



Exposure Draft of 28 April 2023

Proposed changes to International Valuation Standards

Response by Valuology

Answers to Questions 4 -5

4. IVS 104 Data and Inputs has been added to the General Standards. Do you agree that the requirements for data and inputs are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?

No. while we welcome the creation of a separate set of mandatory principles for the selection and use of valuation inputs used in a valuation, we do not agree that as drafted these are clear. They only specify what one party to the valuation process must do, even though inputs may be provided by others involved in the process. We also consider that defining a “Service Organisation” is unnecessary and only serves to over complicate the standard, which will lead to divergent interpretations. The use of third parties in the valuation processes is already covered in the standards. The proposal that “the valuer” is responsible for ensuring a Service Organisation’s capabilities meet the requirements of the intended use and must document their capabilities is not only unreasonable but creates potential for conflict with IVS 101 as the Scope of Work sets out the extent of the investigations and enquiries that will be made including any limitations. We explain more in our detailed Comments attached.

5. The General Standards now include specific requirements for consideration of ESG factors within IVS 101 Scope of Work, IVS 103 Valuation Approaches and IVS 106 Documentation and Reporting. In addition, an ESG Appendix has been included in IVS 104 Data and Inputs. Do you agree that the requirements and framework for ESG considerations are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?

Yes. ESG factors are obviously having an increasing effect on how parties price or value assets and therefore may need to be considered in many types of valuation. However, we again point out the use of “must” in supporting information is inappropriate, as are references to “the valuer”.



Comments on IVS 103 Valuation Approaches

General Comment

We understand that the purpose of the Appendices is to simplify the main standards. Additional information that supports the application of each requirement has been moved into an Appendix at the end of each IVS. Although it appears that a lot of explanation about different approaches and methods has been moved, we still consider there too much exposition interspersed with the mandatory requirements.

10. Introduction

10.5 The second sentence “*However, valuers should consider the use of multiple approaches and methods and more than one valuation approach or method should be considered...*” contradicts the first. In our experience some regard this as not just repetitive but also because of the meaning IVSC ascribe to “should” to effectively mandate the use of more than one method in the majority of cases. This is especially the case with real estate where most inputs are not directly observable. This is resulting in weight being given to alternative methods that would not be used by market participants in determining what they would bid or accept, and making unjustified adjustments to the figure arrived at using the method that the market would use. We also feel that the current paragraph is unnecessarily convoluted. In particular, we consider “accuracy” should not be used to determine whether more than one method is used because this is this is undefinable and subjective. Since very few valuations will be 100% “accurate” this may be being interpreted as meaning multiple methods are always required. We suggest this is paragraph is reworded as follows:

Normally only one method is required, and this should¹ be the one that is most likely to be used by market participants in determining the price that they would be willing to agree under the conditions specified by the bases of value. However, the use of more than one valuation approach or method should be considered if there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. Where different methods produce materially different results, careful consideration is required to determine which is the most relevant in the circumstances. Averaging the results is normally inappropriate. The process of analysing and reconciling the differing values into a single conclusion should be described in the report.²

10.7 This paragraph is simply repeating 10.4 in a different way. Alternative statements of the actions required in the same circumstances should be avoided in standard setting. This should be deleted. If 10.4 is redrafted in less ambiguous manner as suggested above, it should cover this issue adequately.

Subject to the references to “the Valuer” being removed and just the required or expected action described, (see our comment on its use in the Glossary), the Current Section 10 contains all the principles that should be mandatory for the selection and use of different approaches and methods. This should therefore be the limit of the IVS Standard. Sections 20-40 that provide generic descriptions of the three approaches should contain not actions that are mandatory. They are background information that may not always be applicable as they cannot cover every method or situation that may be appropriate. These sections should be removed to the Appendix, and any

¹ We use should with its normal meaning not the current definition in the Glossary – see comments on Glossary.

² Although see our comments on IVS 106



wording that implies that “the valuer” must do something changed to just indicate the expected action needed to apply the method being discussed.

Comments on IVS 104 Data and Inputs

Since the current IVS 102 has become a curious combination of principles for the valuation process and compliance requirements for the overall standards we welcome its discontinuation and introduction of a new standard specifically dealing with the required principles for data and inputs.

Subject to the following we support the introduction of this standard:

- Removing all references to “the valuer” and replacing with a description of the required action. The IVS are supposed to establish “...*appropriate global requirements for valuations that equally apply to all parties involved in the process*³ ...” and should not be addressed to just one of those parties.
- We question the need for **20 Use of Specialist or Service Organisation**, or at least how this interacts with other provisions in the standards to be clarified. IVS 101 20.1 requires the person or entity responsible for the valuation to possess the necessary qualifications, ability and experience and to be identified in the Scope of Work, whether employed or contracted. This already requires any material assistance that will be provided by any entity outside of the valuation provider’s organisation to be disclosed. Introducing another defined entity that provides inputs or data opens up the potential for confusion and conflict and is an unnecessary complication. Better would be an addendum to IVS 101 explaining that “ability” includes access to all necessary inputs and data and that any third-party providers of such data that will provide material inputs should be identified.
- According to the Glossary, a “Service Organisation” includes entities providing market data, credit ratings or other services to support the valuation. Is it really appropriate or necessary to say it is “acceptable” to use a credit rating agency to establish the rating of a lessee or other counter-party? Surely it is expected. If the valuation provider was experienced in the type of valuation involving the valuations of income producing assets they would know that counterparty strength is a fundamental input. Further, we do not consider it realistic or reasonable to require the valuation provider to ensure a Service Organisation’s capabilities meet the requirements of the intended use and must document their capabilities. This suggests that checks and records are required on the capability of global providers such as Dun & Bradstreet or Standard & Poor for every valuation that uses their ratings. This is inappropriate because in most cases the valuation should be based on the market’s perception of the counterparty which will be based on the available published data, not to prove whether that perception is correct or not. All that is required is for the source of all data or inputs relied on to be recorded and, where appropriate, included in the report. This is already adequately covered by **50 Input Documentation**.

³ IVS Foreword



IVS 104 Data and Inputs related to Environmental, Social and Governance factors: Appendix

We have no comments on this Appendix, other than the use of “must” in supporting information such as this should be avoided, along with the repeated references to “the valuer”.