INTERNATIONAL VALUATION STANDARDS COUNCIL

Structure and Scope of the International Valuation Standards

Consultation Paper

Comments on this Consultation Paper are invited before **10 October 2014**. 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, United Kingdom.

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1 King Street
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Notes for respondents:

In order for us to analyse and give due weight to your comments, please observe the following:

- Responses should be made in letter format, where appropriate on the organisation's letter heading. Respondents should indicate the nature of their business and the main purpose for which provide or rely on valuations.
- Comments should not be submitted on an edited version of the Consultation Paper.
- Unless anonymity is requested, all comments received may be displayed on the IVSC website.
- Comment letters should be sent as an email attachment in either MS Word or an unsecured PDF format and no larger than 1MB. All documents provided will be converted to secured PDF files before being placed on the website.
- The email should be sent to **commentletters@ivsc.org** with the words "Structure and Scope Consultation" included in the subject line.
- Please submit comments before **10 October 2014**.

Structure and Scope of the International Valuation Standards

Contents

Consultation

Introduction

1. The objectives of the International Valuation Standards ("IVSs") are:

   Building Confidence and Trust: The Board has issued and maintains requirements for providing transparency in the setting up, execution and reporting of valuation assignments, including appropriate disclosures.

   Narrowing Differences in Valuation: The Board undertakes projects to identify matters that require consideration when valuing different types of asset for various purposes, to identify generally accepted methods of valuation for different types of asset or liability and the circumstances under which their use is appropriate.

   Promoting Convergence: The Board will continue to consider any changes to the current International Valuation Standards that will assist their increased use and adoption.

2. In support of these objectives the Board wishes to ensure that the IVSs are presented in the clearest possible manner. This consultation is aimed at seeking views on the current structure of the IVSs and whether clarity could be improved by making changes.

3. Integral to any discussion on the structure of the standards is consideration of the different types of pronouncement that are required to achieve the objectives above. It is generally recognised that valuation is a discipline that requires judgement. The opening paragraph of the IVS Framework states:

   Applying the principles in these standards to specific situations will require the exercise of judgement. That judgement must be applied objectively and should not be used to overstate or understate the valuation result. Judgement shall be exercised having regard to the purpose of the valuation, the basis of value and any other assumptions applicable to the valuation.

4. The standards contain certain requirements that have to be followed when undertaking valuation assignments that fall within the scope of the standard. However, judgement requires choosing the most appropriate course of action from possible alternatives following analysis of the specific facts and circumstances of the assignment. The standards cannot contain rules that prevent or limit the proper use of judgement. If the objective of narrowing differences in the valuations of similar assets is to be met, something other than a list of requirements is needed in order to provide guidance on the exercise of judgement in different situations. Consideration of the appropriate structure therefore also requires consideration of the type and scope of pronouncements that should be included within the standards.

5. This paper explains the rationale for the current structure, examines some criticisms that have been made of it and looks at how other international standard setters in the financial sector structure their standards. This paper is focused solely on the scope and presentation of standards, not on the topics included or the detailed content. A separate Agenda Consultation is being undertaken on topics which the Board should consider for future inclusion in the standards.

Background to Current Structure

6. The Standards Improvement project that the Board undertook between 2009 and 2011 followed recommendations made by the independent Critical Review Group that had been established in 2007. Among the key recommendations of this review was that the term "International Valuation Standards" should apply to all pronouncements, not just to a limited number, and that all pronouncements should carry equal weight. The Board broadly accepted this recommendation, although it still considered that different categories of pronouncement were necessary in order to distinguish between those that contained requirements that were intended to be of mandatory application and those that provided explanatory information to support the consistent application of those requirements.

7. In the Exposure Draft (ED) issued in mid 2010, respondents were specifically questioned on the proposed structure. The feedback received on the ED contained a significant range of views; a few considered the proposed new standards to be too detailed but a greater number wanted more guidance to support the standards. However, a common theme was that most respondents wanted the new standards to clearly distinguish between mandatory requirements and supporting information and guidance.

8. The Board considered the various views and made some further structural changes, including the placing of all conceptual material that was considered essential to the proper understanding and application of the individual standards into the "IVS Framework" and, within each standard, making a clear separation between the mandatory requirements and all supporting information and guidance.

The Current Structure

9. The IVSs currently have five distinct types of pronouncement that make up the IVSs. This are how they are currently described in the Introduction to the 2013 edition of the IVSs:

The IVS Framework

This serves as a preamble to all the other IVS standards. The IVS Framework sets forth generally accepted valuation principles and concepts that are to be followed when applying the other standards. The IVS Framework does not include any procedural requirements.

IVS General Standards

These set forth requirements for the undertaking of all valuation assignments, except as modified by an Asset Standard or a Valuation Application. They are designed to be applicable to valuations of all types of assets and for any valuation purpose to which the standards are applied.

IVS Asset Standards

The Asset Standards include requirements and a commentary. The requirements set forth any additions to or modifications of the requirements in the General Standards together with illustrations of how the principles in the General Standards are generally applied to that class of asset. The commentary provides background information on the characteristics of each asset type that influence value and identifies the common valuation approaches and methods used.

IVS Valuation Applications

Valuation Applications address common purposes for which valuations are required. Each includes requirements and a guidance section. The requirements set forth any additions to or modifications of the requirements in the General Standards together with illustrations of how the principles in the General Standards and Asset Standards apply when undertaking valuations for that purpose. The guidance section provides information on:

- the valuation requirements of internationally applicable regulations or standards issued by other bodies, eg International Financial Reporting Standards,
- other commonly accepted requirements for valuations for that purpose,
- appropriate valuation procedures to meet these requirements.

Technical Information Papers

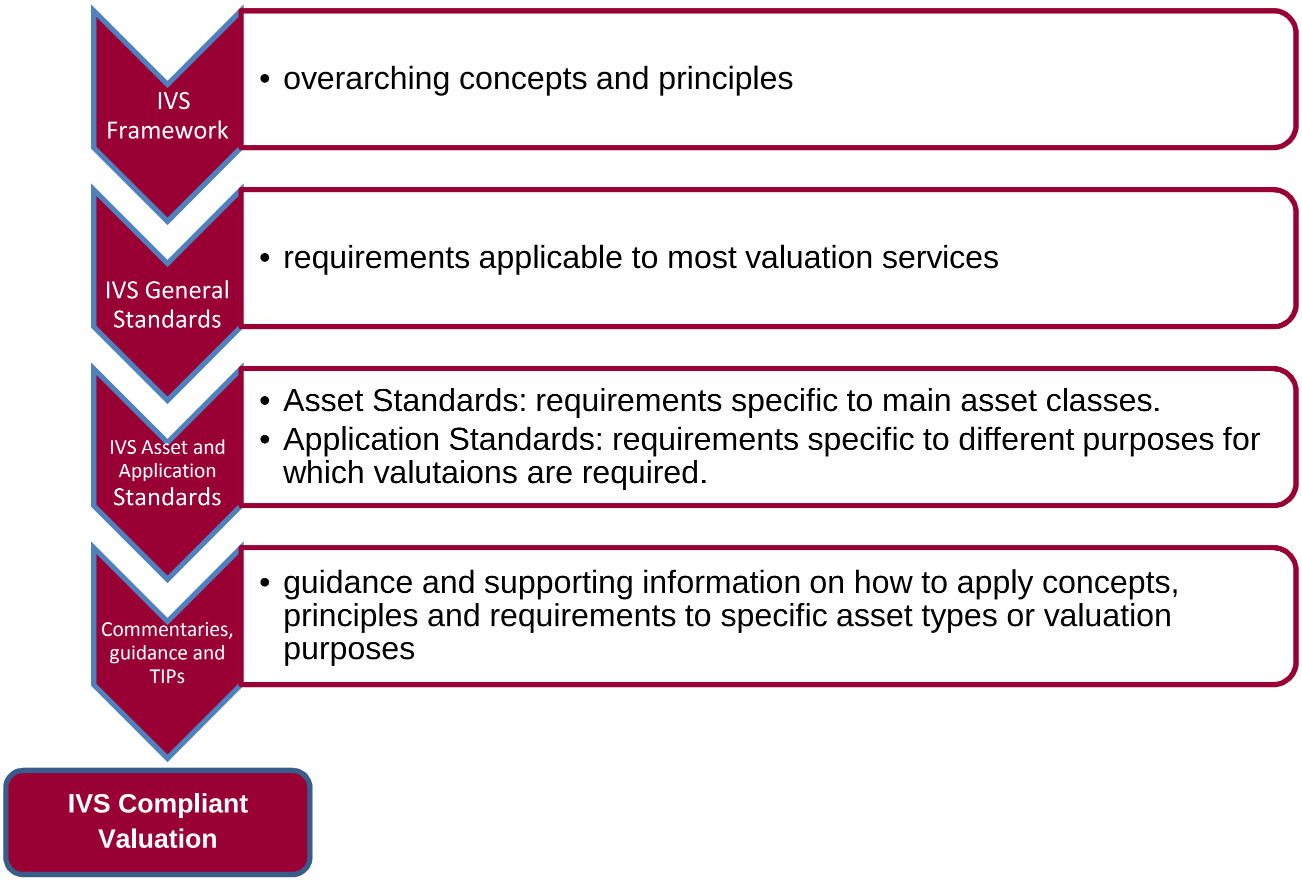
Technical Information Papers (TIPs) support the application of the requirements in one or more of the other standards. A TIP will do one or more of the following:

- Provide information on the characteristics of different types of asset that are relevant to value.
- Provide information on appropriate valuation methods and their application in different situations.
- Provide additional detail on matters identified in another standard.
- Provide information to support the judgement required in reaching a valuation conclusion in different situations.

A TIP may provide guidance on approaches that may be suitable but will not prescribe or mandate the use of a particular approach in any specific situation. The intent is to provide information to assist an experienced valuer decide which is the most appropriate course of action to take.

A TIP is not intended to provide training or instruction for readers unfamiliar with the subject and will be primarily focussed on practical applications. A TIP is not a text book or an academic discussion on its subject, and neither will it endorse or reference such texts.

10. The functional relationship and between these various components can be presented diagrammatically thus:



Technical Information Papers

11. The title “Technical Information Paper” (TIP) was introduced during the Standards Improvement project. Initially this was applied to updated and reissued material that had previously been included in earlier editions of the IVSs as “Guidance Notes” (GNs). The name was changed to avoid confusion with the old GNs because not all were being carried forward and an entirely new numbering protocol had been introduced for the standards.

12. So far four TIPs have been issued:

- TIP 1 *Discounted Cash Flow* – this is an update of the former GN 9 altered to extend its scope and relevance to business valuation as well as real property.
- TIP 2 *The Cost Approach for Tangible Assets* – this is an update of the former GN 8.
- TIP 3 *Intangible Assets* – prior to the introduction of the new IVSs in 2011, the contents of IVS 210 and TIP 3 had originally been issued as GN 16 in 2010. This was a presentational change to maintain consistency with the format adopted for the new standards.
- TIP 4 *Valuation Uncertainty* – this provides information and guidance to explain and support the consistent application of the requirement in IVS 103 to disclose material valuation uncertainty.

13. In earlier editions of the IVSs it was stated that although individual Standards, Applications or Guidance Notes may be published as separate sections, each is a component part of the entirety. It was also stated that the Standards, Applications and Guidance Notes had equal authority.[1] Although the title of the GNs was changed to TIPs the Board did not propose that the status of the material should change.

14. The introduction to the edition of the IVSs issued in July 2013 confirmed that when a statement is made that a valuation will be, or has been, undertaken in accordance with the IVSs it is implicit that all relevant standards are complied with and due account taken of any supporting guidance issued by the IVSC. The intent of this statement is the same as that appearing in earlier editions of the standards as referenced in paragraph 13 above.

Issues Identified

15. Continuing representations to the Board indicate that some constituents remain unclear as to the intended status of and relationship between the various parts of the standards. Among some of the issues identified are:

15.1 Should the word “standard” be reserved solely for rules that are intended to be mandatory?

It is apparent that some believe that a “standard” should only consist of rules or principles that are intended to be mandatory. Those who support this view consider that the word

[1] IVS 2007 pp9 -10

"standard" is synonymous with "rule". They believe that any additional guidance intended to support the application of the rules or principles should be clearly outside of the standards therefore following it is optional.

The contrary view is that this is an inappropriate limitation on the meaning of "standard". Most major English dictionaries list eight or ten alternative meanings for "standard" as a noun (and others when it is an adjective). However, none of these support its usage solely as a synonym for a rule. The meaning that arises most often and that is relevant to this context is "a required or agreed level of quality or attainment". Achieving a required level of quality may require compliance with rules but in many cases compliance with rules alone is not in itself sufficient. This restricted meaning is also inconsistent with the way it is used in other sets of international standards issued in the financial sector and referenced in this Consultation, see paragraph 16.

This consultation will seek to determine which of these views is supported by users of the IVSs.

15.2 There are different views as to what is meant by "mandatory" in the context of standards.

Some believe that only rules and principles that are expressed in imperative language, eg that a report shall contain a certain statement or disclosure can be regarded as mandatory. All other material that uses permissive language, eg that a certain approach may be appropriate under certain circumstances, is optional and cannot form part of the standards. Some supporters of this view then conclude that the parts of the standards that are not phrased imperatively as rules are effectively voluntary and can be disregarded without affecting the integrity of the standards.

Others consider that adherence to a whole set of standards can be mandatory, notwithstanding the fact that some parts use imperative language and other parts permissive language. They consider that while parts of a standard may require certain actions to be mandatory, if other parts provide guidance on various approaches that may be appropriate it can still be mandatory to consider this guidance even though it is not prescriptive. They consider that to comply only with a set of principle based rules is a weak form of compliance and that there is a need to consider the options discussed in supporting guidance. Supporters of this view consider that it should be mandatory to have regard to this guidance even if the decision is then made that an alternative approach is justified by the facts of a particular assignment.

This consultation will seek to determine which of these views is supported by users of the IVSs.

15.3 A lack of clarity as to what constitutes a Technical Information Paper and its relationship with the other parts of the standards.

Some have inferred that the TIPs represent a new type of pronouncement by the IVSC. Others have expressed concern that the TIPs could somehow lead to the IVSC producing "educational material". It is also apparent that some do not accept that the TIPs are intended to be part of the standards.

The TIPs are not an entirely new type of pronouncement but a direct evolution of former standards content. The preamble to each TIP indicates clearly that it is not intended to provide training or instruction and the IVSC Trustees have also confirmed that the only educational material that the organisation will produce is in relation to the IVSs themselves, and not on any other aspect of becoming or maintaining competency as a professional valuer.

The Board considered that the standards as a whole would be more accessible and easy to navigate if supporting information and guidance relating to a particular type of asset or topic was contained in a separate pronouncement from the generic high level principles. A further consideration was that some topics arise in more than one standard. Having a separate class of pronouncement within the standards to allow such a topic to be dealt with in a single paper rather than separately wherever it arises in the context of another topic was seen as helping the objective of keeping the standards as concise and easy to follow as possible. The TIPS were developed to fulfil this role.

The Board acknowledges that publishing the TIPs separately from the other parts of the Standards has caused some confusion. While no change in the status of the previous GNs had been proposed, neither was a statement made in IVS 2011 that compliance with the standards required consideration of the supporting guidance because at the time of issue no TIPs had been completed. The Board also recognises that the nature of the material in those TIPs that have so far been published is not consistent and therefore may not all warrant the same status within the standards.

This consultation will seek views on how guidance essential to the proper and consistent application of the principles and requirements in the IVSs can be best presented.

Can we learn from others?

16. As part of its initial deliberations the Board has examined four other sets of international standards that are used in the financial markets:

- the International Financial Reporting Standards (IFRSs),
- the Engagement Standards issued by the International Auditing and Assurance Standards Board (IAASB),
- the International Standards of Actuarial Practice (ISAPs) and
- the Global Investment Performance Standards (GIPS).

17. These four sets of standards have been examined because they are international and therefore have to be applicable across different jurisdictions and legal frameworks. All have some interface with valuation and therefore may be relevant alongside the IVSs for certain types of valuation assignment. All also concern disciplines that require the use of professional

judgement. An overview of each of these sets of standards is included in the Appendices to this Consultation Paper.

18. All have adopted very different structures both from each other and from the IVSs. However, all incorporate requirements that have to be complied with as well as supporting guidance. All use the word "standards" to describe the totality of the components. For example:

- Most IFRSs include appendices, some of which are expressly stated to be an integral part of the standard to which they are appended and carrying the same authority. A pertinent example is Appendix B to IFRS 13 *Fair Value Measurements* which contains "Application Guidance" covering various valuation approaches and concepts. The guidance extends to forty seven paragraphs and is not dissimilar in length or style of content to an IVS TIP. As Application Guidance it is stated to be an integral part of the standard and to carry the same authority as the standard.
- The Introduction to the IAASB Handbook indicates that the basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. It is therefore necessary to consider the entire text of a standard to understand and apply the basic principles and essential procedures.
- The ISAPs describe the whole content of each standard as "guidance". Within each ISAP there are provisions that are mandatory and others that are not mandatory but that may be appropriate in certain circumstances. These are distinguished by the language used. All form part of the standard.
- The GIPS contain "requirements" and "recommendations". Firms applying the GIPS have to comply with the requirements and are encouraged to follow the recommendations. Users of the GIPS also have to comply with guidance statements that are issued separately from the standards.

19. The statements of applicability in the IAASB standards, the GIPs and in certain IFRS appendices have the same intent as the statement in the Introduction to IVS 2013, ie for a valuation to be undertaken in accordance with the IVSs it is implicit that all relevant standards are complied with and due account taken of any supporting guidance issued by the IVSC. In other words, to apply the rules you must also consider the guidance.

20. Some standard setters will issue material with the standards which is expressly stated as not being part of the standard. For example:

- Most IFRSs are issued with an Appendix "Basis for Conclusions" which is stated as "accompanying but not part of the standard".
- ISAP 2 has an Appendix providing typical report contents but it is stated to be for informational purposes only and is not part of the standard.

21. Both the International Auditing Standards (IASs), which are part of the IAASB Engagement Standards, and the GIPS share the protocol used in the IVSs of identifying those parts of the standards that set forth actions that have to be undertaken in order to comply with the standard as "Requirements".

22. Other standard setters use various different titles to describe those parts of their standards that contain material that does not set forth requirements. For example:

- The ISAs follow the Requirements with “Application and Other Explanatory Material”.
- Recent IFRSs have included “Application Guidance”
- GIPS include “Recommendations” and also extensive Appendices setting out examples of compliant work which are part of the standards.

23. The Board notes that while the other standard setters referenced have chosen various different titles to denote requirements and guidance within their standards, or for material which is intended to be outside of the standards, they all make clear statements of the status of each part, ie whether they are included or excluded from the standards.

Consultation

The IVSC Standards Board invites views on the issues raised in this paper and on any other aspect of the way in which the IVSs are structured or presented that respondents believe could be improved to provide greater clarity for users.

Not all questions need to be answered but to assist analysis of responses received please use the question numbers in this paper to indicate to which question your comments relate

Question 1:

Paragraph 15.1 describes two alternative views on what constitutes a “standard”. Please indicate whether you agree with either statement a) or b) below:

a) the word standard in the context of the IVSs should be reserved only for rules or principles that have to be applied, or

b) the word standard in the context of the IVSs means a required level of quality and will necessarily include not only rules and principles but also guidance and supporting information to assist consistent application of those rules and principles?

Question 2:

Paragraph 15.2 describes two alternative views on what is meant by the word “mandatory” in the context of standards. Please indicate whether you agree with either statement a) or b) below:

a) a satisfactory level of compliance with the IVSs can be achieved by following only the Requirements in the standards and that all other material issued by the IVSC is of no relevance in determining compliance, or

b) a satisfactory level of compliance with the IVSs can only be achieved by following the Requirements and also having regard to the supporting information and guidance included in the standards.

Question 3

Paragraph 15.3 describes confusion that has been identified by some around the purpose of the current TIPs. To assist the Board in considering whether changes are appropriate and if so what those changes should be, please answer the following questions:

3a Do you consider that the title “Technical Information Paper” is an appropriate description for the content of the TIPs issued to date and for those proposed TIPs for which public exposure drafts have been issued?

a) yes or

b) no

If you have answered no please provide reasons for your view and suggest a preferred alternative.

3b Do you find the content of the current TIPs helpful in understanding and applying the IVSs? If you do not, please identify any other material that you rely on to support the interpretation and application of the IVSs.

3c Is there anything in the current TIPs that you consider should not be included**,** or that should not form part of the standards? If you believe there is please explain what should be excluded and why.

Question 4

Do you agree that the Board should issue commentaries, guidance and information to support the concepts, principles and requirements in the standards? If you disagree please explain what alternative sources providers and users of valuations can use and how diversity of application and interpretation across different jurisdictions and markets can be avoided.

Question 5

This consultation paper highlights four other sets of international standards that are in use in the financial markets and the different types of pronouncement that fall within their scope. An overview of each is provided in the Appendices. Please indicate if you consider that there are any aspects of the way these standards are presented that the Board should consider as a way of improving the presentation and clarity of the IVSs.

Question 6

When it adopted a structure for the standards that contained five different categories of pronouncement the Board was responding to requests for a clear distinction be made between those parts that included mandatory requirements and those that contained supporting guidance. It also considered that a taxonomy that grouped similar types of pronouncement together would make it easier for users to navigate to the parts relevant to their needs. However, some other standard setters do not make the same distinction. For example the IFRSs are simply numbered consecutively according to the date of their first issue, with no attempt to group by the type of topic each standard addresses.

Do you believe that the current structure of the IVSs that groups pronouncements into five different categories with distinct titles is easy to understand and use? If not, what alternative would you prefer?

Question 7

In the document *Scope and Content of the International Valuation Standards*[2]*,* issued in August 2013, the Board explained that the scope and level of detail are examined during the consultation process for each new pronouncement. However, its general approach is to include all those concepts and principles which it can identify as being widely accepted across different geographic regions and that can be applied across different jurisdictions. Simple explanations or illustrations of how those concepts and principles can be applied to different genres of asset or for different valuation purposes may also be included. It also will ensure that

[2] Scope and Content of the International Valuation Standards - IVSC 2013

there is sufficient detail to address any inappropriate practice that has been identified during the progress of the project.

The Board will generally exclude from the IVSs any matter that reflects requirements arising from national law or regulation or from established practice in a particular jurisdiction but which either does not arise or that conflicts with those in other jurisdictions. The IVSs may refer to valuation methods or techniques, provide high level explanations of those methods or give examples of when their use may be appropriate. Finally, the paper confirms that the IVSs are not intended to provide educational material and will not examine methods defined or discussed in the standards at the level of detail necessary to apply them in practice.

Do you agree with these limitations on the scope of the IVSs? If not, please describe the types of additional material you believe should be included or matters currently included you believe should be excluded.

International Standards of Actuarial Practice

Pronouncements and basic background of what they do

The Actuarial Standards Committee of the International Actuarial Association (IAA) promulgates, subject to IAA Council approval, the International Standards of Actuarial Practice (ISAPs).

These are designed to be models for national and regional standard setting bodies to adopt in order to promote the development of consistent actuarial practice and narrow the range of practice considered acceptable internationally.

Content of standards

So far the IAA has issued two ISAPs, "*General Actuarial Practice"* and "*Financial Analysis of Social Security Programs*". Five further standards are currently being prepared. Two will provide guidance on actuarial services provided to entities applying IAS19 *Employee Benefits* and the proposed IFRS X on insurance contracts; another two will provide guidance on "enterprise risk management" within insurance entities. The fifth is to deal with actuarial services provided in connection with new model capital requirements produced by the International Association of Insurance Supervisors regarding Global Systemically Important Insurers and Internationally Active Insurance Groups, as requested by the Financial Stability Board.

The two published and five proposed ISAPs recognise that professional judgement is required in providing actuarial services. ISAP 1 requires that an actuary should exercise reasonable judgment in applying an ISAP. It further provides that a judgment is reasonable if it takes into account:

- The spirit and intent of the ISAP;
- The type of assignment; and
- Appropriate constraints on time and resources.

The overall content of each ISAP is described as guidance. However, notwithstanding this each standard contains a mix of requirements that are mandatory on those adopting the standards and actions that may be appropriate in specific circumstances. These are distinguished by the language used in the text. ISAP 1 states:

> *"Some of the language used in all ISAPs is intended to be interpreted in a very specific way in the context of a decision of the actuary. In particular, the following verbs are to be understood to convey the actions or reactions indicated:*
>
> *"Must" means that the indicated action is mandatory and failure to follow the indicated action will constitute a departure from this ISAP.*
>
> *"Should" (or "shall")*[3] *means that, under normal circumstances, the actuary is expected to follow the indicated action, unless to do so would produce a result that would be inappropriate or would potentially mislead the intended users of the actuarial services. If the indicated action is not followed, the actuary should disclose that fact and provide the reason for not following the indicated action.*

[3] **Note:** This conflation of the meaning of "should" and "shall" in the IAA standards is not made by other standard setters. Most dictionaries define "shall" as indicating a mandatory action (therefore synonymous with must) whereas "should" indicates a strong obligation to take an action or a strong probability that something will happen, ie there is an element of conditionality.

> *"May" means that the indicated action is not required, nor even necessarily expected, but in certain circumstances is an appropriate activity, possibly among other alternatives. Note that "might" is not used as a synonym for may, but rather with its normal meaning."*

ISAP 2 has an appendix that lists possible report contents. It is expressly stated that it is provided for informational purposes, and is not part of the ISAP.

Additional material issued that is not part of their international standards

The IAA publishes International Actuarial Notes (IANs). These are educational and non-binding in nature. They show practices commonly used by actuaries and are not intended to define the practice or practices that would be adopted by all actuaries. Their purpose is to familiarise the actuary with approaches that might be taken in the practice area in question. They also serve to demonstrate to clients and other stakeholders, and to non-actuaries who carry out similar work, how the actuarial profession expects to approach the subject matter.

The IAA publishes a variety of other material, particularly for educational and thought leadership purposes. None of these other publications are considered part of their standards.

International Financial Reporting Standards

Pronouncements and basic background of what they do

The International Accounting Standards Board (IASB) is the standard setting Board of the IFRS Foundation. The IASB is responsible for the International Financial Reporting Standards (IFRSs) which collectively consist of 27 IASs (numbered between IAS 1 and IAS 41) and 15 IFRSs (numbered IFRS 1-15). The distinction between the two is that the IASs were all originally published before 2001 (although most have been updated since) and the IFRSs have all been originally published subsequently.

The IFRSs apply to all general purpose financial statements and are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

Content of standards

The standards address how financial statements should be presented and the information they should contain. Each individual standard is based on the IFRS Conceptual Framework, which addresses the concepts underlying the information presented. The individual standards deal with how transactions and events that are important in preparing financial statements should be presented, and may address transactions and events that arise mainly in specific industries. Many deal with a specific type of asset or liability, for example, Inventory, Property Plant & Equipment, Financial Instruments or Investment Property, whilst others deal with events, eg Business Combinations, Interim Reporting and Impairment of Assets.

The individual standards vary significantly in length and the type of content depending on the topic. All have at least the following features:

Introduction:	This can include background information such as the reasons for the standard being introduced or revised and a summary of the main provisions of the standard.
Standard:	Will include the Objective, Scope and list of Definitions used in the standard. It then sets out how the type of asset or event included within the scope of the standard has to be reported or presented in financial statements. Some standards do provide for alternative treatments, although the stated policy of the IASB is to reduce the number of choices available. Some standards include paragraphs in bold type. These are intended to indicate the main principles. However, the bold text and the plain text have equal authority and each individual standard should be read in the context of the objective stated in that standard and the Preface to the IFRSs.

Most standards also include Appendices. Many have Appendices that contain guidance. Some of these are titled Application Guidance and some Implementation Guidance, although not all guidance is so identified. Application Guidance is stated to be an integral part of the standard to which it is appended, whereas Implementation Guidance is stated as accompanying but not to be part of the standard to which it relates. An example of guidance identified as neither Application nor Implementation is found in IAS 36 *Impairment of Assets;* Appendix A "*Using Present Value Techniques to measure Value in Use*" which is identified as being an integral part of the standard that provides guidance on the topic identified.

Some standards are accompanied by an Appendix with Illustrative Examples. These are always indicated as accompanying but not part of the standard.

All standards are also accompanied by an Appendix *Basis for Conclusions*. This provides a commentary on matters considered by the Board and reasons for the provisions of the standard. The Basis for Conclusions is stated to "accompany but is not part of…" the standard to which it relates.

Typical Style of Standard

The main body of each standard sets out the actions that an entity "shall" take in order to comply with the standard, but normally supports these with explanatory text. The most recently issued standard is IFRS 13 *Fair Value Measurements*. An example of a required action followed by explanation from IFRS 13 is:

61 **An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.**

62 The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used valuation techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarised in paragraphs B5–B11. An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.

63 In some cases a single valuation technique will be appropriate (eg when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (eg that might be the case when valuing a cash-generating unit). If multiple valuation techniques are used to measure fair value, the results (ie respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

64 If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the valuation technique is necessary (eg there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (eg the price for a similar asset or liability) at the measurement date.[4]

It will be noted that the paragraphs following the emboldened requirement explain alternative ways in which the requirement to use "valuation techniques that are appropriate in the circumstances…" may be met. The standard is not exclusively a list of commands, rules or principles.

The Application Guidance in Appendix B of IFRS 13 is prefaced with a statement that it is an integral part of the IFRS and has the same authority as the other parts of the IFRS. It then goes on to say that the judgements applied in different valuation situations may be different and that the Appendix describes the judgements that might apply when an entity measures fair value in different valuation situations. As befits guidance it uses permissive language, eg actions that "may" be taken or events that "might" occur.

A standard under the IFRSs can therefore contain a mixture of principles that have to be adhered to, actions that have to be taken, explanation of those principles or actions and guidance on how those principles or actions may be met under different circumstances. All are part of the standard and have equal authority.

In addition to the IFRSs, the IFRS Interpretations Committee is the interpretative body of the IFRS Foundation. The committee issues IFRIC Interpretations on accounting issues that have arisen in the application of the IFRSs. IFRIC interpretations are subject to IASB approval and have the same authority as a standard issued by the IASB.

Additional material issued that is not part of the standards

As indicated above IFRS standards may be accompanied by (ie published with) a "Basis for Conclusions", "Illustrative Examples" or "Implementation Guidance" all of which are expressly stated not to be part of the standard.

The IFRS Foundation also issues other material. This includes:

- Education material aimed at reinforcing the Foundation's goal of promoting the adoption and consistent application of a single set of high-quality international accounting standards.
- High level "snapshots" of the main provisions of the IFRSs
- Ad hoc reports such as that issued in 2009 on "*Measuring and disclosing the fair value of financial instruments in markets that are no longer active."*

The IAASB Engagement Standards

Pronouncements and a basic background of what they do

The International Auditing and Assurance Standards Board (IAASB) issues a range of pronouncements known collectively as the IAASB Engagement Standards. The underlying standards are organised by the service that they each relate to, these are as follows:

International Standards on Auditing (ISAs)	Applied in the audit of historical financial information.
International Standards on Review Engagements (ISREs)	Applied in the review of historical financial information.
International Standards on Assurance Engagements (ISAEs)	Applied in assurance engagements other than audits or reviews of historical financial information.
International Standards on Related Services (ISRSs)	Applied to compilation engagements, engagements to apply agreed upon procedures to information and other related services engagements as specified by the IAASB.
International Standards on Quality Control (ISQCs)	Apply to all services governed by the aforementioned IAASB standards.

These standards are all published in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements

Content of standards

The International Standards for Auditing (ISAs) set forth the actions that an independent auditor should take in order to produce an audit in accordance with the standards. In 2013 there were 29 individual ISAs which are grouped as follows:

- General Principles and Responsibilities
- Risk Assessment and Response to Assessed Risks
- Audit Evidence
- Using the Work of Others
- Audit Conclusions and Reporting

The introduction to the IAASB's handbook indicates that nature of the International Standards requires the professional accountant to exercise professional judgment in applying them. Each individual standard follows a similar structure, ie:

Introduction	includes scope, any limitations and effective date
Objectives	State what the objectives of the auditor are in relation to the topic of the standard
Definitions	The meaning of certain terms used in the standards
Requirements	These set out matters that the auditor "shall" carry out (eg actions, enquires,) in relation to the topic of the standard in order to perform a satisfactory audit. IAS 200 provides that an auditor shall comply with each requirement of an ISA unless, in the

	circumstances of the audit: (a) The entire ISA is not relevant; or (b) The requirement is not relevant because it is conditional and the condition does not exist.
Application and Other Explanatory Material	This section of each ISA contains material that supports the Requirements by illustrating ways in which they may be met in different circumstances. A typical construction is to provide lists of matters that it may be appropriate to consider or undertake.

The other international standards issued by the IAASB contain basic principles and essential procedures (identified in bold type lettering and by the word “should”) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. It is therefore necessary to consider the entire text of a Standard to understand and apply the basic principles and essential procedures.

Additional material issued that is not part of the standards

The IAASB issues International Auditing Practice Notes (IAPNs). These are stated to be non authoritative and not part of the standards. The IAPNs do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor’s responsibility to comply with all ISAs relevant to the audit. IAPNs provide practical assistance to auditors.

Staff publications are used to help raise practitioners’ awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of IAASB pronouncements.

Global Investment Performance Standards

Pronouncements and basic background of what they do

The Global Investment Performance Standards (GIPS) are set by the GIPS Executive Committee which is established under the auspices of CFA Institute.

The mission of the GIPS Executive Committee is to promote ethics and integrity and instil trust through the use of the Global Investment Performance Standards by achieving universal demand for compliance by asset owners, adoption by asset managers, and support from regulators for the ultimate benefit of the global investment community:

Content of Standards

The GIPS standards require firms to adhere to certain calculation methodologies and to make specific disclosures along with the firm's performance. The standards deal with various topics related to the calculation and reporting of the performance of investment portfolios, including a section on valuation. The standards contain both "requirements" and "recommendations". Requirements are actions that must be taken in order to comply with the GIPS; firms are encouraged to implement as many of the recommendations as possible. The "Overview" of the GIPS states:

> *"Meeting the objectives of fair representation and full disclosure is likely to require more than simply adhering to the minimum requirements of the GIPS standards. Firms should also adhere to the recommendations to achieve best practice in the calculation and presentation of performance."*

The GIPS include extensive Appendices with examples of compliant presentations. While clearly illustrative they are still considered part of the standards.

Firms must comply with all requirements of the GIPS standards, including any updates, Guidance Statements, interpretations, Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee. All new or amended standards and guidance, with the exception of Q&As, go through a full public comment vetting process prior to approval.

Additional material issued that is not part of their international standards

The GIPS Executive Committee also issues resource or "white" papers that discuss related topics, but are not part of the Standards themselves and, therefore, and not compulsory for GIPS-compliant firms. These papers do not necessarily go through a public vetting process.