

Session 2

Overview of International Valuation Standards (IVS)

International Valuation Standards Council (IVSC)

- ▶ IVSC is an independent, not-for-profit organisation committed to:
 - advancing quality in the valuation profession
 - to build confidence and public trust
 - by producing standards and securing their universal adoption and implementation across the world.
 - International Valuation Standards (IVSs) are standards for undertaking valuation assignments using
 - generally recognised concepts and principles that promote transparency and consistency in valuation practice.

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- ▶ The IVS will do one or more of the following:
 - identify or develop globally accepted principles and definitions,
 - identify and promulgate considerations for the undertaking of valuation assignments and the reporting of valuations,
 - identify specific matters that require consideration and methods commonly used for valuing different types of *assets* or liabilities.

Arrangement of IVS

The IVS Framework

- ▶ This serves as a preamble to the IVS.
- ▶ The IVS Framework consists of general principles for valuers following the IVS regarding objectivity, judgement, competence and acceptable departures from the IVS.
- ▶ The IVS Framework does not include any procedural requirements.

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IVS General Standards

- ▶ These set forth requirements for the conduct of all valuation assignments including:
 - establishing the terms of a valuation engagement,
 - bases of value,
 - Valuation approaches and methods, and
 - Valuation reporting.
- ▶ They are designed to be applicable to valuations of all types of *assets and for any valuation purpose.*

IVS 101 Scope of Work (terms of engagement)

A **scope of work**: describes the fundamental terms of a valuation engagement, such as

- the *asset(s)* being valued,
- the *purpose of the valuation*
- *the responsibilities of parties* involved in the valuation
- valuations performed by *valuers for their own employers* (“*in-house* valuations”),
- valuations performed by *valuers for clients other than their employers* (“*third-party* valuations”), and
- valuation reviews where the reviewer *may not be required to provide their own* opinion of value.

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General Requirements

- Identity of the *valuer*:
 - individual, group of individuals or a firm.
 - *material assistance from others in relation to any aspect of the assignment*
- Identity of the *client(s) (if any)*: *Confirmation of those for whom the valuation assignment is being produced is important when determining the form and content of the report to ensure that it contains information relevant to their needs.*

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▶ Purpose of the valuation

- The purpose for which the valuation assignment is being prepared shall be clearly stated.
- The purpose of a valuation will determine the *basis/bases of value*.
- It is important that valuation advice is not used out of context or for purposes for which it is not intended.

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▶ Basis of value

- The valuation basis must be appropriate for the purpose.
- The source of the definition of any *basis of value used shall be cited* or the basis explained.
- This requirement is not applicable to a *valuation review where no opinion of value is to be provided* or no comment is required on the basis of value used.

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▶ Valuation date

- The *valuation date* may be different from the date on which the valuation report is to be issued or the date on which investigations are to be undertaken or completed.
- Where appropriate these dates should be clearly distinguished.

IVS 102 Investigations and Compliance

▶ Extent of investigation

- Sufficient evidence *must be assembled by means such as:*
 - *inspection,*
 - *inquiry,*
 - *computation and analysis , and*
 - *professional judgment*
- Any limitations or restrictions on the inspection, inquiry and analysis for the purpose of the valuation assignment shall be set out in the scope of work.

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- information supplied by a party other than the *valuer, may* require, investigation and/or corroboration.
 - In cases where credibility or reliability of information supplied cannot be supported, such information *should not be used*.
- **Assumptions and special assumptions**
 - All assumptions and any *special assumptions that are to be made* in the conduct and reporting of the valuation assignment shall be recorded.

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- ▶ **Restrictions on use, distribution or publication**
 - Where it is necessary or desirable to restrict the use of the valuation advice or those relying upon it, this shall be recorded.
 - If matters are identified that are likely to cause the valuation advice to be qualified, this shall also be recorded.

IVS 103 Reporting

- ▶ To be covered later

IVS 104 Bases of Value

- ▶ **Bases of value (sometimes called standards of value):**
 - describe the fundamental premises/ assumption on which the reported values will be based.
 - Eg: the nature of the hypothetical transaction,
 - the relationship and motivation of the parties and
 - the extent to which the asset is exposed to the market.
 - **The appropriate basis will vary depending on the purpose of the valuation, the nature of the asset and the availability of data.**

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- ▶ IVS-defined bases of value:
 - Market Value (section 30 of IVS 2017),
 - Market Rent (section 40 of IVS 2017),
 - Equitable Value (section 50) of IVS 2017,
 - Investment Value/Worth (section 60 of IVS 2017),
 - Synergistic Value (section 70 of IVS 2017), and
 - Liquidation Value (section 80 of IVS 2017).
- ▶ Other bases of value (non-exhaustive list):
- ▶ Fair Value (International Financial Reporting Standards) (section 90),
- ▶ Fair Market Value (United States Internal Revenue Service)
- ▶ (section 110 of IVS 2017),

IVS 105 Valuation Approaches and Methods

- ▶ To be discussed later

IVS Asset Standards

- ▶ The Asset Standards include requirements and a commentary.
- ▶ The requirements set forth any additions to or modifications of the requirements in the General Standards together with illustrations of how the principles in the General Standards are generally applied to that class of asset.
- ▶ The commentary provides background information on the characteristics of each asset type that influence value and identifies the common valuation approaches and methods used.

IVS Asset Standards

- ▶ **IVS 200 Businesses and Business Interests**
- ▶ **IVS 210 Intangible Assets**
- ▶ **IVS 300 Plant and Equipment**
- ▶ **IVS 400 Real Property Interests**
- ▶ **IVS 410 Development Property**
- ▶ **IVS 500 Financial Instruments**