



Answers to Questions on Asset Standards

General Comment 1

Much of the content of the Asset Standards is explanatory and illustrates how the principles in the General Standards can be applied to specific genres of asset or liability. While looking at specific factors that influence value or commonly used valuation techniques in each sector they cannot be presented as either comprehensive or exclusive given the range of market and regulatory frameworks in which the IVS may be applied. This means great care is needed to use “must” only when an action that is mandatory under the General Standards is cross referenced, and “should” or “may” used in all other contexts. We can see that this seems to be the policy that has been adopted in many of the asset standards but there are exceptions.

Suggesting that too many specific detailed actions are always required under the IVS only acts as an obstacle to their adoption; it is more effective to have a minimum number of mandatory core principles and support this with illustrative examples and guidance. Such examples and guidance will still be regarded as persuasive and authoritative indicators of best practice but allow the use of alternative means of complying with the high-level principles, which increases the usability of the standards. This in turn should lead to wider use and adoption of the IVS.

The above comments are of course predicated on the restrictive definition of “should” in the current IVS Glossary being changed to distinguish it from “must”, see our comments on the Glossary.

General Comment 2

For the reasons set out in our comments on the Glossary, requiring actions to be taken by “the Valuer” is inappropriate. The IVS should be a set of principles for valuations of assets and liabilities on which others will rely. The change made in 2017 to present them as a rule book for valuers potentially conflicts with existing statutory bodies or professional organisations responsible for the accreditation and regulation of valuers for different purposes around the world. It also ignores the statement in the Foreword to the IVS that their purpose is to promote and maintain a high level of public trust in valuation practice by establishing appropriate global requirements for valuations that equally apply to all parties involved in the process and those who oversee this process. We strongly urge the IVSC to revert to describing just the actions required, not who is responsible for doing it.



Business Valuation

11. The current Exposure Draft includes only minimal changes to IVS 200 Businesses and Business Interests through to IVS 230 Inventory. Most changes pertain to cross-referencing.

The Boards found that IVS 200 to IVS 230 inclusive:

- effectively represent current international best practice; and
- are congruent with the proposed changes in other sections of IVS.

Furthermore, since the adoption and implementation of these standards are at critical junctures in several key jurisdictions, the Boards have chosen to not make any substantial changes to these chapters.

Do you agree that IVS 200 to IVS 230 should remain substantially unchanged to maintain consistency with IVS General Standards as outlined in the Exposure Draft? If you disagree, please explain your reasoning and provide specific suggestions for changes that you believe would enhance these standards?

Yes, we agree subject to the General Comments above.

Financial Instruments

12. IVS 500 Financial Instruments has been restructured to follow the enhanced structure of the General Standards which are now mandatory. The restructured IVS 500 mirrors the valuation process in order to not only improve users' ability to understand and apply IVS but also to ensure that users' can apply IVS 500 in conjunction with IVS General Standards. Do you believe that this has been accomplished? If not, why not, and what specific changes would you make?

We have no comment beyond those in our General Comments above.

13. The revised proposals on IVS 500 Financial Instruments include requirements on governance of the valuation process which need to be applied in conjunction with the requirements in IVS General Standards. Do you agree that the requirements for governance are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?

We have no comment beyond those in our General Comments above.

14. The revised proposals on IVS 500 Financial Instruments include requirements on data and inputs which need to be applied in conjunction with the requirements in the General Standards. Do you agree that the requirements for data and inputs are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?

We have no comment beyond those in our General Comments above.

15. In line with the Boards' publication plan the revised proposals to IVS 500 now include requirements on methods and models which must be applied in conjunction with the General Standards. Do you agree that the requirements for methods and models are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?

We have no comment beyond those in our General Comments above.



- 16 In line with the Boards' publication plan the revised proposals to IVS 500 now include requirements on quality control which must be applied in conjunction with the General Standards. Do you agree that the requirements for quality control are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?

We have no comment beyond those in our General Comments above.

- 17 Do you have any other comments or observations in relation to IVS 500 Financial Instruments? Is IVS 500 sufficiently detailed and if not, why not and what specific changes would you make?

We have no comment beyond those in our General Comments above.

- 18 Are there any elements within IVS 500 that should be included within IVS General Standards? If so, please advise which elements?

We have no comment beyond those in our General Comments above.

IVS 300 Plant, Equipment and Infrastructure

19. IVS 300 Plant, Equipment and Infrastructure now includes infrastructure. Is this sufficiently covered and if not, why not and what specific changes would you make?

We do not agree that infrastructure should be exclusively associated with plant and equipment. We cannot think of any physical infrastructure that does not sit on or under real estate and therefore the value of the relevant interest in the real estate is at least as important as any plant or equipment that is associated with the provision of the service. In some cases a combination of the real estate interest that gives the necessary rights of use and access will be combined with equipment in a business.

We are not convinced there is any need to explicitly refer to infrastructure as a separate type of asset as the elements needed to provide infrastructure, e.g. roads, railways, power distribution networks, pipelines etc are all covered in the IVS already. Including infrastructure in the title of any one of the standards is potentially misleading as the combination of expertise that may be required to value it will often involve other standards. While we note that the proposed 20.1 states that valuations relating to infrastructure should also have consideration to IVS 400 Real Property Interests and IVS 410 Development Property, with reciprocal provisions in these two standards, this is an unnecessary complication.

20. Additional content has been added to IVS 300 in relation to the income approach. Is this sufficiently covered and if not why not and what specific changes would you make?

We disagree with the extension of the existing content. Standards should do no more than indicate when a particular approach or method may be applicable. They should not stray into becoming a text book on how valuations should be carried out. We consider the paragraphs in the current IVS 103 on the income approach to be more than adequate.



21. Additional content has been added to IVS 300 in relation to the market approach. Is this sufficiently covered? If not why not and what specific changes would you make?

We disagree with the extension of the existing content. Standards should do no more than indicate when a particular approach or method may be applicable. They should not stray into becoming a text book on how valuations should be carried out. We consider the paragraphs in the current IVS 103 on the market approach to be more than adequate.

- 22a. Do you have any other comments or observations in relation to IVS 300?

Yes. While it is appropriate to refer to the need to consider the impact on value of P&E in the event of a liquidation sale, the references in 50.3-50.9 to “Liquidation Value” should be removed – see comments on IVS 102.

- 22b. Is IVS 300 sufficiently detailed? If not, why not and what specific changes would you make?

It is too detailed, especially the content relating to methods. Standards are not the place for methodology, i.e. how to do a valuation. If the IVS consider there is a lack of educational material for P&E valuers then it should explore producing this outside of the standards.

23. Are there any elements within IVS 300 that should be contained within IVS General Standards? If so, please advise which elements?

No.

IVS 400 Real Property Interests

24. IVS 400 Real Property Interests has been restructured to align with IVS General Standards and as part of this process additional sections have been added to provide additional context on data and inputs and valuation models. Does IVS 400 provide sufficient content and clarity on these topics relative to the content added in the General Standards? If not, why not, and what specific changes would you make?

24a. It contains too much content that is simply repeating provisions in the General Standards or adding superfluous detail. Examples include 30.1, 40.1 - 40.8 and 110 which simply repeat requirements in the General Standards without adding anything specific for real estate valuation.

24b. It is only necessary to say once that the General Standards apply to all valuations, not repeat this multiple times in each Asset Standard. Appoint an editor with a brief to eliminate either repeating principles in the General Standards or reproducing them using different words multiple times across the standards. The Asset standards should be confined to supplementary requirements to the General Standards.

25. Do the General Standards provide sufficient additional content in relation to the consideration of ESG or should IVS 400 Real Property Interests provide additional content? If so, what additional changes would you make?

25a **Yes.**

25b **None.**



26a. Do you have any other comments or observations in relation to IVS 400?

Yes. The typical examples of special assumptions at 40.10 needs attention. Example a) and b) are correct, i.e. they are assumptions that a change had occurred on the valuation date which altered the actual factual situation. However, there are problems with the other examples:

(c) that the interest is being valued without taking into account other existing interests; This is too vague. Example b) already gives an example of where an interest that exists on the valuation date (a lease) is not taken into account. We suggest (c) be deleted.

(d) that the property is free from contamination or other environmental risks; This is not a special assumption unless it is known that there is contamination or an environmental risk. If there is no indication that a site could be contaminated, assuming it is uncontaminated is a reasonable assumption to make, i.e. it is an “ordinary” not a special assumption. We suggest replacing with: d) that a property known or suspected to be contaminated had been cleared of all contamination on the valuation date.

(e) that the economic activity will continue into perpetuity. If “economic activity” means that a business will continue into perpetuity this is only a special assumption if it is one that a buyer in the market would not make, e.g. because there was a clear time limit on the activity. However, a special assumption should only be made if it is reasonable in context¹, usually to illustrate the effect on value of a plausible “what-if” scenario. Providing a valuation on the special assumption that an economic activity that is known to have a finite life (for example extraction from a mine or quarry) would continue in perpetuity clearly would not be reasonable and should not be made. We believe this example should be deleted.

(f) that planning permission will be granted for the proposed change of use. This is incorrectly worded as it is in the future tense. A special assumption assumes a change had already occurred on the valuation date. It should be replaced by: that planning permission had been granted for a change of use (or proposed new building) on the valuation date.

On the question of special assumptions we draw attention to an error in the current IVS 104 200.4 and proposed IVS 102 50.4. The first example:

(a) an assumption that a property is freehold with vacant possession is NOT a special assumption unless the property cannot be offered for sale with vacant possession on the valuation date. This should be corrected to: (a) an assumption that a property that is occupied had been vacated on the valuation date.

26b Is IVS 400 sufficiently detailed and if not, why not and what specific changes would you make?

It is more than sufficiently detailed and would benefit from being made more concise -see also response to Q24.

27. Are there any elements within IVS 400 that should be included within IVS General Standards? If so, please advise which elements.

No.

¹ See proposed IVS 102 50.5.



IVS 410 Development Property

28. IVS 410 Development Property has been restructured to align with IVS General Standards and as part of this process additional sections have been added to provide additional context on data and inputs and valuation models. Does IVS 410 provide sufficient content and clarity on these topics relative to the content added in the General Standards? If not, why not, and what specific changes would you make?

The inclusion of sections 40, 120 and 130 is unnecessary. They simply say parts of the General Standards that apply anyway have to be followed, see our answer to Q 24.

29. Do the General Standards provide sufficient additional content in relation to the consideration of ESG or should IVS 410 provide additional content? If so, what additional changes would you make?

29a **Yes.**

29b **None.**

30. Do you have any other comments or observations in relation to IVS 410? Is IVS 410 sufficiently detailed and if not, why not and what specific changes would you make?

Yes.

The copying of paragraph 150.1 into the Bases of Value section as 50.2 is presumably a mistake as the point applies when valuing for a lender and has nothing to do with the basis of value selected.

In 60.1 it is claimed the Residual Method is a hybrid of either the market approach, the income approach and/or the cost approach. The cost approach has no role in the residual method. The residual method values a development property by deducting the total costs required to complete the development from the value of the completed development. The value of the completed development can be determined using a market approach or an income approach, but the development costs are based on the actual or estimated costs to complete. This component should not be confused with the Cost Approach which is used for valuing an existing, usually specialised, asset in the absence of either an identifiable income or active market, from which deductions are made for various forms of obsolescence.

60.1 (c) should be deleted. Since the Residual Method basically deducts outflows (the cost of completing the development) from the inflows (the value of the completed project) and often is calculated using a DCF method, it is properly categorised as an Income Approach, even though a Market Approach may sometimes be used to determine one of its inputs. The descriptions of the Residual Method in 60.1 and 100.1 need changing to reflect this.

Since the Cost Approach is only applicable for valuing an existing specialised property, it should not appear in an IVS about Development Property and therefore section 90 should also be deleted.

31. Are there any elements of IVS 410 which should be included within IVS General Standards? If so, please advise which elements?

No.