

IVSC SRB June Meeting Update 2023

Items shown in bold italics should include links to the relevant documents

This IVSC Update highlights preliminary decisions of the IVSC Standards Review Board (Board). Projects affected by these decisions can be found on the ***IVSC Publication Schedule***. The Board's final decisions on IVS® Standards and Amendments are formally balloted as set out in the ***IVSC Standards Review Board Due Process and Working Procedures***.

The Board met remotely on the 28th of June 2023

PRESENT:

Susan DuRoss (Chair)
Kim Hilderbrandt (KH)
Colin Martin (CM)
David Larsen (DL)
Doug Summa (DS)
Jose Covas (JC)

Matt Clark (MC)
Olivier Peronnet (OP)
Richard Hayler (RH)
Roy Farthing (RF)
Sandra Mossios (SM)
Susann Ihlau (SI)

OBSERVER:

Ahmad Sabry (AS)

IN ATTENDANCE:

Alexander Aronsohn (AA) – IVSC Technical Director Tangible Asset Standards
Nicolas Konialidis - IVSC Asia Director

APOLOGIES

Ian Jedlin (IJ)
Mauro Bini (MB)
Richard Stewart (RS)
Thomas Lee (TL)
Kumar Dasgupta - IVSC Technical Director of Financial Instrument Standards

The topics in order of Discussion were:

Contents

Administration

- IVSC SRB Meeting Update June 2023
(IVSC SRB June Meeting Update 2023)
- BVB Update
(2023.06.21. BVB Update for SRB meeting)
- FI Board Update
(2023.06.23. FIB Update for SRB meeting scheduled 28th June 2023)
- TAB Update
(2023.06.20. TAB Update for SRB meeting)

Standard setting

IVS Exposure Draft Update
(2023.06.19. IVS Exposure Draft Presentations)

Discussion and Planning

Listed vs Unlisted Assets
(2023.06.19. IVSC SRB Listed vs Unlisted Topic Proposal and AFR - Day of valuations reckoning looms for property owners, valuers and auditors - 13 June 2023)

FDIC and Quality Controls for AVMs
(Quality Control Standards for Automated Valuation Models)

Administration

SRB Working Groups Update
(2023.06.19. IVSC SRB Working Groups New Proposed)

IVSC SRB Meetings 2024

- 26 February – 1 March 2024 (Middle East)
- 13 May – 17 May (USA)

IVSC Agenda Consultation 2024
(2023.06.19. Proposed Agenda Consultation Topics)

Discussion Groups

The Board were asked if there were any conflicts of interest in relation to the proposed topics and no conflicts were declared.

Administration

IVSC SRB Meeting Update May 23 (IVSC SRB May Meeting Update 2023)

The Board reviewed the IVSC meeting update and agreed that it was an accurate report of the meeting. There were no further revisions suggested and the meeting update was approved by the SRB.

BVB Update

The BVB are currently making preparations for their physical meeting in Tokyo to be held between Monday 17th July and Wednesday the 19th July. The topics to be discussed in the Tokyo meeting are as follows; -

- ISSB and ESG
- Valuation risk / ambiguity
- Valuation of Data
- Impact of AI
- Data providers and other “service providers” or “service organizations”
- Appropriateness of weightings
- AVMs for BV
- Appropriateness of valuation ranges
- New measures around Transfer pricing (HMRC, OECD)

FI Board Update

The FIB is currently planning process for addressing the comments on the ED and preparing for their physical meeting in Toronto to be held in the week of September 11th, 2023. The FIB plans to discuss the following topics at that meeting; -

- Comments on Governance;
- Comments on Data;
- Comments on Methods and Models;
- Comments on Quality Control;
- Compliance and certification of valuations under IVSs.

TAB Update

The TAB met on the 14th of June 2023 since the last SRB meeting TAB has focused on the following; -

1. Continued Integration of four new Tangible Asset Board members.
2. Prudential value and next steps.
3. Preparing the topic proposal form titled “2023.06.19. IVSC SRB Listed vs Unlisted Topic Proposal”.

4. Revising the provisional list of Tangible Asset Board Agenda Consultation topics.
5. Review of Tangible Asset Board working groups, which is still a work in progress.
6. The Tangible Assets Board Chair and Technical Director have been and continue to be involved in various instances of outreach;
 - a) *Presentation on 5 June to the Society of Share and Business Valuers (SSBV) on IVS.*
 - b) *Participation in the Kroll panel discussion on 13 June 2023 on ESG.*
 - c) *Participation in the RICS European Leaders Forum on the Future of Valuations and the impact of ESG on 8 June 2023.*
 - d) *Presentation to Hypzert on 20 June 2023 on IVS.*
 - e) *Presentation to CBVI Board on 20 June 2023 on IVS.*
 - f) *Presentation to Luxembourg VPO on 22 June 2023 on IVS.*
 - g) *Presentation to AVI on 23 June 2023 on IVS.*
 - h) *Presentation to ASB on 23 June 2023 on IVS.*
 - i) *In addition the Technical Director has provided or is due to provide the following Exposure Draft Presentations;*

Standard setting

IVS Exposure Draft Update ((2023.06.19. IVS Exposure Draft Presentations)

The Board was advised of the following schedule of IVS Exposure Draft presentation:

Provided			
16 April 2023	European Mortgage Federation	Full	AA
08 May 2023	RICS	Full	AA, DS
09 May 2023	IVSC EMEA	Full	AA, DS, SD
11 May 2023	IVSC Americas	Full	AA, DS, SD
16 May 2023	IVSC Asia	Full	AA, DS, SD
16 May 2023	Mazars	Partial	AA
18 May 2023	Chamber of Valuers North Macedonia	Full	AA
24 May 2023	TAQEEM	Full	AA
29 May 2023	CMVM Portugal	Full	JC
30 May 2023	Officer of the Valuer General of South Africa	Full	AA, KB
31 May 2023	ISCTE University Portugal - Real Estate Masters	Full	JC
05 June 2023	SSBV	Full	AA
16 June 2023	ISEG - RICS Accredited Course	Full	JC
19 June 2023	Bank of Portugal	Full	JC
20 June 2023	Carter Jonas	Full	BE
21 June 2023	APFIIP - Portuguese Association of REITS	Full	JC
20 June 2023	Hypzert	Full	AA
23 June 2023	ASB	Full	AA, NT
Planned			
30 June 2023	Luxembourg VPO	Full	AA, NK
30 June 2023	Stout	Full	AA
01 July 2023	Assessors and Registered Valuers Foundation (AaRVF)	Full	AA, KH, SKD
04 July 2023	API	Full	AA
04 July 2023	CFA	Full	AA, NK
05 July 2023	Mexican Stock Exchange	Full	AA, DS
11 July 2023	Mexican Stock Exchange	Full	AA, NK

The Board was further advised that there had been a challenge in relation to IVS Exposure Draft compliance and the IVSC Technical staff had discussed whether an introductory paragraph could be inserted within the IVS introduction in relation to competence and professionalism.

The Board were further advised that Technical Directors had initially drafted the following paragraph to act as straw man and to aid discussion:

“IVSs are drafted on the basis that the valuers who use the standards are competent and have the requisite skills in performing valuations evidenced through either qualifications and education required by a valuation professional organisation and evidenced by membership or through globally recognised qualifications for their specialism. IVS note that valuation is a continually developing field and therefore valuers are expected to undertake continued professional development to ensure that their skills are updated and in line with market needs.

IVS are principle-based standards that have been designed to work in conjunction with IVS Professional Membership Obligations and the Code of Ethics for Professional Valuers, where applicable.”

Further to discussion the Board felt that in order to resolve this issue any introductory paragraph should deal with the following issues in relation to IVS compliance: -

- *Professionalism (e.g., IVS code of ethical practice for valuers ethics)*
- *Education (e.g., IVS requirements for VPO's etc.)*
- *Regulation*

The Board discussed the issues of non-qualified valuers claiming compliance and felt that as this issue was not unique to IVS. The Board suggested that the Technical Directors should review how other standard setters dealt with this issue and the following examples were provided: -

- *CFA*
- *Prima*
- *VPOS's (API, RICS etc)*
- *AICPA*
- *PCAOB*

The Board were advised that minimal IVS Exposure Draft responses had been received so far but this was not concerning as from previous experience the

majority of responses were received in the last two weeks of the consultation or two weeks after the consultation had closed.

The Board agreed that they would consider all consultation responses even those received post consultation, but respondents should be encouraged to provide responses during the consultation period.

The Board also discussed the following potential topics that may need to be included within IVS post consultation, but this was dependent on the consultation responses received: -

- *Proportionality*
- *Reasonable range*
- *Valuation Risk*

Next step

The SRB was encouraged to provide presentations to their organisations and key stakeholders within their markets and to encourage organisations and key stakeholders within their markets to participate in the consultation process. The Technical Directors will review how other standard setters and VPO's (e.g., CFA, Prima, VPOS's (API, RICS etc), AICPA and PCAOB) are dealing with the issue of non-competent valuers claiming compliance with IVS

Discussion and Planning

Listed vs Unlisted Assets (2023.06.19. IVSC SRB Listed vs Unlisted Topic Proposal and AFR - Day of valuations reckoning looms for property owners, valuers and auditors - 13 June 2023)

The Board discussed the "2023.06.19. IVSC SRB Listed vs Unlisted Topic Proposal", which contained the following problem statement:

- *Listed entities (REITs, real estate, or infrastructure): that provide independent asset values for each of their assets as part of their governance processes. Currently seeing a material divergence between the listed price and NAV (circa 20-60% discount in listed prices depending upon the asset class and jurisdiction).*
- *Unlisted funds: that rely on valuations to set unit prices. These are either i) not being marked-to-market frequently enough with assets in their portfolio, ii) or even when they are marked-to-market frequently, they are not displaying the*

same levels of discounts to that listed markets are displaying (for the largely same underlying asset class/investment).

- *Auditors of financial statements: Where we are witnessing this divergence in listed and unlisted markets, what are auditors to make of underlying balance sheet asset value for these entities?*
- *Transparency of valuations: Underlying each of the above, there is a yearning from investors for asset managers to provide a greater level of transparency in relation to valuations performed for the assets that they are invested in. How do regulators, assets managers and the valuation profession manage such a market demand, balancing the liability consideration that valuation firm might expose themselves to?*
- *Attracting significant media attention in European, North America and Australia where listed products are quite mature and there is a high level of transparency required from a regulatory perspective with listed markets.*
- *Trust in valuation: seeing the disparity between listed prices and NAV's is often resulting in the credibility of the valuation profession to being called into question.*
- *This is combined with a heightened sense of scepticism in certain markets because of the liquidity mismatch with certain 'real estate' products, which isn't necessary a valuation issue, but erodes trust and confidence in products associated with the 'private' or 'unlisted' asset class amongst some individuals/sectors of the market.*

The Board felt that this was a good topic for a perspective paper and noted that there were similar issues in China and generally discussed the disparity between price and underlying value.

The Board noted that this was an expansive topic that crossed several different areas including real private credit, business development companies, internal funds and private equity.

The Board felt that as this was such a wide-ranging issue the Perspectives paper should note that this issue existed in many other asset classes but should focus on REITs for real estate and infrastructure.

The Board further felt that the perspective papers should talk about this issue of the context of IVS (*e.g. quality control, scope of work, basis of value, valuation approach, data md inputs models etc.*)

The Board noted that this issue would be of interest to regulators as it also included impairment tests and differences in fairness opinions.

The Board also discussed the frequency of real estate portfolio valuations and rotation of valuers. The Board were advised that most real estate portfolio valuations were carried out annually and discussed whether in volatile times portfolios should be valued on a monthly or quarterly basis.

The Technical Director advised that this was more an issue for VPO's and went outside the remit of an overarching principle based standard, but this did not mean that the perspective paper could not make recommendations on this issue,

The Board generally discussed the distinctive features of REITs when compared to asset valuations and how many of the differences may relate to liquidity, psychology, and context.

Further to discussion the Board agreed that there was an educational void around this issue which a perspective paper could help fill but recommended caution as this topic had already been the subject of much media interest and the IVSC did not want to exacerbate the situation.

The Board felt that the first perspective paper could be part of a series of perspectives papers on this topic and made the following recommendations:

- *This should be part of a series of perspective papers*
- *The introduction should generally discuss the issue and note that the issue also relates to other asset classes (business valuation and financial instruments)*
- *The paper should focus on infrastructure and real estate REITs and should provide some examples.*
- *The paper should be tied to IVS and should show how IVS can help resolve the issue.*
- *The paper should help fill an educational void.*

The Board voted on the perspective paper and those attending unanimously agreed that the IVSC SRB Listed vs Unlisted working group should work on this perspectives paper.

Next step

The IVSC SRB Listed vs Unlisted working group should start drafting the first in a series of perspective paper on the difference in valuations of listed and unlisted property. The perspective paper should provide general discussion on the issue but the first paper in the series should be focussed on infrastructure and Real Estate REITs.

FDIC and Quality Controls for AVMs (Quality Control Standards for Automated Valuation Models)

The Board discussed the report on quality control standards for AVMs which had been issued by Office of the Comptroller of the Currency (OCC), Treasury; Board of Governors of the Federal Reserve System (Board); Federal Deposit Insurance Corporation (FDIC); National Credit Union Administration (NCUA); Consumer Financial Protection Bureau (CFPB); and Federal Housing Finance Agency (FHFA).

The Board noted that this was a US based request for comment on a proposed rule to implement the quality control standards mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) for the use of automated valuation models (AVMs) by mortgage originators and secondary market issuers in determining the collateral worth of a mortgage secured by a consumer's principal dwelling.

The Board noted that the paper contained the following definitions:

Automated valuation model means any computerized model used by mortgage originators and secondary market issuers to determine the value of a consumer's principal dwelling collateralizing a mortgage.

Control systems means the functions (such as internal and external audits, risk review, quality control, and quality assurance) and information systems that are used to measure performance, make decisions about risk, and assess the effectiveness of processes and personnel, including with respect to compliance with statutes and regulations.

The Board felt that as AVMs were outside the remit of IVS should not participate in. this consultation though should review the paper to see how it integrated with existing IVS requirements in relation to quality control, data and inputs and models.

Next step

Further to discussion the Board did not feel that the IVSC should participate in this consultation as AVMs cannot produce an IVS compliant valuation. However, the Board noted that use of AVMs and AI within valuations were an important topic and should be included as a topic within the IVS Agenda Consultation 2024.

Administration

SRB Working Groups Update (2023.06.19. IVSC SRB Working Groups New Proposed)

The Board was advised that the “2023.06.19. IVSC SRB Working Groups New Proposed” spreadsheet had been updated post responses received from members of the IVSC Asset Boards members in relation to their participation.

The Board also was further advised that the SRB working groups were as follows:-

Proposed SRB Topic Related Working Groups

1. *IVSC SRB ESG Working Group (Also ISSB)*
2. *SRB IOSCO Working Group*
3. *SRB Valuation Risk Working Group*
4. *SRB Listed vs Unlisted Working Group*
5. *SRB Basis of Conclusions Working Group*

Proposed SRB Standard Setting Working Groups

- A. *SRB Glossary and IVS Framework Working Group*
- B. *SRB IVS 101 Scope of Work & IVS 106 Documentation and Reporting Working Group*
- C. *SRB IVS 102 Bases of Value & IVS 103 Valuation Approaches Working Group*
- D. *SRB IVS 104 Data & Inputs & IVS 105 Valuation Models Working Group*

Further to discussion the Board agreed that the SRB Topic Related Working Groups should be reactivated from July 2023 and should initially meet monthly.

The Board further agreed that the Standard Setting Working groups should be reactivated in August, once the IVS Exposure Draft consultation has closed and all the responses had been received and compiled.

Next step

The Technical Director is to send out calendar invites for the SRB Topic Related Working Groups for monthly meetings from July 2023. The Technical Director should send out invites for the SRB Standard Setting working groups when the IVS Exposure Draft consultation period has finished, and the responses have been compiled.

IVSC SRB Meetings 2023 to 2024

The SRB discussed the following proposed IVSC SRB physical meetings for 2023 to 2024.

- *SRB Meeting: 29 August – 31 August 2023 (London)*
- *IVSC AGM 9 -11th October 2023 (Paris, topics/speakers)*
- *SRB Meeting: 26 February – 1 March 2024 (Middle East)?*
- *SRB Meeting: 13 May – 17 May (USA)?*
- *IVSC AGM October 2024 (Singapore)*

The SRB agreed that for the IVSC Paris AGM the SRB would meet for on the 9th of October and in the morning of the 10th of October and that the asset boards would meet in the afternoon of the 10th of October and on the 11th of October.

The SRB generally discussed locations for a February meeting on the Middle East and a May meeting in the USA, but no decision was taken.

The Technical Directors confirmed that the IVSC AGM 2024 would be held in Singapore.

Next step

The SRB should include this as an Agenda item for the next SRB meeting and should endeavour to agree potential locations for the SRB February and May meetings.

IVSC Agenda Consultation 2024 (2023.06.19. Proposed Agenda Consultation Topics)

The Board was advised that the IVSC is committed to publishing an Agenda Consultation as part of an open consultative standard setting-process and that the next IVS Agenda Consultation was due to be published in 2024.

The Board was further advised that the inclusion of the following topics were being considered for inclusion in the Agenda consultation: -

- *Agricultural Land (TAB)*
- *AVMs and Artificial Intelligence (ChatGPT)*
- *Biological Assets (forests, plantations etc) (TAB)*
- *Block Chain*

- *Compulsory Purchase TAB*
 - *Crypto Currency*
 - *Data and Data Handling*
 - *Development Property (TAB)*
 - *Discounted Cashflows (TAB)*
 - *Expropriation/compensation*
 - *Extractive Industries (TAB)*
 - *Environmental, Social and Governance (ESG)*
 - *Impairment of Assets*
 - *Insolvency and Bankruptcy*
 - *volatile market (TAB)*
 - *Insurance Valuations*
 - *Private vs Public Markets*
 - *Prudential Value*
 - *Quality Control and Sole Proprietor (TAB)*
 - *Reasonable Range*
 - *Taxation (TAB)*
 - *Trophy Assets*
 - *Unregistered land*
 - *Valuation in a*
- Valuation Risk

The Board also discussed the process for agreeing topics to be included in the agenda consultation and agreed that each Board should fill in the new topic form for their proposed agenda item(s) and that these topics should be discussed and agreed at the SRB.

Next step

The Technical Directors are to share the topic form with their Boards for consideration and review. The BVB is to submit a topic form on valuation of data to be considered by the SRB at their next meeting.

Discussion Groups

The Technical Director also advised that he would continue to use the discussion Groups to post the agenda and attachments for future SRB meetings.

The SRB members were encouraged to join the SRB discussion group and to post any comments that they had in relation to documents in between meetings.

Next step

SRB members should email both the Technical Director (aaronsohn@ivsc.org) and Danuta Wojtowicz (dwojtowicz@ivsc.org) in relation to using the Discussion Groups so they can assist with any difficulties.