Valuology

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

2 June 2016

Dear Sirs

Response to Exposure Draft

IVS 2017 Introduction and Framework

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

Introduction and Framework

Answers to Questions in ED

(a) In IVS 2013, all substantive portions of the standards were labelled as "commentary" (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standards were mandatory. The Board's position is that all aspects of IVS 2017 should be mandatory and this exposure draft has removed the "commentary" label for clarity. Do you agree with the removal of the commentary label?

We agree with the removal of the Commentary label. The proposal that all guidance relevant to the application of the requirements in a particular standard should be appended to that standard, given the title "Application Guidance" and a clear explanation of its relationship with the rest of the standard provided was included in the 2015 ED.

We do NOT agree with the proposal to make all aspects of IVS 2017 mandatory. The reasons for this are explained in our detailed comments on proposed changes to the Framework and the individual standards. It runs contrary to feedback received to all consultations since 2010 that the standards should a) contain both rules or requirements and supporting guidance, and b) that a clear distinction should be made between the two.

(**b) Do you agree with the Board's decision to remove the section on Bases of Value from the IVS Framework and produce a single chapter on Bases of Value in order to clarify the mandatory nature of this section and to avoid repeating certain guidance throughout the IVS? If not, why?**

No. This material should not and cannot be mandatory. This is explained in our comments on the proposed changes to the Framework and the proposed IVS 104. No example is provided of repeated guidance in the current standards. The Board has sought to avoid repetition wherever possible in recent versions of the standards.

(c) Do you agree with the Board's decision to remove the section on Valuation Approaches from the IVS Framework and produce a single chapter on valuation approaches and methodologies in order to clarify the mandatory nature of this section and to avoid repeating certain guidance throughout the IVS? If not, why?

No. This material should not and cannot be mandatory. This is explained in our comments on the proposed changes to the Framework and the proposed IVS 105.

(d) Do you agree with the IVS definition of Exceptions and Departures? If not, why?

No. The proposed wording in section 60 of the new Framework appears to have the same intent as the existing standards. The wording under the heading "Application of these Standards" in the Introduction to IVS 103 is more concise, easier to understand and therefore more effective.

General Comments

Previous Consultations

In March 2015 the IVSC Standards Board issued an Exposure Draft (ED) which reflected changes proposed by the Board in response to the consultation carried out in 2014 into the future Structure and Scope of the IVSs. No mention is made of this 2015 ED, or to the responses received, in this latest ED. Some of the changes proposed in that draft are not reflected in the current draft, with no clear explanation of why the Board has changed its view, or why comments received from respondents to the Structure and Scope Review are being disregarded.

The results of other consultations that have taken place over the past five years have also been disregarded. A major structural change is proposed which runs contrary to the views expressed in these consultations and the previous decisions of the Board to reflect these. Responses to previous drafts have revealed many differing opinions about the extent of supporting guidance that should be included in the standards. However, a common theme is that, whatever guidance is included, this should be clearly distinguished from the mandatory rules. Instead of improving the distinction that exists at the moment, the current draft proposes to remove it altogether by purporting that everything in the standards is mandatory, even where this is clearly impossible, for example where various possible solutions are discussed or a principle is being illustrated.

Consultations during the development of existing content have also been ignored, for example in the proposed new standards on the Cost Approach and Intangible Assets. In the case of the former, a radical redefinition of the existing approach is proposed. No detailed reasons are given for the Board proposing these changes.

This lack of transparency, continuity and disregard of previous consultations (and Board decisions based on those consultations) is disappointing.

Existing Commitments and Agreements with Other Organisations

During recent years the IVSC has been actively collaborating with some of its member organisations and other standard setters in an effort to a) reduce differences between standards and b) improve the recognition and acceptance of the IVSs. These collaborations are discussed below, but the proposals so far released by the Board do not reference commitments previously made by the IVSC or make changes in pursuit of these commitments. Indeed, in some cases changes are proposed that run directly contrary to commitments or agreements made with others.

IFRS Foundation

In 2014 the IVSC signed a Statement of Protocols with the IFRS Foundation. This acknowledged that the organisations have a common interest in ensuring that standards and guidance developed by the IVSC through its standard-setting boards on how to measure fair value is consistent, where appropriate, with IFRS, and is comprehensive and well-developed. The current draft indicates the IVSC apparently now has no intention of ensuring that its material on how to measure fair value is “comprehensive and well developed”. Instead it is proposing to remove IVS 300 *Valuations for Financial Reporting* from the standards entirely, on the grounds that this is “too technical” and “beyond the remit “of the IVSC. The current IVS 300 was developed with considerable input from IFRS staff, who indicated that it complimented IFRS as it provided useful guidance on some matters on which the accounting standards were silent, for example the practicalities of allocating value for depreciation or lease accounting. The one valuation purpose that is truly international remains valuation under IFRS, so many will find the apparent decision to ignore valuations for financial reporting and IFRS in particular difficult to understand and a backward step.

Valuation Professional Organisations

In 2014 the IVSC signed a Memorandum of Agreement (MoU) with twenty Valuation Professional Organisations (VPOs). This MoU contains commitments to enable those organisations that have already adopted the IVSs or that issue standards that are Compliant with the IVSs to maintain that status. This memorandum also contains commitments to enable those organisations that issue standards that are not currently Compliant with the IVSs to either adopt the IVSs or make their own standards Compliant within a three-year period. This MoU was signed following extensive negotiations with the VPOs as to what was meant by "Compliant" with the IVSs. The MoU defines this as compliance with the "Requirements" in the IVSs which are defined as:

> *The contents of IVS 101, IVS 102 and IVS 103, together with all those matters under the heading of "Requirements" in IVS 200, IVS 210, IVS 220, IVS 230, IVS 233, IVS 250, IVS 300 and IVS 310.*

The 2015 ED issued by the Board proposed minor changes to both IVS 102 and 103 which included using the heading "Requirements" for consistency with other standards and pursuant to what had been agreed in the MoU. However, in the current draft, IVSs 104 and 105 do not contain identified Requirements although the text suggests that they are mandatory. The proposed amended IVS 210 does contain a heading "Requirements" which simply says that the "principles" (not the requirements) in the General Standards apply. There also statements that the Board intends that ALL the contents of the standards shall be mandatory, not just the identified Requirements. Rather than adding clarity to assist the objectives of the MoU, the current proposals will make it considerably more difficult for organisations to maintain or attain compliance with the IVSs.

The Appraisal Foundation

A MoU was signed with the Appraisal Foundation in 2014, which followed an earlier MoU in 2006. The latest MoU set the goal of removing any remaining obstacles to a valuation undertaken and reported in accordance with USPAP also complying with the Requirements in the IVSs by end of 2017. The mandatory Requirements in the current IVSs are almost entirely in the three General Standards IVS 101, 102 and 103. Approximate equivalents in USPAP can be found in The Scope of Work Rule, Standard 1 Real Estate Appraisal Development and Standard 2 Real Estate Appraisal Reporting, and the development and reporting standards for other asset classes. The current ED shows no obvious attempt by the IVSC to address any of the matters that the two parties have jointly identified as needing to be addressed to achieve the objective of the 2014 MoU. More seriously the proposal to introduce new mandatory requirements for Bases of Value and Valuation Approaches take the IVSs in the opposite direction from USPAP and significantly increases the differences between the two sets of standards. There are no equivalent requirements in USPAP, and if approved these changes will surely frustrate the previously agreed objectives.

International Actuarial Association

Since 2013 there has been collaboration with the International Actuarial Association with regard to the valuation of liabilities. The objective of this collaboration was to ensure that nothing in the IVSs conflicted with the standards being developed by the IAA, and also that the IVSs contained sufficient material on the valuation of liabilities to enable the IAA to reference them in its own standards rather than developing pure valuation standards of its own. Sub groups of each organisation's Standards Board were established to work on and agree proposed changes to the IVSs, and then to develop more detailed guidance. A number of changes were proposed in the 2015 ED. These have not been carried forward into the current ED. No explanation has been given for this exclusion. Although no formal agreement exists with the IAA, it represents a significant potential user group for the IVSs. Discarding the work which has been done already will not help improve the recognition or status of the IVS.

Comments on Changes to Framework

General Comments

The IVS Framework was introduced in last major rewrite which resulted in IVS 2011. This was in response to criticism of the preceding ED and previous versions of the IVSs, which all had included defined bases of value, discussion of the major valuation approaches and common valuation concepts in the standards and declared them to be mandatory. The point was made strongly by a majority of respondents that these matters could not and should not be made mandatory and therefore it was confusing to give these the same status as those matters which could and should be mandatory. Nevertheless, many respondents, including a majority of those pointing out that this material could not be mandatory, indicated that they found the information useful and did not want to see it excluded from the standards altogether.

The Board looked at the examples of other sets of standards and found that others included a Framework section which included discussion of overarching concepts and options that should be taken into account in interpreting and applying the mandatory requirements but that contained no actual requirements itself. It therefore adopted this model for IVS 2011.

The responses to the 2014 Consultation on the Scope and Structure of the IVSs did not give a mandate for substantially changing the Framework. A majority of respondents confirmed their view that the standards should include not only mandatory requirements but also supporting guidance and information, but that a clear distinction should be made between the two. This is something the Framework helps to achieve.

The Board is now proposing to reverse the decision taken in 2010 and ignore the 2014 consultation. Firstly, the new draft moves the definitions of bases of value and explanation of the major valuation approaches to the proposed IVS 104 and 105, thus giving them the status of mandatory standards. This runs contrary to the consistent calls from users to improve the distinction between the mandatory and advisory parts of the standards.

Secondly it is proposed to remove entirely the discussion of concepts that help promote common understanding and therefore application of the standards that currently appear in the Framework. These include the concepts that have long been included in the IVSs eg, price, cost and value, the market, market activity, market participants, identification of what is valued and the effect on value of how assets are aggregated. All of these have proved useful to users, and many queries received by previous IVSC boards have led to these explanations being refined over the years as misunderstanding of these fundamentals is a common source of confusion and inappropriate valuation. Removing these explanatory "anchors" from the IVSs will be detrimental to their consistent application. It is instructive to note that at about a quarter of the IASB's accounting standard IFRS 13 "Fair Value Measurements" consists of discussion of similar valuation concepts in the context of applying the accounting standard, something that was clearly felt necessary to ensure its consistent application.

Specific Comments

Framework or Introduction?

The purpose of a Framework in standard setting, is to provide background information on matters that need to be considered and overarching concepts that need to be understood across many individual standards in the way that the standard setter intends, but that of themselves cannot be presented as rules that have to be followed in every case. The Framework avoids the need to repeat explanation of these concepts and principles across all the standards to which they apply.

The proposed Framework is very much reduced and now contains matters that are included in the Introduction to the existing standards. Directions on when the standards apply and description of their content do not belong in a Framework.

Sections 10, 20 and 60 in the draft Framework should properly be removed back to the Introduction, although in the response to question (d) we indicate that the existing paragraph in the Introduction concerning Applications and Departures is preferable to the convoluted and verbose proposal in Section 60 of the draft.

The Valuer

The existing Framework indicates the need for judgement, objectivity and competence in applying the requirements in the standards and briefly explains these concepts without seeking to prescribe or limit who may prepare valuations under the standards.

In the existing standards the Board made a conscious decision to avoid stating what the "valuer" should do, but instead to specify the attributes of an IVS valuation. This was in response to criticisms that the pre 2010 IVSs read more like a set of professional rules than a set of standards for valuation because they were addressed to the valuer. It was pointed out that Financial Reporting Standards do not address what "the accountant" should do. Adopting this convention also helped clarify the distinction between the roles of the IVSs and that of the membership rules of the professional bodies in membership. It is the latter who can accredit, regulate and discipline valuers and there was resistance from some to the IVSs defining or stipulating criteria for valuers or apparently instructing them what to do.

The IVSC Professional Board was established as a separate entity to establish common global criteria for valuers and in parallel with this draft have issued draft International Professional Standards (IPSs). The IPSs include definitions for a Professional Valuer. The IVSs should therefore avoid references to the valuer and particularly including definitions which differ from those in the IPSs.