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A BRIDGE FROM USPAP TO IVS 2018

A Guide to Producing IVS-Compliant Appraisals

**INTERNATIONAL VALUATION
STANDARDS COUNCIL**



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Executive Summary

If compliance with the International Valuation Standards is appropriate or required for a specific assignment, appraisers who are accustomed to providing USPAP-compliant appraisals are a step ahead. This document describes additional steps to be taken by appraisers already accustomed to providing USPAP-compliant appraisals to make valuations IVS-compliant. Importantly, the process begins at the outset of the assignment by providing a scope of work document to the client (appraisals, once communicated to the client/intended users, cannot be made IVS-compliant retroactively.) Necessary scope of work components vary based on the item being valued and the intended use of the assignment results. This document has been updated to reflect revised editions of IVS and USPAP.

Introduction

International Valuation Standards (IVS) – The IVS are valuation standards for assets and liabilities on a global basis. The IVS are published by the International Valuation Standards Council (IVSC), who began publishing international standards in the 1990's. IVSC does not require compliance with IVS. Compliance is a matter of choice, agreement or regulation by another authority. The use of the IVS continues to grow as the global economy becomes increasingly interconnected. The International Valuation Standards can be obtained at www.ivsc.org.

Uniform Standards of Professional Appraisal Practice (USPAP) – USPAP are valuation standards for assets and liabilities. While not necessarily limited to the United States, USPAP are not created as international standards. USPAP is published by The Appraisal Foundation (TAF), who began publishing USPAP in 1989. TAF does not require compliance with USPAP. USPAP compliance is a matter of choice, agreement or regulation by another authority. Also, TAF does not require compliance with IVS. USPAP can be obtained at www.appraisalfoundation.org.

As the use of the International Valuation Standards grows, there will be both an increasing need for appraisers to meet the requirements and increasing opportunities for those appraisers able to do so. Fortunately, for appraisers already accustomed to USPAP, the two standards are quite similar.

More Similar than Different

Recognizing that public trust in the Valuation Profession is enhanced by having a common set of valuation standards, The Appraisal Foundation and the International Valuation Standards Council have been collaborating in the development of standards for years.

Many differences in the standards are superficial and are due to different presentation and organization. Some differences are unavoidable because the IVS have to be applicable across the globe, whereas USPAP is designed for use within the United States and has to reflect U.S. law and practice.

In the end, both are remarkably similar. Both address the development of a valuation opinion based on an appropriate scope of work. Both address report content and file documentation. Both address the competency and independence of the appraiser. As a result, an appraiser accustomed to providing USPAP-compliant appraisal reports should not have much difficulty in also meeting the requirements of the International Valuation Standards.

Numerous, detailed, side by side comparisons have been created over the years by both organizations. Such detailed comparisons are academically interesting, but do not provide a clear answer to the appraiser of “what do I need to do?”

Which USPAP/Which IVS?

This guide was created considering the requirements of the current IVS 2017 edition, which became effective July 1, 2017, and the requirements of the 2018/19 edition of USPAP, which became effective January 1, 2018.

What is addressed in this Guide?

USPAP has some requirements that do not appear in the IVS, and vice versa. It is the continuing view of the Standards Boards of both organizations that none of the additional requirements in USPAP conflict with the IVS and therefore do not present a barrier to compliance. So, when a valuation needs to be compliant with IVS, by following USPAP standards, compliance with IVS is well within reach. This guide therefore focuses on requirements in the IVS that do not appear in USPAP.

What is not addressed in this Guide?

This guide does not focus on all the areas issues in which IVS and USPAP have effectively the same requirements, nor issues in which USPAP has an additional requirement. Some critical aspects, such as work files, are discussed to acknowledge these areas have been considered.

This guide does not discuss any topics that the IVS covers but are not currently addressed by USPAP.

IVS Structure

IVS includes a Glossary, Framework, five general standards (IVS 101, 102, 103, 104 and 105) that apply to all assignments, and six asset standards (IVS 200, 210, 300, 400, 410 and 500) that apply depending upon the type of asset being valued.

IVS Glossary

Both standards include a glossary or definitions section. USPAP contains a Definitions section covering 36 terms whereas IVS contain a Glossary currently addressing 14 terms. Both standards differentiate obligations on appraisers by intentional use of: “must,” “should” and “may.” These verbs are defined in the IVS glossary. The IVS glossary also defines “significant” and/or “material.” Aspects of valuation are considered significant if their application or impact on the valuation could influence the economic or other decisions of users of the valuation. In IVS, the term “valuer” is used rather than “appraiser.” Also, in the IVS glossary, a valuer can be an individual, a group of individuals or a firm, whereas in USPAP an appraiser is always an individual.

IVS Framework

The IVS contain a framework that includes over-arching requirements for all valuations such as valuer objectivity and competence. The Framework also addresses departure, which will be discussed further in this document.

USPAP includes an Ethics Rule that addresses an appraiser’s conduct, contingency fees or commissions paid and confidentiality. The IVS Framework states that it is a fundamental expectation that when applying the standards there are appropriate controls in place to ensure objectivity and freedom from bias, and that the valuer is competent. The IVSC has published the *Code of Ethical Principles for Professional Valuers* (the *Code*) and is a member of the International Ethics Standards Coalition (www.ies-coalition.org). This Code is intentionally and necessarily separate from the International Valuation Standards reflecting the fact that the IVS are designed to be adopted and used by organizations working under different ethical codes throughout the world. These necessarily differ in detail because of differences in the way the appraisal profession is regulated. An appraiser complying with the USPAP Ethics Rule will comply with the Fundamental Principles of the IVSC *Code of Ethical Principles for Professional Valuers*.

Competency

Both standards require that the appraiser be competent. USPAP permits an appraiser to acquire competency by either association with or retention of others reasonably believed to be competent, or by personal study. The requirements in IVS only permit the appraiser to seek assistance from others. Therefore, when undertaking an IVS assignment there is a higher need to associate with other appraisers to achieve competency. Such association must be disclosed in the IVS Scope of Work and in the report.

In IVS, the appraiser must have the technical skills, experience, and working knowledge to understand, interpret, and utilize the work of any specialists.

USPAP Jurisdictional Exception = IVS Departure

A *jurisdictional exception* in USPAP is considered a *departure* in the IVS. Note that USPAP does not require use of the term *jurisdictional exception* (JE). The two standards are very similar regarding what can create a JE and both require disclosure in the report of what part of the standard was not followed due to the JE/Departure. In IVS, the departure must also be identified in the Scope of Work. USPAP is more restrictive in that the appraiser is to cite in the report the

law or regulation requiring any exception to USPAP, whereas in IVS, the valuer is to disclose the specific legislative, regulatory requirements if the departures significantly affect the nature of the procedures performed, the inputs and assumptions used and/or the valuation conclusions. Therefore complying with the Jurisdictional Exception Rule in USPAP, will result in compliance with IVS requirements.

No Other Departures

Note that similar to USPAP, IVS does not permit *departures* other than those described above. This is a fundamental change in the 2017 edition of IVS as prior editions had permitted departures not resulting from law or regulation.

Compliance with USPAP does not represent a departure from IVS.

Valuation Record

Both standards require a valuation record or a work file be retained, however the IVS standards are less stringent. IVS requires that a record must be kept of the work performed including the key inputs, all calculations, investigations and analysis relevant to the final conclusion. However, while in USPAP, a signed copy of the valuation report transmitted to the client must be included in the workfile, IVS permits either a copy of any draft of the valuation report or a copy of the final report provided to the client and does not require that the report retained in the work file be signed.

Assumptions

The two standards use different terminology for assumptions but share very similar requirements but there are some differences.

USPAP has *Extraordinary Assumptions* and *Hypothetical Conditions*.

IVS has *Assumptions* and *Special Assumptions*. Further, if an *Assumption* could reasonably be expected to influence the decisions of users of the valuation, it would be labelled a “significant” *Assumption*.

An *Extraordinary Assumption* in USPAP would be considered a significant *Assumption* in IVS. A *Hypothetical Condition* in USPAP would be considered a *Special Assumption* in IVS.

If creating a report to satisfy both USPAP and IVS, you must use the IVS terminology because while USPAP does not require use of the terms, IVS does.

The following table provides a summarized comparison:

	USPAP	IVS
Definitions:	“Assumption” is no longer a defined term in USPAP.	<i>Assumption</i> – assumed facts that are consistent with or could be consistent with those existing at the date of the valuation.
	<i>Extraordinary Assumption</i> - an assignment-specific assumption as of the effective date of the assignment results regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions.	An <i>Extraordinary Assumption</i> would be considered a “ <i>significant</i> ” <i>Assumption</i> in IVS.
	<i>Hypothetical Condition</i> - a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.	<i>Special Assumption</i> – assumed facts that differ from those existing at the date of the valuation or are different from what a typical participant would make.
Required to use the terms?	No	Yes
When acceptable to use	<ul style="list-style-type: none"> • Extraordinary Assumptions – when required to develop credible opinions, appraiser has a reasonable basis for use, and use results in a credible analysis; • Hypothetical Conditions – when required to develop credible opinions, for legal purposes, for reasonable analysis, for purposes of comparison and use results in credible analysis. 	When they are reasonable, supported by evidence, and relevant for the intended use.
Disclosure	<ul style="list-style-type: none"> • “Clearly and conspicuously” state in appraisal report and • State that “their use might have affected the assignment results.” 	<ul style="list-style-type: none"> • Disclose in Scope of Work (see next section) and • Disclose in Report.

Note that the valuation date is the date on which the opinion of value applies (i.e., the date of value).

IVS 101 Scope of Work

IVS Compliance Starts at the Beginning

Both sets of standards have requirements regarding the proper initiation of the assignment with the intent to ensure appropriate awareness and understanding by both client and appraiser. Similar to USPAP, the IVS have requirements that apply from the outset and throughout the valuation process.

However, compared with USPAP, the IVS have more extensive requirements for the initiation of the assignment by communicating with the client via a Scope of Work. The term “Scope of Work” is used more broadly in IVS than it is in USPAP.

In USPAP, the scope of work is a process encompassing what the appraiser does to develop an opinion that is credible to the client and intended users. Under USPAP, an appraiser must begin to develop the scope of work prior to beginning the assignment by identifying the problem to be solved; however, the appraiser is not required to disclose the full scope of work that was conducted to the client/intended user(s) until the report is communicated.

However, in IVS, the Scope of Work (SOW) can be considered the terms of engagement and encompasses not only the work to be conducted in developing the assignment results but also all matters that should be disclosed to the client at the start of the assignment and must be disclosed before the assignment is completed. In IVS, the appraiser must ensure that the client and intended users of the valuation understand what is to be provided and any limitations on its use before it is finalized and reported. The SOW should be in writing and provided to the client at the beginning of the valuation assignment. The SOW must be described in the report.

USPAP does not have this requirement. Consequently, a USPAP-compliant appraisal report without the communication of the Scope of Work to the client prior to assignment completion cannot be subsequently made into an IVS-compliant valuation. IVS compliance truly starts at the beginning of the assignment.

The following provides the requirements for all assignments under IVS. Additional requirements depending upon the subject of the valuation and the nature of the assignment are discussed further below.

The Scope of Work (IVS) for all assignments must:

- Identify the appraiser.
- Disclose whether the appraiser has any material connection with the subject of the assignment or the other parties to the valuation assignment.
- If the appraiser needs material assistance from others, state the nature of such assistance and the extent of the reliance on that assistance.

- Identify the client, if any (since the Scope of Work must be described in the appraisal report, there is effectively no provision in IVS for the client identity to remain confidential, although the report itself can be confidential to the specific party or parties).
- Identify of any other intended users
- Identify the asset or liability to be valued.
- State the currency to be used for the valuation.
- State the purpose of the valuation.
- State the basis/bases of value. Either cite the source of the definition or define the basis of value.
- State the date of value. This is different from the date of the valuation report.
- State the nature and extent of the appraiser's work.
- Identify any limitations or restrictions on the inspection inquiry and/or analysis in valuation assignment.
- Identify relevant information that is not available due to conditions of the assignment and assumptions and special assumptions made as a result.
- Identify assumptions and special assumptions.
- If the subject is used in conjunction with other assets, state whether the other assets are included, excluded but assumed to be available or assumed not to be available.
- State any limitations or restrictions on the inspection, inquiry and analysis. Note that if limitations on investigations are so substantial that the appraiser cannot sufficiently evaluate inputs and assumptions, the valuation must not state it has been prepared in compliance with IVS.
- 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. Identify all *significant assumptions* and *special assumptions*.
- Describe the report format. The client should agree with the report format.
- Communicate any restrictions on use, distribution and publication of the valuation report and those relying upon it.
- State that the valuation will be prepared in compliance with IVS and that the appraiser will assess the appropriateness of all significant inputs.
- Explain the nature of any departures.

The IVS do not prescribe the form of any document such as the Scope of Work, only the topics to be addressed. A number of items are likely included in an appraiser's standard terms and conditions of engagement while others may need to be addressed on a case-by-case basis.

Also, while these items must be communicated to the client, the client's agreement is not a requirement. Just like in USPAP, the appraiser is ultimately responsible to ensure that the terms of the assignment are appropriate for the intended use of the valuation assignment results.

Changes to the Scope of Work

Some items may not be known at the outset, (e.g. sources of information or necessary assumptions), and changes to the scope of work may become necessary during the assignment.

Accordingly, the Scope of Work under IVS may be revised as appropriate and those revisions must be communicated to the client before the assignment is completed and the valuation report issued.

The Scope of Work for Valuations of Businesses and Business Interests Must Also Include:

- A definition of the business or business interest being valued, even when the valuation is performed on an entire entity.

The Scope of Work for Valuations of Plant and Equipment Must Also Include:

- A clear definition of what is to be included and excluded from the valuation in situations when the plant and equipment is attached to or integrated with other assets; such as when the asset is permanently attached to the land and could not be removed without substantial demolition of either the asset or any surrounding structure or building or when an individual asset is part of an integrated production line where its functionality is dependent upon other assets.
- A statement of *special assumptions* relating to the availability of any complementary assets.
- If the valuation is to include plant and equipment that normally form part of the real property interest and if the valuation requires that these be valued separately, a statement that the value of these items is normally included in the real property interest and may not be separately realizable.
- A disclosure of necessary assumptions regarding the state and circumstances in which the assets are valued such as:
 - The plant and equipment assets are valued as whole in place and as part of the business as an operating business.
 - The plant and equipment assets are valued as a whole in place but on the assumption that the business is not yet in production.
 - The plant and equipment assets are valued as a whole in place but on the assumption that the business is closed.
 - The plant and equipment assets are valued as a whole in place but on the assumption that it is a forced sale.
 - That the plant and equipment assets are valued as individual items for removal from their current location.

The Scope of Work for Valuation of Real Property Interests Must Also:

- Describe the real property interest to be valued.
- Identify any superior or subordinate interests that affect the interest to be valued.
- Consider the evidence required to verify the real property interest and any relevant related interests.
- Consider the extent of any inspection

- Address:
 - The responsibility for information on the site area and any building floor areas.
 - The responsibility for confirming the specification and condition of any building.
 - The extent of investigation into the nature, specification and adequacy of services.
 - The existence of any information on ground and foundation conditions.
 - The responsibility of the identification of actual or potential environmental risks.
 - Legal permissions or restrictions on the use of the property and any buildings as well as any expected or potential changes to legal permissions and restrictions.
- Specify any special assumptions such as if a proposed building is valued as if already completed, if a vacant building has been leased, or if the property is free from environmental contamination as of the date of valuation.

The Scope of Work for Valuations of Financial Instruments Must Also:

- When the valuation is being undertaken by the holding entity and is for use by external investors, regulatory authorities or other entities, reference must be made to the control environment in place.
- Identify the class or classes of instrument to be valued;
- Identify whether the valuation is to be of individual instruments or a portfolio and
- Identify the unit of account.

IVS 102 Investigations and Compliance

This is a new standard in the 2017 edition of the IVS. This standard describes requirements for investigations conducted by the appraiser, reliance upon information provided by others, requirements to maintain a work file, and compliance with other standards. IVS 102 does not represent requirements above those in USPAP.

IVS 103 Reporting

The reporting requirements under IVS and USPAP are very similar.

Restricted Appraisal Report Formats – An appraisal report meeting the minimum USPAP Restricted Appraisal Report requirements will not meet IVS requirements. IVS has flexibility to allow less detailed reports, but more would be required compared with the USPAP minimum Restricted Appraisal Report format requirements.

IVS report *must* be sufficient to communicate to the intended users the scope of the valuation assignment, the work performed, and the conclusions reached.

The report *should* be sufficient for an appropriately experienced valuation professional with no prior involvement with the valuation engagement to review the report and understand the scope of work, valuation approaches and methods, key inputs, assumptions conclusions, and principal reasons for the conclusions.

Appraisal Report Formats - A USPAP-compliant Appraisal Report can easily meet IVS requirements by addressing the following:

All Reports Must Contain:

- A clear and accurate description of the scope of work.
- Disclose any *special assumptions* and significant uncertainty that directly affect the valuation.
- Explicit disclosure of any limitations on the extent of any investigations, as per the scope of work. USPAP requires that the report disclose all limiting conditions and the scope of work actually performed, whereas IVS requires disclosure of limitations described in the scope of work.
- Identification of any departure from IVS and the justification for the departure. (A departure is not justified if the valuation is misleading). Also, if the departure significantly affects the nature of the procedures performed, the inputs and assumptions used and/or the valuation conclusions, the specific legislative, regulatory or other authoritative requirements and the way they differ from the requirements of IVS are to be disclosed.

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

Also, the IVS state that the report should be sufficient for an appropriately experienced valuation professional with no prior involvement with the valuation engagement to review and understand the report.

Additional Report Requirements for Valuation Review Reports

- None; however, it is noted the report requirements for valuation review reports may be explicitly included in the report or incorporated by reference to other documents.

Additional Report Requirements for Plant and Equipment

- Comment on the effect on the reported value of any associated tangible or intangible assets excluded from the valuation.

Additional Report Requirements for Valuations of Real Property Interests

- None, however the additional real property interest scope of work items are to be reported.

Additional Report Requirements for Valuations of Development Property

- None, however, the additional development property scope of work items are to be reported.

Additional Report Requirements for Financial Instruments

- IVS notes that the degree of report detail varies for different categories of financial instruments.
- Sufficient information should be provided to allow users to understand the nature of each class of instrument valued and the primary factors influencing the values.
- Information that obscures the primary factors influencing value must be avoided.

IVS 104 Bases of Value

This is a new section in the 2017 edition of the IVS. The IVS permit the appraiser to choose the bases of value to be used in the valuation. This basis of value is similar to a USPAP “type” of value. IVS 104 includes IVS definitions of six bases of value [Market Value, Market Rent, Equitable Value, Investment Value/Worth, Synergistic Value and Liquidation Value], a discussion of Highest and Best Use, and a discussion of *Assumptions* and *Special Assumptions*. IVS does not require an appraiser to use an IVS-defined basis of value. As in USPAP, the selected basis or type of value must be appropriate for the purpose of the valuation, and the appraiser must either provide the definition of the basis of value, explain the basis of value, or cite the source of the basis of value.

IVS 105 Valuation Approaches and Methods

This is a new section in the 2017 edition of the IVS. This section provides a description of and guidance regarding the three approaches to value as well as a discussion of depreciation and obsolescence. In the IVS, when the comparable market information does not relate to the exact or substantially same asset being valued, the appraiser must perform a comparative analysis of qualitative and quantitative similarities and differences between the comparable sales and the subject being appraised.

Asset Standards

The IVS include six standards that provide guidance and requirements specific to different items being valued:

1. IVS 200 Business and Business Interests
2. IVS 210 Intangible Assets
3. IVS 300 Plant and Equipment
4. IVS 400 Real Property Interests
5. IVS 410 Development Property
6. IVS 500 Financial Instruments

These six standards present some additional requirements concerning the Scope of Work, which have been previously presented in this guide. The balance of the standards provide guidance as to what an appraiser should do and do not present requirements above those of USPAP.

Conclusion

In conclusion, since the objective of both USPAP and IVS is to maintain Public Trust in the valuation process, it is not surprising the two standards are more similar than different.

As a result, appraisers who are accustomed to providing USPAP-compliant appraisals should have little trouble meeting IVS standards.

You can use the links below in order to sign up for enews from both organizations to keep up to date with exposure drafts and notices about IVS and USPAP:

International Valuation Standards Council: <https://www.ivsc.org/contact>

The Appraisal Foundation: <http://tafzone.org/tafforms/tafnews/taf-signup-form.html>



About the International Valuation Standards Council (IVSC)

The International Valuation Standards Council (IVSC) is an independent, not-for-profit, private sector organisation. As the established international standard setter for valuation, the IVSC develops and maintains standards for the reporting and disclosure of valuations, especially those that will be relied upon by investors and other third party stakeholders in financial statements or other published documents.

It is developing a framework of guidance on best practice for valuations of the various classes of assets and liabilities. To promote the consistent delivery of the standards by properly trained professionals around the globe, the IVSC is also establishing international benchmarks for the conduct and competency of professional valuers.

The governance structure of the IVSC includes two independent technical Boards – the International Valuation Standards Board and the International Valuation Professional Board – and a global Board of Trustees responsible for the overall strategic direction and funding of the IVSC.

For more information please visit: www.ivsc.org.



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About The Appraisal Foundation

The Appraisal Foundation is the nation's foremost authority on the valuation profession. The organization sets the Congressionally-authorized standards and qualifications for real estate appraisers, and provides voluntary guidance on recognized valuation methods and techniques for all valuation professionals. This work advances the profession by ensuring appraisals are independent, consistent, and objective.

More information on The Appraisal Foundation is available at www.appraisalfoundation.org.





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