

# Valuation Reviews

## Project Brief

The International Valuation Standards Council (IVSC) is an independent, not-for-profit, private sector organisation that has a remit to serve the public interest. The IVSC's objective is to build confidence and public trust in the valuation process by creating a framework for the delivery of credible valuation opinions by suitably trained valuation professionals acting in an ethical manner.

The IVSC achieves this objective by:

- (a) creating and maintaining the International Valuation Standards (IVSs);
- (b) issuing technical guidance for professional valuers; and
- (c) promoting the development of the valuation profession and ethical practices globally.

The IVSC Standards Board has identified the possible need for the International Valuation Standards to specifically address the subject of valuation reviews, ie an assignment that involves providing advice about a valuation opinion provided by another party but which may not involve either the same level of investigation as the original valuation or the provision of a second valuation opinion.

This paper describes the reasons for the project and identifies matters that Board believes need to be addressed.

The Board appointed Tom Boyle to lead this project, with assistance from Nova Chan and Cindy Ma. The Professional Board has nominated Greg Forsythe to represent it in this project.

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## THE ISSUE

1. The 2007 edition of the International Valuation Standards (IVSs), and earlier editions, included GN11 *Reviewing Valuations*. No equivalent was carried forward in the suite of improved IVSs published in 2011 for the following reasons:
  - The new IVSs for the first time included a standard on Scope of Work (IVS 101) that requires any limitations or restrictions on the valuer's enquiries to be recorded, any assumptions to be made to be stated and the sources of information on which the valuer will rely to be identified. It also includes a requirement to identify the "format" of the report. Virtually all of the material provisions in the former GN11 were therefore covered in the new IVS 101.
  - That the IVSs should not attempt to define specific valuation "products" or forms of report. The principles in IVS 101 *Scope of Work* and IVS 103 *Reporting* are applicable to an almost unlimited range of valuation assignments and reports. To start defining different types of valuation assignment would inevitably raise questions about the applicability of the standards to assignments that were not expressly identified.
  - The question of when the IVSs apply and to what type of valuations is a matter for those adopting them.
2. It has been suggested that a "valuation review" differs from other types of valuation assignment because it does necessarily include the provision of a valuation opinion by the reviewer. Some argue that if no valuation is provided then the assignment falls outside the scope of the IVSs because IVS 103 requires a valuation to be included in the report. However, others take the view that the IVSs do, or should, relate to all types of valuation assignment, and that the provision of a valuation opinion should not be the sole criteria for whether or not the IVSs apply.
3. It is noted that the Exposure Draft "The Role of the Professional Valuer in the Audit Process" published in June 2012 takes the latter position. In para 27 it proposes that even though a valuation report wholly in accordance with IVS 103 may not be required by the auditor, the remaining IVSs are applicable.

## BOARD DISCUSSION

4. The Board agreed at its meeting in June 2012 that there was potentially an ambiguity in the applicability of the IVSs to valuation reviews. The Board also agreed that there was a potential threat to the public interest if inappropriate reliance was placed on a valuation on account of it having been reviewed, when that review was of such limited scope that it could offer little assurance. An example given was where a valuer was asked to comment on a discount rate without reviewing the financial projections to which the rate would be applied. The Board agreed that there was probably a case for the standards to include some prohibition on providing an opinion based on limited investigation which provided inappropriate comfort to the recipient.
5. The Board noted that the Appraisal Foundation in the USA has developed a separate standard in the Uniform Standards of Professional Appraisal Practice (USPAP), Standard 3 *Appraisal Review, Development and Reporting*. In contrast to the IVSs, USPAP does define different types of valuation assignment and produces separate standards for each. Besides "Appraisal Review" there are standards for "Appraisal", "Appraisal Consulting" and "Mass Appraisal". These standards share many identical or similar rules, with the differences being in the detail of the matters that have to be dealt with in developing and reporting. It should be noted that the

USPAP standards rules have more prescriptive detail than the equivalent IVSs, which creates the need for different detailed rules for different types of work.

6. The Board agreed that while a separate IVS on valuation reviews was probably not required, it would be appropriate to look at either modifying or creating an addendum to IVS 101 and possibly IVS 103 to clarify the steps and safeguards required when a valuation opinion is not being provided.

## **PROCESS**

7. The Board agreed that the Working Group, in conjunction with the Technical Director, should bring forward recommendations for alterations or additional material to cover valuation reviews for consideration by the Board at its meeting on 26 October 2012.
8. Since the probable outcome of the project will primarily involve the clarification or extension of principles already covered in the standards the Board does not consider that a Discussion Paper will be required but that otherwise the project will follow the IVSC Due Process.