Answers to Questions 6 –9

6 IVS 105 Valuation Models has been added to the IVS General Standards. Do you agree that the requirements for valuation models are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?

No. This is a totally unnecessary addition to the standards as the necessary principles are already adequately covered in other standards. See our Comments attached.

7 IVS 106 Documentation and Reporting now includes section 20 Documentation. Do you agree that the requirements for documentation and reporting are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?

No. This is misplaced and belongs in the proposed IVS 104. Suggesting the supporting documentation can also be included in the report completely overlooks the duty of confidentiality which often attaches to input data. See our comments attached.

Question 8 relates to the Glossary, which we have commented on previously.

9. Stakeholders requested that the Board provide additional standards regarding valuation reviews. The Board has developed standards related to two types of valuation review (Valuation Process Review and Value Conclusion Review). Do you think these additions are appropriate? If not, why not, and what specific changes would you make?

Yes. We agree that differentiating between a review of a reported value and a review of the process by which a value was determined is useful. However, we disagree with the proposed list of mandatory reporting requirements for a process review. See our comments attached.

Comments on IVS 105 Valuation Models

General Comment

Valuation Models are defined in the Glossary as:

> *A quantitative implementation of a method in whole or in part that converts input data into outputs used in the development of a value.*

This definition is extremely broad. It covers everything from using mental arithmetic to multiply a known income by a yield to a sophisticated discounted cash flow model. It is therefore far from clear how a valuation approach or method as described in IVS 103 is distinguishable from a valuation method or vice versa. In our experience the term "valuation model" is generally used to refer to sophisticated calculation software, which is often, although not exclusively, maintained by third party providers and operated by valuation providers and users under licence. It is clearly appropriate that such models are only used when suitable for the asset type being valued and the method being applied and with appropriate due diligence and training, but this is already covered in IVS 103, specifically in 10.1 and 10.4. Introducing a separate term that applies to everything from a pen and paper calculation of value, through Excel spreadsheets to complex Monte Carlo simulation models is unnecessary. This is an unnecessary bifurcation of the principles in IVS 103.

10. Introduction

The sentence *"Valuation models applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to develop value (see IVS 103 Valuation Approaches).",* simply reinforces the point made above that the necessary principles are already addressed in IVS 103. Also, apart from the ungrammatical opening, "assumptions" are wrongly included in the list of items to which models are applied. An assumption is something which it is agreed in the scope of work can be accepted as true without verification when a valuation is being prepared. In contrast any input into the valuation calculation must be verified, or at least be based on expert opinion after consideration of the available data, in order to comply with IVS 101 20.1(e), IVS 103 and IVS 104.

This section is just recycling principles already in the standards and only serves to introduce potential for misapplication by introducing different terms and explanations. The creed for a standard setter should be to say things right and say them once. Adding complexity by explaining the same principle multiple times using different words does not help comprehension.

20. Use of a Specialist or Service Organisation

We indicated that we considered the creation of a defined "Service Organisation" to be an unnecessary complication in our comments on the proposed IVS 104 because the use of ANY third-party specialist in the preparation of a valuation was already covered in IVS 101.

30. Characteristics of Suitable Valuation Models

These are all desirable characteristics of any method or input used in preparing any valuation. However, all the characteristics here already appear in IVS 104 30.1, so this is yet another unnecessary duplication. We also note that this list appears in IVS 500 140.1.

40. Model Selection

This section simply repeats the same principles as already appear in IVS 104 40, which even references inputs into models.

50. Valuation Model Use and 60. Valuation Model Documentation

The author of these sections appears to have in mind that a “valuation model” is a type of sophisticated calculation software, not the extremely generic definition that has been provided in the Exposure Draft. As we have already pointed out, this definition covers all forms of calculation of the quantitative inputs into any valuation, including a pocket calculator, pen and paper. There are already general requirements for the provider of a valuation to have the qualifications, ability and experience to execute it in a competent manner (IVS 101), to consider the relevant and appropriate valuation approaches (IVS 103) and ensure the quality of inputs (IVS 104). A specific requirement in the general standards to validate, calibrate and have policies for the use of a “valuation model” as defined before its use has no purpose. Further, it risks undermining the standards by encouraging simplistic interpretation and facile compliance, e.g. ticking a box to say you have checked a calculator’s batteries. We accept that for some sophisticated models, such as those used for valuing swaps and derivatives, it is good practice to have in place a regime of the type outlined in this draft standard. However, this would be better placed in the Asset Standards for the types of valuation where this type of model is prevalent, which would also allow for more specific requirements. Indeed, we note that the proposed IVS 500 has a more extensive section on Valuation Models from which the text in this proposed standard has been drawn. Including it the General Standards requires simplifying the language to the point where it serves no useful purpose and risks spurious interpretation.

In conclusion we consider this proposed new IVS 105 serves no useful purpose as part of the General Standards, and its inclusion would be an unnecessary complication and obstacle to compliance by many who would otherwise use the standards.

Comments on IVS 106 Documentation and Reporting

General Comment

The main change flagged by the IVSC’s question is the inclusion of a section on “Documentation”. This effectively replaces the “Valuation Record” requirement that currently appears in IVS 102. Conflating record keeping with reporting in this way is unhelpful. It would be better to include the requirement for adequate record keeping in either or both the proposed IVS 103 or IVS 104, as while the valuation provider should always have a good record of methods and inputs used, this does not always need to appear in the report. In some cases inputs cannot appear in the report, for example where confidential information is relied on.

No question is asked on the far more significant changes to the required contents of the valuation report. While the list of report contents in the current IVS is inadequate, the suggested replacement in the Exposure Draft has swung the other way and increases the list of mandatory contents beyond that which is reasonable. It fails to recognise that different users and different purposes of valuation will require different reporting contents. Unless this is modified it will be a major obstacle to the wider use and adoption of the IVS.

10. Introduction

This section conflates requirements for documentation (i.e. the valuation provider’s file record) with reporting a valuation or a valuation review. We consider record keeping requirements should belong elsewhere in the standards and have no place in the IVS reporting standard.

20. Documentation

The key paragraph here is 20.3. It makes the statement that "In some cases" all documentation is included in the report but in other cases, depending on the agreed scope of work, additional documentation must be maintained. The distinction between what is "all" and "additional" documentation is not explained. In our experience, which is mainly reviewing valuations of real estate and to a lesser extent plant and equipment, it is unusual for ALL working papers to be included with the report to the client. It is rare for a client to want or even need this, and also raises questions of confidentiality. In many markets those providing valuations have knowledge from transactions or discussions with market participants which is confidential and cannot be disclosed in reports. Even if there is no contractual or legal requirement for confidentiality, many valuation providers who would use the IVS are also subject to rules of professional conduct that require information obtained from any client to be kept confidential. We strongly recommend that this subsection is deleted and that instead paragraph 30.1 from the current IVS 102 be included in the proposed IVS 104.

30. Valuation Reports

30.1 to 30.5 are poorly drafted statements of the obvious and repetitive. For example, explaining that "*valuation reports must describe the valuation conclusion with sufficient detail to provide a clear and well-organised description of the basis for the conclusion of value"*, is like saying a+b must equal b+a. 10.3 is also otiose since if a valuation is commissioned by an entity from its own resources for its own purposes a) it is unlikely to adopt the IVS, b) the records that support the valuation will be owned by it anyway and, c) that if the records are inadequate that is an internal issue that affects no other party. These five paragraphs can be replaced with:

> *The overriding principle is that a report must communicate the information necessary for a proper understanding of the valuation or valuation review. It must not be ambiguous or misleading and provide the reader with a clear understanding of the valuation or other advice provided.*
>
> *Compliance with this standard does not require a particular form or format of report; however, the report must be sufficient to communicate to a reader what is being valued, the scope of work performed and the conclusions reached.*

30.6 is a list of mattes that must be included "at a minimum". This therefore applies to all reports. However, some of the matters listed may not be required or even permitted to be included in some reports and therefore this list is unrealistically prescriptive for a General Standard if the IVS are to be applicable to the range of asset and valuation types it aims to cover.

We comment on the specifics as follows:

List in Draft IVS`	Our Comments
(a) agreed scope of ~~the~~ work;	"the" deleted for consistency with IVS 101
(b) assets and/or liabilities being valued;	Agreed essential
(c) the identity of the valuer;	

(d) client;	
(e) intended use;	
(f) intended users;	
(g) valuation currency(ies) used;	It would make more sense to position this next to or alongside the value reported (currently (p))
(h) valuation date(s);	Agreed essential – but ditto above
(i) basis (bases) of value adopted;	Agreed Essential
(j) approach or approaches adopted;	In our experience few clients or users understand or care about the semantic distinction made in the IVS between approaches and methods. Listing them as separate reporting requirements will not help. We would prefer either (j) to be deleted (methods is more widely understood) or the option given of referring to either the approach or method adopted.
(k) method or valuation models applied;	
(l) Rationale including significant data and inputs used;	We consider the data and inputs used are properly part of the rationale for the reported value. More importantly, there are many occasions when the client does not need or required a rationale. This has been recognised in previous IVSs which have provided that this requirement does not apply if it has been agreed in the SoW that the report will contain no reasons or supporting information.
(m) environmental, social and governance inputs used and considered;	Again we believe inclusion of this information should not be mandatory if it has been agreed in the SoW that it is not required.
(n) ~~significant or~~ special assumptions and/or limiting;	Assumptions are made where it is agreed in the SoW that specific verification of facts about the subject of the valuation are not required. This is already covered by (a). Special assumptions modify facts on which the valuation is based, and should be defined in the Glossary, see our comments on IVS 101. There is no need to introduce something called a "significant" assumption at this stage. There is sufficient confusion between assumptions and special assumptions at present.

(o) findings of a specialist or service organisation;	We strongly disagree with this being included. If a specialist (including any "service organisation", see our comments on IVS 104) has provided information relied on, this will have been disclosed in the SoW and its findings will be integral to the valuation reported. It is an essential aspect of the IVS that the valuation provider is the one responsible for the valuation opinion provided.
(p) ~~value and rationale for~~ valuation;	The value must always be provided but a rationale is not always required, see comment on (l) above.
(r) IVS compliance statement;	Agreed essential although should include any justified departures, for example compliance with any statutory or other legal requirements.
(s) date of the report (which may differ from the valuation date).	Agreed Essential

40. Valuation Review Reports

While we agree that a valuation "conclusion review" should have the same reporting requirements as any other valuation subject to the IVS, we believe there should be no mandatory requirements for reports produced as part of a valuation "process review." This is because if a third-party expert is engaged to review compliance of a report with IVS, any applicable legal requirement, any other applicable standards or generally accepted best practice, the advice required by the party requesting the review will vary significantly from job to job as will the relevance of any conclusions from the review. One size cannot fit all. Some broad guidance can be provided but the overriding principle is that the scope of work and resulting report must address the specific issues upon which the party commissioning the review is seeking expert opinion.

40.3 should be provided as an indicative list that MAY be appropriate for a report produced on a process review subject to the specific matters on which the provider's opinions are being sought as set out in the scope of work.