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International Valuation Standards Council
By email: comments@ivsc.org

4 January 2021

Dear Sirs

IVS Agenda Consultation 2020

Thank you for the invitation to comment on the IVSC's agenda for the next few years.

As you may be aware, the directors of Valuology have many years combined experience of developing and promoting the IVS. For the past five years we have been advising current and prospective users of the IVS in a number of different countries. Our clients have included firms providing valuation services, professional organisations, government bodies and financial regulators. The advice provided is on not only the requirements of IVS but also how they can be applied within the different legislative frameworks to address problems that have been identified.

This has given us the opportunity to view the standards from a different perspective. Some of this experience has confirmed the validity of decisions made by the Standards Board during the time of our involvement, but it has also highlighted obstacles to the use or adoption of IVS of which the Board was previously unaware.

As a result of this experience we have significant concerns about some of the recent trends in IVS, which have been amplified by these agenda proposals. We address these concerns in the attached response but, in summary, we believe that if the IVSC is to increase recognition and use of the IVS globally it needs to stop increasing the content of the IVS with evermore prescriptive technical detail on how to undertake certain types of valuation. Such in depth material can only ever be applicable in specific markets. Instead it should be focussing the IVS on a clear set of concise and widely applicable principles for the delivery of any valuation on which others may rely. While the IVSC as whole also can be a forum for discussion about technical issues faced by valuers in specific markets, any material it publishes as a result of such discussions must clearly be distinguished from the IVS.

Yours faithfully,

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Response to IVS Agenda Consultation Paper

General Comments

IVSC's Objective

The Background given near the beginning of the consultation paper states that the IVS effective from January 2020 represented efforts to continue to *"harmonise and advance the entirety of IVS"*. For a reader to make sense of a rhetorical statement such as this there also needs to be clarity about what the IVSC is trying to harmonise with or the goal being advanced towards. The fact that these are not stated suggests the IVSC itself is unclear as to what these are.

The current IVS states that the primary objective of the IVSC is to "*build confidence and public trust in valuation by producing standards and securing their universal adoption and implementation for the valuation of assets across the world."*

The agenda should be focussed on whether or not any project under consideration will help towards achieving this objective. Random topics that may be of intellectual interest to practising valuers but not to those who rely on valuation should not be selected for inclusion in the IVS agenda. Building public trust is achieved through valuers making sure the advice they provide is sufficiently clear and transparent and given by a person with the appropriate training subject to a code of professional ethics. Public trust is not achieved by creating standards that disappear down a rabbit hole of internalised debate between practitioners and academics of whether one technical solution is better than another. Filling the standards with such "how to" content rather than the keeping the focus on client protection obscures the standards that are relevant to the public interest and creates unnecessary obstacles to their recognition and adoption.

Separation of Standards from Guidance

Technical discussions are important to the development of knowledge within the profession and in establishing appropriate education and in career training. By all means the IVSC can act as a host or convenor for such discussions, but if it does this role should not be conflated with its primary role as a standard setter. The proposal that many of these projects be developed as standards is not only something with which we disagree but also flies in the face of the lesson learnt over the first thirty years of the IVSC's life. This is that a clear separation has to be made between standards and guidance. Standards should be addressed to an external audience and set clear practice requirements that are needed to protect the public interest. Guidance should be aimed at developing the technical knowledge of valuers thereby helping to improve consistency. As the word implies, guidance cannot be mandatory as the issuer cannot possibly cover every conceivable fact pattern that a practitioner may encounter.

Without this distinction, the standards fail to address the primary concern of governments and regulators - public protection. Additionally, technical papers which purport to require certain methods to be used in a certain way alienate professional bodies who see it as their role to set the knowledge and practice requirements for their members. Both factors act as real barriers to recognition and adoption of the standards.

We acknowledge that achieving such a separation in practice has always been a challenge for those responsible for drafting the material because there is a fine line between illustrating how a required standard can be applied and more detailed guidance aimed at assisting the valuer. However, from the feedback received on each successive edition of the IVS lessons were learned and formats altered as a result. Unfortunately this progress was reversed in 2017, and again in the latest edition, by turning much material which previously had been designated as guidance into mandatory or "presumptively mandatory " standards, whilst also adding significant detailed "how to" content. Standard setting bodies for other professions have all recognised the distinction between standards and guidance and have found various ways of making this clear in their published material.

Although not referenced in this paper, other recent pronouncements by the IVSC have referred to an initiative it is undertaking to improve alignment between the Uniform Standards of Professional Appraisal Practice (USPAP) issued by the Appraisal Foundation in the USA and IVS. It therefore should not have failed to notice that in the biennial publication issued by the Foundation, a very clear distinction is made between the concise rules and standards designed for mandatory application and the advisory opinions which support the application of the mandatory principles in specific situations. The Advisory Opinions make up 80% of the published material. While there will necessarily be a few differences arising from the difference in the status and scope of the IVS and USPAP, the clear separation of mandatory standards from opinion is the most useful act of alignment which the IVSC could undertake.

Definitions

We also notice from the narratives for the six projects highlighted in the consultation paper that a number of them include a proposed definition or definitions for words or phrases associated with the topic. We caution against the focus on defined terms that has already increased the size of the glossary in the past two editions of the standards. From our own experience of developing and promoting previous editions of the IVS and discussion with other professional standard setters, "over definition" can compromise the intended application of standards. There are two problems.

First, there are many words in common use where the precise meaning or interpretation depends on the context, i.e. it has to be considered as part of the sentence in which it appears and the wider purpose of the of the document. This problem is exacerbated when standards are translated. Defining a word in common use in way that limits its meaning within one standard prevents it from being used when it would otherwise be the most appropriate word in another standard. This can lead to sub-optimal words being used as an alternative which, in turn, can lead to tortured syntax that obfuscates meaning. While there are a few cases where a word has to have a precisely limited meaning in standards, in the majority of cases this is not necessary and it makes the standards easier to read and understand if the most appropriate word to clearly explain the intended meaning is used. An example is the changing of "material" to "substantial" in the requirement to disclose valuation uncertainty in IVS 103 10.2. While we were involved with the IVSC there was some lobbying from the accounting fraternity that the word material could not be used in the IVS because this had a defined meaning in audit. The Standards Board at the time rejected this argument. The Financial Stability Board, national regulators and valuation professional bodies had been using the word material to describe the valuation uncertainty that was of concern for a number of years so changing it would serve only to obscure the relevance of the guidance to the problem identified. Additionally, if IVSC accepted that it was constrained from using words and phrases defined in standards issued by other professions for different disciplines, where would this end?

The second problem that can arise from over definition is that it can limit the scope of a pronouncement, e.g. where the subject of a requirement is tightly defined. While in some circumstances precision of meaning is required, e.g. to ensure Market Value is interpreted and applied as intended, in many cases it can open loopholes where the requirement does not apply because the subject does not meet the precise definition.

Set definitions are appropriate in legal texts which are interpreted and applied in accordance with the law of a specific jurisdiction. However, an international standard is not a legal text but has to be capable of application across many different jurisdictions. To achieve this it is necessary to set broad principles that are applicable and relevant in as many situations as possible, even though each market or jurisdiction may use slightly different terminology. It must also be borne in mind that literal word for word translation can often produce results which make little sense and that fail to communicate the intention of the standard setter. The focus should be on adequately explaining the principle or issue being addressed by the standard, not limiting the word or words that can be used to describe it.

I. Gap Analysis

Gap Identification

While a list of topics is provided, no indication is given as to why these are currently considered to constitute a gap in the IVSC's pronouncements. Simply identifying a topic which is not yet included in the standards is not a gap analysis. A proper gap analysis identifies where a specific problem has been identified which is not covered by an existing pronouncement. If the IVSC is alerted to a possible omission in the standards which is increasing risk for those who rely on valuations, it needs first to examine the current standards to see if these address the issue. If they do not that is the "gap". A clear explanation needs be given of this and the potential solutions, e.g. a modification of a current standard or a completely new standard or other pronouncement. There is no evidence in this paper of this having been done.

The consultation paper also states that the *"…IVSC Technical Boards also discussed market needs with other stakeholders in order to gain further understanding on particular areas where there is inconsistent valuation practice and a need for additional valuation standards."* Inconsistent valuation practice is not a reason to create a new standard, particularly one that is intended to apply globally. A fundamental principle is that valuations must reflect the market in which the subject asset or liability trades, i.e. they must reflect how market participants determine the price they are willing to pay or accept. Inevitably this means there will be different methods used to estimate value between different markets and jurisdictions. It is therefore not only futile but conceptually wrong for the IVSC to attempt to micromanage the method or methods that can be applied in different markets. Creating a project only because practice in Market A differs from that in Market B is not a legitimate reason for IVSC to create a standard.

List of Topics

The list on page 9 of the consultation paper has 32 separate potential projects listed. Of these, 17 are identified as potential future standards. This confirms that IVSC is vastly over-estimating not only what is a suitable subject for an international standard but also its ability to reach a consensus across existing and potential stake holders which will lead to greater adoption and use of the IVS. The IVSC needs to be aware of the dangers to its reputation and the credibility of the IVS by overreaching its mandate and capabilities, especially where other professions have more focussed expertise.

An example is the inclusion of pension liabilities and insurance contracts on the list. This is a matter that is dealt with by the actuarial profession and there is a long history of national and international standards issued on the valuation of liabilities, and pension liabilities in particular. Indeed when the IVSC was considering the revision of its existing standards to better reflect the valuation of liabilities and to develop supporting guidance, the International Actuarial Association took the initiative to contact the IVSC with a view to collaboration and ensuring consistency where the organisations' standards overlapped. Unfortunately none of the revisions to the IVS it suggested, and which were included in the consultation draft for the 2015 standards which were never finalised, were carried forward into IVS 2017.

Topics Previously Undertaken

Some of the topics on the list have been the subject of previous guidance issued by IVSC. This includes Valuation Uncertainty (which was largely reproduced in March 2000 as a "letter from the Boards"), Trade Related Property and Depreciated Replacement Cost. Non mandatory guidance has been issued on each of these subjects because it was accepted that it was not the role of the IVSC to prescribe what methods should be used or how they should be applied, simply to identify generally accepted practice in specific situations. The guidance also was at a high enough level to be relevant across most markets and jurisdictions.

Other topics on the list have been the subject of previous IVS projects but did not result in any pronouncements because it became clear that either the subject was covered by other regulations or standards which would take precedence over anything the IVS produced or it was clear that there was insufficient consensus between stakeholders to agree what was best practice and produce guidance that would be useful. This includes ESG, Social Value, Long Term Value and Resolution and Recovery.

The list of Short Term projects includes a "Technical Review" of the IVS Glossary. We refer to our comments in the Introduction to this response about the risk of over definition in standards intended for global application. We would urge the Board use this review to try to reduce the existing IVS Glossary. By all means the IVSC can collate and host a more comprehensive glossary of terms commonly used in valuation, which it currently does on its website, but this should not be part of the IVS and should be clearly identified as an education and information resource.

Funding Valuation Adjustments (FVA) is listed as a long term project, but Valuation Adjustments as a short term project. Following the 2008 financial crisis the IVSC assembled an expert group from the financial markets. This identified Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) as issues which were causing inconsistency in how financial institutions were valuing their holdings of financial instruments for accounting or regulatory purposes. FVA was later identified as an issue to be added to the list but the Board was advised that this should not be conflated with CVA/DVA.

The CVA/DVA project was approved by the Board in 2011. An Exposure Draft was issued in 2013 which resulted in comprehensive comments from the major firms of consultants, individual banks and organisations representing the financial and banking markets in different parts of the world. After further deliberations by the expert group the Standard Board approved "Interim Application Guidance" on CVA/DVA in 2014. The paper explained that the "Interim" prefix was because completion of the FVA project may result in amendments having to be made. Although this guidance received limited circulation from January 2015, it has disappeared from the list of publications on the IVSC website.

The FVA project was commenced in 2014 when another expert group of valuation experts from a number of global banks was formed. This group approved a consultation draft in March 2015 but there is no record of it being approved by the Standards Board or being issued. With this background we see no reason for completely new projects on CVA/DVA or FVA as a lot of groundwork has been done already and can be picked up by the current Boards.

Responses to Questions

Question 1.1: Do you agree with the current categorisation and timings of the topics contained in the IVS Gap Analysis and if not why?

No. The overall list is too ambitious having regard to the IVSC's resources. It also proposes new standards be developed on matters which cannot and should not be the subject of mandatory rules across all markets. The allocation to certain Boards also lacks logic. Some topics apply across Tangible, Business and Financial Assets. The role of the Review Board is surely to review and coordinate the output from the three specialised boards, but instead it has been allocated a number of projects in its own right.

Question 1.2: Are there any other topics which you believe should be included or deleted from the IVS Gap Analysis and if so why? (Please state the relevant specialism, categorisation and timing for any proposed additional topics).

No. Before the IVSC makes any decisions about its future agenda it needs to carefully consider whether it wishes to be a body that sets standards aimed at protecting the public interest or whether it wishes to turn itself into a forum for technical discussion and valuer education. If it wishes to do both then a clear distinction needs to be made both in the structure of the boards and the pronouncements and publications it issues.

II. Automated Valuation Models

The distinction between an automated model that calculates a value based on statistical analysis of transactions and a model which calculates value based on inputs selected by a valuer is mentioned but not well explained. The diagram on page 11 confuses the issue by including non-valuation activity and suggesting that a hybrid form of automated model can exist. Either a model requires human input or it does not.

The following statement suggests that the focus of the project should be on the use of AVM's for Tangible Assets, and real estate in particular.

"The working group recognised that AVMs are not only increasingly used in tangible asset valuations as a tool to aid banks and other entities to make secured lending decisions in relation to commercial mortgages but are also commonly used for financial instrument valuations."

This statement that AVMs are "commonly used" in financial instrument valuation is curious. With the exception of private company shares, virtually all financial instruments are valued using automated models. Indeed many large investment funds revalue billions of securities and other instruments on a daily basis which obviously can only be done using automated models. The problems experienced in the financial markets caused by the use of inappropriate or wrongly calibrated models should inform IVSC's discussion on this and the Financial Instruments Board should be involved.

It is also unclear what the project is hoping to achieve. Although identified as a subject for a future standard, is it envisaged that there will be standard for model development, prescription as to what models may be used or a rule on how a human valuer subject to the IVS should use AVMs or other models? We consider that since the IVS are part of a regulatory framework for human valuers, the role of the IVSC should be limited to the last of these three.

We consider that the recent addition of section 90 to IVS 105 more than adequately addresses the only aspects of how a model should be used that are capable of mandatory application, although since it relates to the valuer's investigation and verification of data it would have been better positioned in IVS 102.

Responses to Questions

Question 2.1: Do you consider AVMs to be a growing area and therefore something IVS needs to address? Please provide your reasoning for your answer as this will help the Technical Boards with their deliberations.

Yes and no. Yes, the use of AVMs is growing but no, this is not something that needs to be further addressed in the IVS.

Question 2.2: Should AVMs be included/addressed within IVS? If you think AVMs should be outside IVS how should they be considered and what clarity will valuers require?

No and yes. The first part is a repeat of question 2.1 to which we have already responded. In answer to the second part, IVS should not attempt to move into trying to regulate or approve the use of different models. Like any manual, automated or semi-automated valuation technique, different AVMs develop, evolve and gain acceptance in different markets. Even if it were credible that the IVS or another global body could in some way regulate these models it would be totally counter productive if such regulation lagged developments in any particular market.

Question 2.3: Do you agree with the definition of AVM shown above. If no, please provide a suggested alternative definition together with a source for this definition.

No. Attempting to define an AVM serves no useful purpose and is actually counter-productive because it restricts the scope of whatever pronouncement is made about them to models that meet the definition.

Question 2.4: Do you agree with the definition of Model shown above. If no, please provide a suggested alternative definition together with a source for this definition.

No. Attempting to define a model serves no useful purpose and is actually counter-productive because it restricts the scope of whatever pronouncement is made about them to products that meet the definition.

Question 2.5: Should IVS consider Hybrid Valuations as illustrated in the diagram Key Categories of Valuation Methods. Please provide your reasoning together with any examples of Hybrid Valuations currently used in your market.

No. The distinction only arises if AVMs are muddled with calculation models using human input. If a human valuer is asked to review the output of an AVM it is the same as reviewing a valuation produced by any other means. The valuer's responsibilities to critically consider any information used in reaching their opinion is already covered in IVS 102.

III. Environmental, Social and Governance

The Consultation Paper states that the Boards agreed that ESG was an issue of increasing importance across all markets and, although there was a significant amount of good qualitative information within the market there was very little, if any, relevant quantitative information within the market on how to account for ESGs within the valuation process.

The first part of this statement is unquestionably true but the second shows a fundamental misunderstanding of "the market" and the nature of the valuation process. An increasing number of companies are adopting ESG policies. These have an impact on the way they conduct their business, which in turn has an impact on the type of assets they require to undertake that business, and on the overall value of the business.

To take an example, environmental policies affect the demand for real property, in terms of its energy efficiency, design and location (e.g. proximity to public transport). This trend has been growing for more than 20 years so market prices reflect the ability of potential occupiers to meet their environmental objectives as determined in their ESG policy. The "quantitative information" is therefore very much in evidence. Indeed, buildings which are physically sound but that do not meet the current environmental requirements of most potential occupiers have rapidly deteriorated in value, often leading to their demolition and redevelopment.

The value of a business also is affected by its ESG policies and the extent to which it is implementing them. An increasing number of investment funds have their own ESG policies which require them to invest only in companies that meet certain ESG criteria. This has had an observable effect on the share prices of companies that do not meet these criteria. While the effect on share value of private companies is not as transparent, the guideline public company method as described in IVS 105 could give a good indication of the effect of ESG policies on different types of business.

The effect of ESG on prices has been a major influence on prices and values for many years and it would be entirely inappropriate for IVSC to suggest that market prices need further adjustment to reflect whether a tangible asset is capable of meeting typical ESG requirements in the relevant sector or that current share prices are not affected by the ESG policies or market participants.

In short, valuations reflect the market, they should not make it.

There may be a case for the IVS to issue guidance on how ESG policies are impacting different markets to increase awareness of the need to consider this in valuations, but even this could be a challenge given differences in the importance attached to different aspects of ESG in different markets and jurisdictions.

We oppose the idea of IVSC developing its own definition of ESG. The term is now widely used so there may be some benefit in explaining how this impacts supply and demand. Beyond this IVSC would be moving outside the realm of valuation and has no more authority or credibility to define ESG than it has to define any other societal trend that influences markets.

Responses to Questions

Question 3.1: What role do you see IVS having in measuring the value of ESG? Please provide details and reasoning with your response.

None. "Measuring the value" of ESG is done by the market – see comments above.

Question 3.2: How do you consider ESG within your valuation process? Please provide details of your country, specialism and as detailed an example as possible together with any data sources used, if applicable.

Valuology does not provide valuations but is involved with many who do provide or rely on them. We have not encountered any that see ESG as a matter that has to be specifically accounted for in calculating value. It may be mentioned in comments about the suitability of an asset for its market.

Question 3.3: What definitions and/or framework do you currently use when considering ESG in your valuation work? Please provide the definition, framework and source.

No comment – see 3.2

Question 3.4: What are the demands from valuation stakeholders when considering ESG? Please provide details.

We have not experienced any demand from those who require or rely on valuation specifically to comment on the "value" of a business's ESG. The expectation is that if Market Value (or accounting Fair Value) is asked for this will reflect all matters that influence the prices paid or accepted in the market.

Question 3.5: As outlined above ESG can be subdivided into a number of issues. Can you separately account for any of these issues within the valuation process and if so, please provide further details?

We do not understand the question as the term Environmental, Social and Governance indicates three different issues that businesses and their investors often consider. Each of these covers many different aspects of a business's activity but many overlap the three issues, and no list can ever be definitive.

IV. Long Term Value

The Consultation Paper provides a narrative of possible changes to the Basel Accord and the EBA's Single Rule Book in relation to the value used in calculating a financial institution's solvency ratio. It then explains that the IVSC Technical Boards are intending to explore the issue of long-term value further and are also researching whether there is a need for additional standards on future cash flows or an additional basis of value or a long-term value index.

This is far from a new matter. The suggestion that IVSC should endorse and include the German concept of Beleihungswert (translated as Mortgage Lending Value) was first raised in the early 2000s. After considerable investigation and debate the Standards Board concluded that this was a risk weighting applied to the current market value for use in measuring the amount of a bank's total loan book that was secured by collateral in real estate. Although the need to risk weight collateral in regulatory reporting was common across most jurisdictions, many banks or regulators used different techniques to do this. While in Germany the risk adjusted figure is called a "value" and those with the appropriate credentials to calculate this figure are by extension called valuers, risk adjusting a valuation is not the same as valuation. On previous occasions the Board has concluded that risk weighting assets under bank solvency regulations was not something that was relevant to valuation standards and therefore outside its competence and remit. This is a view we endorse.

Suggesting that valuers can or should become more involved in the process of establishing the appropriate risk weighting for a bank is treading on dangerous ground unless the valuer in question is also expert in corporate finance in the banking sector. Since this is primarily a banking function it is not an area in which IVSC should attempt to intervene.

Since a valuer can be expected to have some knowledge of regulations that impact on clients for whom they provide valuations the IVSC could usefully produce a briefing paper for its members who act for banks so that they are aware of how their valuation may be used in calculating solvency ratios under the relevant regulation. Otherwise it should stay clear.

Presenting this as a threat or challenge to Market Value is incorrect. It is a completely different concept used for a completely different purpose. Market Value still remains the figure on which most commercial decisions are based for making loans. The need for a lender to obtain a proper market price if disposing of its security is also a well-established principle under most common law jurisdictions.

Responses to Questions

Question 4.1: Have you faced pressure from banks or other institutions to provide a prudential valuation? If so, in which market and in which specialism do you operate?

No. We are aware that some of the larger real estate consulting firms do employ valuers with the necessary credentials to provide German lenders with Mortgage Lending Value alongside the current Market Value. Otherwise we have never seen banks instructing external valuers to provide a "prudential value".

Question 4.2: Do you agree that Market Value already incorporates the concept of a prudential valuation within its definition? If not, please provide your reasons.

No. While Market Value assumes both parties to a transaction are acting prudently, in relation to bank solvency "prudential" means "safe", in other words a figure that allows for the possibility that the current Market Value could be adversely affected by future fluctuations in the market. Whereas a valuer can be expected to provide the Market Value at a given time and can also use their knowledge of the market to advise of market trends that could affect that value in the future, using that information to decide what is a "safe" figure will depend on factors outside the valuer's remit, and which may be affected by the circumstances of the particular financial institution.

Question 4.3: Do you feel that the research in relation to a European Long-Term Value Index would be helpful or not? Please provide the reasoning for our response.

No. There are plenty of existing indices that provide information on trends in value over time and which can be used to model market risk looking forward. These are commonly used in financial markets, not only for regulatory purposes but also in pricing products such as swaps and derivatives where the market perception of future changes in value is a vital component. We consider it unlikely that a further index is required or would add anything to the considerable body of knowledge and established practices for risk weighting that already exists in the world of banking and finance. This is not something with which IVSC should become involved in other than monitoring developments in case a need for information or guidance for the valuation profession as a whole arises in the future.

Question 4.4: Should Long-Term Value be a separate basis of value or a concept to be included in a basis of value?

No. It is not a basis of value but an adjustment of a value that has already been established.

Question 4.5: The current research for a Long-Term Value Index is currently restricted to European Markets. Do you feel that this research should be extended to your market, and if so, in which market do you operate?

Our clients are based inside and outside the EU. Elsewhere we have not found the unfortunate conflation of a risk management technique with valuation, which probably arose from the original Beleihungswert being translated too literally.

V. Social Value

While the term "Social Value" may be relatively new, the concept that a public authority needs to evaluate the social benefit arising from public investment has been around virtually from the time large scale public investment was started in the 19th century. It became known as "Cost Benefit Analysis "(CBA) and models based on this theory have been used in most democratic countries to support public investment decisions for many years. Social Value is a term that uses the word "value" but that does not mean it is a value that can be determined objectively any more than the value of owning a pet or the value to an individual of the support of other people.

A valuer may contribute to a CBA by advising the public authority on the cost of acquiring land required for the project or the impact its completion may have on the value of assets which it affects. However, the benefits of a public project will rarely depend only on changes it will make to either land values or to businesses. Matters such as public health, employment, improved education opportunities and environmental impact or benefits all need to be considered. This will require contributions from many experts, not just valuers of tangible assets or businesses. Another significant factor is that the assumptions made and the weight attributed to each identified cost or benefit in the final analysis will reflect the political priorities of the government or other decision making body.

The IVSC is no better placed to address any inconsistences in the methods used for CBA between different countries than it would be attempting a project to harmonise how defence spending is determined.

The recently published "Perspectives Paper" suggests that the concept of social value is important for *"…governments, NGOs and charities seeking to administer valuations for financial reporting purposes to adhere to financial management standards and regulations."* While there is significant diversity in the way governments and NGOs prepare their financial reports, none of which we are aware permit something as ephemeral as public benefit or social value to be included on the balance sheet. Indeed, the IVS had to abandon a project it commenced less than ten years ago to set standards for the valuation of public sector property because the responses indicated that there was virtually no commonality between different governments on if, when and how public assets should be valued. The suggestion that guidance on social value is needed for financial reporting is therefore a red herring.

If it wishes to examine whether there is any guidance it can provide on estimating social value as opposed to quantifying the effect that a project will have on asset values we would advise the IVSC to tread vary carefully and approach other interested professions such as Town Planners, Economists and those involved in advising governments and others on public investment projects in different countries to establish a) the problems in estimating social value or public benefit, b) the feasibility of producing guidance that is applicable internationally and c) if there is cross disciplinary support to produce such guidance.

Responses to Questions

Question 5.1: Do you agree with the proposed definition for Social Value outlined on the previous page? If not please provide your reasoning and proposed revisions to the above definition or an alternative definition, together with the source, if applicable.

No. There is nothing wrong with the definition per se but we cannot see that it will serve any useful purpose.

Question 5.2: Are you currently required to address Social Value within your valuations, and if so, what is your specialism and in which country are you located?

No comment.

Question 5.3: How do you address Social Value within your valuation process? Please provide as detailed an example as possible together with any data sources used, if applicable.

No comment.

VI. Uncertainty and Risk

The "Letter from the Boards" issued in March 2020 following the declaration of a global pandemic resurrected guidance that had originally been issued by the IVSC in 2013. This guidance was the result of a four year project that had been instigated following a request originally made to the accounting standard setters by the G20 to develop guidance on valuation uncertainty, Since neither IASB nor FASB saw this as being part of their remit the IVSC agreed to fill the gap.

We therefore support the principle that the IVSC should continue to issue this guidance. We also recommend that the original wording in IVS 103 10.2 be reinstated to refer to "material" uncertainty rather than "significant" uncertainty. Although they may be near synonyms "material" was the word used by regulators in describing the problem and by most major real estate valuation firms when making appropriate disclosures during the early months of the pandemic. There is no good reason for IVSC to potentially confuse the issue by altering the established terminology.

Responses to Questions

Question 6.1: Do you feel that IVS should include a section on Uncertainty and Risk? Please provide the reasoning for your response.

Perhaps. Guidance already exists, as evidenced by the March 2020 letter. While for some reason the original document has not been referenced in recent editions of the IVS, it should be. However, this is guidance on how to implement the disclosure requirement in IVS 103. If inclusion in the IVS indicates an intention to turn the present guidance into a set of mandatory requirements we would oppose this.

Question 6.2: Do you feel that it would be possible to provide an overarching section on Uncertainty and Risk which applies to all specialisms? If not, please indicate where you think it does not apply and provide your rationale.

Yes. The existing guidance was prepared by a cross discipline working group. Given that the problem identified by the G20 was in relation to the financial markets this was led by a financial instruments expert. The original document was deliberately written to be inclusive of all disciplines and included examples of different situations where material uncertainty could arise across different asset classes.

Question 6.3: Do you feel that the text provided above in relation to the difference between valuation Uncertainty and Risk is sufficiently detailed for inclusion within IVS? If not, please provide details of the other elements you would like to be included and your rationale for including these elements.

Yes. This was taken from a document published by IVSC after extensive input from different sectors including financial regulators, accounting standard setters, valuation firms and professional bodies. It was written by a cross disciplinary expert group before being approved by a cross disciplinary Standards Board. For those interested in the distinction made between uncertainty and risk in economic theory a more detailed account is provided in a book published by Valuology in 2020[1], but we do not suggest that such background information is appropriate for inclusion in IVSC guidance.

VII. Data Management

There is considerable overlap between this topic and the earlier topic of AVMs and other types of valuation models. Consequently there is a lack of clarity as to the exact problem that a separate project on data management would be trying to solve.

IVS 102 already requires a valuer to consider the credibility of information relied upon and, if in doubt, to investigate and, if possible, corroborate that information. Where the credibility or reliability of information supplied cannot be supported, the valuer should carefully consider whether or how such information is used.

IVS 105 contains a similar requirement for the valuer to perform appropriate analysis to evaluate inputs and assumptions and their appropriateness regardless of their source.

It is fundamental to any independent valuation that the valuer makes investigations, assembles data, exercises professional scepticism and selects a method, all of which have to be appropriate to the type of asset and valuation purpose. These are all interdependent. In earlier editions of the IVS these were all in a single standard (most recently IVS 102 in IVS 2013). Separation of these requirements into different standards has not helped clarity, and may be the reason that two closely related and overlapping topics dealing with slightly different aspects of the valuer's role have emerged in the proposed agenda.

Responses to Questions

Question 7.1: Do you feel that IVS should include an overarching standard in relation to data management within IVS 105 Valuation Approaches and Methods? If no, please provide your reasoning.

No. This issue is already adequately covered in the current IVS, although as indicated above, reorganising the standards to avoid the artificial separation of the valuer's responsibilities for establishing the credibility of all data from the requirement to select the most appropriate method or model would improve clarity.

Question 7.2: How detailed should IVS be in relation to data management, and are there any elements that you feel should be included or excluded from this standard?

The principle that data selected and used in a valuation must be appropriate and verifiable is already covered in the IVS. The current statements are broad enough to apply to any type of data and for any type of valuation. Any attempt to introduce more detailed provisions will

[1] Valuation Uncertainty – Reporting the unknowable - Valuology 2020 – IBSN 9798645609801

inevitably focus on what is considered best practice in specific markets and will compromise the global validity and application of the current statements.

Question 7.3: How should market uncertainty and risk impact the exercise of professional judgement when market data is not observable?

The conflation of market uncertainty and risk in this question suggests that the IVSC is not aware of its own guidance on valuation uncertainty reissued in March 2020, see VI above. Not only does this make a clear distinction between uncertainty and risk in valuation, it also indicates that a lack of relevant input data will cause valuation uncertainty, whether this is caused by market disruption, asset being unique or because the market for the asset is illiquid.

Valuology – 4 January 2020