

## IVSC SRB August 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 in person and remotely on 29 – 31 August 2023. The topics in order of Discussion were:

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*(IVSC SRB July Meeting Update 2023)*

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- IVS Basis of Conclusions

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 July 23 (IVSC SRB July 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.

## Standard setting

### General

Prior to the IVSC SRB London Meeting the following IVS SRB working groups met regularly to review and discuss the IVS General Standards Consultation Responses:

- *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*

The working groups reviewed the IVS General Standards consultation responses and colour coded the IVS Exposure Draft consultation responses as follows;

- *Red – requires change.*
- *Orange – may require change.*
- *Green – no change required.*
- *Purple – supportive of change suggested.*

During the IVSC SRB London meeting the Board further reviewed the colour coded IVS General Standard consultation responses previously considered by the IVSC SRB standard setting working groups (*listed above*) and assessed and made changes to the IVS General Standards as appropriate based on the following three categories

1. *Good comment requires change*
2. *Disagree – no change*
3. *Good comment but would require re-exposure – moved to future/agenda consultation*

**IVS Foreword (Alignment with Other Standards, Applicability of IVS should be Neutral and Application Guidance/Examples)**

The Board reviewed the IVS Framework comments contained in the "2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet" and in the "2023.08.25. IVS Exposure Draft General Standards Responses". The IVS consultation responses had been colour coded for prioritisation and reviewed by the SRB Glossary and IVS Framework Working Group. (*Red – requires change, orange – may require change, green – no change required, purple – supportive of change suggested*)

The Board noted that the Foreword had not been reviewed for a while and further to discussions recommended the following revisions to the existing to provide clarification on the use and application of IVS (*revisions shown in green italics*);

*"IVS are international principle-based valuation standards which outline a process that can be used in conjunction with other standards, laws and regulations requiring a value.*

*IVS describes the valuation process, which may involve multiple parties (including specialists and service organisations). IVS apply to everyone in the valuation process, however only the valuer may assert compliance with IVS.*

*IVSs are drafted on the basis that the valuers who use the standards are competent and have the requisite knowledge, skills, experience, training, or education in to performing valuations. In IVS a valuer is defined as an individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/ external), possessing the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a valuer. (see IVS Code of Ethical Principles for Valuers)*

*The use of the IVS can be mandated or voluntarily adopted by:*

*(a) a body having legal jurisdiction over the purpose for which the valuation is required;*

*(b) a valuation professional organization requiring their use by members for specific purposes; or*

*c) agreement between the party requiring the valuation and a value."*

**IVS Glossary (Data and Inputs, Must and Should, Cost, Price, and Value, Professional Judgement (peer review) and Professional Scepticism and Significant and Sufficient)**

The Board reviewed the IVS Glossary comments contained in the "2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet" and in the "2023.08.25. IVS Exposure Draft General Standards Responses". The IVS consultation responses had been colour coded for prioritisation and reviewed by the SRB Glossary and IVS Framework Working Group. (*Red – requires change, orange – may require change, green – no change required, purple – supportive of change suggested*)

The Board noted the working group recommendations and further to discussion made the following inclusions or revisions (*revisions shown in green italics*);

This glossary *forms an integral part of the standards* and defines certain terms used in IVS. All glossary definitions are italicised within IVS chapters, but not within the glossary. (*The italicisation of terms within the glossary is still under discussion*)

*10.2. Automated Valuation Model (AVM)*

*A system that provides an indication of value of a specified Asset at a specified date, using calculation techniques in an automated manner without a valuer applying professional judgement.*

*10.4. Client*

*The person, persons, or entity who engages the valuer for a given valuation. "Clients" may be internal (ie, valuations performed for an employer) or external (ie, when a valuer is engaged by a third-party client).*

*10.6. Data*

*Quantitative and qualitative information available to the valuer.*

*10.9. Environmental, Social and Governance (ESG)*

*The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices, financial performance or operations of a company, asset or liability. ESG comprises three pillars: environmental, social and governance, all of which collectively contribute to effective performance, with positive benefits for the wider markets, society, and world as a whole.*

### 10.1. Input

Data, assumptions and adjustments determined to be relevant and selected by the valuer to be used in the valuation, based upon professional judgement. selected by the valuer using professional judgement to determine value.

### 10.23. Must

Actions or procedures that are mandatory.

### 10.1. Observable Data

Information that is readily available to market participants about actual events or transactions that are used in determining the value for the asset or liability.

### 10.25. Price (noun)

The monetary or other consideration asked, offered, or paid for an asset or to transfer a liability. Price and value may be different.

### 10.1. Professional Judgement

The use of accumulated knowledge and experience, as well as critical reasoning, to make an informed decision.

### 10.27. Professional Scepticism

Professional scepticism is an attitude that includes a questioning mind and critical assessment of valuation evidence.

### 10.29. Should

The valuer is expected to comply with requirements of this type unless the valuer can demonstrate that alternative actions are sufficient.

### 10.34. Valuation

The act or process of forming a conclusion on a value as of a valuation date that is prepared in compliance with IVS.

### 10.1. Valuation Approach

A generic term for the use of the Cost, Income or Market Approach. (see IVS 103 Valuation Approaches 10.1).

### 10.37. Valuation Method

Within valuation approach a specific technique to conclude a value (see IVS 103 Valuation Approaches Appendix).

#### 10.38. Valuation Model

A quantitative implementation of a method in whole or in part that converts inputs into outputs used *in the development of a value conclusion*. (see IVS 105 Valuation Models).

#### 10.33. Valuation Process Review

An analysis *by a valuer to assess compliance with IVS or a component of IVS applicable as at a valuation date. This does not include an opinion on the value.*

#### 10.34. Valuation Review

*A valuation review is either a valuation process review or a value review or both.*

#### 10.35. Valuation Risk

The *possibility* that the value is not appropriate for its intended use.

#### 10.36. Value (noun)

The *quantitative valuer's conclusion on the results of a valuation process that is fully compliant with the requirements of the IVS as of a valuation date*

#### 10.1. Value Review

An analysis *by a valuer applying IVS to assess and provide an opinion on the value of another valuer's work. This does not include an opinion on the valuation process.*

The SRB also agreed to delete the definition of worth from the Glossary.

### **IVS Framework (Competence, Ethics, Quality Control Small Firms, Compliance Hierarchy Order and Service Organisation)**

The Board reviewed the IVS Framework comments contained in the "2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet" and in the "2023.08.25. IVS Exposure Draft General Standards Responses". The IVS consultation responses had been colour coded for prioritisation colour coded and reviewed by the SRB Glossary and IVS Framework Working Group. (Red – requires change, orange – may require change, green – no change required, purple – supportive of change suggested)

The Board reviewed the Framework and revised the Valuer principles, removed the section on the Valuation Principles, which was agreed between the IVSC, AF and AIC as these principles were already contained within the USPAP bridging document and also because they repeated the existing principles contained in IVS.

The Board also reviewed the section on Valuation Quality control and renamed this section Valuation Process Quality Control. The Board also felt that the requirements within this section should be changed from “*must*” to “*should*” as not only was should a sufficiently high barrier (*i.e., comply or explain*) but also through slightly lowering this requirement it would give members sufficient time to embed these requirements within their standards and best practice guidance. The Board also agreed that in future editions of IVS this requirement would be upgraded to a “*must*”.

The Board also reviewed the sections on “*Use of a Specialist*” and “*Use of a Service Organisation*” and amalgamated these sections, as not only were the requirements the same but also whether an organisation was seen as a specialist or service organisation was largely based on the intended use. The Board also reviewed and revised the section on Compliance to make this section more user friendly.

Further to discussion the Board made the following revisions (*revisions shown in green italics*);

*Compliance with IVS includes adherence to the IVS General Standards, applicable Asset Standards, and the Appendices.*

#### 10.2. *Competency*

*Valuers must possess or obtain all the technical skills, knowledge and experience required to appropriately complete a valuation.*

#### 10.4. *Professional Scepticism*

*Valuers must apply an appropriate level of professional scepticism at every stage of the valuation.*

### 20. *Valuation Process Quality Control*

20.1 *There must be Valuation process quality controls (“the controls”) around the valuation process.*

20.2 *The controls help ensure that valuations are performed objectively, transparently, without bias and in compliance with IVS and allow for the assessment of both the valuation and the value.*

20.3 *The extent of the controls should be determined having regard to the intended use, intended user, the asset or liability being valued and the complexity of the valuation.*

20.4 The *controls should* assess the judgements made during the valuation including their reasonableness and freedom from bias and in determining the value.

20.5 The *controls should* be documented. The documentation should contain sufficient detail to allow another valuer, applying professional judgement, to understand the effectiveness of the controls.

20.6 There *should* be periodic assessment of the controls to ensure that the integrity and completeness of the control environment is appropriate as of the valuation date. The periodic assessment should be documented.

20.7 Valuers may perform monitoring procedures with respect to their own compliance and their control policies and procedures if valuers are able to address valuation risk.

20.8 A valuer *should conclude that the level of valuation risk, subject to controls, is appropriate the intended use, intended user, the asset or liability being valued and the complexity of the valuation.*

#### **IVS 101 Scope of Work (ESG, Integration with other standards and Valuation Review)**

The Board reviewed the IVS 101 Scope of Work comments contained in the "2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet" and in the "2023.08.25. IVS Exposure Draft General Standards Responses". The IVS consultation responses had been colour coded for prioritisation colour coded and reviewed by the SRB IVS 101 Scope of Work & IVS 106 Documentation and Reporting Working Group.

The Board reviewed this section and made a number of consequential amendments including some minor revisions to the Valuation Process Review and Value Review requirements in order to be in accordance with the revised definitions for a valuation process review and a value review.

#### **IVS 102 Bases of Value (Market Value and price, Market Value and Investment Value, Non-IVS Bases of Value and Premises of Value)**

The Board reviewed the IVS 102 Bases of Value comments contained in the "2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet" and in the "2023.08.25. IVS Exposure Draft General Standards Responses". The IVS consultation had been colour coded for prioritisation colour coded and reviewed by the SRB IVS 102 Bases of Value & IVS 103 Valuation Approaches Working Group. (Red –



*requires change, orange – may require change, green – no change required, purple – supportive of change suggested)*

The Board noted that this was an established chapter which had been integrated into many VPO's and stakeholders' guidance and best practice. The Board further noted that the IVS defined Bases of value had been agreed globally by members of the IVSC and adopted within their standards. The Board also noted that there were no specific consultation questions on this chapter though a number of consultation responses had contained some limited comments in relation to IVS 102 Bases of Value.

Further to a review of this chapter the Board made some minor consequential amendments to this chapter but as requested by stakeholders, with the exception of the newly created appendices this chapter remained largely unchanged.

**IVS 103 Valuation Approaches (Market, Cost and Income Approach (Hybrid), Income Approach and DCF Guidance, Valuation Method, Valuation Models and Income Approach and Appendix)**

The Board reviewed the IVS 103 Valuation Approaches comments contained in the "2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet" and in the "2023.08.25. IVS Exposure Draft General Standards Responses". The IVS consultation had been colour coded for prioritisation colour coded and reviewed by the SRB IVS 102 Bases of Value & IVS 103 Valuation Approaches Working Group. *(Red – requires change, orange – may require change, green – no change required, purple – supportive of change suggested)*

The Board noted that this was an established chapter which had been integrated into many VPO's and stakeholders' guidance and best practice. The Board also noted that there were no specific consultation questions on this chapter though a number of consultation responses had contained some limited comments in relation to IVS 103 Valuation Approaches.

Further top a review of this chapter the Board made some minor consequential amendments to this chapter but as requested by stakeholders, with the exception of the newly created appendices this chapter remained largely unchanged.

## **IVS 104 Data and Inputs (Definition, Interpretation of Data and Inputs, Data and Inputs Hierarchy (see IFRS), Diagram)**

The Board reviewed the IVS 104 Data and Inputs comments contained in the "2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet" and in the "2023.08.25. IVS Exposure Draft General Standards Responses". The IVS consultation had been colour coded for prioritisation colour coded and reviewed by the SRB IVS 104 Data & Inputs & IVS 105 Valuation Models Working Group. (*Red – requires change, orange – may require change, green – no change required, purple – supportive of change suggested*)

From a review of the comments the Board noted that a number of responses had requested separate definitions for Data and Inputs and further to discussion the Board drafted definitions for Data and Inputs to be included in the Glossary. The Board also noted that a number of respondents had requested whether there was a hierarchy of characteristics for data and further to discussion the Board determined that the most important characteristic was observable data. The Board drafted a definition for observable data to be included in the glossary and added the the following introductory paragraph to this chapter to highlight the importance of observable data.

*IVS 104 deals with the selection and use of suitable data to be used as inputs in the valuation. The aim of the valuation is to maximise the use of relevant observable data to the degree that it is possible.*

The Board further reviewed this chapter and the comments received and made further changes to the following sections to provide additional clarity: -

- Introduction
- Use of Specialist and Service Organisation (*combined into one section as per the IVSC Framework*)
- Characteristics of Relevant Data (*revised for additional clarity and to make this section more user friendly*)
- Input Selection (*revised for additional clarity and to make this section more user friendly*)
- Data and Input Documentation (*revised to ensure that the requirements are equally applicable to all specialisms*)

The Board also reviewed the ESG appendix and further to discussion in relation to comments received agreed that as ESG, ESG requirements and data in relation to ESG was still in a developmental stage the requirements within this section should be changed from a "must" to a "should". The Board further noted that

should be a sufficiently high barrier (*i.e. comply or explain*). The Board further agreed that in future editions of IVS this requirement should be changed into a “*must*”. Further to comments received the Board also included a definition for ESG within the IVS Glossary.

### **IVS 105 Valuation Models (Appropriate Accuracy and Calibration, Definition of Valuation Model, Documentation, Examples, Sensitivity Analysis, Testing, Use of Significant and Sufficient)**

The Board reviewed the IVS 105 Valuation Models comments contained in the “2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet” and in the “2023.08.25. IVS Exposure Draft General Standards Responses”. The IVS consultation had been colour coded for prioritisation colour coded and reviewed by the SRB IVS 104 Data & Inputs & IVS 105 Valuation Models Working Group. (*Red – requires change, orange – may require change, green – no change required, purple – supportive of change suggested*)

From a review of the comments the Board that a number of respondents had requested whether there was a hierarchy of characteristics for Valuation Models and further to discussion the Board determined that the most important characteristic was appropriate. The Board also drafted the following introductory paragraph to this chapter to highlight That no valuation model without the input of a valuer could produce an IVS compliant valuation.

*IVS 105 addresses the selection and use of suitable valuation models to be used in the valuation process. No valuation model in and of itself is compliant with IVS.*

The Board further reviewed this chapter and the comments received and made further changes to the following sections to provide additional clarity: -

- Introduction
- Use of Specialist and Service Organisation (*combined into one section as per the IVSC Framework*)
- Characteristics of Appropriate Valuation Models (*revised for additional clarity and to make this section more user friendly*)
- Model Selection and Development (*a few sections were combined in order to ensure that this section equally applied to all Asset Standards and to provide additional clarity and to make this section more user friendly*)
- Valuation Model Use (*revised to provide further clarity*)
- Data and Input Documentation (*revised to ensure that the requirements are equally applicable to all specialisms*)

## **IVS 106 Documentation and Reporting (Significant Inputs, Record Keeping and Valuation Review)**

The Board reviewed the IVS 106 Documentation and Reporting comments contained in the "2023.08.25. IVS Exposure Draft Consultation Responses Spreadsheet" and in the "2023.08.25. IVS Exposure Draft General Standards Responses". The IVS consultation had been colour coded for prioritisation colour coded and reviewed by the SRB IVS 101 Scope of Work & IVS 106 Documentation and Reporting Working Group. (*Red – requires change, orange – may require change, green – no change required, purple – supportive of change suggested*)

From a review of the comments the Board that a number of respondents had requested further detail in relation to how long documentation should be kept. The Board discussed this issue in depth and noted that the requirements varied according to the intended use and the legal, regulatory, or contractual requirements. Further to discussion the Board drafted the following paragraph to be included within the section on documentation; -

20.4. In all cases, documentation should describe the valuation or valuation review and how the valuer managed valuation risk. Valuers must keep a copy of any report issued of the value and a record of the valuation work performed for a period in accordance with legal, regulatory, authoritative, or contractual requirements relative to the intended use.

The Board further reviewed this chapter and the comments received and made further changes to the following sections to provide additional clarity: -

- Documentation (*some revisions made to provide additional clarity*)
- Valuation Reports (*clarification of reporting requirements such as inclusion of sources of information and only Significant ESG factors to be included*)
- Valuation Review Reports (*clarification of difference between a valuation process report and a value review report and harmonisation of requirements*)

### **Next steps**

The SRB drafting subgroup is to finalise any proposed changes emanating from the IVSC SRB London meeting. The Technical Director is to send the revised IVS General Standards to the SRB for consideration and review with any comments or revisions to be received by close of play on Friday 15th September. The Board is to further review the IVS General Standards revisions at the next meeting of the SRB on Wednesday 27<sup>th</sup> September 2023 and to hold a preliminary vote on the proposed revisions to the IVS General Standards.

## **IVS Basis of Conclusions**

The Board discussed the drafting of the Basis of Conclusion and the agreed that this should not be drafted until the proposed IVS Revisions were more or less finalised. The Board further agreed that the Basis of Conclusion should be the main topic for discussion at the SRB physical meeting on the 9<sup>th</sup> and 10<sup>th</sup> October at the IVSC AGM in Paris.

### **Next steps**

Technical Director is to draft a preliminary straw man Basis of Conclusion to be discussed at the SRB physical meeting on the 9<sup>th</sup> and 10<sup>th</sup> October at the IVSC AGM in Paris.