

IVSC PERSPECTIVES PAPER

INSPECTIONS

JUNE 2024



INSPECTIONS OF TANGIBLE ASSETS
AS PART OF THE VALUATION PROCESS

IVSC

—

Issued by the International Valuation Standards Council (IVSC)
Tangible Assets Board

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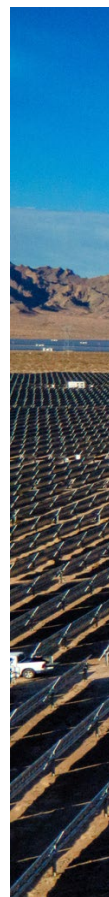
IVSC Perspectives Paper: *Inspections*

The IVSC periodically publishes Perspectives Papers, addressing relevant valuation topics and emerging issues. These papers serve multiple purposes: they spark and nurture discussions on valuation topics related to the International Valuation Standards (IVS); they offer contextual insights from the viewpoint of the standard setter; and they assist the valuation community in applying IVS through guidance and case studies. Perspectives Papers are designed to complement the IVS and do not replace or override the standards. Valuers must adhere to and follow the standards when conducting valuations.

The focus of this Perspectives Paper is the inspection of tangible assets within the valuation process. With rapid technological advancements and changing practices, particularly highlighted during the COVID-19 pandemic, the necessity and methodology of physical inspections have come under scrutiny. This paper explores the evolving landscape of valuation inspections, discussing the benefits and challenges of various inspection types, from traditional physical inspections to technology-based virtual assessments. By examining these developments, the paper aims to stimulate discussion, provide guidance, and gather feedback from the valuation community on best practices and standards for inspections in the context of the International Valuation Standards (IVS).

Inspection of tangible assets as part of the valuation process: The perspective of an international principle-based valuation standard setter

**WRITTEN AND ISSUED BY THE
IVSC TANGIBLE ASSETS BOARD**



Background

In recent decades, numerous advancements have impacted the valuation profession, particularly pertaining to the creation of, and access to, information across all asset classes, and the processing and analytical power of technology. This has had various benefits for valuation stakeholders (valuers, clients, intended users, regulatory or other oversight bodies, etc), ultimately driving significantly enhanced valuation analysis and productivity.

These technological advancements served the valuation profession particularly well during the COVID-19 pandemic, enabling valuation service providers to continue providing services largely unhindered to the various markets they serve, specifically financial and other regulated markets.

The tangible asset valuation profession faced specific challenges during this time, particularly in the context of real estate and plant, equipment & infrastructure valuations, primarily because the valuation inspection

process was either limited, impractical or not possible. Just as virtual meetings filled the gap for various professional services, this disruption in the tangible asset valuation profession resulted in the adoption of rapid technological advances to supplement the lack of physical inspection process. Post COVID-19 pandemic, the valuation profession continues to ride the crest of this wave with artificial intelligence platforms being deployed in the provision of various valuation services.

As with rapid change in any profession however, these advancements have not come without their issues. The challenge from certain stakeholders in the tangible asset valuation profession is that there continues to be a number of service providers in certain markets undertaking valuations without the incorporation of a physical inspection, just as they did during the COVID-19 pandemic. Whilst these service providers have questioned why they can't continue to provide valuation services leveraging the use of



technology and other investigation procedures with limited or no inspection, other valuation stakeholders have been strong in their criticism that the absence of any form of physical inspection process results in an inferior valuation product because of the potential heightened risk that is attached to such a valuation.

The consultation process relating to the most recent release of International Valuation Standards effective 31 January 2025 (IVS) raised these divergent views, and following enquiries from various valuation stakeholders, the IVSC's Tangible Asset Board (TAB) is issuing this perspectives paper to explore the topic in greater detail. Given the sensitive but important nature of the topic, the TAB aims for this perspectives paper to create greater awareness on the topic, stimulate discussion and debate, and provide opportunity for all valuation stakeholders to provide feedback which will be considered in future standard setting processes.



The importance of transparency to manage valuation risk

Valuation risk is defined in IVS as:

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

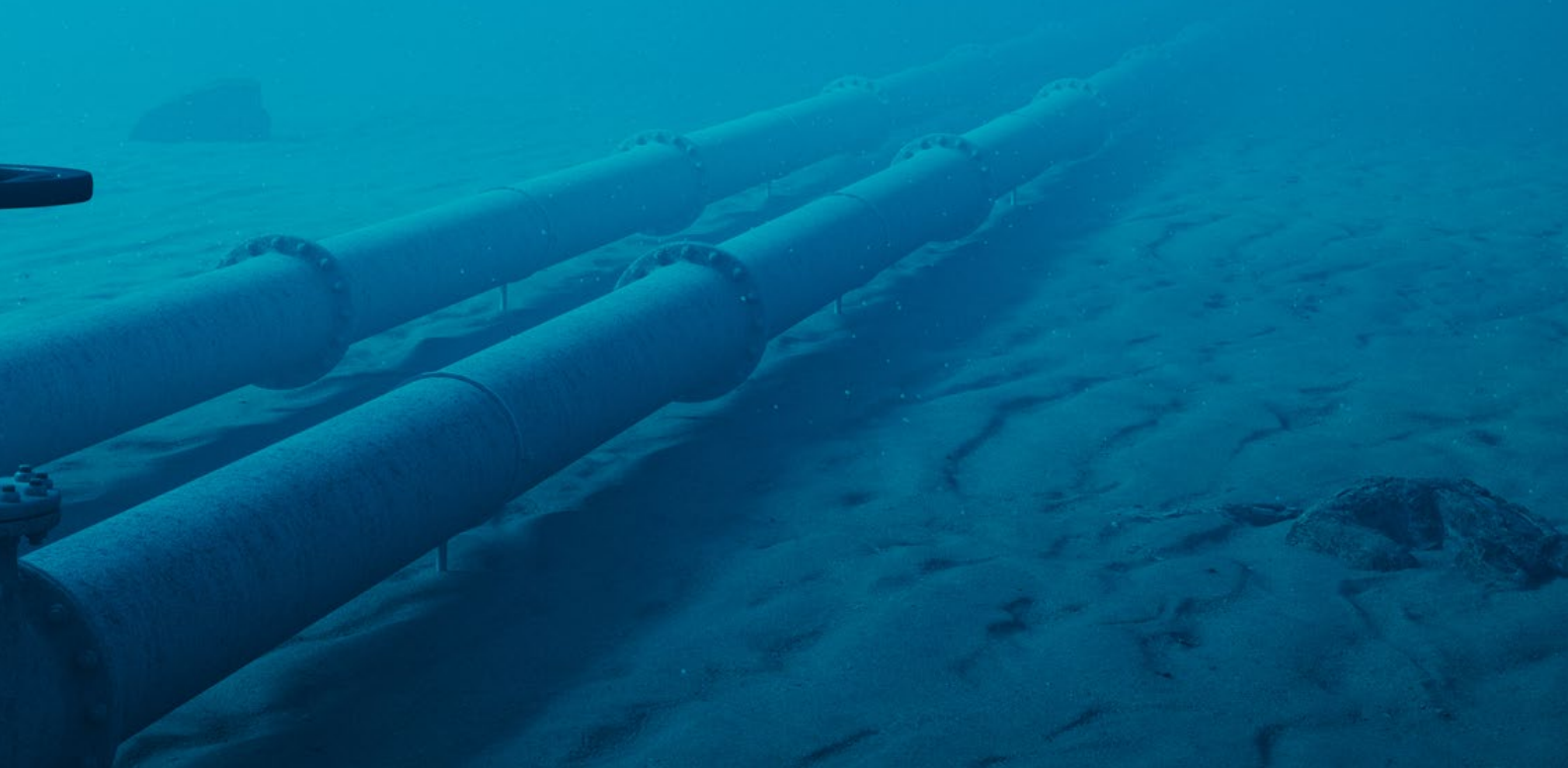
Amongst the primary objectives of the IVSC is 'to promote and maintain a high level of public trust in valuation practice'. Key to this objective is the transparency of both valuation standards, scope of work (terms of engagement), and valuations that comply with IVS. In order to satisfy these well-founded objectives, scope of work (terms of engagement) and valuations themselves are frequently subject to various limitations, designed with the intention of:

- Having a common agreement between a client and a valuation service provider as to what the valuation is, and what a valuation is not.
- Similarly, informing users as to what the valuation is, and what a valuation is not.

This has the intention of acknowledging, managing,

and sharing certain elements of risk associated with a valuation assignment, subject to relevant legislation and standards within that jurisdiction. Common scope of work (terms of engagement) and valuation limitations might include (amongst other items) that the valuation:

- Is only to be used for a certain intended use (purpose).
- Is only to be used by a certain client and/or intended users.
- Only considers a certain basis of value.
- Only considers value(s) as at the valuation date.
- Assumes legal title or ownership relating to the assets subject to the valuation.
- Assumes the assets, subject to the valuation, are free and clear of all liens or encumbrances.
- Assumes compliance with all zoning, use and environmental laws and regulations.
- Will not investigate any licencing, planning, occupancy, or consents from relevant authorities.
- Will not seek to identify any contamination, defect hazards or compliance requirements.
- Will not be supported by a detailed engineering or asset risk assessment.



From a tangible asset perspective, physical inspection has often formed an important pillar of helping to minimise certain elements of valuation risk. By way of physical inspection, this often provides valuers and users of the valuation with various opportunities and insights, some of which might include:

- Confirmation of the existence of an asset.
- A greater appreciation as to the technical or physical characteristics of the asset.
- A greater awareness of the assets condition, potential and/or limitations.
- An understanding of the asset's operational capability; past, present or future.
- Understanding of the asset's locality, surrounds and development potential.
- An opportunity to discuss the asset with management or operational personnel.
- The ability to inspect market comparable sales within proximity to the asset.

Each of the above were particularly important prior to the advent of electronic information, and depending upon the valuation purpose, jurisdiction, or asset class in question, they still fulfill an important part in informing the valuation process. However,

with technological advancements over time, particularly the increasing volume and availability of detailed information across most asset classes, physical inspection is only one of a number of ways to conduct investigations and assemble evidence as part of a valuation assignment.

So, what are the current requirements of IVS as it relates to inspection, or more broadly investigations and evidence?

What are the current IVS requirements on inspection?

IVS states the following in relation to inspection within the General Standards, IVS 101 Scope of Work:

“20. Valuation Requirements

20.01 The scope of work must specify the following:

...

(i) the nature and extent of the valuer’s work and any limitations thereon: Any limitations or restrictions on the inspection, enquiry and/or analysis in the value must be identified. If relevant information is not available because the conditions of the valuation restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see IVS 102 Bases of Value, paras 50.01-50.04) made as a result of the restriction must be identified.

...”

This is extended by the following paragraphs within the tangible asset standard series (being IVS 300 Plant, Equipment and Infrastructure, IVS 400 Real Property Interests, and IVS 410 Development Property) when considering investigations and evidence:

**SUFFICIENT
INVESTIGATIONS AND
EVIDENCE MUST BE
ASSEMBLED BY MEANS
SUCH AS INSPECTION,
INQUIRY, RESEARCH,
COMPUTATION, OR
ANALYSIS**

“Sufficient investigations and evidence must be assembled by means such as inspection, inquiry, research, computation, or analysis to ensure that the valuation is properly supported. When determining the extent of investigations and evidence necessary, professional judgement is required to ensure it is fit for the purpose of the valuation.”

...

“If, during the course of a assignment, it becomes clear that the investigations or limitations included in the scope of work will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations such as inspection are so substantial that it will not result in a valuation outcome that is adequate for the purpose of the valuation, the valuation must explicitly state that the valuation is not in compliance with IVS (see IVS 100 Valuation Framework, section 40 and IVS 101 Scope of Work, para 20.03)”

And finally, within the General Standards, IVS 106 makes it explicit within paragraph 30.06 that:

“30.06 Valuation reports must convey the following, at a minimum:

(a) agreed scope of the work,

...

(l) sources and selection of significant data and inputs used,

...”

As such, the positioning of IVS promotes transparency in relation to ‘inspection’ for an IVS-compliant valuation, but does not mandate physical inspection.

Whilst it would be widely acknowledged that an ‘inspection’ is commonly part of a tangible asset valuation process, it is only one of many ways for the valuer to conduct investigations and assemble evidence, with the intention of ensuring that the valuation is properly supported.

Professional judgement is required when determining the extent of investigations and evidence necessary and the valuer should clarify why the chosen type on inspection is best fit for the intended use in order to provide an IVS-compliant valuation.



Does site inspection mean different things to different stakeholders in different markets?

In accordance with IVS, whilst the extent of site inspection is often left to a valuer's 'professional judgement' (unless instructed otherwise in the scope of work), this can often create a level of frustration from both valuers and client alike in that:

- When quoting to undertake valuations, valuers' scope different forms of inspection in their fee estimate, potentially creating an unlevel playing field as part of a tendering process for a less informed client.
- Upon receiving a valuation, a client can often be left feeling unsatisfied with the level of inspection conducted during the assignment (and resultant investigation and diligence) because it was not what they had anticipated.

An inspection can mean different things to different stakeholders, and as a result it can be difficult to define. Each of the following classifications could technically be considered an inspection:

- **Desktop inspection:** whereby the valuer uses streetview applications (i.e. Apple Look Around, Google Streetview, etc) or dated photographs to

consider a property (and associated comparables) from the desk. Whilst this has shortcomings for current valuations because of the dated nature of information, it can be somewhat helpful when conducting a valuation with a retrospective valuation date, or when valuing a large portfolio of assets that are geographically dispersed in a short timeframe.

- **Technology-based virtual inspection:** whilst often still undertaken when the valuer is at their desk, the use of technology in virtual inspections may include the use of applications such as a same-day photography feed, live stream video, or satellite or drone imagery for example. The benefits of this type of inspection are that it can enable more efficient use of time, allows the valuer to get current or same-day information about a property, and there may still be the capability with certain technology to allow valuers to ask questions to gather information and insights associated with a property.
- **'Drive-by' or 'curb-side' inspection:** whereby the valuer does not actually set foot on the property, but rather inspects the property from afar, typically either from a vehicle or from the curb. Whilst viewing the asset in person has its obvious advantages, such an inspection might fail to gather certain information and insights



associated with the property. For some, a 'drive-by' inspection may just be that (driving past at 60km/h).

- **Detailed inspection:** whereby a valuer physically enters the property to undertake a thorough inspection of the property and its associated improvements. This will often involve an internal inspection of the property, and frequently offer the valuer an opportunity to ask about a property's history, condition, and operational status. Such an inspection can often offer up insights associated with a property that may not be discovered as part of a desktop, technology-based virtual or drive-by inspection.
- **Critical inspection:** whereby a valuer does everything associated with a detailed inspection, and compliments that with the use of other specialists such as structural or environmental engineers, building surveyors, planning experts, quantity surveyors/cost engineers, asset management (i.e. property manager/facility manager), legal, taxation, testing and operational experts, for example. These specialists provide additional levels of assurance around focus areas of the valuation, removing the need to limit aspects of the valuation.

In the case of large portfolios with a high volume of assets, the valuer may also have agreed to undertake a sample inspection. The selection of a sample may revolve around certain criteria such as (but not limited to) high value assets, asset type, location, vintage or random sampling, etc. The types of inspection above may also be combined i.e., a detailed inspection, and certain aspects of a technology-based virtual inspection.

In essence, as you work down this classification, each generally involves different levels of investigation and information gathering, which should result in a valuer being able to maximise the relevant and observable data utilised as part of valuation (see IVS 104 Data and Inputs), being appropriate for the intended use.

In summary, whilst all might be considered an 'inspection', the wide variety of different inspection types can create a lack of clarity amongst valuation stakeholders, resulting in a divergence in valuation products being delivered to clients.

So why don't valuers just undertake 'detailed' inspections for all valuations?

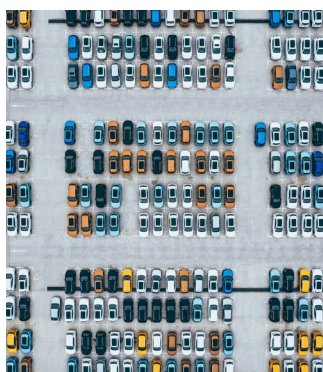
The challenge for a global valuation standard setter is that not all valuations are the same.

Valuations for tangible assets cover a wide range of asset classes. Below we examine some of the variables that may influence the valuer's decision regarding the extent of the inspection required.



SUBJECT ASSETS

Whilst some assets such as vacant residential land are more 'vanilla' in nature, other assets are significantly more complex such as a mine and associated processing facility. Whilst vacant residential land (and its associated comparable assets) will likely have ready access to significant volumes of publicly available information to inform valuation decision making, the mine and processing facility will not, and information will be tightly held. It is highly likely that an inspection associated with vacant residential land can be undertaken in a relatively short period of time (physical or desktop), whereas an inspection associated with a mine and processing facility may take a number of days for a team of valuers.



PORTFOLIO SIZE

Some valuation assignments involve the valuation of single assets such as a residential property whereby the asset is normally quite accessible, and a 'detailed' inspection can be undertaken within a relatively short period of time. Conversely, another valuation assignment may involve the valuation of a portfolio of tens of thousands of vehicles, which are largely homogenous and for which a 'detailed' inspection for each asset would be unrealistic from both a time and cost perspective. For a large portfolio, a valuer may be required to conduct investigations and assemble relevant evidence by other means in order to supplement the inability to conduct a 'detailed' inspection, depending upon the asset class in question.



GEOGRAPHIC DISPERSION

Valuation assignments can involve asset portfolios held on a global basis, perhaps involving tens or hundreds of thousands of assets across many countries. In this instance, once again the valuer's ability to conduct a physical inspection of each of these assets is unrealistic and will likely require a group of valuers to focus their inspections based on a sampling process. Again, investigations and assembly of other relevant evidence would be required to ensure the valuation is properly supported.



LARGE ASSETS

Certain valuation assignments involve the valuation of assets that cover a vast area. Large and remote assets such as agricultural holdings, water distribution assets, electricity transmission and distribution utilities, oil and gas pipelines, road and rail networks are among some of the more unusual asset classes that often require valuations to be undertaken. Such assets will often cover many thousands of hectares, be underground, or span large distances. Relevant investigations and assembly of evidence in these assignments will often involve a combination of sources and cannot solely rely on a 'detailed' inspection process to support valuation conclusions.



RECURRING VALUATIONS

Valuers will frequently be instructed to conduct valuations for certain assets or portfolios on a recurring basis over a fixed period (i.e. quarterly valuations over a 3-year period). Quite often the scope of work will describe the inspection process that is likely to take place over that period, but it may be agreed that it is not necessary to conduct an inspection at every quarter, particularly where the asset is established and subject to minimal change on a quarter-to-quarter basis. In this instance, for example, it may be appropriate for valuers to assemble evidence to support the valuation remotely at most quarterly periods, whilst conducting a physical inspection annually.



VALUATION PURPOSES

The purpose of the valuation will often be front of mind when a valuer considers inspection. In a valuation pertaining to litigation or dispute, it will be highly likely that the valuer will want to undertake a 'detailed' or 'critical' inspection of the assets that are material to the valuation outcome (if not all assets). In contrast, the valuation of an asset for financial reporting purposes as part of a recurring quarterly valuation process where the valuer has previously conducted a 'detailed' inspection - may be deemed by the valuer to not require an inspection.



INACCESSIBLE ASSETS

In some instances, assets may be extremely remote (i.e. a cross-border transmission line), highly transient (i.e. vessels or aircraft), inaccessible (a subsea gas pipeline), located in highly restricted areas (i.e. a prison or scientific research centre) or be out of reach (i.e. a third-party asset in a hostile and highly confidential M&A situation). In such situations, investigations and information assembly will often be required without a 'detailed' inspection

And having consideration to each of the above, the budget for clients to undertake valuation assignments is finite. Budget (in all assignments) needs to be managed commensurate with the risk associated with the valuation to ensure that the product delivered is appropriate for its intended use.



***FROM A TANGIBLE
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Do inspection requirements differ amongst jurisdictional settings?

Inspection requirements would appear to vary amongst jurisdictional settings around the world, and perhaps rightly so.

For example, in some countries the lack of suitable asset information may mean that valuers rely more heavily on collecting information during the inspection process to ensure their valuations are adequately supported. Certain countries might have more stringent inspection policies relating to valuations for certain purposes where levels of risk are elevated, which will often be imposed by statutory legislation or regulatory authorities. This situation is further illustrated by a sample of jurisdictional requirements shown below:

Australian Property Institute

The Australian Property Institute (API) released a

statement to its members titled ‘What constitutes a Valuation of real property by an API Valuer under the API Rules?’ which noted the following:

“This has been debated recently and we can confirm that commentary as to valuations undertaken without a physical inspection do not apply to valuations undertaken for statutory purposes which are completed in accordance with legislation in the jurisdiction that the property is situated and the “Statutory Valuations” rule in the API Rules of Professional Conduct.

Existing API Rules state that valuations include full personal inspections by the Valuer as well as limited on-site inspections and kerbside inspections by the Valuer. The Rules further require the Valuer to include in the valuation report details of the extent/form of physical inspection of the asset personally undertaken by the Valuer. Furthermore, APIV Professional Standards Scheme documentation requires a physical inspection of the real property asset by the primary valuer.

The physical inspection by the Valuer could be in the form of a comprehensive inspection in accordance with accepted valuation practice in Australia, a limited (or partial) on-site inspection or a limited off-site (kerbside) inspection. In all scenarios the Valuer personally physically attends the real property asset that is the subject of the valuation.

A desktop assessment process, which does not include any form of physical inspection of the real property asset by the Valuer, therefore does not meet the requirements of a Valuation under the API Rules or APIV Scheme.

A Valuation, by an API Valuer, requires a physical inspection of the asset by the Valuer as well as all other enquires, investigations and procedures in accordance with accepted valuation practice in Australia and required under the API/APIV rules and standards.”

Royal Institution of Chartered Surveyors

The RICS Valuation Standards Global Standards – effective 31 January 2022 (“Red Book”) provide their own guidance by stating within the Glossary

definition of valuation that:

“Unless limitations are agreed in the terms of engagement, a valuation will be provided after an inspection, and any further investigations and enquiries that are appropriate, having regard to the nature of the asset and the purpose of the valuation.”

This is expanded somewhat within VPS 2 on Inspection, investigations and records which states:

“Inspections and investigations must always be carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose. The valuer must take reasonable steps to verify the information relied on in the preparation of the valuation and, if not already agreed, clarify with the client any necessary assumptions that will be relied on.”

...

“When a property or other physical asset is inspected or examined the degree of investigation that is appropriate will vary, depending on the nature of the asset and the purpose of the valuation. Except in the circumstances described in the section ‘Revaluation without re-inspection’ below, valuers are reminded that to dispense voluntarily with an inspection or examination of physical assets may introduce an unacceptable degree of risk in the valuation advice to be provided – they must therefore carefully assess that risk before proceeding ...”

The Appraisal Foundation

An inspection has a specific definition for a personal inspection for an appraisal assignment under the 2024 Uniform Standards of Professional Appraisal Practice – effective January 1, 2024 (“USPAP”) being:

“the appraiser’s in-person observation of the subject property performed as part of the scope of work; (for an appraisal review assignment) the reviewer’s in-person observation of the subject of the work under review, performed as part of the scope of work.”

The comment under this definition goes on to state that:

“An appraiser’s personal inspection is typically limited to those things readily observable

AN INSPECTION CAN MEAN DIFFERENT THINGS TO DIFFERENT STAKEHOLDERS, AND AS A RESULT IT CAN BE DIFFICULT TO DEFINE.

without the use of special testing or equipment. Appraisals of some types of property, such as gems and jewellery, may require the use of specialized equipment. A personal inspection is not the equivalent of an inspection by an inspection professional (i.e., a structural engineer, home inspector, or art conservator)."

In USPAP further guidance is given on the application of an inspection under Standards Rule 1-2

"An appraiser may use any combination of a property inspection, documents, such as a legal description, address, map reference, copy of a survey or map, property sketch, photographs, or other information to identify the relevant characteristics of the subject property."

And further, Advisory Opinion 2 states that:

"An inspection of a property is not required by USPAP, but one is often conducted. USPAP does require the report to include a certification that indicates whether or not the subject property was personally inspected by the appraiser(s)."

USPAP provides further commentary in respect of what a personal inspection is:

"A personal inspection is an appraiser's in-person

observation of a property that is performed as part of the scope of work, usually to gather information about some or many of the property characteristics relevant to the assignment. While there are other ways to gather information on the subject property's relevant characteristics, the in-person observation (the personal inspection) allows the appraiser to conclude what information to gather that is relevant to the assignment.

The appraiser's personal inspection involves more than just gathering data about a property, it also includes developing relevant analyses. In all parts of the appraisal process, including during a personal inspection, the appraiser, acting competently and correctly applying judgment, continually determines the appropriate methods, and techniques to use to gather the relevant information needed to solve the appraisal problem.

A personal inspection performed by an appraiser can be assisted by tools, and as technology evolves, so will the available tools. For example, the use of unmanned aerial vehicles, or drones, are tools that can be used to amplify vision like binoculars or a jeweller's loupe. Drones now allow an appraiser to view much more of a subject property while making a personal inspection. However, any tools used to view a property, or any data (video recordings, images, photos, etc.) produced by those tools are never a substitute for an appraiser's personal inspection. A "personal" inspection is when the appraiser makes the in-person observation of the subject property, regardless of any tools that appraiser may be using while making those in-person observations."

Associação Brasileira de Normas Técnicas (ABNT)

The Brazilian standard for asset valuation (ABNT NBR 14653-1:2019) defines inspection as an 'essential activity', establishing:

"6. Inspection of the appraised asset

6.3. Inspection is an essential activity in the valuation process.

6.3.1. In exceptional cases, when this activity

is impossible or unfeasible, it is admitted the adoption of a "paradigm-situation", if agreed between the parties and set out clearly in the report, observing specific prescriptions in item 6.9. from this standard (Note: item 6.9 details real estate valuation practice) and from other parts of this set of standards (i.e. part 2 - urban real estate, part 3 - rural real estate, part 4 - developments, part 5 - plant & machinery, etc, part 6 - natural, part 7 - art and heritage buildings)

6.4. Inspection must be done by the engineer or architect in charge of the valuation in order to gather knowledge and description of the asset, thus resulting essential information for the valuation;

6.5. It is recommended that the inspection is performed by the individual technically responsible for the valuation;

6.6. It is important to register the physical characteristics, location and usage of the asset;

6.7. Knowledge about studies, projects or technological changes that may impact the asset value must be presented and its consequences considered."



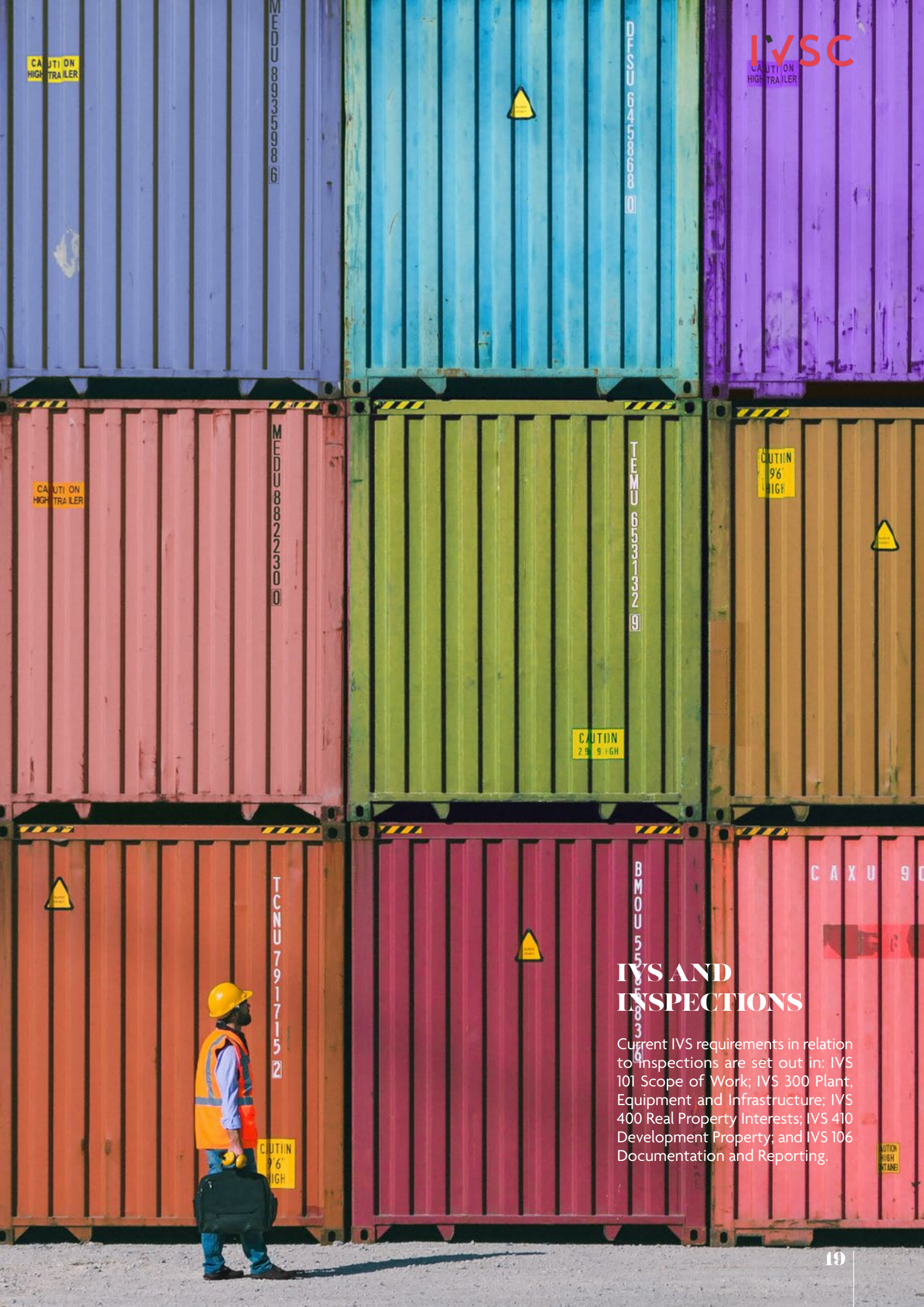
Whilst the above examples only provide a snapshot of the variety of interpretation that an inspection fulfills in various tangible asset valuation specialisms around the world, it clearly illustrates divergent practice across various markets. This can become exacerbated in less established markets where the valuation profession and practices are still developing.

In summary, the overarching observations would be:

- The requirement for an inspection as part of a valuation varies around the world.
- The scope of work (terms of engagement) may limit the requirement for an inspection in some jurisdictions.
- There is no common interpretation, definition or classification amongst stakeholders as to what an inspection is.
- The valuation purpose and nature of the asset class will often inform the extent or nature of the inspection process.
- Professional judgement will typically be required by the valuer to determine the extent or nature of inspection.
- Valuation Professional Organisations (VPOs) may make requests of their members regarding inspection in some countries, but they may not be legally mandatory to follow.
- In other jurisdictions, a regulator may enforce an inspection for a specific valuation purpose or asset class, making it a legal requirement.
- Physical inspection of an asset may be a mandatory requirement as part of the terms & conditions relating to a firm's professional indemnity insurance.

So, what is the solution to this lack of clarity on inspection with such global divergence, and more so, what is the role of the IVSC as an international principle-based valuation standard setter?

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IVS AND INSPECTIONS

Current IVS requirements in relation to inspections are set out in: IVS 101 Scope of Work; IVS 300 Plant, Equipment and Infrastructure; IVS 400 Real Property Interests; IVS 410 Development Property; and IVS 106 Documentation and Reporting.

***PROFESSIONAL
JUDGEMENT WILL
TYPICALLY BE REQUIRED
BY THE VALUER TO
DETERMINE THE
EXTENT OR NATURE OF
INSPECTION.***

Could the valuation profession benefit from an inspection classification to provide greater transparency?

As part of the recent IVS Exposure Draft Consultation, the IVSC received certain feedback that an assessment of value without a physical inspection cannot be classified as a 'valuation'. This collides with other stakeholders' views that all assessments of value can still be considered a 'valuation', but that certain valuations should be referred to as 'limited' or 'restricted' valuations where certain aspects of the valuation scope are limited or restricted in certain particulars.

From an IVSC perspective, classifications of 'valuation' and 'non-valuation' would appear to create a two-tier valuation hierarchy, likely creating a division amongst valuation stakeholders, which is not in the overall interest of the valuation profession. Further, the classification might be difficult to distinguish in certain cases whereby some valuation providers consider a value assessment a 'valuation', with others regarding

the same assessment a 'limited' or 'restricted' valuation.

Perhaps there is an alternative, whereby an inspection undertaken as part of a valuation assignment is classified by type to provide greater transparency in a valuation? Such a classification has been successfully implemented from an IFRS fair value measurement perspective to increase consistency and comparability in fair value measurement and related disclosures. In this instance, inputs to valuation techniques used to measure fair value are categorized into three levels, which gives the highest priority to quoted prices (unadjusted) in active markets for identical assets (Level 1), medium priority to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2), and the lowest priority to unobservable inputs (Level 3).

In a valuation sense, an inspection classification would be similar to that illustrated above, with additional detail pertaining to the inspection regime and date for each of the inspections forming part of the valuation assignment. For example:

INSPECTION CLASSIFICATION	CLASSIFICATION SELECTION
1. Critical inspection	
2. Detailed inspection	
3. Drive-by or curb-side inspection	
4. Technology-based virtual inspection	
5. Desktop inspection	
PHYSICAL INSPECTION REGIME	REGIME SELECTION
All assets inspected (detail below)	
Sample inspection only (detail below)	
No physical inspection	
ADDITIONAL INSPECTION INFORMATION	DISCLOSURE
11 Smiths Rd, City A	Detailed inspection, 8 February 2024
22 Jones St, City B	Detailed inspection, 9 February 2024
33 Foster Ave, City C	Detailed inspection, 12 February 2024

The intended inspection classification would be clearly stated as part of a scope of work (terms of engagement) which would benefit clients during the engagement process, and would appear as part of

a valuation report to provide greater transparency to both the client and any other intended users of the valuation.

The IVSC: building confidence and public trust in valuation

The primary objectives of the IVSC is ‘to build confidence and public trust in valuation by producing transparent and consistent standards and securing their universal adoption and implementation for the valuation of assets across the world’. Similarly, the purpose of IVS is ‘to promote and maintain a high level of public trust in valuation practice’, designed to ‘establish appropriate global requirements for valuations’ that are ‘principle-based’.

Whilst the TAB would generally agree that a physical inspection is an important part of the valuation process, because of the vast variety of asset classes, jurisdictions, and valuation purposes, we remain firmly of the view that the primary role of the IVSC is to promote ‘transparent and consistent standards’ for all valuation stakeholders, and not to act as the gatekeeper for mandatory valuation inspection requirements.

Of primary importance is the requirement for valuation professionals to be clear in their scope

of work (terms of engagement) with their intended inspection classification and process. Assuming that this is clearly agreed upfront in the valuation assignment, this provides greater clarity to the client, and helps avoid any unexpected surprises in the reporting process. Collectively, this promotes greater transparency and trust in the valuation process, and helps provide greater clarity to the users of valuations as to the process that has taken place as part of a valuation assignment.

Given the current lack of clear guidance regarding ‘inspection’, the creation of an inspection classification would seem a logical evolution as part of valuation standards, helping to create a better definition and/or framework around what an ‘inspection’ actually is. Such a framework could be adopted on a global basis and be a catalyst for greater levels of transparency and consistency in valuations of all asset classes and purposes when describing the ‘inspection’ process. It would also allow for the valuation profession to embrace and take advantage of advancements in technology, as part of the ‘investigations’ process, where it is able to compliment the valuation process.

Whilst an inspection classification would appear to be something that could have benefits for all jurisdictions around the world, what is certain is that there will continue to be a role for relevant authorities (such as local VPO’s, regulators, etc) around the world to ensure that the ‘inspection’ process is appropriately tailored to their jurisdiction, asset class and/or valuation purpose. Whilst the role of the IVS is to ‘establish appropriate global requirements for valuations’ that are ‘principle-based’, they cannot pre-empt the requirements for ‘inspection’ at the local level. The mandating of ‘inspection’ lies at a jurisdictional level.

THE PRIMARY OBJECTIVES OF THE IVSC IS ‘TO BUILD CONFIDENCE AND PUBLIC TRUST IN VALUATION BY PRODUCING TRANSPARENT AND CONSISTENT STANDARDS AND SECURING THEIR UNIVERSAL ADOPTION FOR THE VALUATION OF ASSETS ACROSS THE WORLD.’

We would welcome your feedback

The IVSC will continue to monitor the topics in this perspectives paper and would welcome your insight and feedback.

In order to understand what ongoing issues (if any) you or your stakeholders have observed with tangible asset valuation 'inspection' practices or interpretation in your jurisdiction, the following series of questions may guide you in providing this insight and feedback:

1. What are the requirements within your jurisdiction in relation to tangible asset valuation 'inspection' and what standards or guidance do you follow? Please state your jurisdiction in your response.
2. Is there enough clarity and guidance in your jurisdiction in terms of how you define an 'inspection'? If so, i) who defines what an 'inspection' is, and ii) who provides the definition of 'inspection'. If not, what is lacking?
3. Do you ever undertake a tangible asset valuation without an in-person inspection (i.e. curb-side, detailed or critical)? If so, i) what is the asset class being valued, and ii) what is the intended use of the valuation?
4. Do you ever undertake a tangible asset valuation with a partial in-person inspection (i.e. curb-side, detailed or critical)? If so, i) what is the asset class being valued, and ii) and what is the intended use of the valuation?
5. Does IVS provide sufficient transparency in relation to the 'inspection' as part of 'scope of work' and 'reporting' requirements? If not, how could IVS be more transparent?
6. Would the tangible asset valuation profession benefit from an inspection classification to provide greater transparency and clarity for all stakeholders across all asset classes and purposes? If so, should this inspection classification be included within IVS, or set by the relevant authority (i.e. regulators, VPO, etc) at jurisdictional level. Please provide a detailed response.
7. Do you have any other comments in relation to 'inspection' as it pertains to tangible asset

valuation?

In addition to answering the questions posed above, we would also welcome any further feedback to be sent to the IVSC Tangible Asset Board via the following email: contact@ivsc.org.



List of suggested reading material

1. Australian Property Institute, 'What constitutes a Valuation of real property by an API Valuer under the API Rules?', 16 November 2023
2. Australian Property Institute, Rules of Professional Conduct (https://www.api.org.au/wp-content/uploads/2021/08/API_Rules-of-Professional-Conduct_eff-4April2021_updated.pdf)
3. APIV Professional Standards Scheme (<https://www.api.org.au/products-services/apiv/>)
4. Royal Institution of Chartered Surveyors, 'Due diligence urged to underpin reliable valuation', 11 March 2024
5. Royal Institution of Chartered Surveyors, Red Book Global Standards, effective 31 January 2022
6. Uniform Standards of Professional Appraisal Practice, effective 1 January 2024



IVSC

INTERNATIONAL VALUATION
STANDARDS COUNCIL

20 St Dunstons Hill
London, EC3R 8HL
United Kingdom
e. contact@ivsc.org
www.ivsc.org