

Comments on IVS 100

What is a Framework?

In other sets of standards used in financial markets, such as various financial reporting standards, a Framework is used to set out concepts and objectives that are inherent in the standards themselves to aid their consistent interpretation and application. However, they do not contain any actions which are mandatory for compliance with the standards and cannot override any standard or any requirement in a standard.

If financial reporting standards have found the use of a non-mandatory Framework to be of assistance in helping consistent application of mandatory requirements for the preparation of a homogenous product - a set of financial statements - the value of such a Framework for such a heterogenous product as valuation is obvious. Earlier versions of the IVS contained a Framework which had this role. Examples of matters that used to appear in the IVS Framework were explanations of concepts such as price, cost and value and different types (bases) of value. The use of any concept was not mandated in any standard but understanding the concepts and how they were to be applied was essential for consistent delivery of the mandatory requirements.

For reasons that were not explained, many items such as different bases of value and valuation techniques were moved into mandatory standards with the creation of IVS 104 and 105 in the current IVS (IVS 102 and 103 in the Consultation Draft). The idea that a list of concepts can be a mandatory standard is flawed. While it can be mandatory, say, for the IVS definition and conceptual framework for Market Value to be applied if this is the basis provided in a valuation, it cannot be mandatory to use Market Value or any other defined basis in any given valuation. The appropriate basis or method will depend on the facts and circumstances of each valuation, and this cannot be determined by a set of standards designed to be applicable to many different assets, liabilities and for different purposes. The understanding of what should be and should not be mandatory is presently lacking and creates an obstacle to the use of the IVS.

A Framework does have a useful role as other standard setters have found, but the IVSC are not currently using it in a way that assists the application of the standards proper. The Framework should not be presented as part of the mandatory standards and should not contain mandatory requirements. It should describe general accepted concepts, principles and definitions that may be used as appropriate in complying with the mandatory requirements in the standards. Instead, some sections of this draft seem to be a summary of the mandatory standards that follow. This is bad practice as it has the potential to create doubt as to which is the applicable standard.

We therefore recommend that the Framework is clearly designated as being separate from the mandatory elements of the standards, excludes direct reference to any actions required in the standards but includes concepts, principles and definitions that are currently in the standards (especially the proposed IVS 102 and 103) but which cannot be mandatory and therefore cannot be standards.

10 Valuer Principles

We have already explained in our comments on the Glossary why the Valuer should not be referenced in the IVS. The certification and regulation of who undertakes valuations is outside the remit of the IVS, which should focus solely of the process of undertaking a valuation.

20 Valuation Principles

This is a summary of the contents of IVS 101 to IVS 106. Specific requirements in the standards should be clear, concise and appear only once. As indicated above, summaries of content appearing elsewhere should not appear in the standards themselves. The use of summaries should be confined to presentations about the standards.

30 Quality Control

We agree that ensuring appropriate quality control procedures are in place for validating valuation inputs and outputs should be a requirement of the IVS, and this is inherent in many of the current standards. However, this section is misplaced in this proposed Framework. If the Framework is restored to its previous status and used for the same purpose as Frameworks accompanying other standards, it could usefully contain an explanation of the general objective of quality control procedures in the IVS, with specific requirements appearing in the relevant mandatory standard.

40 Use of a specialist

This is misplaced. It should be included in IVS 101 as part of the requirement to confirm that the valuation will be undertaken by a person or firm having the appropriate experience and competence and that material assistance is needed from others. The nature of such assistance and the extent of reliance shall be agreed and recorded in the SoW. A non-mandatory Framework can expand on the concept of what is appropriate experience and competence to support compliance with a simple mandatory requirement.

50 Use of a Service Organisation

See above. These two aspects of assistance do not need to be separated. Defining two examples of assistance just invites the addition of more specific examples that might be required, such as software providers, data aggregation services etc. While some commissioning valuations may require this level of detail, it severely limits the applicability of the IVS to make this level of detail mandatory. The IVS should just clearly state the principle that material assistance from other organisations or data providers must be disclosed in the SoW and leave it at that.

60 Compliance

60.2 states it is implicit that the valuation must be prepared with *all relevant standards issued by the IVSC*. This should be amended to *all relevant standards included in the IVS*. The IVS must be self-contained and reference to any other pronouncement made by the IVSC outside of the IVS should not be included in a compliance requirement unless it is designated as a specific amendment to the current IVS.

60.3 lists compliance with any relevant legal statutory or other authoritative requirements as third in the hierarchy. This is surely incorrect. A valuation must first comply with any relevant jurisdictional requirements before the IVS can apply. Positioning the IVS ahead of the requirements of legal authorities in any jurisdiction that might otherwise consider adopting or endorsing their use is at best naïve.

70 Effective Date

While IVS have traditionally included an effective date, what purpose does it serve? A date of publication is important to identify the current edition, but whether to adopt and when from is a decision for other organisations, not the IVSC. This is another example of the IVSC being unclear as to its role vis a vis those who authorise or regulate valuations and valuers for different purposes in different jurisdictions. Has the IVSC ever refused consent to adoption on another date? We recommend including an effective date be discontinued and the date of publication restored.