



International Valuation Standards Council

IVS 2017 Additional Technical Revisions Exposure Draft



Issued: 28 March 2019
Comments Due: 29 June 2019

**IVS 2017 Additional Technical Revisions
Exposure Draft**



Notice to Recipients of This Exposure Draft

The IVSC Standards Review Board invites feedback on all matters in this Exposure Draft. We request comments by the 30th of June 2019 by emailing comments to aaronsohn@ivsc.org, Reference: IVS 2017 Proposed Revisions.

All comments received are part of the IVSC's public file and are available at www.ivsc.org.

A copy of the IVS 2017 Additional Technical Revisions Exposure Draft is also available at www.ivsc.org.

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Letter from Mark Zyla

Chairman, IVSC Standards Review Board



MARK ZYLA

CHAIRMAN, IVSC STANDARDS REVIEW BOARD

Dear All

Further to the publication of IVS 2017 Proposed Revisions the Standards Review Board together with the Business Valuation Board and the Tangible Assets Board have decided to publish targeted revisions to IVS 2017 based on feedback received during the IVS 2017 consultation process conducted in 2018 and valuation standards harmonisation discussions held with CUSPAP and USAP in August 2018.

The IVSC is planning to publish revisions as needed based on market feedback. The consultation process for the IVS 2017 Additional Technical Revisions is now open. Accordingly, the Standards Review Board encourages participation within the three month consultation period ending the 28th of June 2019 from all individuals and organisations. The IVSC is committed to a fully open and collaborative consultation process. Thus, all comments received as part of the consultation process will be published on the IVSC website.

We look forward to your participation in the IVS 2017 Additional Technical Revisions Exposure Draft and incorporating the views and recommendations from practitioners, valuation professional organisations, academics, corporations and regulators, among others.

Kind Regards

Mark Zyla, Chair

Standards Review Board of the IVSC



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Introduction

Purpose of the IVS 2017 Additional Technical Revisions Exposure Draft

Stakeholders are invited to comment on all revisions in the IVS 2017 Additional Technical Revisions Exposure Draft. In addition, questions related to each specific valuation topic are included at the end of each section together with a summary of all questions at the end of this section. In addition to revisions and questions, the IVSC welcomes general feedback from respondents on any matters in IVS 2017.

Background and Scope

IVS 2017 was issued in January 2017 and became effective on 1st of July 2017. The IVSC Boards (collectively Standards Review, Business Valuation, and Tangible Asset Boards) committed to publish the IVS 2017 Technical revisions in April 2019.

Following the publication of the IVS 2017 Proposed Technical Revisions Exposure Draft, which was in consultation from the 16th July 2018 until 19 October 2018 a number of technical clarifications were suggested by stakeholders during the consultation process, which are contained within this Exposure Draft.

Furthermore, following on from the publication of "*A Bridge from USPAP to IVSC*", representatives of the Canadian standard setter (CUSPAP) and the American standard setter (USPAP) met with representatives of the IVSC in August 2018 to discuss harmonisation of valuation standards and further alignment with IVS. As part of this process it felt that the first initial step to harmonisation was the inclusion of some common definitions within the IVS 2017 glossary. A further harmonisation meeting with the IVS, CUSPAP and USPAP representatives is planned for Q2 of 2019.

Structure of this Exposure Draft

The Boards determined that there was no need to republish the entirety of IVS 2017, but rather have highlighted the substantive changes and other related paragraphs as



needed for context. However, respondents are requested to review these changes in the context of the relevant Chapters of IVS 2017. All draft additions are shown in *dark red*, while deletions are shown in *dark red and crossed-through*.

The structure of this technical review is as follows:

1. IVS Glossary
2. IVS Framework
3. IVS 102 – Investigations and Compliance
4. IVS 103 Reporting
5. IVS 104 Bases of Value
6. IVS 105 – Valuation Approaches and Methods

Other Ongoing Projects and Updates

The Boards are continuing to advance other topics from the ITC including non-financial liabilities and inventory. The Boards have already issued the exposure draft for Non-Financial Liabilities, which is currently in consultation until 1st April 2019 and intend to issue an exposure draft on Inventories later this year. Furthermore, the IVSC have recently set up the Financial Instruments Board, who are currently in the process of reviewing IVS 2017 to see what additional valuation standards are needed for financial instruments.



1. IVS Glossary

Background and Scope

Further to the publication of *"A Bridge from USPAP to IVSC"*, representatives of the Canadian standards (CUSPAP) and the American standards (USPAP) met with representatives of the IVSC in August 2018 to discuss harmonisation of valuation standards and further alignment with IVS. As part of this process it felt that the first step to harmonisation was the inclusion of some common definitions within the IVS 2017 glossary. A further harmonisation meeting with the IVS, CUSPAP and USPAP representatives is planned for Q2 of 2019.

During the harmonisation meeting it was felt that the inclusions of the USAP definitions for *"Assignment"*, *"Client"*, *"Confidential Information"*, *"Intended Use"*, *"Intended User"* and *"Purpose"* would not only be beneficial for the harmonisation of valuation standards but would also provide extra technical clarification to the use and interpretation of IVS.

The Boards discussed the context of additional definitions within IVS 2017, and whether such definitions represent universal terms to be utilised across all specialisms and jurisdictions, or whether these terms are specific to IVS. The Boards agreed that not only did these additional definitions work across all specialisms, but also felt that the inclusion of these terms would help drive harmonisation across disciplines and jurisdictions.

Proposed Changes to IVS 2017 Glossary

Glossary Excerpts:

The IVSC Boards have proposed the following changes to the Glossary in order to provide harmonisation with CUSPAP and USPAP valuation standards and to provide additional clarification to terms used within IVS 2017:

Assignment *A valuation service that is provided by an appraiser as a consequence of an agreement with a client. (USPAP)*

Client: *the party or parties (i.e., individual, group, or entity) who engage, by employment or contract, an appraiser by employment or contract in a specific assignment, whether directly or through an agent. (USPAP)*



Confidential Information: *Confidential Information: information that is either:*

- *identified by the client as confidential when providing it to an appraiser and that is not available from any other source; or*
- *classified as confidential or private by applicable law or regulation. (USPAP)*

Intended Use: *the use(s) of a valuer' reported appraisal or appraisal review assignment results, as identified by the appraiser based on communication with the client at the time of the assignment. (USPAP)*

Intended User: *the client and any other party as identified, by name or type, as users of the appraisal or appraisal review report by the appraiser, based on communication with the client at the time of the assignment. (USPAP)*

Purpose: *The word "purpose" refers to the reason(s) a valuation is performed. Common purposes include (but are not limited to) financial reporting, tax reporting, litigation support, transaction support, and to support secured lending decisions.*

Questions for Respondents

Question 1: Do you believe that IVS should seek to harmonise valuation standards with other standards such as CUSPAP and USPAP? If so, please discuss why you think the harmonisation of valuation standards is necessary.

Question 2: Do you believe that IVS should define the term Assignment? If so, please discuss why you think the additional definition is necessary.

Question 3: Do you believe that IVS should define the term Confidential? If so, please discuss why you think the additional definition is necessary.

Question 4: Do you believe that IVS should define the terms Client, Intended Use, Intended User, and Purpose? If so, please discuss why you think the additional definitions are necessary



2. IVS Framework

Background and Scope

As part of the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft consultation process, a number of respondents asked for clarification on section 50.1. Some respondents commented that in developing markets it may not always be possible for *“valuations to be prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation”*. Furthermore, respondents commented that by making this requirement mandatory it may act as a barrier to entry for markets where the valuation profession was still being developed. The Boards discussed these comments and felt that in order not to exclude any markets from adopting IVS this requirement should be changed from a *“must”* to a *“should”*.

Proposed Changes to IVS Framework

The Boards have proposed the following change to IVS Framework in order to provide additional clarification:

IVS Framework Section 50.1 Competence

*50.1 Valuations **should** ~~must~~ be prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation.*

Questions for Respondents

Question 5: Should IVS change Section 50.1 to a *“should”*? If not, please provide your reasons.



3. IVS 102 – Investigations and Compliance

Background and Scope

As part of the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft consultation process, several respondents asked for clarification on Section 20.4 as they felt that the use of the word “*significant*” within this sentence was too subjective. The Board discussed this comment further and agreed that the word “*significant*” was too open to interpretation. Furthermore the board felt that the use of the word *may* was too open to interpretation and therefore have changed this to state, “*Inputs provided to the valuer (e.g., by management/owners), ~~may~~ should be considered and...*”.

Proposed Changes to IVS 102

The Boards have proposed the following change to IVS 102 in order to provide additional clarification:

*20.4 When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration should 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. *Inputs provided to the valuer (e.g., by management/owners), ~~may~~ should be considered ~~require consideration, investigated investigation~~ and/or corroborated ~~corroboration~~. In cases where credibility or reliability of information supplied cannot be supported, such information should not be used.**

Questions for Respondents

Question 6: Should IVS change Section 20.4 to state “*Inputs provided to the valuer (e.g., by management/owners), should be considered, investigated and/or corroborated.*”? If not, please provide your reasons.



4. IVS 103 – Reporting

Background and Scope

As part of the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft consultation process and from the CUSPAP, IVSC and USPAP harmonisation meeting, several respondents felt that a report, in addition to the other requirements, must also convey “the intended use” of the report.

The Boards discussed this comment in detail and felt that in order to restrict the valuers liability in relation to the issuance of a valuation report the report should also state the intended use, Furthermore the Boards felt that the inclusion of both “Intended Use” and “Intended User” as additional defined words within the glossary would provide further clarification on this matter.

Proposed Changes to IVS 103

The Boards have proposed the following change to IVS 102 in order to provide additional clarification:

- 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 that each is applicable to the assignment,*
 - (b) the intended use,*
 - (c) the approach or approaches adopted,*
 - (d) the method or methods applied,*
 - (e) the key inputs used,*
 - (f) the assumptions made,*
 - (g) the conclusion(s) of value and principal reasons for any conclusions reached, and*
 - (h) the date of the report (which may differ from the valuation date).*



Questions for Respondents

Question 7: Must a report that is the result of an assignment involving the valuation of an asset or assets, in addition to the other requirements stated above, also convey the intended use? If not, please provide your reasoning.

5. IVS 104 – Bases of Value

Background and Scope

Further to the feedback received from the IVS 2017 Proposed Technical Revisions Exposure and additional discussions with stakeholders and other stakeholders the Boards engaged in discussions on Allocation of Value.

The Boards noted that many of the issues in relation to the valuation of a portfolio or business entity lay not in the overall Bases of Value reported for example Fair Value or Market Value but lay in how the overall valuation figure was allocated among the individual assets, particularly when in a business valuation, where there is an element of assemblage value or within a tangible asset valuation, where there is an element of portfolio premium or discount.

Furthermore, for financial statements under IFRS 13 or for taxation purposes there is often a requirement to separate the purchase price of the building from the land, so the annual depreciation expense can be determined for the buildings.

The Boards noted that in many markets there was an inconsistency in the way values were allocated and felt that standards were required on allocation of value to provide greater consistency and transparency within markets and to reduce risk.

Proposed Changes to IVS 104

The Boards have proposed the following change to IVS 104 in order to provide additional clarification on allocation of value:

220. Allocation of Value



220.1 Allocation of value, also known as apportionment of value, is the separate reporting of value of an asset on an overall, individual or component basis.

220.2 When allocating a value, the valuer must follow any legal or regulatory requirements and set out a clear and accurate description of the purpose and intended use of the assignment. (see IVS 101 Scope of Work, para 40.1, IVS 102 Investigations and Compliance, para 40.1 and IVS 103 Reporting, para 10.2)

220.3 If the total value for the sum of the components reported differs from the aggregate of the allocated value of its individual components, the valuer must state the reason(s) for the difference.

220.4 If the value of the asset includes an element of assemblage value or portfolio premium/discount the valuer must report the overall value separately from the value of the individual assets or components.

Questions for Respondents

Question 8: Should IVS 2017 use the term 'allocation of value' or 'apportionment of value' or both?

Question 9: Should it be mandatory for the valuer to state the reason for the sum of the assets/components being greater or less than the whole as stated in 220.3? If not, please provide your reasoning.

Question 10: Section 220.4 states that *"If the value of the asset includes an element of assemblage value or portfolio premium/discount the valuer must report the overall value separately from the value of the individual assets or components."* Are there any instances where you feel that this is not the case, if so, please provide examples?

Question 11: Section 220 has been drafted to apply to all specialisms. Should additional Information be Included within the Assets Standards for Business Valuation, Financial Instruments or Tangible Assets? If yes, please provide examples of the initial information to be included.



6. IVS 105 – Valuation

Approaches and Methods

Background and Scope

Further to the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft and additional discussions with stakeholders the Boards engaged in discussions on Valuation Modelling

The Boards had originally begun to look at this topic due to market feedback on technological disruption caused by the increasing use of AVM's, in many markets, particularly by banks and valuers for the valuation of residential properties for secured lending purposes. The Boards felt that many of these Automated Valuation Models (AVM's) were used by valuers, who may take the valuations at face value without fully understanding the workings or limitations of the model that they are using. Moreover, certain *valuers* could mistakenly believe that calculations (such as those derived from "AVMs" are compliant with IVS.

Further to discussions amongst the Boards it was decided that the issue was greater than just the use of AVM's, as most valuations were conducted using some form of model as a tool for analysis, which can be applied *in* automated, semi-automated or manual format. Furthermore, the Boards felt that when a valuation model is used *"the valuer must take responsibility for the output of valuation model and keep appropriate records to support the selection of the model."*

The Boards agreed that in the first instance IVS 2017 should include a section comprising an overarching valuation standard on valuation modelling requirements within IVS 104 Valuation Approaches and Methods. In due course the Boards are planning to include standards on data management within the General Standards and more specialism specific valuation modelling standards within the Asset Standards such as a section on the use of AVM's within IVS 400 or the use of valuation models for business valuation or the valuation of financial instruments.

Proposed Changes to IVS 105

The Boards have proposed the following changes to IVS 105 in order to provide additional clarification on Valuation Modelling:



90. Valuation Modelling (See IVS Framework, para 50.1 - 50.3)

90.1 Valuation Modelling is a tool for analysis and report preparation, which is applied in automated, semi-automated or manual.

90.2 When using a valuation model the valuer must take responsibility for the output of valuation model and keep appropriate records to support the selection of the model.

90.3 The valuer must understand;

- a) the valuation model and the methodology(ies), which must be appropriate for the intended purpose;*
- b) the significant assumptions and limiting conditions;*
- c) support the reasonableness of the valuation model output;*
- d) and the key risk associated with the assumptions made in the valuation model used.*

Questions for Respondents

Question 12: Do you think that IVS should include a section within the General Standards on Modelling for Valuation purposes? If not, please provide your reasoning.

Question 13: Do you believe that IVS should define the term valuation model? If so, please suggest a definition and discuss why you think the additional definition is necessary.

Question 14: Do you believe that IVS should define the term valuation calculation? If so, please suggest a definition and discuss why you think the additional definition is necessary.

Question 15: Section 90.2 states that *"When using a valuation model the valuer must take responsibility for the output of valuation model...."* Are there any instances where you feel that this is not the case, if so, please provide examples?

Question 16: Section 90.2 also states that *"When using a valuation model the valuer must... keep appropriate records to support the selection of the model."* How long are you required to keep valuation records in the market(s) in which you operate? Please provide details of any relevant valuation record keeping legislation within the market(s) in which you operate.

Question 17: Do you agree with Section 80.3 that *"when using a valuation model the valuer must take responsibility for the output of valuation model and keep appropriate records to support the selection of the model?"* If not, please provide instances when this is not the case.



Question 18: Do you feel that additional valuation standards on valuation modelling are required within the Asset Standards (i.e. IVS 200 Business and Business Interests, IVS 400 Real Property Interests, IVS 500 Financial Instruments)? If so, please provide an indication of the proposed content and where within the IVS Asset Standards you think this additional content should be contained.



IVS 2017 Additional Technical Revisions Consultation Questions

Question 1: Do you believe that IVS should seek to harmonise valuation standards with other standards such as CUSPAP and USPAP? If so, please discuss why you think the harmonisation of valuation standards is necessary.

Question 2: Do you believe that IVS should define the term Assignment? If so, please discuss why you think the additional definition is necessary.

Question 3: Do you believe that IVS should define the term Confidential? If so, please discuss why you think the additional definition is necessary.

Question 4: Do you believe that IVS should define the terms Client, Intended Use, Intended User, and Purpose? If so, please discuss why you think the additional definitions are necessary.

Question 5: Should IVS change Section 50.1 to a "should"? If not, please provide your reasons.

Question 6: Should IVS change Section 20.4 to state "Relevant Inputs"? If not, please provide your reasons.

Question 7: Must a report that is the result of an assignment involving the valuation of an asset or assets, in addition to the other requirements stated above, also convey the intended use? If not, please provide your reasoning.

Question 8: Should IVS 2017 use the term 'allocation of value' or 'apportionment of value' or both?

Question 9: Should it be mandatory for the valuer to state the reason for the sum of the assets/components being greater or less than the whole as stated in 220.3? If not, please provide your reasoning.

Question 10: Section 220.4 states that "If the value of the asset includes an element of assemblage value or portfolio premium/discount the valuer must report the overall value separately from the value of the individual assets or components." Are there any instances where you feel that this is not the case, if so, please provide examples?

Question 11: Section 220 has been drafted to apply to all specialisms. Should additional Information be Included within the Assets Standards for Business Valuation, Financial Instruments or Tangible Assets? If yes, please provide examples of the initial information to be included.



Question 12: Do you think that IVS should include a section within the General Standards on Modelling for Valuation purposes? If not, please provide your reasoning.

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Question 17: Do you agree with Section 80.3 that *"when using a valuation model the valuer must take responsibility for the output of valuation model and keep appropriate records to support the selection of the model?"* If not, please provide instances when this is not the case.

Question 18: Do you feel that additional valuation standards on valuation modelling are required within the Asset Standards (ie IVS 200Businesses and Business Interests, IVS 400 Real Property Interests, IVS 500 Financial Instruments)? If so, please provide an indication of the proposed content and where within the IVS Asset Standards you think this additional content should be contained.