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Subject: Feedback on Social Value Perspective Papers (Part I and II)

Dear Alexander and Social Value Working Group,

Aside from those concepts which belong to the sciences valuation keeps relation with. As the profession goes at different pace developments across the world, to ensure a good international understanding about technical developments is fundamental to consequently ensure international consistency in the IVS uses. Particularly in those definitions relating the challenges and future developments in valuation.

On this regard, we have found these papers released by the IVSC-SVWG a very good way to receive important inputs from different stakeholders with relation to the Social Value as well as appropriate the clarification between ESG (criterion) for valuation and Social Value (concept) as it helps to uniform key concepts in valuation performed under IVS in all jurisdictions.

Since it is IPSASB's aim to "(...) develops accounting standards and guidance for use by public sector entities¹ (...)" and then, the public sector as to be defined part of the economy that is controlled by the state. It might be understood then, that the purpose of the services provided by public sector should be in the community benefit.

Then, according to the "International Public Sector Accounting Standards Board (IPSASB) exposure draft on Measurement, published in 2021 *"the current operational value"* is defined as *"is the value of an asset used to achieve the entity's service delivery objectives at the*

¹ <https://www.ipsasb.org/about-ipsasb>

*measurement date*² . This would suggest that the service’s objective provided by a Public Entity is “(...) to estimate the value of a non-financial asset in achieving the entity’s service delivery objectives at the measurement date.”

The above stated might lead to the conclusion that the objective of “*current operational value*” would be to *measure the social benefits* flowing to non-asset users and the impacts of social investments, which is to us consistent with “Social Value” as introduced by the IVS.

Nonetheless, improving the concept might be necessary in order to avoid any issues, particularly about what it really is and what it is all about.

Please find below our thoughts about the Social Value Perspective Papers I and II.

Kind regards



Javier Ayala

DIRECTOR OF OPERATIONS

² Inter <https://www.ivsc.org/themencode-pdf-viewer/?file=https://www.ivsc.org/wp-content/uploads/2022/07/Social-Value-Perspectives-Paper-10.pdf#zoom=auto>

Answering Questions

Paper I

1. Do you agree with the three-component model of Social Value described above? If not, why not and what components would you propose?

Yes, we do agree.

2. What components of the Social value model described above do you value in your jurisdiction, and what valuation methods or applications do you apply in doing so?

None of them yet, Social Value was seen as potential subject to be considered for governmental accounting just a few years ago. There are many records of it kept by governments and by development banks on this regard.

3. Do you think there are appropriate standards and guidance in your jurisdiction relating to the concept of Social Value?

There's any at all. The concept, model, and potential valuation of social impact are still very remote with exceptions. In fact, there's an effort of introduced by the IADB just in 2021 (<https://blogs.iadb.org/ciudades-sostenibles/es/el-valor-social-en-el-sector-inmobiliario/>). As per previous comments, we believe that the IADB would be a very good stakeholder for ESG, Social Value development in LATAM

All in all, we see a good potential of future developing social value and social assets with their inputs as this organization funds several mid, mid-large, large scale social impact projects, including infrastructures.

4. Do the International Valuation Standards provide a strong enough framework for valuers and users of valuations to consider the concept of Social Value?

We see great efforts by the IVSC the last 4 years on this regard. However, as many novel considerations there're many developments still work to go through. Particularly when approaching international context.

The last 11 years we've seen very interesting and appropriate developments by the IVSC in addressing challenges in valuation and the profession itself according to the challenges the globe is facing by providing consistent conceptual framework relating valuation.

The social value is not an exception. In some jurisdictions this IVS defined concept from the accounting perspective might be new for several profit and organizations managing social impact projects. We feel that an approach to key stakeholders like social project's funding organizations, public sector organizations social assets would be ideal as their inputs might be a great contribution.

5. Do you agree with the definition of Social Value provided above? If not, why not and what alternative or amendment would you propose?

Despite it defines pretty much what it is about, it doesn't define what it is. We'd propose the below idea for conceiving "social value":

- 1) *For the purpose of these standards, Social Value is the result of encompassing the measurable social benefits ~~Social Value' includes the social benefits~~ that flow to asset users (social investment) and the wider financial and non-financial impacts including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users.*

Since the word "result" can be defined as "A thing that is caused or produced by something else; a consequence or outcome." Also we feel that the terms "Social Value" and "Social Impacts" might need the definition of complementary terms, for example: "Social Cost".

In other hand, the Social Value addressed by the TAB-Social Value Working Group throughout Papers I and II might also suggest the need for some inclusions to do into the IVS – Glossary section in order to adequate its uses for public sector assets valuation as set out below:

" Overview of Glossary

- 10.1. *For an appropriate understanding of these standards, this glossary defines the ~~certain~~ terms used in the International Valuation Standards terms applying to the valuation of Assets, Businesses and Business interest which are performed under the International Valuation Standards"*

6. How should the valuer think about highest and best use as it relates to Social Value?

Please, see below (paragraph 13)

Social Assets:

7. Do you think a definition of Social Asset is helpful? Do you agree with the definition of Social Asset proposed above?. If not, what alternative or amendment would you propose?

Yes, we agree.

8. Do you value Social Assets within your jurisdiction and if so, for what purpose and under what standards, guidance or legislation?

We tried to but not under that definition. The biggest issue we had is the missing connection between standards IPSAS, IFRS and IVS and its full understanding among accountants, valuers and public administrators. (See. Paragraph 11).

There are governmental service companies, national banks, providing public services through its assets, and which may fall onto the definition of "social assets" or "public investments in private assets" for government accounting. This would suggest financial

statements under IFRS and IPSAS respectively but, both are pretty much far from being fully used.

The most common valuation requests are mainly for Financial Statements purposes, and under the IFRS as “valuation standard” but, there are also elements in the Terms of Valuation of public BIDs which seem to be more a purpose than a request.

Although “Fair Value” is requested, sometimes more than one “basis of value” is part of additional requirements.

9. Do you think the valuation of Social Assets is important, or will become increasingly important, for Governments, NGOs and Charities as part of good governance processes as the public seek greater accountability from the trustees of these assets?

Yes, we think so. There’s and there will be more consideration about social value within governmental decisions.

Governmental bodies are not the only organizations keen upon Social Value and Social Assets. There are large financial entities funding social impact projects such as IADB, UNDP, among others multilaterals, urban planning public entities, rural development appliances which may be keen on it.

We have identified important appliances upon Large, Medium and Small Scale Social Impact projects funded by development banks, governments, among others. There are profit organizations which as corporate values also try to take part in social non for profit projects.

Also, we consider that a better connection between IVS, IFRS and IPSAS would be extremely helpful for all assets related stakeholders to have harmonized and recognized concepts. This is extremely helpful when referring to all these standards about common topics without falling into semantic issues.

10. For those that are actively involved in the valuation of Social Assets, what areas or concepts prove the most difficult that could benefit from improved clarity or guidance?

Social assets still not considered as such. There’re still some difficulties in connecting standards (IFRS, IVS and IPSAS).

For example, whilst the IFRS is fully adopted and IPSAS on its way of adoption by regulator and governmental organizations, there’re still some difficulties in seeing IVS to assist these standards.

11. What elements, if any, identified in the Social Value model, do you feel might provide useful information to users of financial statements?

Social investments and Assets. However, since there’s still a perception of the need of harmony, recognition between standards and/or more consistent connection between Financial Standards for both the private and public entities and valuation standards.

Whereas the IFRS is quiet good adopted and recognized, the IPSAS and IVS adoption are still in process of recognition and adoption which may differ from a jurisdiction to another.

There may be jurisdictions where the IVS may be on its way of adoption and recognition, the IPSAS is still lacking still a clue of it, and the IFRS recognized but it lacks of understanding and connection with other standards. This may be the cause of some confusion, misunderstanding by standard users.

Thus, whilst the IVS is providing social value information, the IPSAS is still not adopted by public organizations, and therefore

12. Are planning overlays, covenants or regulatory regimes that are often attached to Social Assets inhibitors to value or complementary to them achieving their highest and best use in the public interest?

Not really, but there's the lack of understanding about what Social Value and Social Assets are about may be one the main identified causes. Therefore:

- 1) A better connection, harmony and/or recognition between the standards would be a great help to deal with many of these issues as it would ensure a bigger coverage broad of all standards within all asset's involved stakeholders (private and public accountants, valuers, company's and project managers).
- 2) Standards adoption, recognition and uses for a better understanding of all these matters which in some case seem pretty far from being addressed even.

13. Are there additional highest and best use considerations that are important in the consideration of Social Asset valuation?

We think that the highest and best for a social asset valuation should have just only one definition, but considered under two perspectives: 1) Social Value and 2) Commercial Value. There may be circumstances though where a valuer may need to consider the HBU from both perspectives for social investors decision making.

We could think to the HBU for Social Assets valuation as follows:

“Highest and Best Use

It is the premise which is to be considered by a valuer when performing a valuation assignment, in consistency with the defined purpose of the valuation. In carrying out a valuation under the HBU premise, a distinction must be done:

1. *The HBU from the commercial perspective (already defined in the IVS)*
2. *The HBU from the social value perspective*

Premise of Value – Highest and Best Use from Social Value Perspective

1. *Highest and best use is the use, from a social value perspective, that would produce the highest value for an social asset.*

2. *The highest and best use from Social Value Perspective must be physically possible, financially feasible, legally allowed and social value based. If different from the commercial use, the costs to convert an asset to its highest and best use would impact the social value.*
3. *The highest and best use for a social asset may be its current or existing use when it is being used for social benefits or impact purposes.*
4. *The highest and best use of a social asset valued on a stand-alone basis may be different from its highest and best use as part of a group of assets, when its contribution upon social value of the group must be considered.*
5. *The determination of the highest and best use involves consideration of the following:*
 - (a) *To establish whether a use is physically possible, regard will be had to what would be considered technically reasonable by social investors.*
 - (b) *To reflect the requirement to be legally permissible, any legal restrictions on the use of the asset, eg, town planning/zoning designations, environmental threats, political issues, need to be taken into account as well as the likelihood that these restrictions may change.*
 - (c) *The requirement that the use be financially feasible takes into account whether a social use that is physically possible and legally permissible will generate social benefits to social investors and non-assets users, after taking into account the costs of conversion to that use, over and above the return on the existing use. “*

Paper II

Do you think that the definition for Highest and Best Use within a Social Value context needs to be expanded or reframed, and if so, how would you revise the existing definition?

It would need definitively to be reframed. A distinction between HBU for commercial and social value purposes would be necessary to avoid issues relating particular circumstance where a valuer may be asked to consider whether the Highest and Best Use of a specific asset is Social or Commercial.

For revision, please see above information.

Should governments and charities be maintaining a Social Value balance sheet in addition to their traditional balance sheets?

Yes, they should to. Perhaps also profit organizations leading also projects with social impact.

Do you consider that the current discussions on ESG adequately addresses Social Value concepts in both a for-profit and not-for-profit world?

If not, what would give this discussion more prominence and stimulus?

Yes, they do. The distinction of a criteria (ESG) and a concept /social value) was important to avoid risks.

It doesn't anything to do with the IVSC but, recognition of the IVS, IPSAS and IFRS among standard setters would be helpful in order to avoid conceptual dispersion, semantic issues and other unnecessary risks

With the information that is presently available, is it possible in most situations to accurately quantify and measure Social Value?

If yes how, and if not, what is missing?

Some jurisdictions may lack of inputs, quality of the information and disclosure of certain information.