

IVSC TAB Meeting Update May 2023

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

This IVSC Update highlights preliminary decisions of the IVSC Tangible Assets 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 as set out in the ***IVSC Standards Review Board Due Process and Working Procedures***.

The Board met remotely on 10 May 2023

PRESENT:

Kim Hilderbrandt – Chair (KH)
Becky Gaughan (BG)
Brendan Gallagher (BG)
James Gavin (JG)

Kyle K Ten Huisen (KTH)
Ludmila Simonova (LS)
Paakow Winful (PW)
Ron Cohen-Seban (RS)

APOLOGIES:

Sandip Kuma Deb – Vice Chair (SD)
C K Lau (CL)

Eduardo Rottman (ER)
Molefi Kubuzie (MK)

IN ATTENDANCE:

Alexander Aronsohn (AA) – IVSC Technical Director (Tangible Asset Standards)

The topics in order of Discussion were:

Contents

Administration

- IVSC TAB Meeting Update April 2023
(IVSC TAB Meeting Update April 2023)
- IVSC Publications Update
(23.05.02. IVSC Publication Schedule)
- Recent correspondence/meetings (IPSASB)

Standard Setting

- IVS Exposure Draft Update
(IVS Exposure Draft Apr-23)
- IVS Exposure Draft Summary and Consultation questions
(IVS Exposure Draft Apr-23 Summary and Consultation Questions)
- IVS Exposure Draft Presentation
(2023.05.03. International Valuation Standards Exposure Draft PDF)

Discussion

- Prudential Value
((i) Email correspondence from RICS, ii) European Valuer article, iii) Finalised draft of Prudent Value briefing note for members and stakeholders)
- Valuation of assets in a listed v unlisted environment
(Valuation of assets in a listed v unlisted environment)

Watching brief

- Key Topics for 2024 Agenda Consultation
(Proposed TAB Agenda Consultation Topics)
- TAB Working Groups
(2023.05.03. IVSC TAB Working Groups)

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

Administration

IVSC TAB Meeting Update April 2023 (IVSC TAB Meeting Update April)

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 TAB.

IVSC Publications Update (23.05.02. IVSC Publication Schedule)

The Board met on the 10th of May 2023 and discussed the proposed timetables for some of its forthcoming consultation documents.

The Board reviewed the proposed publication dates for the following TAB perspectives paper: -

- Perspectives Paper ESG and Tangible Assets Valuation Part 2 - 30th September 2023
- Perspective Paper on Prudential Value - 30th September 2023

The Board felt that the publication dates might vary depending on the responses received from the IVS Exposure Draft consultation. The Board also noted that they were still discussing Prudential Value and may not choose to issue a perspective paper on this topic.

Next steps

No action required.

Recent correspondence/meetings (IPSASB)

The Board was advised that both the Chair and IVSC Technical Director Had met with the IPSASB on 3rd May 2023. The Board was further advised that they met with David Watkins, who is the chair of the International Public Sector Accounting Standards Board, and discussed potential mutual recognition of each other's standards. The discussion involved a number of valuation issues including extractive industries and how the principle of Highest and Best Use related to public sector assets.

Next steps

The Chair and Technical Director are to have further meetings with the IPSASB Technical Director to discuss shared valuation issues and potential future mutual recognition of each other's standards.

Standard Setting

IVS Exposure Draft Update (IVS Exposure Draft Apr-23)

The Board was advised that the IVS Exposure Draft went into consultation on the 28th April 2023 and that the consultation closed on the 28th July 2023.

The Board was further advised that the IVS Exposure Draft included the following interactive elements: -

- 1) *Definitions are italicised and shown when the mouse is hovered over them.*
- 2) *Chapters can be accessed via clicking on the contents page or on the chevrons or squares at the beginning of each chapter.*
- 3) *References can be accessed directly by clicking on the appropriate reference.*

The Board was also advised the Board that Asset Standards had been Revised to: -

- 1) *Restructure and align the Asset Standards with the proposed revisions to the IVS General Standards.*
- 2) *update any references to the General Standards contained within the Asset Standards*
- 3) *To include new topics within the Asset Standards, where applicable such as the sections on data and inputs and models.*

The Board was not asked to make any decisions.

Next step

The Technical Director asked the TAB to encourage their organisations and key stakeholders within their markets to participate in the consultation process.

IVS Exposure Draft Summary and Consultation questions (IVS Exposure Draft Apr-23 Summary and Consultation Questions)

The Board was advised that the IVS Exposure Draft Summary and Consultation Questions were published at the same time as the IVS Exposure Draft on the 28th of April 2023.

The Board was further advised that this was a high-level document, which provided the following rationale for changes to IVS: -

- 1. Ongoing changes in global markets and global valuation, including the increased use of technology and the abundance of available data sources.*
- 2. Increased use of specialists and service providers by valuers in the performance of valuations.*
- 3. Increased demand by stakeholders, including financial institutions, investors, and regulators, for clarity related to valuation process and the management of valuation risk.*
- 4. Additional demands on valuation professionals to address new types of assets or liabilities and to expand the application of valuations into areas such as environmental, social and governance (ESG).*
- 5. Integration of the proposed new financial instruments content. The Board agreed that the paper would act as a precursor to the introduction of more specific requirements on the management of valuation risk within IVS.*

The Board was also advised that comments could be submitted in the following ways:

- Personal email to aaronsohn@ivsc.org
- online via the IVSC website
- Link to PDF on website

The Board was not asked to make any decisions.

Next step

The Technical Director asked the TAB to encourage their organisations and key stakeholders within their markets to participate in the consultation process.

IVS Exposure Draft Presentation (2023.05.03. International Valuation Standards Exposure Draft PDF)

The Board was advised that DS, SD, and AA were in the process of providing the following webinars on the IVS Exposure Draft; -

- Monday 8th May 2023 RICS
- Tuesday 9th May IVSC European Members
- Thursday 11th May 2023 IVSC Americas Members
- Tuesday 16th May IVSC Asian Members

The Board was further advised that there would be more IVSC Exposure Draft webinars in June/July 2023 to remind constituents of the ongoing consultation and to encourage participation in the consultation process.

The Board was also advised that the Technical Director had a standard IVS Exposure Draft presentation that he would be happy to share with TAB members.

The Technical Director further advised that he would be happy to participate in any IVS Exposure Draft presentations to organisations and stakeholders.

Next step

The TAB 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.

Discussion

Prudential Value ((i) Email correspondence from RICS, ii) European Valuer article, iii) Finalised draft of Prudent Value briefing note for members and stakeholders)

The Board was advised that the issue of Prudential Value had been on the TAB agenda since 2023.

The Board was further advised that the Basel Committee were looking to impose a new definition of Prudential Value, which would be a requirement for all secured lending valuations from January 2025.

The Board was also advised that in the UK the Prudential Regulatory Authority was also looking to adopt the definition of Prudential Value.

In addition, the Board was also advised that there were a number of challenges in relation to the adoption of Prudential Value as there was no agreed interpretation of the definition and there was no agreed valuation approach.

The Board was further advised that the TAB had taken a proactive stance on prudential value thus far by providing feedback to the Basel Committee on Banking Supervision (BCBS), discussing with the EU Banking Unit, and directly responding to elements of the Bank of England Prudential Regulation Authority (PRA) consultation.

The Board was advised that there were the following attachments included under this topic; -

- ***IVSC Briefing paper on Prudential Value:*** this provides the TAB perspective in relation to issues with adopting the definition of Prudential Value as it sounds.
- ***TEGoVA Article:*** this provides European Valuation Standards Board interpretation of 'prudently conservative valuation criteria' that the amended Capital Requirements Regulation is set to introduce alongside Market Value.
- ***Email from RICS:*** this provides the RICS view on the Implementation of Basel 3.1 and the potential implications for RICS Valuation Members.

The Board was also advised that the RICS had asked the IVSC to publicly support their view on Prudential Value.

Further to discussion, the TAB felt that it was important that the IVSC remained impartial to other members and/or organisations views in relation to the prudential value topic in order to maintain a level of independence.

Next step

The Chair and Technical Director will respond to the RICS's email request to support their view on Prudential Value and will them that it is important that the IVSC remains impartial and independent. The Board should review the IVSC briefing paper on Prudential Value in advance of the next meeting of the TAB as this will continue to be an agenda item.

Valuation of assets in a listed v unlisted environment (Valuation of assets in a listed v unlisted environment)

The Board discussed the latest version of the briefing paper on the valuation of assets in a listed vs unlisted environment.

The Board was advised the market was 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*).

The Board was further advised that these differences had existed in the past and were exacerbated when there was uncertainty and volatile markets.

The Board was also advised that this issue had received significant reporting attention with many reporters questioning the validity of valuations and misunderstanding the reasons for the differences in the valuations (*i.e. not comparing apples with apples*).

The Board discussed the scope of this paper and felt for the time being the scope should be limited to REITs and listed infrastructure.

The Board was broadly in agreeance with the view contained within the paper and felt it was important that the IVSC issued a non-biased view on this issue.

The Board noted that this was a key issue within their organisations and markets and felt that some comment from the IVS in order to avoid damage to the valuation profession.

The Board also noted that though the market may yearn for more transparency on REIT valuations, this could increase the liability of the value and therefore this may not always be a practical solution.

The Board was further advised that post any further comments from the TAB this paper would be distributed to the SRB, BVB and FIB as this issue related to all asset classes and it was important to have a united IVS view on this issue on the reasons for the differences in value.

Next step

The Chair will incorporate the TAB feedback and distribute a revised version of this paper to TAB prior to distribution to the SRB, BVB and FIB for consideration and review.

Watching brief

Key Topics for 2024 Agenda Consultation (Proposed TAB 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
- 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
- Insurance Valuations
- Private vs Public Markets
- Prudential Value
- Taxation (TAB)
- Trophy Assets
- Unregistered land
- Valuation in a volatile market (TAB)
- Valuation Risk

The Board was not asked to make any decisions.

Next steps

The Technical Director will provide the Board with an update on the Agenda consultation during the next TAB conference call on the 14th June 2023.

TAB Working Groups (2023.05.03. IVSC TAB Working Groups)

The Board was advised that SRB were currently carrying out a review of working groups.

The Board was further advised that the current IVSC TAB working groups were as follows: -

TAB Working Groups Active

- *ESG Working Group*
- *MV Working Group*
- *IVS 300 Working Group*
- *IVS 400 Working Group*
- *IVS 410 Working Group*

The Board was also advised that the current chapter specific (*IVS 300, IVS 400 and IVS 410*) working groups would remain as these would be used for a review of the IVS Exposure Draft Tangible Asset Standard consultation responses.

The Technical Director advised that due to time limitations he would include this topic within the agenda for the next TAB conference call on the 14th June 2023.

The Board was not asked to make any decisions.

Next steps

The Tangible Assets Board members are to advise the Chair and Technical Director of their interest in participating in any working group. The Technical Director is to include the TAB Working Groups as an agenda Item for the next TAB conference call.

AOB

There was no other business.

Next steps

None.