Susan DuRoss
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International Valuation Standards Council
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By email: contact@ivsc.org

7 October 2024

Dear Ms DuRoss,

Comments on Agenda Consultation

We are responding to the Agenda Consultation issued in July 2024. On the following pages we provide answers to the questions asked in the consultation draft. However, the strong common theme is our concern that the distinction between the standards and possible future guidance material is frequently blurred in the explanatory comments for the suggested topics.

Ever since its inception the IVSC has struggled to reconcile its role in creating and promoting a set of common principles for the delivery of valuations upon which clients and third parties may rely and the many requests it receives to opine on technical issues encountered by valuers. In 2008 the IVSC restructured to create separate Boards, one dealing solely with standards for the undertaking of a valuation instruction and one dealing solely with issuing technical guidance on how to value. The audience for the former was those with regulatory authority over valuers and those who rely on valuations. The audience for the second was the valuation profession.

In 2015 the IVSC was reorganised again with boards based on different asset types that had to handle both standards and technical guidance. Inevitably this has led to the distinction between the two functions being lost with more and more technical content, which could only ever be illustrative and incapable of being mandatory, appearing in the standards. We are pleased that some effort was made in the 2025 IVS to improve the distinction between the principles capable of being mandatory by those adopting the standards and supporting guidance, but there is still much more that needs to be done.

We believe that that the IVSC's main priority over the next couple of years should be to reconsider how its two roles should be presented to their respective audience. Government bodies, financial regulators and consumers need a simple and clear set of principles for commissioning and reporting valuations that will be relied on to ensure consistency across their financial markets. Groups of valuation professionals clearly want to debate, produce and receive guidance on solutions to technical valuation issues.

We trust you will find our responses and comments helpful. We are available to discuss any points arising with the relevant Boards if required.

Yours sincerely

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Agenda Consultation General Questions

1. Are the valuation topics described in this Agenda Consultation areas for which there could be significant improvement as compared with IVS effective 31 January 2025.

Generally, no. It would be of benefit to some of the IVSC's stakeholders to produce guidance on some of the topics listed where there is broad international consensus on what is good practice in commonly encountered scenarios. However, we cannot see that any of the matters listed require significant changes to the existing IVS. Anything IVSC produces in relation to these topics must not be designed for mandatory application but to provide professional information on commonly adopted solutions which may be useful to valuers, while recognising that these cannot apply in every case in every market or jurisdiction.

2. What is the priority of addressing each topic, from a timing point of view - within, or after two years?

Any project should take as long as is necessary to establish a consensus on matters of scope, principle and detail. It is for the board to manage the priorities but not to predetermine time limits.

3. What should be the IVSC 's next step to address each topic? For example, should the IVSC publish a Perspectives Paper, issue an exposure draft, set up a Working Group, or take some other action?

We do not understand this question. The legitimacy of anything IVSC produces depends on it following due process in its development. Our understanding is that this normally involves appointing a group of recognised experts to draft ideas for the board. If the board approves a consultation draft is prepared which is circulated as widely as possible before considering representations received and before deciding whether to develop a final paper. Is it being suggested that such a process may not be required?

4. Are there other major valuation topics not described in this Agenda Consultation that the IVSC should consider adding to its agenda?

No.

Key Topics - Questions for Respondents

Question 1.1: Do you agree that the consideration of ESG in valuation should be a key topic for the IVSC's boards? If not, why?

No. The IVSC should, of course, keep itself abreast of any international trends in ESG. However, given the significant amount of material on how different legislative and social trends are being impacted by matters that fall within the broad scope of ESG and how these in turn affect supply and demand in different markets it is difficult to see what else the IVSC can add. We cannot see any major ESG issue that has not already been subject to significant scrutiny that warrants this as being a "Key Topic" now that the principles are included in the IVS.

Question 1.2: Should IVS include additional requirements in relation to the consideration of ESG within valuations? If so, please provide further details and your reasoning.

No. The principle that valuations should take into account ESG factors as currently identified in the IVS is sufficient. Exactly how these factors impact on values is so variable between asset classes, locations and jurisdictions that it is not only impractical but also undesirable for the IVS to pretend that it can provide answers that are credible. Valuers have to reflect market trends, not try to set them.

Question 2.1: Do you agree that the use of technology in valuation should be a key topic for the IVSC's boards? If not, why?

Yes, but subject to provisos. The provision in IVS 105 that "*…the valuer must apply professional judgement and professional scepticism in the selection and use of valuation models and the application of inputs used in the valuation model"* is important. AVMs are becoming more widely used and are evolving more quickly than a body like IVSC can, or should, move. While keeping abreast of trends it should be very wary of doing anything that could be interpreted as setting any form of specification, e.g. outlining desirable criteria for a model's development and use, which a manufacturer could seize upon to claim "IVSC Compliance".

Another area which needs to be considered is the use of AI in producing reports, and if a distinction is required between composing the text output in a report based on human selected criteria and the investigations about the asset and its market which determine the appropriate valuation inputs and calculations.

Question 2.2: Should IVS include additional requirements in relation to the use of technology within valuations? If so, please provide further details and your reasoning.

This depends on what the Board recommends after investigating the issues and considering feedback on its detailed findings from its stakeholders. We are, however, sceptical as to whether the IVS could effectively keep any more detailed requirements or advice on the use of technology in valuation up to date.

Question 3.1: Do you agree that the valuation risk should be a key topic for the IVSC's boards? If not, why?

Yes. However, this agreement is dependent on the definition in the current Glossary being corrected. Valuation risk is generally recognised as the possibility of the value on a given date changing over time. It involves identifying any known unknowns in the future and how alternative outcomes could impact the value. Market participants are deemed to be knowledgeable and acting prudently so will have a view of the likely outcome of known future events, e.g. a lease expiring or an option being exercised. However, there are occasions when the intended user of the valuation needs to know the downside risk if the expected does not happen, particularly if they are a lender. This is where guidance could be useful.

Question 3.2: Should IVS include additional requirements in relation to the consideration of valuation risk within valuations? If so, please provide further details and your reasoning.

No. Whether quantifying the potential negative effect of a future event is necessary depends entirely on the use for which the client requires the valuation. The IVSC should not attempt to mandate the scope of what the client requires, only to provide supporting guidance on how valuers should deal with the issue if it is requested.

IVS Future Topic Details - Current Topics (0-2 years)

Question 4.1: Do you agree with the scope of the project as described below and the prioritisation contained in the IVS additional topics? If not, why?

We agree that the IVSC is the best placed organisation to research these topics and publish its findings. However, we are concerned at the implication in some of the topic descriptions that this research could lead to changes to or additions to the IVS. Markets are diverse. They are subject to differing legislative frameworks, data availability and established market practices. The IVSC can comment on these but cannot presume that it can enforce uniformity. Valuations reflect markets, they don't make them. Any role the IVSC plays in developing information and educational material for valuers should be kept clearly separate from the IVS which should set high level principles that can be applied across as many markets as possible.

Capital Structures	It is explained that certain stakeholders advocate the inclusion of more details in the existing standards on methods that can be used to reflect diverse interests in a company. Guidance or professional information may be useful, but this level of detail should be nowhere near the standards.
Digital Assets	The explanation refers only to cryptocurrencies, but fine art valuers are having to deal with Non-Fungible Tokens, so digital assets extend across different asset classes. While the IVSC can usefully issue guidance on emerging issues specific to such assets, the fundamental principles required for valuing them are no different to other asset types and already covered in the IVSs.
Discounts and premia	The rationale provided makes little sense. Markets are diverse and valuers have to reflect how assets are priced in the relevant market. The comment that such diversity can "hamper the adoption of IVS" shows a misunderstanding of what the role of the IVS is and what it can achieve. The standards require understanding of the relevant market. The suggestion that the IVSC can, or should attempt to, impose methods to make different markets uniform is fundamentally flawed.
Investigations and evidence	IVS 101 requires "*Any limitations or restrictions on the inspection, enquiry and/or analysis in the value must be identified.*"(sic) In spite of the poor grammar, the intention is clear. Limitations or restrictions must be identified in the Scope of Work, and IVS 106 requires the SoW to be referred in the report. The nature and extent of the investigations required will vary significantly between asset classes, the intended use of the valuation and between markets. Why this should be seen as problem for Tangible Assets is unclear. Any attempt to specify what investigations are required at a global level for particular

	assets types will simply limit the usability and relevance of the IVS.
Internal Generated Intangible Assets	We welcome the intent to produce further "Perspectives Papers" on this topic but are opposed to the suggestion that this could lead to additional requirements in the IVS.
Model Calibration	Understanding the inputs used in any form of valuation method or models should be a fundamental requirement for the resulting valuation to be credible. The narrative provided for this topic indicates that "questionable practice" has been observed but it is unclear whether this is inappropriate inputs being used deliberately or being missed due to poor calibration. Either way any change to the IVS must be generic enough to allow application across models for all asset types and evolution in current models.
Private v Public Markets	An admirably concise narrative but surely the fact that similar assets are priced differently in different markets should be widely understood by any student of economics and valuation experts in particular?
Prudential Value for Immoveable Assets	It is correctly stated that there is no agreed interpretation of the definition of prudential value. This is because there is no such definition. The Basel Accords set out agreed principles for the prudential regulation of lending institutions. Countries that are members of the BCBS then introduce legislation based on those principles in their jurisdictions, which can vary in detail. Our current experience with a banking regulator responsible for banks in 18 countries is they will continue to require lenders to measure real estate collateral at Market Value (using the IVSC definition) with any prudential adjustments being made by the lender to reflect other data that they are required to collect under the applicable regulations. There has been some misinterpretation of the changes introduced in Europe by a few valuer organisations, but the IVSC should not be influenced by these.
Trophy Assets	By all means produce a paper on the challenges of assets such as those described but such asset specific discussion a) should not in any way be considered mandatory or b) lead to changes in the IVS.
Valuation adjustments for financial instruments	This is a project that has previously been undertaken by the IVSC. After a multiyear project with full consultation. an Interim Guidance paper on CVA and DVA was approved by the Board in 2014 and published in January 2015. It was "Interim" because it was anticipated that there would be overlap with a following project on Funding Valuation Adjustments (FVA) and that all may be merged in a final document. A consultation draft on FVA was approved by the Board in March 2015, although the progress on this appears to have stalled in the subsequent reorganisation.

	We can provide copies of the documents and details of the working group if required.
Weighting of Inputs or Outputs	The definition of "weighting" had been introduced because there was feedback from non-native English speakers that it was causing confusion in translation. We do not see this as an issue that is more prevalent in BV that any other asset class. Understanding which are the most important or relevant inputs into a valuation method is fundamental to all asset types.

Question 4.2: Do you believe that there any other topics that should be included and if so, why? (Please state your suggested scope and prioritisation for this topic).

Yes. The IVSC needs to consult on the future purpose, structure and objectives of the IVS. It is clear from recent editions of the IVS that the distinction between a set of standards that can be adopted by organisations that regulate valuations and/or valuers on the one hand and technical educational material on valuation issues of interest to valuers on the other has been lost. Many of the agenda proposals suggest this will continue. Failing to distinguish principles that can be applied as mandatory across a wide as possible range of valuation purposes, asset types and jurisdictions from technical discussions on solutions to detailed valuation issues in specific markets creates a significant obstacle to wider adoption of the IVS. Twenty-five years ago, mandatory principles and guidance were published in the same book for economic reasons, although still differently labelled. Now everything is published online there is no such restraint on issuing separate documents for each type of content which can be clearly aimed at their intended audience.

Future Topics (beyond 2 years)

Question 4.1: Do you agree with the scope of the project as described below and the prioritisation contained in the IVS additional topics? If not, why?

No. While some of these topics would benefit from information and guidance at an international level, others are typically subject to national legislative or regulatory requirements. These not only affect the way in which the market operates but often also prescribe how valuations are to be determined. There is no useful purpose served by the IVSC making pronouncements in relation to such topics. We comment on each as follows:

Agricultural and Plantation Land / Biological Assets	Agriculture is heavily regulated in many jurisdictions, not just in relation to the controls or subsidies on land but also on the product from the land. The IVSC has previously attempted to produce guidance on valuing this land but found the diversity of regulation between jurisdictions make it virtually impossible to identify any guidance that would be relevant or applicable internationally.
Bases of value	It is explained that the BV Board is looking to include additional bases in IVS 102 as the basis of value used can often be disputed. **We strongly oppose this.** The IVSC has played a useful role in reaching consensus on definitions for a "value to many parties" (Market Value), "value

	between two specific parties" (Equitable Value/Synergistic Value) and "value to a specific party" (Investment Value). MV in particular has been widely recognised and adopted. However, there are very many variations on these basic concepts appearing in national legislation, other standards or legal agreements . The fact that a dispute might arise over the applicable basis is a problem that arises from the drafting of the agreement between the parties concerned. It cannot be solved by IVSC extending the list of definitions that may be used. To do so would create unnecessary complexity and simply lead to requests for further definitions to deal with different scenarios. It is not the role of the IVSC to produce an encyclopaedia of valuation bases used around the world, just require that an appropriate basis is agreed at the outset.
Compulsory purchase	It is suggested that additional valuation standards on the global requirements in relation to compulsory purchase/ expropriation across all markets are required. What possible purpose could this serve? Compulsory purchase (eminent domain) laws are set by national governments along with the basis on which compensation is calculated. While an essay on the differences may be interesting for some, no standard is required. If time is wasted on this by the Standards Board, anything it produces will be otiose.
Early-stage business valuation	This could be an interesting discussion paper, but we do not see the need for an amendment to the standards at this stage.
Insurance valuations	Some types of asset are insured for their current value (typically plant and equipment) and other types on the cost of replacement (typically buildings). If a value for insurance is required, this will be defined in the policy. If a cost estimate is required, this is not a valuation. Either way it is difficult to see what the IVSC can usefully provide.
Quality control and Individual valuer	Valuology provides quality control audits for various valuation firms of very different sizes and in different jurisdictions. The starting point for most is a checklist for compliance with the IVS. The Consultation Paper says stakeholders are advocating that there should be additional standards on this topic to provide guidance on how a valuer can quality control their own work. The answer is surely to check they are following the IVS? In any event the IVSC is a standard setting body with no enforcement powers. Any quality control requirements are a matter for any organisation adopting the standards who frequently will have additional specific requirements of their own.
Transfer pricing	This is mainly an accounting or tax issue. While a valuer may be called upon to opine on the value under the "arm's length principle" the process and matters to be considered

	are no different to establishing the MV for other purposes so the principles in the existing IVS can be applied. We see no need for a change in the standards although some standalone guidance may be useful on specific issues, eg, discounts to reflect the quantum of a product or service transferred between connected entities.
Valuation reviews	It is explained that some stakeholders are advocating that there should be additional standards on this topic to provide additional guidance on the difference between a valuation, valuation review and audit. We welcome the distinction made between a "value review" and a "valuation process review" in the most recent IVS but this needs go no further. The IVS should contain nothing to do with audits as auditors are regulated in most jurisdictions and have to follow their own standards, many using the International Standards on Auditing issued by the IAASB. The current boards may not be aware that in 2014 the IVSC published "A Guide to the Audit Process for Professional Valuers" produced in close cooperation with the IAASB. This may benefit from reviewing and updating if necessary, but no change is required to the IVS.

Question 4.2: Do you believe that there any other topics that should be included and if so, why? (Please state your suggested scope and prioritisation for this topic).

No.