

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

12 July 2016

Dear Sirs

Response to Exposure Draft

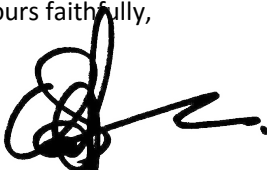
IVS 2017: General Standards IVS 101, 102 and 103

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 101, 102 and 103

Answers to Questions in ED

IVS 101 Scope of Work

- (a) **Do you agree that it is the valuer's responsibility to communicate the scope of the assignment to all parties to the valuation engagement? If not, why?**

Yes. We agree that it is the valuer's responsibility to determine the scope of work and terms that are appropriate. While in practice there will usually be dialogue with the commissioning party and agreement may be sought to the terms, agreement to the terms in the scope of work should not be a requirement of the standards. We therefore support the replacement of the four instances where the words "agreed and recorded" appear in the current standard with "recorded".

- (b) **Do you agree that a written scope of work for each valuation engagement is not always possible or necessary? If not, why?**

No. The IVSs are not intended to be applicable to every type of valuation that is undertaken. There are many valuations undertaken internally or privately where compliance with externally set standards is unnecessary as provider and recipient are fully aware of the conditions under which the valuation is provided. The type of valuation to which the IVSs apply is NOT a matter for the standard setter to determine but is for those choosing to adopt the standards. The role of the standard setter is to create a robust and enforceable set of requirements that others can adopt and, if necessary enforce. The IVSs are produced in the public interest. It therefore follows that the focus should be on producing a set of standards that can be applied to valuations that are either in the public domain or that will be relied on by third parties. Permitting opt outs of parts of the standards on the grounds that the provisions may not be applicable to certain types of valuation weakens the authority of the standards. There is already a "justified departure" provision that allows for specific requirements to be disregarded, so further opt outs are unnecessary.

IVS 102 Investigations and Compliance

- (c) **Do you agree that a valuer must perform sufficient investigations and procedures to assess the appropriateness of all inputs and assumptions? If not, why?**

Yes.

- (d) **Do you agree that significant limitations that impair a valuer's ability to assess the appropriateness of the inputs and assumptions should result in a valuation not being in compliance with IVS? If not, why?**

Yes. However, if there are such limitations the valuer should alert the client before proceeding rather than continue to produce a valuation that is non-compliant since the intention to comply with the standards should have been included in the scope of work.



IVS 103 Reporting

- (e) Do you agree with moving from a prescriptive to a principle-based reporting format? If not, why?**

This question makes no sense. The current IVS 103 does not prescribe any format, just a list of fourteen matters that need to be included in a report. The proposed changes do not change this, other than removing some of the current flexibility and making certain requirements more granular, as we have highlighted in our specific comments on this standard below.

- (f) Do you accept that a report can take any form providing it sets out a clear and accurate description of the scope of the assignment, its purpose and intended use and discloses of significant inputs assumptions? If not, why?**

Yes, although the abbreviated summary in this question of the report contents needs expansion for a standard to be useful and enforceable, as is provided by the current IVS 102.5

General Comments on IVS 101, 102 and 103

The Introduction says that changes have been made to these three standards to make them “less prescriptive”. These three general standards have currently been designed to contain the minimum requirements expected of an IVS compliant valuation, ie this is where most of the mandatory elements of the current IVSs are found. Although it is not apparent that that the changes have made the contents any less prescriptive, this seems to be a peculiar objective for the Board to claim, since it contrasts with the proposal to make current supporting material and guidance mandatory. This contradiction is not explained or reconciled. While we do not believe that the simple, high level, principle based requirements in the current standards should be made less prescriptive, muddled messages such as this hardly improve the credibility or uptake of the standards.

Much of the text is the same or similar to that in the current IVSs 101 to 103, but various changes have been made for no apparent reason. In previous Exposure Drafts, proposed alterations to the existing text of a standard were highlighted with the specific reason for each proposed change explained. Because this protocol has not been followed it is difficult for respondents to identify all the changes made.

Of the changes we have identified, some have resulted in a loss of clarity through poor grammar, and some have altered or omitted previously debated and agreed issues without any obvious reason being given. Some have reduced flexibility that was deliberately included by the Board in the current standards. Examples have been highlighted in the specific comments on each standard below.

In 2014 the Board agreed some minor amendments to these three standards that were included in the Exposure Draft issued for public comment in March 2015 (“the 2015 ED”)¹. These changes were to improve the consistency of presentation and to ensure that the Requirements in each standard were clear. Better identification of the Requirements in these three standards was something which the Board had agreed to during the extensive discussions in 2013 and 2014 with many of the leading

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



VPOs which culminated in the “Adopt or Comply” MoU signed by over twenty VPOs. This current draft does not incorporate those changes. Instead “Requirements” have become “General Requirements” in 101 and 103, implying that there are other types of requirement, although these are not identified. Other content which appears to be intended as a requirement is not clearly identified as such. 102 has no Requirements identified at all.

Specific Comments: IVS 101 Scope of Work

- 10.2 The current IVSs purposely avoid stipulating to what type of valuation they apply. This is because it is for those adopting the standards to stipulate when they should be used. The IVSC has no power to enforce any organisation or individual to use its standards. The current standard makes a distinction between valuations and valuation reviews as these are different types of service, but the proposal to make a distinction between valuations undertaken for an employer and those undertaken for clients other than an employer is both unnecessary and could be interpreted as an attempt to stipulate to what valuations the IVSs apply.
- 20.3(a) Instead of the current Requirement to provide a positive statement that the valuer is in a position to provide an objective and unbiased valuation, the draft proposes that only factors that could limit the valuer’s ability to provide an objective and unbiased valuation be disclosed. If a valuer is so limited, they should not have accepted the instruction as it is a pre requisite of an IVS valuation that the valuer is in a position to give an objective and unbiased valuation. They certainly would not be preparing a Scope of Work (or if they were, it would be a valuation delivered outside the scope of the IVSs).
- 20.3(b) The addition of (if any) after clients implies that there may be cases where there is no client. While one may imagine a scenario when a valuer decided to produce a valuation for their own benefit, we cannot imagine that this is a situation to which the IVS would ever be applied.
- 20.3(c) The existing standard includes a requirement to agree and record any restriction on those who may rely upon the valuation assignment. The Board was invited to consider removing the requirement to “agree” following talks with the Appraisal Foundation on minimising differences between IVS and USPAP, but the need for the valuer to stipulate any restriction on who may rely on the valuation should remain.
- 20.3(d) The wording of the existing 2(d) has been rearranged as a list but this has made it less intelligible. It is tautologous (giving an asset as an example of an asset), contradictory (giving a liability as an example of an asset) and incorrectly implies that the list is of mutually exclusive items. The existing wording is preferable.
- 20.3(e) The draft proposes that it be made compulsory to stipulate the currency in which the valuation will be reported. This is an unnecessary degree of prescription. The current standards simply suggest in 2(e) that this may be necessary. This is because the Board previously agreed with feedback that it was unnecessary to require the currency to be confirmed in every case, as this only becomes relevant in cross border work.



- 20.3(g) In our response to the draft IVS 104 we made the point that the only requirement in that proposed standard was redundant as this is already required by existing standards. This is confirmed in the first sentence.
- 20.3(k) The requirement to include all assumptions and special assumptions in the Scope of Work in the current standards has been compromised by the inclusion of the adjective “significant” in the draft. There should be no such thing as an unstated assumption, whether considered significant or not. Not only is the non-disclosure of an assumption that will be made potentially misleading to the client, in many cases it will mean the valuer is at risk if the assumption proves to be incorrect and could have been shown to be so if reasonable investigations had been made. Furthermore, the discussion illustrating what are assumptions and special assumptions in the current standards has been removed from where it is most useful to a reader to a totally unrelated standard on bases of value. This not only hinders navigation of the standards but potentially confuses readers as to the distinction between assumptions and bases of value.
- 20.3(l) The wording in 2(l) in the current standards explicitly allows for abbreviated reports providing that the exclusion of any of the otherwise mandatory contents specified in the standard is included in the Scope of Work. It is recommended that this be reinstated. Also, “described” would be a more appropriate verb than “established”.
- 20.3(n) The existing requirement to state that the valuation will be undertaken in accordance with the IVS has been conjoined with a proposed new requirement “to assess the appropriateness of all significant inputs.” This is misplaced. Actions that should be taken in preparing the valuation are covered in IVS 102. Choosing one of these actions at random and requiring it to be mentioned in the scope of work serves no useful purpose and makes little sense.

IVS 102 Investigations and Compliance

IVS 102 was intended as a standard that would contain all requirements relating to carrying out the valuation work between establishing the terms of reference in the scope of work and the reporting of the valuation conclusion. While the existing title “Implementation” has its critics and an alternative may be appropriate, the proposed title does not adequately describe the content, as more than just “investigations” are covered.

We also find the addition of a section on “Compliance” to this standard to be strange. Apart from problems with what is written here, which we address below, the explanation of what compliance with the standards entails does not belong in one randomly selected standard but should be in an overarching introduction to the whole set of standards. It is rather too late to be considering compliance when one is actively engaged in undertaking the valuation, which is the main subject of this standard.

We note that Requirements 6, 7 and 8 from the current standards have been removed, presumably because approaches and methods are now included in the proposed IVS 105. We have already made our views known on the inappropriateness of this proposed new standard. The selection of the most appropriate approach is something that should be considered by the valuer at the same time as undertaking the investigations, collection of data and analysis required by the rest of IVS 103. The existing paragraphs say all that is needed.



- 10.1 The 2015 ED proposed strengthening this statement with the underlined words as follows:

Valuation assignments, including valuation reviews, shall be conducted adopting procedures and principles that are necessary in order to produce a valuation that is suitable for the intended purpose. This includes following such of those principles set out in the IVS Framework that are appropriate for the intended purpose for which the valuation is required and the terms and conditions for the assignment set out in the scope of work.

If it is decided to remove the Framework and all the commonly accepted valuation principles this currently contains which, as we made clear in our comments on the earlier draft is something we consider to be a grave mistake, a modification of the second sentence will be required. Otherwise we recommend the above wording be adopted in the new standard.

- 20 Investigations: As proposed in the 2015 ED, this heading should be changed to “Requirements” for consistency with IVS 101 and IVS 103 and to reflect the commitment made by the Board to clearly identify the Requirements of the IVSs so that the agreed definition of compliance reached with the major VPOs in 2014 can be effective.
- 20.3 The third and fourth sentences are redundant, as is the referenced section of the proposed IVS 105. The point is already covered by 20.2. Among the many problems with the proposed IVS 104 and 105 we identified in our earlier comments was the fact that the only requirements capable of being mandatory are already covered by requirements in IVS 101, 102 and 103.
- 20.4 The second sentence has been added to the text of the current IVS 103.4 but is superfluous as this requirement is already made in 20.2. In contrast, an important proviso that was included in the existing standards as a result of consultation has been omitted, ie that instead of just not using the information if it appears unreliable, the valuer’s concerns should be made known to the commissioning party. The Board agreed there could be circumstances when it would be inappropriate to simply prohibit the use of information that could not be verified as this could potentially lead to a misleading valuation or one unfit for purpose. There are many examples where an assumption can reasonably be made about unverified or unverifiable information. It therefore agreed that the possibility of finding a solution through dialogue with the commissioning party should be recognised. We recommend that the current wording of IVS 103.4 be reinstated.
- 20.5 The list of examples of matters to be considered omits two that currently appear in IVS 103. It is recommended that these are reinstated as they address circumstances not covered by the other five.
- 20.7 The existing wording of IVS 103.5 has been modified by the addition of the words: “...and the valuation assignment might no longer comply with IVS”. This makes no sense. The preceding sentence describes actions that need to be taken, so how can these actions result in the valuation not complying with the IVSs? It is not the role of standards to prescribe actions that will result in non-compliance.
- 30 Valuation Record: The 2015 ED proposed deleting this heading so that the following paragraph (now renumbered 30.1) was clearly one of the identified Requirements of this standard. The need to clearly denote the “Requirements” has already been explained.



- 40 Compliance: This topic is misplaced in this standard as it applies equally to all standards. The earlier drafts included a section headed “Framework” which is cross referenced here, but this is also an inappropriate location for setting out what is required for compliance with the standards. In the context of a set of standards, a Framework document provides background information on concepts that need to be understood for consistent application of the rules in the standards but which are not of themselves rules, eg definitions of value and commonly used approaches. The short section now headed Framework is nothing of the sort as all the supporting information on principles and concepts has been removed. The objective or purpose of the standards, when and how they apply should all be in an introduction that applies to the whole suite of standards.

The current standards include a paragraph on compliance and application in the Introduction. An amended paragraph describing the application of the standards was agreed by the Board for inclusion in the 2015 ED which reflected both responses to the 2014 Structure and Scope consultation and the discussions with the VPOs in connection with the Adopt or Comply memorandum of the same year.² It is recommended that this be included in the appropriate place in the revised standards.

- 40.2 This not only makes a bold and probably inaccurate statement that most other sets of standards will not contradict the IVSs but is a wholly inappropriate statement to make within the body of a standard which is supposed to have mandatory status.

IVS 103: Reporting

The 2015 ED proposed introducing the heading “Requirements” after the first introductory paragraph in order to give effect to the agreement reached with the VPOs ahead of the signing of the Adopt of Comply MoU. This should be introduced and the later heading “General Requirements” removed, as it ignores the fact that there are explicit requirements that precede it.

- 10.2 This wording is very similar to the current 103.2, except for the fact that “material uncertainty” has been replaced by “significant uncertainty”. The wording in the current standard was chosen with care and reflects a three-year project undertaken by the Board following concerns expressed by many, not least the FSB, that inadequate disclosure of uncertainty was a contributory factor to the 2008 financial crisis. The reason given in the “Basis for Conclusions” that material has specific meaning is true. Its meaning in this context is explained in TIP 4. Its meaning in other contexts is therefore irrelevant. This is not a valid change and is another example of an issue recently considered by the Board after extensive consultation being ignored.
- 10.3 This paragraph has modified the current Requirement in 103. The explanation that reports may range from “comprehensive narrative reports to abbreviated summary reports” is unnecessary and fairly meaningless as different readers will have widely different views as to what is meant by adjectives such as “comprehensive” and “abbreviated” in the context of their market. However, the addition of the second sentence stating that “... it may be challenging to comply with this standard (and therefore challenging to comply with IVS).” is bizarre. Producing a report that complies with the current IVSs is should not be challenging

² Page 6 Proposed Amendments to the International Valuation Standards issued 19 March 2015.



for a competent professional valuer and can be done in a very wide range of formats. Quite apart from the statement being untrue, a statement within a mandatory standard that it is difficult to comply with undermines the whole credibility of the standard.

- 20.2 This paragraph is an addition to the existing standard but it is superfluous as the points it makes have already been covered in 10.1, 10.2 and 20.1.
- 20.3 Likewise this is a superfluous addition as if a report complies with 10.1 and the other provisions of the standard it will be understood by an “appropriately experienced valuation professional”.
- 30.1 The introduction to this section uses vague wording compared to the current IVS103.5; “...the report must convey the following” is not as precise as “All reports shall include reference to the matters listed below.”

While it is true that eleven of the fourteen matters that have to be included in an IVS compliant report under the current standard also have to be referenced in the Scope of Work, clarity has been lost by only specifically listing the additional matters in this draft. Apart from a user of the standards having to constantly refer back to another standard, there are a number of differences in the explanatory narrative for each item between IVS 101 and 103 to reflect the fact that one is prepared before the valuation is completed and the other after it is completed. For example, although one may state in the Scope of Work that a certain assumption will be made, it is only when the investigations have been completed will it be known if that assumption is reasonable or if it may have a material effect on the valuation. This needs to be addressed in the report.

Of the additional matters that are specifically identified in the draft, separating the various elements required by the current IVS 1032(I) Valuation Approach and Reasoning into separate elements is unnecessary and lead users of the standards into believing that a more granular and complex discussion of these interrelated elements is always required in order to comply. That is not the intention of the existing standards which can be fully complied with in a very compact report where this is appropriate.

One significant omission is the requirement to include the amount of the valuation. This may not necessarily be the same as the conclusion, depending on the purpose for which the report is being prepared.

Valuation Uncertainty.

Following the responses to the 2014 Structure and Scope Consultation, the Board proposed moving those TIPs that gave specific guidance on applying aspects of the standards into the main body of the standards. This was proposed in the 2015 ED. In the earlier drafts of IVS 2017 this proposal was repeated in relation to IVS 210, which it is proposed should now contain much of the guidance in TIP 3. However, no explanation is provided for not carrying forward the previous decision to include the guidance on valuation uncertainty in TIP 4 as application guidance annexed to IVS 103.

This is a serious omission. As previously explained in our comment on 10.2, the IVSC was alerted in 2009 to concerns being expressed by the Financial Stability Board that valuation uncertainty was not being adequately disclosed and therefore investors and others were putting inappropriate reliance on certain valuations. The Board started a project, led by Ana Castaneda, to examine this issue. It produced a discussion paper in 2010. The responses to this prompted further extensive research,



including consideration of various papers on this subject issued by the IASB, SEC, FSA and EBA in 2011 and 2012 before an Exposure Draft was issued in 2012. Following further refinement to reflect the responses received, the Board approved the guidance, and issued TIP 4 in 2013. TIP 4, has been well received and has been referenced by influential actors in the financial markets.

The concern of many of the major financial regulators shows that this is a matter that is not adequately addressed in many valuations. The responses to the Discussion Paper and Exposure Draft also illustrated that valuation uncertainty is not consistently understood by many valuation professionals. As the simplistic rationale given in the “Basis for Conclusions” for changing the requirement to disclose “material” uncertainty to “significant” uncertainty well demonstrates, there is a need for this subject to be properly explained in the IVSs. We therefore urge the Board to reinstate the proposal it originally made in 2014 to include the contents of TIP4 as an annexe to IVS 103.