International Valuation Standards Council and the New International Valuation Standards

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Standards Board Member
The views expressed at this conference and in any accompanying document are the personal views of the presenter and do not necessarily represent those of the International Valuation Standards Council (IVSC) boards. Standards and Guidance are only issued by the boards after following a process of public consultation and open deliberation.
The Code of Professional Ethics is composed of the Canons, Ethical Rules, and Explanatory Comments. The Standards of Professional Appraisal Practice are composed of the Uniform Standards of Professional Appraisal Practice (USPAP), promulgated by the Appraisal Standards Board (ASB) of The Appraisal Foundation, and the Certification Standard of the Appraisal Institute; or the International Valuation Standards (IVS), promulgated by the International Valuation Standards Committee (IVSC), applicable national Standards, and the Certification Standard of the Appraisal Institute. The Appraisal Institute has also issued Guide Notes that provide guidance on how the Standards of Professional Appraisal Practice may apply to specific issues.
IVSC’s Role is...

- To promote transparency and consistency:
  - Identification and codification of best practices for the conduct, or processing, of valuation assignments.
  - Development and promotion of common valuation terms.

- To promote technical best practices:
  - Issuance of Technical Papers to provide guidance on methods and applications.
IVSC’s role is not...

- **To regulate valuers’ conduct:**
  - IVSC has no individual members or powers to regulate their conduct. That is for professional or state authorised bodies.

- **To require or enforce compliance with IVS:**
  - IVSC does produce standards that are intended to be mandatory but enforcement is through adoption and recognition by others.
A private sector organisation acting in the public interest.

Primary objectives:

- Developing high quality international standards and supporting their adoption and use;
- Facilitating collaboration and cooperation among its member bodies;
- Collaborating and cooperating with other international organisations; and
- Serving as the international voice for the valuation profession

The IVSC - www.ivsc.org
WELCOME to the IVSC

The International Valuation Standards Council (IVSC) is an independent body that sets global standards for valuation, especially those that will be relied upon by investors and other third-party stakeholders. It also promotes the development of the valuation profession around the world and collaborates and co-operates with other organisations concerned with standards and regulations in the financial markets.

IVS 2011
The completely revised International Valuation Standards are now available.

The contents include:
- The IVS Framework
- Three IVS General Standards
- Six IVS Asset Standards
- Two IVS Valuation Applications

— ORDER your copy now

RECENT NEWS

NEWS & NEWS RELEASES
> IVSC publishes new International Valuation Standards (July 11)
> July 2011 E-News (No. 99)
> June 2011 E-News (No. 98)
> SEE ALL news & news releases

RECENTLY PUBLISHED
> Strategy and Operational Plan
  — GET plan (200K pdf)

> Exposure Draft: Second Exposure Draft: Proposed Code of Ethics/Principles for Professional Valuers
  — GET the exposure draft (1324K pdf)
  — COMMENTS DUE 31 August (note revised date)

2011 MEETINGS
> 5 November: Annual general meeting in Hong Kong preceded by IFB and IVS meetings in the two days prior.
> SEE ALL meetings information
Ethics, Standards and Professional Practice

Every member of the Appraisal Institute agrees to conduct his or her professional activities in accordance with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. In addition, the Appraisal Institute has developed a sophisticated peer review system through which it enforces its Code of Professional Ethics and Standards of Professional Appraisal Practice. Violations of the Code of Ethics or Standards can result in remedial or disciplinary actions.

Ethics and Standards Documents
- Preamble
- Standards of Professional Appraisal Practice
- Code of Professional Ethics

Professional Practice Documents & Other Member Resources
- Sample Agreements for Services
- Sample Certification Statements
- Use of Designations, Emblems, Logos, and References to Membership
- Ask a Professional Practice Question
- Privacy Issues for Appraisers
- Use of Discounted Sales
- Redressing, Reassigning, Reappraising, Dos and Don’ts

Enforcement Procedures for Violations
- How to File a Complaint
- Enforcement Procedures
- Statistics and Published Disciplinary Actions
- Volunteer Opportunities in Peer Review

** This resource is for Appraisal Institute Members only; membership verification and/or login required.

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Useful Links and Information

Appraisal Standards Board of the Appraisal Foundation - Uniform Standards of Professional Appraisal Practice (USPAP)
International Valuation Standards Committee - International Valuation Standards
1981 The International Assets Valuation Standards Committee (TIAVSC) formed;

- Initial membership represented real estate institutes in about 20 countries;

- 1985 – first set of standards agreed and published;

- 1994 – named changed to IVSC and definition of Market Value agreed.

- 2000 – IVSC commenced “standards project” to broaden scope of standards;
Founding and Development of IVSC - 2

- Historically real estate but growing interest from business valuers and other disciplines;

- In early 00s guidance produced for plant & equipment, business and intangible assets;


54 countries represented by 60 institutes on IVSC.
Critical Review Group

- 2006 group formed: objective – improve standards to meet evolving market requirements.
- 2007 report published for public comment.

- There was a need for the standards to address the valuation of financial instruments;
- Should be principles for valuation practice for valuers and users of valuations, not a rulebook for valuers.
Board of Trustees appointed by the Council. Responsible for the strategic direction and funding of the IVSC

Standards Board appointed by the Trustees. Autonomy over its agenda and the creation and revision of standards

Professional Board appointed by the Trustees to assist in the development of high quality practices by the world’s valuers and development of the profession in developing countries

2008 - Restructure
International Valuation Standards Council

- Board of Trustees
- Valuation Standards Board
- Valuation Practice Board
Chair – Michele Prada.

- Former Chairman of the Autorité des Marchés Financiers
- Former Chairman of the Commission des Opérations de Bourse (C.O.B)
- Member of the Financial Crisis Advisory Group created by the IASB & FASB to consider financial reporting issues arising from the global financial crisis.
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- Simon Landy (Thailand), Real Property
- Siu Yu Nova Chan (China) Business Valuation.
Objectives of International Valuation Standards

- PROTECT THE PUBLIC INTEREST (i.e., investors, taxpayers)
- Promote consistency of approaches
- Position valuers to perform high quality work
- Develop common terminology
- Establish a framework for delivering valuations
- Provide transparency
The IVSC’s Standard Setting Process

• Needs are identified through research and public consultation

• Proposed standards are debated at open board meetings

• Comments are solicited through a public exposure process

• New and revised standards are periodically published and posted on the IVSC’s website
Current adoption of IVS

- Adopted as national standards, for example Romania, South Africa, Turkey
- Adopted as national standards with amendments only to meet requirements of national legislation – Australia, New Zealand
- Professional organisations adopting part or all of IVS for their members:
  - Working relationship with TAF, IASB, IFAC and FASB
Current adoption of IVS

IVS accepted by regulators and other organisations, including:

• Hong Kong Securities and Futures Commission
• UK Financial Services Authority
• US National Council of Real Estate Investment Fiduciaries
• European Public Real Estate Association
• European Association for Investors in Non-listed Real Estate Vehicles
• Securities and Exchange Board of India
• IVS used in Deloitte’s IFRS Model Financial Statements
IVS Revision Process

- Market factors beginning in 2008 were catalysts for this project
- Exposure draft published June 2010.
- Comment period closed September 3, 2010
- 52 comment letters received and reviewed
- Three global roundtables (NY, Hong Kong, London) (November 2010)
IVS 9th Edition

- Board Approved in March 2011

- Published in July 2011


- Available: www.ivsc.org
Changes

- Significant changes in style and format (over 400 pages reduced to 125)
- Eliminate repetition
- Eliminate Methodology (Cost Approach & DCF)
- Eliminate Code of Ethics (PB to establish model Code of Ethics)
- Eliminate Glossary (Represented 25% of 8th edition; many not used in valuation or definition no different from common dictionary)
- But, fundamental principles unchanged from previous editions
- Clarified: assets and liabilities
IVS 9th Edition - Structure

- IVS Definitions
- IVS Framework
- 11 Standards (standards & guidance):
  - 3 General Standards
  - 6 Asset Standards
  - 2 Application Standards
Definitions: 20 words or phrases that have specific meaning in context of the standards.
IVS 9th Edition - Framework

Describes principles and concepts used in applying the standards. Topics covered include:

- Independence, Objectivity, Competence
- Price, Cost and Value
- Markets, Market Activity and Market Participants
- Valuation Bases (type of value – i.e.: market value)
- Additional Assumptions and Special Assumptions
- Valuation Approaches (Market, Income, Cost)
IVS 100 series – General Standards

Apply to all asset types and all valuation applications.

- IVS - 101 Scope of Work
- IVS 102 – Implementation
- IVS 103 - Reporting
Who is the valuer;
Who is client/intended users
What is purpose of valuation
Identify asset or liability to be valued;
What is basis of value;
What is valuation date
What is extent of investigation
What is nature & source of information to be relied upon
What assumptions/special assumptions
Restrictions on use/distribution or publication
Confirmation that the valuation will be in compliance with IVS.
Confirmation of report to be provided.
Matters that have to be done or considered in conduct of valuation

- Investigations appropriate for purpose of valuation;
- Consider which valuation approach(es) is appropriate;
- Valuation record to be kept: (valuation approaches and methods, all calculations, key inputs, investigations, analyses, assumptions and special assumptions.)
Purpose of valuation, complexity of asset and user’s requirements determine level of detail appropriate.

Format & Content should be agreed to as part of Scope of Work.

Identification of valuer & signature; identification of client & any other intended users

Purpose of valuation

Identification of asset being valued

Basis of value.

Valuation date

Extent of investigation

Nature and source of information relied upon

Assumptions & special assumptions

Restrictions on use, distribution or publication

Confirmation that Scope of Work followed. (Departure)

Valuation approach & reasoning

Amount of the valuation

Date of Valuation Report

Valuation number
IVS 200 series - Asset Standards

Separate Asset Standards for:

- IVS 200 - Businesses and Business Interests
- IVS 210 - Intangible Assets
- IVS 220 - Plant and Equipment
- IVS 230 - Real Property
  - Historic Property
- IVS 233 - Investment Property under Construction
- IVS 250 - Financial Instruments

Standard (additional to General Standards) & Commentary (additional background information, common valuation approaches and methods)
IVS 230 – Real property interests

- Scope of Work
- Commentary:
  - Types of Real Property Interests
  - Rent
  - Valuation Approaches
    - Market Approach
    - Income Approach
    - Cost Approach
IVS 300 series - Application Standards

Separate Asset Standards for:

- IVS 300 - Valuations for Financial Reporting
  - Valuations of Property, Plant & Equipment in the Public Sector
- IVS 310 – Valuations of Property Interests for Secured Lending

Standard (additional to General Standards) & Guidance (common requirements for each application and typical valuation procedures)
IVS 300 Valuations for Financial Reporting:

Standard:
Sets out additional requirements for this type of valuation. Applicable to IFRS but also other accounting standards.

Guidance:
Provides guidance on main purposes for which valuations are required under IFRS.

Confirms that for most purposes IFRS “Fair Value” gives the same result as IVS Market Value.

Annexe for Property, Plant and Equipment in Public Sector.
IVS 300 series - Application Standards

IVS 310 Valuations of Real Property for Secured Lending:

Standard:
Additional requirements, eg specific disclosure of any material involvement with borrower, market value is default basis.

Guidance:
Typical additional information lender can reasonably expect on proposed security to aid proper risk assessment.
IVSC Work plan – Standards Board

- Valuation Uncertainty: guidance & possible standards amendment (working group to be formed)
- Possible new Standards:
  - Extractive Industries (working group to be formed)
  - Forestry (working group to be formed)
  - Liabilities (working group to be formed)
- Trade Related Property (working group to be formed)
- Joint with Professional Board:
  - Financial instruments valuation methods
  - Credit Valuation Adjustments
  - Glossary (being developed)
  - FAQs (being developed)
IVSC Work plan – Professional Board

- Model Code of Ethics (exposure period closes August 31, 2011)
- Professional Valuer – identify educational and training attributes of a professional valuer
- Technical Information Papers in preparation:
  - Cost Approach
  - Discounted Cash Flow
  - Control Premiums
  - Customer Relationships
  - Intangible Assets
  - Contributory Asset Charges
  - Fairness Opinions
  - Financial Instrument Guidance
Blinding Flashes of the Obvious...

- IVS is different from USPAP
- Rome wasn’t built in a day.
- To cover every type of asset & liability in the entire world, global standards cannot be as specific as domestic ones.
- Economic principles are the same everywhere.
Observations - organization

**USPAP**
- Definitions
- Preamble
- Ethics Rule
- Competency
- SOW
- JE Rule
- SR 1 – 10
  - Highly similar
  - SR develop vs. SR
  Communicate.

**IVS**
- Definitions
- Framework
- IVS 101 – SOW
- IVS 102 – Implementation
- IVS 103 – Reporting
- 6 asset-specific standards
  - Business, Real Property, etc.
- 2 application-specific standards
  - VFR
  - Lending on real property
Observations – Definitions

- Fair Value – IVS definition differs from IFRS.
- “Market Value: the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgably, prudently and without compulsion.”
- Special purchaser – buyer for whom asset has special value.
- Special Value – value to a specific purchaser.
Observations – IVS 101 SOW

- Addresses both development and communication of value estimate.
- Notes that bases of value recognized by IVS (in Framework), but other bases of value may be used.
- SOW must be in writing.
- Must revise SOW if needed for a credible valuation result.
- Other Asset Standards & Application Standards may contain additional specific SOW requirements.
- No test of acceptability.
Observations – IVS 101 SOW, continued

- Confirmation of IVS conformance required.
- If purpose of valuation requires departure, that shall be identified together with justification. Departure not justified if valuation is misleading.
- SOW to be included in report.
Observations – IVS 102

Implementation

• Investigations must be adequate for basis of value and intended use.
• Sufficient evidence to ensure valuation is properly supported.
• A record shall be kept of work done during the valuation process for a reasonable period considering any regulatory or legal requirements.
• Other Asset Standards & Application Standards may contain additional specific reporting requirements.
Observations – IVS 103 Reporting

- No prescribed report formats (self contained, summary or restricted).
- Does not address verbal reports.
- Communication necessary for proper understanding by client and intended users.
- Include clear & accurate descriptions of: valuer, asset, SOW, intended user, basis of value, assumptions, material uncertainty or limiting conditions, etc., etc.
- Other Asset Standards & Application Standards may contain additional specific reporting requirements.