be addressed in documents such as standing engagement instructions, master services agreements, or a company's internal policies and procedures.

30. Changes to Scope of Work

- 30.1. Some of the items in para 20.2 may not be determinable until the valuation assignment is in progress, or changes to the scope may become necessary during the course of the assignment due to additional information becoming available or matters emerging that require further investigation. As such, whilst the scope of work can be established at the outset, it may also be established over time throughout the course of the assignment.
- 30.2. In valuation assignments where the scope of work changes over time, the items in para 20.2 and any changes made over time must be understood by all parties before the assignment is completed and the valuation report is issued.

IVS 102 Investigations and Compliance

10. General Principle

- 10.1. To be compliant with IVS, valuation assignments, including valuation reviews, must be conducted in accordance with all of the principles set out in IVS that are appropriate for the intended purpose for which the assignment is required and the terms and conditions set out in the scope of work.

20. Investigations

- 20.1. Investigations made during the course of a valuation assignment must be appropriate to the purpose of the valuation assignment and the basis(es) of value. References to a valuation or valuation assignment in this standard shall include a valuation review.
- 20.2. Sufficient evidence shall be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the purpose of the valuation.
- 20.3. Limits may be agreed on the extent of the valuer's investigations. Any such limits shall be noted in the scope of work. However, IVS 105 *Valuation Approaches and Methods*, para 10.7 requires valuers to perform sufficient analysis to evaluate all inputs and assumptions and their

appropriateness for the valuation purpose. If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.

- 20.4. When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration shall be given as to whether the information is credible or that the information may otherwise be relied upon without adversely affecting the credibility of the valuation opinion. Significant inputs provided to the valuer (eg by management/owners), require assessment, investigation, and/or corroboration. In cases where credibility or reliability of information supplied cannot be supported, such information should not be used. If such information must be used, the valuation has not been performed in compliance with IVS.
- 20.5. In considering the credibility and reliability of information provided, account shall be taken of matters such as:
- (a) the purpose of the valuation,
 - (b) the significance of the information to the valuation conclusion,
 - (c) the expertise of the source in relation to the subject matter,
 - (d) the expertise of the valuer or subcontractor in relation to the subject matter,
and
 - (e) whether the source is independent of either the subject asset and/or the recipient of the valuation.
- 20.6. The purpose of the valuation, the basis of value, the extent and limits on the investigations and any sources of information that may be relied upon are part of the valuation assignment's scope of work that must be communicated to all parties to the valuation assignment (see IVS 101 *Scope of Work*).
- 20.7. If, during the course of an assignment, it becomes clear that the investigations included in the scope of work will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, an appropriate revision to the scope of work shall be made and the valuation assignment might no longer comply with IVS.

30. Valuation Record

- 30.1. A record shall be kept of the work done during the valuation process (and the basis for the work) for a reasonable period having regard to any relevant statutory, legal, or regulatory requirements. Subject to any such requirements this record shall include the key inputs, all calculations, investigations and analyses relevant to the final conclusion, and a copy of any draft or final report provided to the client.

40. Compliance with Other Standards

- 40.1. As noted in the IVS Framework, when statutory, legal, regulatory, or other authoritative requirements must be followed that differ from some of the requirements within IVS, a valuer must follow the statutory, legal, regulatory, or other authoritative requirements (called a "departure"). Such a valuation has still been performed in compliance with IVS.
- 40.2. Most other sets of requirements, such as those written by VPOs, other professional bodies, or firms internal policies and procedures, will not contradict IVS and, instead, typically impose

additional requirements on valuers. Such standards may be followed in addition to IVS without being seen as departures or exceptions as long as all of the requirements in IVS are fulfilled.

IVS 103 Reporting

10. Introduction

- 10.1. It is essential that the valuation report communicates the information necessary for proper understanding of the valuation or *valuation review*. A report shall not be ambiguous or misleading and shall provide the intended users with a clear understanding of the valuation or other advice provided.
- 10.2. To provide comparability, relevance and credibility, the report shall set out a clear and accurate description of the scope of the assignment, its purpose and intended use and disclosure of any assumptions, *special assumptions* (IVS 104 *Bases of Value*, para 210.4), significant uncertainty or limiting conditions that directly affect the valuation.
- 10.3. This standard applies to all valuation reports or reports on the outcome of a valuation review which may range from comprehensive narrative reports to abbreviated summary reports. However, for certain report formats it may be challenging to comply with this standard (and therefore challenging to comply with IVS).
- 10.4. For certain asset classes there may be variations from this standard or additional requirements to be reported upon. These are found in the relevant IVS Asset Standards.

20. General Requirements

- 20.1. The purpose of the valuation, the complexity of the asset being valued and the users' requirements will determine the level of detail appropriate to the valuation report. The format of the report should be agreed with all parties as part of establishing a scope of work (see IVS 101 *Scope of Work*).
- 20.2. Compliance with this standard does not require a particular form or format of report, however, the report must be sufficient to communicate to the intended users the scope of the valuation assignment, the work performed, and the conclusions reached.
- 20.3. Any report should also be sufficient for an appropriately experienced valuation professional with no prior involvement with the valuation engagement to review the report and understand the items in paras 30.1 and 40.1, as applicable.

30. Valuation Reports

- 30.1. Where the report is the result of an assignment involving the valuation of an asset or assets, the report must convey the following, at a minimum:
 - (a) the scope of the work performed, including the elements noted in para 20.3 of IVS 101 *Scope of Work* to the extent each is applicable to the assignment,
 - (b) the approach or approaches adopted,
 - (c) the method or methods applied,
 - (d) the key inputs used and assumptions made,
 - (e) the conclusion(s) of value and principal reasons for any conclusions reached,
and
 - (f) the date the report was prepared (which may differ from the valuation date).

- 30.2. Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (engagement letters, scope of work documents, internal policies and procedures, etc.).

40. Valuation Review Reports

- 40.1. Where the report is the result of a valuation review, the report must convey the following, at a minimum:
- (a) the scope of the review performed, including the elements noted in para 20.3 of IVS 101 *Scope of Work* to the extent each is applicable to the assignment,
 - (b) the valuation report being reviewed and the inputs and assumptions upon which that valuation was based,
 - (c) the reviewer's conclusions about the work under review, including supporting reasons, and
 - (d) the date the report was prepared (which may differ from the valuation date).
- 40.2. Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (engagement letters, scope of work documents, internal policies and procedures, etc.).

General Standards: Basis for Conclusions

The basis for conclusions do not form part of IVS 2017 and will not be included in the finalised document, but have been drafted to provide the reader with the rationale behind certain changes made within this Exposure Draft. The Board feels that the inclusion of this section is a necessary part of the consultative process and is in line with the recommendation contained within the IVS Purpose and Strategy Document requirement that “standards need sufficient consultation” and that the IVSC should be “operating in an open and transparent way”.

In all chapters, sections regarding the effective date of the standard have been removed, as there will be a single effective date for all of IVS 2017. Future updates made to IVS will have their own effective dates.

IVS 101 Scope of Work: Basis for Conclusions

The Board found that IVS 101 *Scope of Work* was very prescriptive in its requirements and not flexible enough to apply in a wide variety of valuations and purposes. The chapter has been refocused to be more principles-based in nature, making it the responsibility of the valuer to ensure that all parties to a valuation engagement understand the scope of the assignment rather than requiring an extensive list of specific items that must be documented in writing prior to beginning work.

While a written scope of work is strongly encouraged, the Board believes that there may be circumstances where a scope of work can be communicated to all parties to the valuation without being in written form. For example, when a valuer has a longstanding relationship with a client, the scope of work for each individual valuation assignment may be well understood by all parties even if not written down for each assignment.

The items that constitute a scope of work have been revised slightly:

- The requirement to identify the client and other intended users has been separated into two separate items.
- The valuation currency has been added as an element of scope of work.

IVS 102 Investigations and Compliance: Basis for Conclusions

The title of the chapter was updated from “Implementation” to “Investigations and Compliance” to better reflect the content of the chapter.

The Board noted that under IVS 2013, virtually any valuation assignment could potentially claim compliance with IVS as long as any limitations on investigations and procedures are disclosed in the scope of work and report. One of the significant findings of the IVSC’s organisational review was that stated compliance with IVS must become a more meaningful statement on the quality of a valuation. As such, language related to limitations on investigations has been updated to reflect that while the extent of investigations may be limited by agreement with clients, compliance with IVS requires that the valuer perform sufficient procedures to assess all significant inputs and assumptions and their appropriateness for use in the valuation. As such, significant limitations that impair a valuer’s ability to take responsibility for the inputs and assumptions result in a valuation not being in compliance with IVS.

The Board noted that the assessment of whether an input or assumption is appropriate for use in a valuation will often be dependent on the basis of value and purpose of the valuation. For example, since Investment Value is an investor-specific basis of value, a valuer could easily determine that it is appropriate to use that investor’s projections in the valuation. However, for bases of value like Market Value or Fair Value, the valuer would need to assess whether those projections are reasonable from the perspective of a market participant.

The Board also discussed that assessing whether it is appropriate to use certain inputs and assumptions in a valuation might consist of or include consideration of the reliability and credibility of the source of the information and whether that source could be considered biased. Information provided to the valuer by clients or other interested parties would typically require more effort to assess the appropriateness of the inputs/assumptions than information gathered by the valuer. The requirements in IVS 102 *Investigations and Compliance* do not require valuers to audit information they have gathered from independent/unbiased sources, but the valuer must have a reasonable belief that reliance on that source is appropriate.

The following two items from the list of considerations when determining whether information from third party sources can be relied upon:

- “the extent to which the information is in the public domain” was removed as whether or not information is in the public domain has very little influence on whether it is reliable.
- “the limits on the duty to investigate included in the scope of work” was deleted as it was covered in a prior paragraph.

IVS 103 Reporting: Basis for Conclusions

The phrase “material uncertainty” was changed to “significant uncertainty” as “material” has specific meanings in certain circumstances, such as audits.

The Board believes that IVS 2013’s reporting requirements were too prescriptive to be applicable to a wide range of valuation assignments. As such, the chapter has been revised to make it clear that there is no one format of report that is required to comply with IVS. Instead, the proposed IVS 103 *Reporting* is more principles-based, allowing the report to take any form, but requiring that it set out a clear and accurate description of the scope of the assignment, its purpose and intended use and disclosure of any significant assumptions. In addition, a paragraph was added indicating that a report should allow for an appropriately experienced professional with no prior involvement with the valuation engagement to understand the scope of work performed, the analysis and procedures, and the conclusion of value.

The specific requirements related to restating the scope of work in reports have been removed. Instead, this chapter now requires that the scope of work be clear in the report, and refers to IVS 101 *Scope of Work* for the specific items that constitute a scope of work to avoid repetition.