



The IVSC have asked no specific questions on either the proposed IVS 101 or IVS 102. We have submitted the comments below:

Comments on IVS 101 Scope of Work

10 Introduction

10.1 explains what a Scope of Work (SoW) is. Why over complicate it by the words in brackets (sometimes referred to...) The IVS should choose a single term and stick to it. In any event we are aware that many consider the SoW and Terms of Engagement (ToE) to be different things. ToE set out the commercial and legal terms of the relationship between the commissioning party and the valuation provider. It can apply to a one-off valuation instruction or many valuations over the duration of the contract. The SoW is specific to each valuation and describes the intended use, extent of investigations, information that will be relied on, the limitations that will apply and anything else specific to that assignment.

10.2 is redundant as valuation reviews are covered in 10.1 and 10.3.

20 Valuation Requirements

- (f) Specifying the currency should only be required if there is scope for doubt as to the applicable currency, e.g. the asset is located in a different currency area from the client. In the majority of cases, it is an unnecessary complication.
- (i) The words “or special assumptions” should be removed from the final sentence. Special assumptions are dealt with in (k). The difference between an assumption and special assumption is frequently misunderstood and a large part of the problem is the way these are often conjoined and discussed together in the standards. An assumption is simply something which it is reasonable to accept as true without specific investigation and verification as part of the valuation. Assumptions are a necessary part of describing the limits that will apply to the investigations that will be undertaken. Without such limits and associated assumptions, most valuations would be difficult to finish in a timely manner and would be much more expensive. In contrast, a “special assumption” changes the facts pertaining on the valuation date, and therefore relate to the basis of value provided, not the investigations.
- (k) Although we have indicated earlier that the Glossary contains words or phrases that do not need specific definition, “special assumption” would benefit from inclusion in the Glossary with the following definition to clearly distinguish it from “assumptions”. We suggest the following:

An assumption that either assumes facts that differ from those existing on the valuation date or that would not be made by a typical market participant in a transaction on the valuation date.

To make it clear that a special assumption is something that alters reality and therefore means that its conditions have to be met in order for the value reported to be valid, it would be better to position it in the list of SoW items after (h) -the basis of value to be used - rather than after the investigations and sources of information that will be made. This will help emphasise that it has nothing to do with limitations on the extent of investigations undertaken but is a fundamental condition of the value reported.



30 Valuation Reviews

In 30.2 (g) special assumptions are again conjoined with limiting conditions which is inappropriate. Since providing a valuation opinion is not in the list for a review, special assumptions should be included as part of the agreed scope. We are aware that valuation reviews often require the reviewer to comment on the reasonableness or otherwise of special assumptions that were made in arriving at the original valuation, so it is important to include them.

Comments on IVS 102 Bases of Value

Overall Comment

We remain of the view that a mandatory standard on bases of value, first introduced in 2017, is inappropriate.

As explained in our comments on the Framework, a list of different bases that may be used and their definitions is important. Indeed, agreeing a common definition and application framework for Market Value was probably the first major achievement of the IVSC over thirty years ago and remains one of the most important contributions it has made to promoting global valuation consistency. However, the IVS cannot dictate what valuation basis or definition has to be used in every valuation. Even a standard setter operating in a single market in one jurisdiction would find this difficult. For a set of standards intended for global application across many asset and liability types it is impossible.

All the IVS can, and should, make mandatory is that:

- The basis used must be appropriate for the intended use of the valuation. This basis may be determined by a statute, regulation or legal contract governing the purpose of the valuation, or be one that is customary in the specific market.
- The definition of the basis used must be provided.
- If any of the bases defined in the IVS, i.e. Market Value, Market Rent, Entity Specific Value, Equitable Value and Synergistic Value are used, the definition provided must be that in the IVS and they must be applied in accordance with any guidance issued by IVSC.

Whether this warrants a separate standard is doubtful. Since the IVS 101 requires the basis used, its source and definition to be cited in the SoW this largely covers this point anyway.

The IVS should limit itself to defining valuation bases for the following types of value:

- Market Value
- Market Rent
- Entity Specific Value
- Equitable Value
- Synergistic Value

These all are based on different hypotheses, i.e. whether the value is to one specific party, between two specific parties or between any two unrelated parties.



These are all defined in IVS at present and we agree with the definitions but not with their presentation within a mandatory standard. Along with supporting material, such as the “Conceptual Framework” for Market Value, these definitions should form part of the IVS Framework, as although the use of an appropriate basis and its definition should be a mandatory requirement, the use of any one of these “IVS” bases cannot be made mandatory for every valuation if the IVS are to be widely adopted and used.

Liquidation Value

We do not consider “Liquidation Value” is either properly defined or that it is a separate basis. In some countries “Liquidation” in business terms means that an entity is ceasing its activity, selling its assets and settling its liabilities. A more general meaning is simply the act of turning an asset into cash. The cash that can be realised for each asset will either be Market Value, Entity Specific Value or Equitable Value, depending on the circumstances.

Liquidation of a business can be either voluntary or compulsory, the latter normally being where a court or similar body has determined that the business entity is insolvent. It is therefore inappropriate to state that a “Liquidation Value” is where the seller is compelled to sell by a specific date. Obviously, the existing owner is deemed to be selling but this is no different from Market Value. If a time limit is imposed, whether the price that can be achieved is the Market Value will depend on if this is sufficient for proper marketing. If the liquidation is voluntary there is no reason why proper marketing cannot be carried out.

This is also the default position in a compulsory liquidation because a liquidator will normally have a duty of care to all creditors or guarantors to obtain the best price possible. If there are circumstances that mean that a sale without proper marketing is in the best interests of the creditors this will reflect the specific circumstances of the entity in liquidation. This may well be less than Market Value but it is an Entity Specific Value. This situation is sometimes referred to as a “forced sale”.

Liquidation Value is not therefore a distinct basis of value and should not be presented as such. Indeed, including a definition based on a compulsion to sell by a certain date contradicts the statement in the current IVS 104 170,1 (A 120.1 in the Exposure Draft) that a “forced sale” is a description of the situation under which the exchange takes place, not a distinct basis of value.

Other reasons for removing Liquidation Value from the list of bases are:

- Its inclusion undermines the correct application of Market Value. Our business involves critically reviewing many valuations across different jurisdictions, either as compliance auditors for the valuation provider or in assisting financial regulators. In the current economic downturn, we are once again seeing many valuation providers and users interpreting Market Value as something that can only be determined from evidence of actual sales. Because activity has significantly reduced in many markets, arguments are being made that without evidence of current or recent transactions there are no grounds to write down Market Values based on historic evidence. Because they would not voluntarily sell in the current market any estimate of the price they could achieve must be a “liquidation value”. Similar arguments were made in 2008 and 2009. This is contrary to the definition and conceptual framework for Market Value, and also the correct application of accounting Fair Value as set out in IFRS 13 or Topic 820. IVSC should be reinforcing the correct application by



highlighting the knowledge and motivation required of the hypothetical willing seller and buyer, not inventing another basis that some will see as justification for not reflecting actual market conditions on the valuation date.

- Most countries will have legislation around insolvency procedures. Consequently, words such as Liquidation or a translation thereof may be used to describe a type of insolvency procedure. However, the applicable rules as to how assets are to be sold will vary depending on the legislation in each jurisdiction. Attempting to define an appropriate valuation basis applicable in such circumstances in standards designed for global application serves no purpose.

IVS 102 Other Bases of Value: Appendix

This serves no useful purpose. As previously indicated there are very many different defined bases that a valuer may need to use depending on the type of asset or any legal or regulatory requirements for which the valuation is required. Picking out just IFRS 13 / Topic 820 Fair Value to list here when the IVS are designed to extend to valuations required for many purposes makes no sense. A few years ago we researched Market Value definitions and found over 25 on the internet alone, without digging into any statute or regulations. Fair Value is not even the only valuation basis required in financial reporting standards.

This Appendix just reinforces our view that IVS 102 is poorly conceived, and the five IVS defined bases and explanations on their application should be outside the mandatory part of the standards.

IVS 102 Premise of Value: Appendix

A premise is a proposition from which a conclusion is proved. It is a curious noun to use in the context of a random list of concepts and definitions which are not linked to any basis on which a valuation conclusion is reached. A premise without the context of the conclusion it supports is meaningless.

A90. IVS Defined Premise of Value – Highest and Best Use

Highest and best use (HABU) is a concept inherent in Market Value since both parties are deemed to be reasonably informed about the asset's actual and potential uses and will use that knowledge prudently to seek the price that is most favourable for their respective positions in the transaction. Whether HABU is premise that proves the Market Value or vice versa is a moot point. However, we recognise it is a concept frequently referenced in valuation. Rather than separate it from Market Value and call it a premise, we believe it was more usefully positioned in earlier editions of the IVS after the Market Value conceptual framework to reinforce the point that the Market Value should represent HABU.

A100. IVS Defined Premise of Value – Current Use/Existing Use

This is simply a definition of the factual circumstances of an asset being valued. It is not a premise that applies to any particular bases of value. And above all the words are used in the IVS with exactly their dictionary meaning so there is no purpose at all in labelling this a premise of value.



A110. IVS Defined Premise of Value – Orderly Liquidation

This again just recites principles inherent in Market Value using different words. They might be useful if the IVS contained guidance on the application of Market Value in different circumstances, but it doesn't, and in our view, shouldn't. In line with our earlier comments on Liquidation Value this should be removed.

A120. IVS Defined Premise of Value – Forced Sale

This is a useful and important discussion because “forced sales” can arise but the term is often misused. However, once again this is not a proposition that supports any defined basis in the IVS so it is not a premise. The statement that a forced sale is a description of the situation under which the exchange takes place, not a distinct basis of value is important, as long as it is not undermined by the continued inclusion of “Liquidation Value” in the list of bases. The problem is where should it be positioned?

Most of the discussion (paras A120.1, A120.3, A120.4 and A120.5) is about how it differs from Market Value so we consider this would be best positioned as part of the recommended non mandatory Framework following the discussion of Market Value. The exception is A120.2 which does include something that should be mandatory for any value provided on the assumption of a forced sale. Since this affects both the Scope of Work and the Report we suggest that this paragraph is repositioned in IVS 101 20 h) or k) (see our early comments regarding the need to position these together). Since the proposed IVS 106 includes a requirement to include “significant or special assumptions and/or limiting conditions” this is probably sufficient.