

IVSC Standards Board
1 King Street
LONDON
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By email to: commentletters@ivsc.org

12 July 2016

Dear Sirs

Response to Exposure Draft

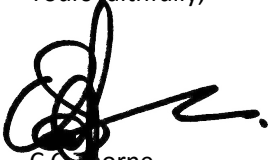
IVS 2017: IVS 300 Plant & Equipment

Please find attached our comments on the above exposure draft.

The directors of Valuology have considerable experience of valuation standard setting generally and knowledge of the existing IVSs and their evolution.

If you would like any additional information in relation to our responses or comments, please do not hesitate to contact us

Yours faithfully,



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Comments on Exposure Draft of IVS 2017

IVS 300 Plant and Equipment

Answers to Questions in ED

- (a) In IVS 2013, all substantive portions of IVS 220 *Plant and Equipment* were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was mandatory. The Board’s position is that all aspects of IVS 2017 should be mandatory and this Exposure Draft has removed the “commentary” label for clarity. Do you agree with the removal of the commentary label?

We agree with changing the “Commentary” title. This was proposed in the 2015 ED¹ in response to earlier consultations. We do NOT agree that all aspects of the standards should be, or are capable of being, mandatory. We do not therefore agree with a format that makes no distinction between the mandatory Requirements and the supporting guidance. For further detail see our general comments below.

- (b) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of plant and equipment regardless of the purpose of the valuation (secured lending, sales of plant and equipment, taxation, litigation, insolvency proceedings and financial reporting etc.). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?

We agree. However there are some specific requirements when valuing for certain purposes that valuers need to be aware of. The proposal to remove application guidance for financial reporting and secured lending means that the IVSs will be less helpful in these two significant areas.

- (c) Are there any further topics that you feel the Board should add or remove from IVS 300 Plant and Equipment? If so, what are they and what is your rationale?

Yes. The introduction of commentary of how the methods referred to can be applied are so limited as to be misleading and should be removed. Our rationale is explained in our specific comments on section 870 below.

General Comments

The current IVS 220 consists of two sections, Requirements and Commentary. As indicated above, while we support a change in the title of the Commentary, to “Application Guidance” or something similar, we do not support the position that everything in the standards can be deemed mandatory. Mandatory Requirements need to be clearly identified and distinguished from material that provides useful background information, explanatory narrative and discussion on how the Requirements may be met, not have to be met. The very nature of this supporting narrative means it is incapable of being made mandatory as there is no compulsion to take a specific action and there is no definitive

¹ Proposed Amendments to the International Valuation Standards issued 19 March 2015



way in which compliance can be measured. The existing commentaries in this and the other “Asset Standards” consist almost entirely of this type of material.

We note that in this draft, matters that do require specified actions to be taken under identified circumstances and which are accordingly identified as Requirements in the current standard have been mixed with paragraphs that appear in the current commentary. Examples include Requirement IVS 220.2 now appearing as 20.4 and IVS 220.3 appearing as 20.5.

If the distinction between the requirements and supporting guidance is not clearly made it will mean that the Board is ignoring not only the findings of the independent Critical Review Group that reported on the composition of the standards in 2008, which provided the basis for the comprehensive rewrite that culminated in the 2011 Standards, but also the vast majority of representations received on exposure drafts since that time. Making this distinction is also an essential pre-requisite to implementation of the 2014 Adopt or Comply MoU².

Subject to this overriding comment we make the following specific comments:

Specific Comments

- 10.1 This refers to “principles” rather than “Requirements” in the General Standards and to additional requirements in this standard, although the latter are not identified.
- 20.1 The addition of (“sometimes known as personal property”) to the paragraph that currently appears as IVS 220 C1, is unhelpful. While in some jurisdictions “property” is separated into “real property” and “personal property” this is far from universal. Even where this applies, “personal property” encompasses many things that are not plant and equipment, for example, antiques and fine arts. The current standard has a list of assets that are not classed as plant and equipment, which includes “personal property” so not only do the proposed words in parenthesis potentially add confusion, they directly contradict the established standard.
- 20.9 This is factually correct but oddly placed and adds nothing useful to the standard. We recommend that it be omitted.
- 30 Bases of Value. This section does not appear in the current IVS 220. The very first paragraph of this draft says that the General Standards have to be followed, and IVSs 101, 102 and 103 all contain requirements to select, use and report a basis that is appropriate, so there is no need to repeat this.
- 30.2 The paragraphs on forced sales in the current standards have been misunderstood and misrepresented. Firstly, a forced sale is NOT a basis of value. This is explained in para 52 of the current Framework. Secondly, the circumstances of a forced sale discussed in the current standards has been confused with that of a “forced liquidation”, which is another concept altogether. Liquidations can be compulsory (ie ordered by a court or creditors) or voluntary (ie ordered by a business’s owners) but under either option asset sales may or may not be forced. Discussion of liquidation options has no place under the heading of Bases of Value.
- 30.2 The point made in the current IVS 220 C6 has been lost by changing “forced sale” to “forced liquidation”. The circumstances described in the existing standard can arise whether the owner of the asset is continuing to trade as a going concern or in any form of liquidation.

² Memorandum between IVSC and over twenty Valuation Professional Organisations – first signings 23 October 2014.



We strongly recommend that section 30 be removed from the draft in its entirety and replaced by the existing C6 and C7.

- 70 We note that the text of 70.1 and 70.3 is that appearing in the current IVS 220 C11 and 12. We are pleased to note that this is a correct summary of the Cost Approach that can be contrasted with the extremely confused and erroneous description that appears in the proposed IVS 105, on which we have previously commented.

While the additional paragraphs in this draft, 70.2, 70.4, 70.5 and 70.6, are not incorrect, they are unhelpful. They introduce discussions about methods of applying the concepts discussed in the other paragraphs but only mention one way of estimating the replacement cost and one way of adjusting for depreciation. There are others. A fuller discussion of the cost approach and the methods that can be applied is in TIP 2 *The Cost Approach for Tangible Assets* which was produced by with the assistance of an external working group of specialists in different asset types. This was approved by the Board in 2012 following full due process. If it is felt necessary to provide more detail we recommend that this be cross referenced.

If the IVSs are to contain more detail on how to apply methods, rather than just identify them as at present, more than these very brief and incomplete explanations is required. However, throughout the history of the IVSs, the strong view of most constituents has been that the IVSs should avoid any “how to” material. Accordingly, we recommend that these proposed additional paragraphs be deleted (and indeed the additional paragraph 60.2 under the Income Approach).

- 80 This section just introduces Section 90 and is completely superfluous. It should be omitted.