Comments on IVS Foreword and Glossary

Foreword

No question is invited on the Foreword, although this not only introduces the IVSC and the IVS but also makes statements about applicability of the standards. The relevant words are:

> *IVS are principle-based and apply to everyone in the valuation process for all assets and liabilities no matter where they exist around the globe.*
>
> *IVS apply to a range of valuations, including:*
>
> *(a) valuations performed by valuers for their own employers (employed);*
>
> *(b) valuations performed by valuers for clients other than their employers (engaged).*
>
> *IVS can also apply to all valuations which assert compliance.*

These words suggest a serious misunderstanding of the valuable role that IVSC and the IVS should be playing and the contribution it can make to promoting greater consistency of practice. The role of the IVSC should be to reach a consensus between those who require assets to be valued and those who provide them. In order to do this credibly it needs to be seen to be independent of both. Its role should be solely that of a standards creator. The IVSC has no role in enforcing or policing the use or application of the standards.

The IVSC should avoid words which misrepresent its role and, just as importantly, what it can achieve. Valuation is a function that is often the subject of legislation or regulation in different jurisdictions. It is for governments, government appointed regulators, or professional bodies to decide whether to adopt the IVS and when they should apply. The current Foreword totally ignores this reality, and to have this as an opening statement undermines the accessibility and credibility of everything that follows.

In order to make the IVS as widely adopted as possible the IVSC also needs to ensure that the elements of the standards designed for mandatory application are broad principles that are capable of wide application across as many markets and jurisdictions as possible.

More suitable wording would be:

> *IVS are principles-based and designed to be applicable to any asset or liability, subject only to any specific law or regulation that applies in a relevant jurisdiction. The use of the IVS can be mandated by either:*
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> *(a) a body having legal jurisdiction over the purpose for which the valuation is required;*
>
> *(b) a valuation professional organisation requiring their use by members for specific purposes:*
>
> *(c) by agreement between the party requiring the valuation and a valuation provider.*

Glossary

When the directors of Valuology were involved with the IVSC we were aware of significant feedback that the early editions of the IVS had a glossary that was too large, and which unnecessarily narrowed the meaning of certain words. A consequence of this was to create drafting problems elsewhere in the standards when the best words to use had already been defined in a restricted way elsewhere in the standards, meaning that alternative words had to be used that compromised clarity. Some of the definitions also created problems in translation into languages other than English where literal translations of a defined term made no sense in the context of the translated documents.

In 2010 the Standards Board took the decision that since its objective was to produce standards which were "principles based", legalistic definitions of words and phrases used were generally incompatible with this objective and should be used only where strictly necessary. It accordingly decided the Glossary in the standards should only include words or phrases that met both the following criteria:

a. a word or phrase is used consistently in the standards in a special or restricted way that limits or varies from its normal dictionary definition, and
b. the word or phrase was used in more than one standard. If it appeared in only one standard the special or restricted definition would apply only to that standard.

This had the effect of reducing the Glossary to about twenty words or phrases.

Over recent editions of the IVS the Glossary has once again started to expand. Although the claimed objective remains that the IVS should be principles based, the previous Glossary criteria have been ignored.

Among the recent inclusions which we believe fail the above test are *client, cost, jurisdiction, price, must, significant,* and *specialist* all of which are used in accordance with their meaning in most dictionaries. Terms such as *discount rate, intended user, professional judgement* and *service organisation* also are not used in any way that differs from how they would be understood by most English speakers, so why are they included? Or looked at another way, why are all the other nouns, verbs and adjectives used in the IVS not defined in the Glossary?

We highlight the following definitions which we believe are inappropriate and need reconsideration or removal:

Investment Value and Worth: These are currently included with the same definition i.e. *"The value of an asset to the owner or a prospective owner given individual investment or operational objectives."* Both these are problematic. "Worth" was a word coined by the RICS in the 90s to describe an entity specific concept but when its inclusion in the IVS was proposed it became clear that in some major languages "value" and "worth" translated to exactly the same word so the distinction was lost. The alternative of Investment Value, commonly used to describe the concept in the USA, was introduced as an alternative, but is also clear that this causes confusion when the Market Value of an investment is being discussed, which most lay clients would understand as being an investment value. It is also unhelpful to have two definitions for the same thing. Why not use the term for the concept in IFRS 13, i.e. "entity specific value" to replace both? This has none of the disadvantages of the two definitions currently used in the IVS and the advantage that it has been promulgated since the 2000's by the accounting standard setters and therefore is a widely understood concept in business circles in different languages.

Arguably because the three words clearly explain what it is it does not even need to be in the Glossary with another explanatory definition.

Should: According to the presentations made by the IVSC when this consultation draft was launched, one of the main objectives for the rewrite was to improve the distinction between standards designed to be mandatory for any adopter and supporting guidance on applying those principles to specific asset types or valuation purposes. We applaud this objective, which has been a recurring theme ever since the first comprehensive set of IVS was published in 2000. Fundamentally, if standards are to be "principles based" they must allow for different ways of complying with those principles, otherwise they are just a set of rules which will only be adopted if they exactly fit the problem the prospective adopter is trying to solve.

Successive editions of the IVS have all explored ways of making this distinction clear although reaching a consensus on how this could be achieved was a continuing challenge. Some argue that IVS should contain no guidance at all and others that more subjects should be covered by non-mandatory or even educational material.

A major step backwards was made in IVS 2017 when the word "should" was defined in the Glossary for the first time. "Should" had previously been used to describe actions that may be good practice in many situations, and therefore must be considered, but which were not intended to be mandatory. The definition used has changed the normally understood meaning of should[1] by saying it refers to an action which is "presumptively mandatory" and furthermore that it is something that <u>must</u> be done unless the "valuer" can demonstrate an alternative is more appropriate. This effectively has removed the distinction between guidance and mandatory content. It also contradicts the statement in IVS 100 60.1 that *"Certain aspects of IVS do not direct or mandate any particular course of action but provide fundamental principles and concepts that must be considered in undertaking a valuation."*

"Should" is used throughout the proposed new standards. As defined at present it negates any distinction between mandatory and non-mandatory provisions in the standards. This acts as a barrier to adoption where the excessive prescription conflicts with established practice. If the IVSC wishes its standards to be relevant and applicable to the wide spectrum of valuations they purport to cover across as many different markets and jurisdictions as possible there must be a clear distinction made between "must" and "should."

We recommend that the new standards make it clear that "must" is used only where an action is mandatory in order to comply with the IVS (subject only to the jurisdictional exception allowed in IVS 100 60.3) but "should" is used where the action indicated is normally expected but where an alternative may be more appropriate to meet the objective of a mandatory principle. There should be no conditions or limitations applied on the use of the most appropriate alternative. As a global, principles based standard setter the IVSC cannot expect to know or police the detail of every valuation procedure or technique used in every different market around the world. To

[1] Examples:
Cambridge Dictionary: *used to show when something is likely or expected.*
Britannica Dictionary: *used to say or suggest that something is the proper, reasonable, or best thing to do.*
Merriam Webster: *used in auxiliary function to express what is probable or expected*.
Macmillan Dictionary: *used for talking about what is right, sensible, or correct*
Chambers Dictionary*: past participle of shall. Shall = may be expected to, may chance to,*
None of the above suggest that "should" can be interpreted as "presumptively mandatory"

pretend otherwise undermines the credibility and usability of the standards. It follows that if the definition of "should" is retained in the Glossary then the current definition must be changed.

The Valuer: Early editions of the IVS often addressed actions that "the valuer" must or should undertake. This led to resistance from some of the major professional bodies that had supported the IVSC from its inception who argued that regulating what their valuer members did and how they behaved was their remit. If they were to consider adopting the IVS instead of continuing to publish their own standards it was important that the IVS was only a principles based specification for the delivery of a valuation using widely agreed terms and procedures. It should not attempt to present the IVSC as having authority over those who provide valuations. Because of this, the editions of the standards that were effective from 2011 and 2103 and the edition approved by the board for publication in 2015 after full consultation, removed most references to "the valuer" and addressed the requirement rather than who did it. Instead, the Framework simply stated that it was a fundamental expectation that:

- when applying the standard appropriate controls were in place to ensure the necessary degree of objectivity and freedom from bias, and
- valuations were prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject and the market in which it trades.

Who met these criteria and how they were policed or enforced was a matter for those adopting the IVS, whether that be a professional body, government agency or other adopter. An analogy can be drawn between the role of the IASB and the IVSC. The IASB sets the standards for how financial statements should be prepared but who prepares those statements and what qualifications or ethical rules they must follow are the remit of others. Nowhere in the IFRS will any reference to "the accountant" be found notwithstanding that the standards are written by accountants and used mainly by accountants.

For reasons unexplained, prescriptions as to what "The Valuer" can or cannot do were reintroduced into the 2017 and subsequent IVS. This is not only unnecessary but is contrary to the MoU between the IVSC and many of the major professional bodies on their future adoption of the IVS in 2014, which recognised the complementary roles that each had in improving valuation practice. To make the IVS as widely accessible and applicable as possible it should revert to simply describing the actions required to comply with the standards. The definition of "The Valuer" should be removed and the IVS made neutral as who takes the actions it prescribes beyond the broad expectations of objectivity and experience that used to appear in the Framework.

Valuation: This is a redundant definition in the Glossary. Valuation, value, or synonyms thereof, are widely used and have different meanings in different contexts throughout not only the business world but also by individuals. The IVSC cannot hope to capture the word and redefine valuation as applying only to valuations that are compliant with its standards. The whole purpose of the standards should be to define how a valuation complies with the IVS. Defining valuation serves no purpose. Indeed, we are aware of difficulties arising from people thinking that by using a synonym for valuation when asked to provide one they can avoid the need to comply with "valuation standards". While it is not within the IVSC's remit to say when the IVS apply, bodies that do adopt them find they have to be clear as the purpose for which the valuation is required, not on whether it the figure provided is a "valuation", "appraisal", "price estimate", "assessment" or whatever other word is used to describe it.