What's new in 2017?

23 May 2017

Alexander Aronsohn presents the main changes to International Valuation Standards 2017 from the 2013 versions, and explains what these mean for professionals across the globe

---

Discussions with stakeholders indicated that there was a little confusion in International Valuation Standards (IVS) 2013 related to what content represented mandatory standards and what content represented non-mandatory commentary.

IVS 2017 not only serve as the key guidance for valuation professionals globally but will also underpin consistency, transparency and confidence in valuations

The IVS Coalition (IVSC)?s Standards Board noted that, in IVS 2013, all substantive portions of the standard were labelled ?commentary? with the exception of the scope and effective date sections. IVS 2017 has eliminated the ?commentary? label to make it clear that the contents are mandatory for compliance with IVS.

The mandatory nature of the standards has been clarified with the use of ?may?, ?must? and ?should? in the standards and these terms are clearly defined in the revised glossary. An example of this is ?must?. In the standards, it states:

> ?The word "must" indicates an unconditional responsibility. The valuer must fulfil responsibilities of this type in all cases in which the circumstances exist to which the requirement applies.?

Furthermore, IVS 2017 clearly define what constitutes compliance, and when a statement is made that a valuation will be, or has been, undertaken in accordance with the IVS, it is implicit that the valuation has been prepared in compliance with all relevant standards issued by the IVSC.

However, departures are not only permitted but mandatory where there are specific legislative, regulatory or other authoritative requirements that must be followed but differ from some of those in the IVS. In this case, a valuer may still state that the valuation was performed in accordance with the IVS.

IVS 101 Scope of Work

This has revised the requirement to provide a written scope of work in all cases. It states that it is a valuer?s responsibility to ensure that all parties to the valuation engagement understand the scope of the assignment.

So, while IVS 2017 recognise that a written scope of work is the most effective way to ensure compliance, it may not be feasible or necessary in all circumstances, particularly in those cases where valuers are carrying out valuations for their employer.

New chapters

Some of the main changes in IVS 2017 are in the 2 new General Standard Chapters IVS 104 Bases of value and IVS 105 Valuation approaches and methods.

IVS 104

IVS 104 clearly puts the responsibility for the bases of value chosen on the valuer. A key concept in IVS 104 is that valuers must choose the relevant basis or bases of value according to the terms and purposes of the valuation assignment. The valuer?s choice of a basis or bases of value should consider instructions and input received from the client or their representatives.

Compliance with IVS may require the valuer to use a basis of value not defined or mentioned in the IVS

However, regardless of instructions and input provided to the valuer, they should not use a basis or bases of value that is inappropriate for the intended purpose of the valuation, for instance, if they are instructed to use an IVS-defined basis of value for financial reporting purposes under the International Financial Reporting Standards (IFRS). Compliance with IVS may also require the valuer to use a basis of value that is not defined or mentioned in the IVS.

In addition to the IVS-defined bases of value, comprising Market Value, Market Rent, Equitable Value, Investment Value/Worth, Synergistic Value and Liquidation Value, IVS 104 also provides definitions and guidance for non-IVS-defined bases of value.

The latter bases are largely used for accounting and financial reporting and provide definitions for:

- Fair Value (IFRS);
- Fair Market Value (Organisation for Economic Co-operation and Development);
- Fair Market Value (US Internal Revenue Service); and
- Fair Value (which is legal or statutory) such as the Model Business Corporation Act and a Canadian case law example.

IVS 105

IVS 105 Valuation Approaches and Methods provides additional guidance on the main valuation approaches and states that

?consideration must be given to the relevant and appropriate valuation approaches. The three approaches described and defined below are the main approaches used in valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution. The principal valuation approaches are:

1. Market approach;
2. Income approach; and
3. Cost approach.?

IVS 105 provides detailed guidance on each of these methods. For example, the income approach method provides high-level guidance on the discounted cash flow method, the type of cash flow, the explicit forecast period and cash flow forecasts, and further guidance is contained on calculating terminal value with either the Gordon Growth Model/Constant Growth Model, Market Approach/Exit Value, Salvage Value/Disposal Cost or Discount Rate.

The key concept in IVS 105 is that valuers are not required to employ more than one method for the valuation of an asset, particularly when the valuer has a high degree of confidence in the accuracy and reliability of a single method given the facts and circumstances of the valuation engagement.

However, valuers should consider the use of multiple approaches and methods, and more than one valuation approach or method may be used to arrive at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion.

Asset Standards

IVS 2017 has expanded Asset Standards and incorporated information from the previous technical information papers where relevant.

The revised chapters IVS 200 Business and Business Interests, IVS 500 Financial Instruments and the new IVS 210 on Intangible Assets will be of particular interest for accountancy professionals.

For instance, IVS 200 provides an overview of business and business interests and the circumstances in which they are valued, a framework for the selection and application of approaches and methodologies for the valuation of business and business interests, and a discussion of special topics related to the valuation of business and business interests including ownership rights, business information, economic and industry considerations, operating and non-operating assets, and capital structure considerations.

More than one valuation approach or method may be used to arrive at an indication of value

IVS 210 defines an intangible asset as a non-monetary asset that manifests itself by its economic properties and does not have physical substance but grants rights or economic benefits to its owner. In addition to an overview of intangible assets, the circumstances in which they are valued and a framework for the selection and application of approaches and methodologies, the chapter provides a discussion of special topics related to the valuation of intangible assets including discount rate selection and economic life considerations.

IVS 500 provides much-needed standards for financial instruments such as derivatives or other contingent instruments, hybrid instruments, fixed-income, structured products and equity instruments. A financial instrument can also be created through the combination of other financial instruments in a portfolio to achieve a specific net financial outcome.

Valuations of financial instruments conducted under IVS 500 Financial Instruments can be performed for many different purposes, including, but not limited to:

- acquisitions, mergers and sales of businesses or parts of businesses;
- purchase and sale;
- financial reporting;
- legal or regulatory requirements, subject to any specific requirements set by the relevant authority;
- internal risk and compliance procedures;
- tax; and
- litigation.

A continual process

IVS 2017 not only serve as the key guidance for valuation professionals globally but will also underpin consistency, transparency and confidence in valuations, which are key qualities in investment decisions as well as financial reporting.

However, the IVSC recognises that standard-setting is a continual process and future standards are planned in many areas including:

- credit/debit valuation;
- deferred revenue;
- derivative valuations;
- discount rates;
- funding valuation adjustments;
- liabilities; and
- valuation of portfolios, collections, and groups of properties/assemblage value.

Alexander Aronsohn FRICS is RICS Director of Technical International Standards and Executive Secretary of the IPMS Standards Setting Committee

Further information

- Related competencies include Valuation
- This feature is taken from the RICS *Property journal* (May/June 2017)