INTERNATIONAL VALUATION STANDARDS COUNCIL

International Valuation Standards 2013

Framework and Requirements

(Excludes supporting commentaries application guidance and technical information)

This document is designed to provide a quick reference to the IVS Framework and the mandatory requirements of the International Valuation Standards approved by the IVSC Standards Board in June 2013 and applicable from 1 January 2014. It excludes all explanatory commentary, guidance and technical information in the standards that support the application of the requirements to different types of asset or for different valuation purposes.

The full standards including all explanatory commentary, guidance and technical information are available to purchase from the IVSC Bookstore at www.ivsc.org or by subscribing to the IVSC's internet based service, *IVSonline*, at www.ivsonline.org.

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International Valuation Standards

Introduction

The International Valuation Standards (IVSs) contain either:

1. Requirements that have to be followed in order to produce a valuation that is compliant with the standards.
2. Information or guidance that does not direct or mandate any particular course of action but which is intended to assist the development of better and more consistent valuation practice or that helps users better understand a valuation on which they intend to rely.

The IVSs are arranged as follows:

The IVS Framework

This serves as a preamble to all the other IVS standards. The IVS Framework sets forth generally accepted valuation principles and concepts that are to be followed when applying the other standards. The IVS Framework does not include any procedural requirements.

IVS General Standards

These set forth requirements for the conduct of all valuation assignments, except as modified by an Asset Standard or a Valuation Application. They are designed to be applicable to valuations of all types of assets and for any valuation purpose to which the standards are applied.

IVS Asset Standards

The Asset Standards include requirements and a commentary. The requirements set forth any additions to or modifications of the requirements in the General Standards together with illustrations of how the principles in the General Standards are generally applied to the that class of asset. The commentary provides background information on the characteristics of each asset type that influence value and identifies the common valuation approaches and methods used.

IVS Valuation Applications

Valuation Applications address common purposes for which valuations are required. Each includes requirements and a guidance section. The requirements set forth any additions to or modifications of the requirements in the General Standards together with illustrations of how the principles in the General Standards and Asset Standards apply when undertaking valuations for that purpose. The guidance section provides information on:

- the valuation requirements of internationally applicable regulations or standards issued by other bodies, eg International Financial Reporting Standards,
- other commonly accepted requirements for valuations for that purpose,
- appropriate valuation procedures to meet these requirements.

Technical Information Papers

Technical Information Papers (TIPs) support the application of the requirements in other standards. A TIP will do one or more of the following:

- Provide information on the characteristics of different types of asset that are relevant to value.
- Provide information on appropriate valuation methods and their application.
- Provide additional detail on matters identified in another standard.
- Provide information to support the judgement required in reaching a valuation conclusion in different situations.

A TIP may provide guidance on approaches that may be suitable but will not prescribe or mandate the use of a particular approach in any specific situation. The intent is to provide information to assist an experienced valuer decide which is the most appropriate course of action to take.

A TIP is not intended to provide training or instruction for readers unfamiliar with the subject and will be primarily focussed on practical applications. A TIP is not a text book or an academic discussion on its subject, and neither will it endorse or reference such texts.

Application of the Standards

When a statement is made that a valuation will be, or has been, undertaken in accordance with the IVSs it is implicit that all relevant standards are complied with and due account taken of any supporting guidance issued by the IVSC. Where a departure is necessary to comply with any legislative or regulatory requirements, this should be clearly explained, see IVS 101 2(k) and IVS 103 5(k).

Assets and Liabilities

The standards can be applied to the valuation of both assets and liabilities. To assist the legibility of these standards, the words asset or assets are deemed to include liability or liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded.

Effective Dates

The effective date for each standard is shown in the standard. Because TIPs do not require any specific actions to be taken or avoided they have no effective date.

What is in this document?

This document contains only the IVS Framework and the requirements set out in the IVS General Standards, the IVS Asset Standards and the IVS Applications, as approved by the IVSC Standards Board as at 1 July 2013. All commentaries, guidance and technical information that support the application of the requirements are not included. Valuation Professionals and others who need to understand how to apply the principles in the standards to different types of asset for various valuation purposes should consult the full version of the standards.

Future changes to the standards

The IVSC Standards Board intends to review all published standards for necessary updating or clarification once every two years. The Board has continuing projects that may result in additional standards being introduced or amendments made to the standards in this publication at any time. News on current projects and any impending or approved changes can be found on the IVSC website at www.ivsc.org.

IVS DEFINITIONS

The definitions below are of words or phrases used in the IVS *Framework*, the General Standards or in more than one Asset Standard or Valuation Application that have a specific or limited meaning. These terms are italicised in the text.

Basis of value – a statement of the fundamental measurement assumptions of a valuation.

Cost approach – provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction.

Fair value – the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.[1]

Goodwill – any future economic benefit arising from a business, an interest in a business or from the use of a group of assets which is not separable.

Income approach – provides an indication of value by converting future cash flows to a single current capital value.

Intangible asset – a non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and economic benefits to its owner.

Investment property – property that is land or a building, or part of a building, or both, held by the owner to earn rentals or for capital appreciation, or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes, or

(b) sale in the ordinary course of business.

Investment value – the value of an asset to the owner or a prospective owner for individual investment or operational objectives.

Market approach – provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.

Market rent – the estimated amount for which a property would be leased on the *valuation date* between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Market value – the estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

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[1] This does not apply to valuations for financial reporting – see IVS 300.

Real estate – land and all things that are a natural part of the land, eg trees, minerals and things that have been attached to the land, eg buildings and site improvements and all permanent building attachments, eg mechanical and electrical plant providing services to a building, that are both below and above the ground.

Real property – all rights, interests and benefits related to the ownership of *real estate*.

Special assumption – an assumption that either assumes facts that differ from the actual facts existing at the *valuation date* or that would not be made by a typical market participant in a transaction on the *valuation date*.

Special purchaser – a particular buyer for whom a particular asset has *special value* because of advantages arising from its ownership that would not be available to other buyers in a market.

Special value – an amount that reflects particular attributes of an asset that are only of value to a *special purchaser*.

Synergistic value – an additional element of value created by the combination of two or more assets or interests where the combined value is more than the sum of the separate values.

Trade related property – any type of *real property* designed for a specific type of business where the property value reflects the trading potential for that business.

Valuation date – the date on which the opinion of value applies. The valuation date shall also include the time at which it applies if the value of the type of asset can change materially in the course of a single day.

Valuation Review – The act or process of considering and reporting on a valuation undertaken by another party, which may or may not require the reviewer to provide their own valuation opinion.

IVS Framework

The IVS Framework includes generally accepted valuation concepts, principles and definitions upon which the International Valuation Standards are based. This framework should be considered and applied when following the individual standards and valuation applications.

Valuation and Judgement

1. Applying the principles in these standards to specific situations will require the exercise of judgement. That judgement must be applied objectively and should not be used to overstate or understate the valuation result. Judgement shall be exercised having regard to the purpose of the valuation, the *basis of value* and any other assumptions applicable to the valuation.

Objectivity

2. The process of valuation requires the valuer to make impartial judgements as to the reliance to be given to different factual data or assumptions in arriving at a conclusion. For a valuation to be credible, it is important that those judgements can be seen to have been made in an environment that promotes transparency and minimises the influence of any subjective factors on the process.

3. It is a fundamental expectation that when applying these standards appropriate controls and procedures are in place to ensure the necessary degree of objectivity in the valuation process so that the results can be seen to be free from bias. The IVSC *Code of Ethical Principles for Professional Valuers* provides an example of an appropriate framework of conduct rules. Where the purpose of the valuation requires the valuer to have a specific status or disclosures confirming the valuer's status to be made, the requirements are set out in the appropriate standard. Matters relating to the conduct and ethical behaviour are for Valuation Professional Organisations or other bodies that have a role in regulating or licencing individual valuers.

Competence

4. Because valuation requires the exercise of skill and judgement, it is a fundamental expectation that valuations are prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market in which it trades and the purpose of the valuation.

5. For complex or large multi-asset valuations, it is acceptable for the valuer to seek assistance from specialists in certain aspects of the overall assignment, providing this is disclosed in the scope of work (see IVS 101 *Scope of Work*).

Price, Cost and Value

6. Price is the amount asked, offered or paid for an asset. Because of the financial capabilities, motivations or special interests of a given buyer or seller, the price paid may be different from the value which might be ascribed to the asset by others.

7. Cost is the amount required to acquire or create the asset. When that asset has been acquired or created, its cost is a fact. Price is related to cost because the price paid for an asset becomes its cost to the buyer.

8. Value is not a fact but an opinion of either:

   (a) the most probable price to be paid for an asset in an exchange, or

   (b) the economic benefits of owning an asset.

   A value in exchange is a hypothetical price and the hypothesis on which the value is estimated is determined by the purpose of the valuation. A value to the owner is an estimate of the benefits that would accrue to a particular party from ownership.

9. The word “valuation” can be used to refer to the estimated value (the valuation conclusion) or to refer to the preparation of the estimated value (the act of valuing). In these standards it should generally be clear from the context which meaning is intended. Where there is potential for confusion or a need to make a clear distinction between the alternative meanings, additional words are used.

The Market

10. A market is the environment in which goods and services trade between buyers and sellers through a price mechanism. The concept of a market implies that goods or services may be traded among buyers and sellers without undue restriction on their activities. Each party will respond to supply-demand relationships and other price-setting factors as well as to their own understanding of the relative utility of the goods or services and individual needs and desires.

11. In order to estimate the most probable price that would be paid for an asset, it is of fundamental importance to understand the extent of the market in which that asset would trade. This is because the price that can be obtained will depend upon the number of buyers and sellers in the particular market on the *valuation date*. To have an effect on price, buyers and sellers must have access to that market. A market can be defined by various criteria. These include:

   (a) the goods or services that are traded, eg the market for motor vehicles is distinct from the market for gold,

   (b) scale or distribution restraints, eg a manufacturer of goods may not have the distribution or marketing infrastructure to sell to end users and the end users may not require the goods in the volume at which they are produced by the manufacturer,

   (c) geography, eg the market for similar goods or services may be local, regional, national or international.

12. However, although at any point in time a market may be self-contained and be little influenced by activity in other markets, over a period of time markets will influence each other. For example, on any given date the price of an asset in one state may be higher than could be obtained for an identical asset in another. If any possible distorting effects caused by government trading restrictions or fiscal policies are ignored, suppliers would, over time, increase the supply of the asset to the state where it could obtain the higher price and reduce the supply to the state where the price was lower, thus bringing about a convergence of prices.

13. Unless otherwise clear from the context, references in IVS to the market mean the market in which the asset or liability being valued is normally exchanged on the *valuation date* and to which most participants in that market, including the current owner, normally have access.

14. Markets rarely operate perfectly with constant equilibrium between supply and demand and an even level of activity, due to various imperfections. Common market imperfections include disruptions of supply, sudden increases or decreases in demand or asymmetry of knowledge between market participants. Because market participants react to these imperfections, at a given time a market is likely to be adjusting to any change that has caused disequilibrium. A valuation that has the objective of estimating the most probable price in the market has to reflect the conditions in the relevant market on the *valuation date*, not an adjusted or smoothed price based on a supposed restoration of equilibrium.

Market Activity

15. The degree of activity in any market will fluctuate. Although it may be possible to identify a normal level of activity over an extended period, in most markets there will be periods when activity is significantly higher or lower than this norm. Activity levels can only be expressed in relative terms, eg the market is more or less active than it was on a previous date. There is no clearly defined line between a market that is active or inactive.

16. When demand is high in relation to supply, prices would be expected to rise which tends to attract more sellers to enter the market and therefore increased activity. The converse is the case when demand is low and prices are falling. However, different levels of activity may be a response to price movements rather than the cause of them. Transactions can and do take place in markets that are currently less active than normal and, just as importantly, prospective buyers are likely to have in mind a price at which they would be prepared to enter the market.

17. Price information from an inactive market may still be evidence of *market value*. A period of falling prices is likely to see both decreased levels of activity and an increase in sales that can be termed “forced” (see paras 52 to 54 below). However, there are sellers in falling markets that are not acting under duress and to dismiss the evidence of prices realised by such sellers would be to ignore the realities of the market.

Market Participants

18. References in IVS to market participants are to the whole body of individuals, companies or other entities that are involved in actual transactions or who are contemplating entering into a transaction for a particular type of asset. The willingness to trade and any views attributed to market participants are typical of those of buyers and sellers, or prospective buyers and sellers, active in a market on the *valuation date*, not to those of any particular individual or entity.

19. In undertaking a market-based valuation, matters that are specific to the current owner or to one particular potential buyer are not relevant because both the willing seller and the willing buyer are hypothetical individuals or entities with the attributes of a typical market participant. These attributes are discussed in the conceptual framework for *market value* (see paras 30(d) and 30(e)). The

conceptual framework also requires the exclusion of any element of *special value* or any element of value that would not be available to market participants generally (see paras 30(a) and 30(f)).

Entity Specific Factors

20. The factors that are specific to a particular buyer or seller and not available to market participants generally are excluded from the inputs used in a market-based valuation. Examples of entity specific factors that may not be available to market participants include the following:

(a) additional value derived from the creation of a portfolio of similar assets,

(b) unique synergies between the asset and other assets owned by the entity,

(c) legal rights or restrictions,

(d) tax benefits or tax burdens,

(e) an ability to exploit an asset that is unique to that entity.

21. Whether such factors are specific to the entity or would be available to others in the market generally is determined on a case-by-case basis. For example, an asset may not normally be transacted as a stand-alone item but as part of a group. Any synergies with related assets would transfer to market participants along with the transfer of the group and therefore are not entity specific.

22. If the objective of the valuation is to determine the value to a specific owner, entity specific factors are reflected in the valuation of the asset. Situations in which the value to a specific owner may be required include the following examples:

(a) supporting investment decisions,

(b) reviewing the performance of an asset.

Aggregation

23. The value of an individual asset is often dependent upon its association with other related assets. Examples include:

(a) offsetting assets and liabilities in a portfolio of financial instruments,

(b) a portfolio of properties that complement each other by providing a prospective buyer with either a critical mass or a presence in strategic locations,

(c) a group of machines in a production line, or the software required to operate a machine or machines,

(d) recipes and patents that support a brand,

(e) interdependent land, buildings, plant and other equipment employed in a business enterprise.

24. Where a valuation is required of assets that are held in conjunction with other complementary or related assets, it is important to clearly define whether it is the group or portfolio of assets that is to

be valued or each of the assets individually. If the latter, it is also important to establish whether each asset is assumed to be valued:

(a) as an individual item but assuming that the other assets are available to a buyer, or

(b) as an individual item but assuming that the other assets are not available to a buyer.

Basis of Value

25. A *basis of value* is a statement of the fundamental measurement assumptions of a valuation.

26. It describes the fundamental assumptions on which the reported value will be based, eg the nature of the hypothetical transaction, the relationship and motivation of the parties and the extent to which the asset is exposed to the market. The appropriate basis will vary depending on the purpose of the valuation. A *basis of value* should be clearly distinguished from:

(a) the approach or method used to provide an indication of value,

(b) the type of asset being valued,

(c) the actual or assumed state of an asset at the point of valuation,

(d) any additional assumptions or *special assumptions* that modify the fundamental assumptions in specific circumstances.

27. A *basis of valuatio*n can fall into one of three principal categories:

(a) The first is to indicate the most probable price that would be achieved in a hypothetical exchange in a free and open market. *Market value* as defined in these standards falls into this category.

(b) The second is to indicate the benefits that a person or an entity enjoys from ownership of an asset. The value is specific to that person or entity, and may have no relevance to market participants in general. *Investment value* and *special value* as defined in these standards fall into this category.

(c) The third is to indicate the price that would be reasonably agreed between two specific parties for the exchange of an asset. Although the parties may be unconnected and negotiating at arm's length, the asset is not necessarily exposed in the market and the price agreed may be one that reflects the specific advantages or disadvantages of ownership to the parties involved rather than the market at large. *Fair value* as defined in these standards falls into this category.

28. Valuations may require the use of different *bases of value* that are defined by statute, regulation, private contract or other document. Although such bases may appear similar to the *bases of value* defined in these standards, unless unequivocal reference is made to IVS in the relevant document, their application may require a different approach from that described in IVS. Such bases have to be interpreted and applied in accordance with the provisions of the source document. Examples of *bases of value* that are defined in other regulations are the various valuation measurement bases found in International Financial Reporting Standards (IFRS) and other accounting standards.

Market Value

29. *Market value* is the estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

30. The definition of *market value* shall be applied in accordance with the following conceptual framework:

(a) "the estimated amount" refers to a price expressed in terms of money payable for the asset in an arm's length market transaction. *Market value* is the most probable price reasonably obtainable in the market on the *valuation date* in keeping with the *market value* definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of *special value*;

(b) "an asset should exchange" refers to the fact that the value of an asset is an estimated amount rather than a predetermined amount or actual sale price. It is the price in a transaction that meets all the elements of the market value definition at the *valuation date*;

(c) "on the *valuation date*" requires that the value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the market state and circumstances as at the *valuation date*, not those at any other date;

(d) "between a willing buyer" refers to one who is motivated, but not compelled to buy. This buyer is neither over eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than in relation to an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present owner is included among those who constitute "the market";

(e) "and a willing seller" is neither an over eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing, whatever that price may be. The factual circumstances of the actual owner are not a part of this consideration because the willing seller is a hypothetical owner;

(f) “in an arm’s length transaction” is one between parties who do not have a particular or special relationship, eg parent and subsidiary companies or landlord and tenant, that may make the price level uncharacteristic of the market or inflated because of an element of s*pecial value*. The *market value* transaction is presumed to be between unrelated parties, each acting independently;

(g) “after proper marketing” means that the asset would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the *market value* definition. The method of sale is deemed to be that most appropriate to obtain the best price in the market to which the seller has access. The length of exposure time is not a fixed period but will vary according to the type of asset and market conditions. The only criterion is that there must have been sufficient time to allow the asset to be brought to the attention of an adequate number of market participants. The exposure period occurs prior to the *valuation date*;

(h) “where the parties had each acted knowledgeably, prudently” presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the asset, its actual and potential uses and the state of the market as of the *valuation date*. Each is further presumed to use that knowledge prudently to seek the price that is most favourable for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the *valuation date*, not with benefit of hindsight at some later date. For example, it is not necessarily imprudent for a seller to sell assets in a market with falling prices at a price that is lower than previous market levels. In such cases, as is true for other exchanges in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time;

(i) “and without compulsion” establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

31. The concept of *market value* presumes a price negotiated in an open and competitive market where the participants are acting freely. The market for an asset could be an international market or a local market. The market could consist of numerous buyers and sellers, or could be one characterised by a limited number of market participants. The market in which the asset is exposed for sale is the one in which the asset being exchanged is normally exchanged (see paras 15 to 19 above).

32. The *market value* of an asset will reflect its highest and best use. The highest and best use is the use of an asset that maximises its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset’s existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.

33. The highest and best use of an asset valued on a stand-alone basis may be different from its *highest and best use* as part of a group, when its contribution to the overall value of the group must be considered.

34. The determination of the highest and best use involves consideration of the following:

(a) to establish whether a use is possible, regard will be had to what would be considered reasonable by market participants,

(b) to reflect the requirement to be legally permissible, any legal restrictions on the use of the asset, eg zoning designations, need to be taken into account,

(c) the requirement that the use be financially feasible takes into account whether an alternative use that is physically possible and legally permissible will generate sufficient return to a typical market participant, after taking into account the costs of conversion to that use, over and above the return on the existing use.

Transaction Costs

35. *Market value* is the estimated exchange price of an asset without regard to the seller's costs of sale or the buyer's costs of purchase and without adjustment for any taxes payable by either party as a direct result of the transaction.

Investment Value

36. *Investment value* is the value of an asset to the owner or a prospective owner for individual investment or operational objectives.

37. This is an entity-specific *basis of value*. Although the value of an asset to the owner may be the same as the amount that could be realised from its sale to another party, this *basis of value* reflects the benefits received by an entity from holding the asset and, therefore, does not necessarily involve a hypothetical exchange. *Investment value* reflects the circumstances and financial objectives of the entity for which the valuation is being produced. It is often used for measuring investment performance. Differences between the *investment value* of an asset and its *market value* provide the motivation for buyers or sellers to enter the market place.

Fair Value

38. *Fair value* is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

39. The definition of fair value in IFRS is different from the above. The IVSB considers that the definitions of fair value in IFRS are generally consistent with *market value*. The definition and application of fair value under IFRS are discussed in IVS 300 *Valuations for Financial Reporting.*

40. For purposes other than use in financial statements, *fair value* can be distinguished from *market value*. *Fair value* requires the assessment of the price that is fair between two identified parties taking into account the respective advantages or disadvantages that each will gain from the transaction. It is commonly applied in judicial contexts. In contrast, *market value* requires any advantages that would not be available to market participants generally to be disregarded.

41. *Fair value* is a broader concept than *market value.* Although in many cases the price that is fair between two parties will equate to that obtainable in the market, there will be cases where the

assessment of *fair value* will involve taking into account matters that have to be disregarded in the assessment of *market value*, such as any element of *special value* arising because of the combination of the interests.

42. Examples of the use of *fair value* include:

(a) determination of a price that is fair for a shareholding in a non-quoted business, where the holdings of two specific parties may mean that the price that is fair between them is different from the price that might be obtainable in the market,

(b) determination of a price that would be fair between a lessor and a lessee for either the permanent transfer of the leased asset or the cancellation of the lease liability.

Special Value

43. *Special value* is an amount that reflects particular attributes of an asset that are only of value to a *special purchaser*.

44. A *special purchaser* is a particular buyer for whom a particular asset has *special value* because of advantages arising from its ownership that would not be available to other buyers in the market.

45. *Special value* can arise where an asset has attributes that make it more attractive to a particular buyer than to any other buyers in a market. These attributes can include the physical, geographic, economic or legal characteristics of an asset. *Market value* requires the disregard of any element of *special value* because at any given date it is only assumed that there is a willing buyer, not a particular willing buyer.

46. When *special value* is identified, it should be reported and clearly distinguished from *market value*.

Synergistic Value

47. *Synergistic value* is an additional element of value created by the combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer then it is an example of *special value*.

Assumptions

48. In addition to stating the *basis of value*, it is often necessary to make an assumption or multiple assumptions to clarify either the state of the asset in the hypothetical exchange or the circumstances under which the asset is assumed to be exchanged. Such assumptions can have a significant impact on value.

49. Examples of additional assumptions in common use include, without limitation:

- an assumption that a business is transferred as a complete operational entity,
- an assumption that assets employed in a business are transferred without the business, either individually or as a group,

- an assumption that an individually valued asset is transferred together with other complementary assets (see paras 23 and 24 above),
- an assumption that a holding of shares is transferred either as a block or individually,
- an assumption that a property that is owner-occupied is vacant in the hypothetical transfer.

50. Where an assumption is made that assumes facts that differ from those existing at the *date of valuation*, it becomes a *special assumption* (see IVS 101 *Scope of Work*). *Special assumptions* are often used to illustrate the effect of possible changes on the value of an asset. They are designated as "special" so as to highlight to a valuation user that the valuation conclusion is contingent upon a change in the current circumstances or that it reflects a view that would not be taken by market participants generally on the *valuation date*.

51. Assumptions and *special assumptions* must be reasonable and relevant having regard to the purpose for which the valuation is required.

Forced Sales

52. The term "forced sale" is often used in circumstances where a seller is under compulsion to sell and that, as consequence, a proper marketing period is not possible. The price that could be obtained in these circumstances will depend upon the nature of the pressure on the seller and the reasons why proper marketing cannot be undertaken. It may also reflect the consequences for the seller of failing to sell within the period available. Unless the nature of and the reason for the constraints on the seller are known, the price obtainable in a forced sale cannot be realistically estimated. The price that a seller will accept in a forced sale will reflect its particular circumstances rather than those of the hypothetical willing seller in the *market value* definition. The price obtainable in a forced sale has only a coincidental relationship to *market value* or any of the other bases defined in this standard. A "forced sale" is a description of the situation under which the exchange takes place, not a distinct *basis of value*.

53. If an indication of the price obtainable under forced sale circumstances is required, it will be necessary to clearly identify the reasons for the constraint on the seller including the consequences of failing to sell in the specified period by setting out appropriate assumptions. If these circumstances do not exist at the *valuation date*, these must be clearly identified as *special assumptions*.

54. Sales in an inactive or falling market are not automatically "forced sales" simply because a seller might hope for a better price if conditions improved. Unless the seller is compelled to sell by a deadline that prevents proper marketing, the seller will be a willing seller within the definition of *market value* (see paras 17 and 30(e)) above).

Valuation Approaches

55. One or more valuation approaches may be used in order to arrive at the valuation defined by the appropriate *basis of value* (see paras 25 to 28 above). The three approaches described and defined in this Framework are the main approaches used in valuation. They all are based on the

economic principles of price equilibrium, anticipation of benefits or substitution. Using more than one valuation approach or method is especially recommended where there are insufficient factual or observable inputs for a single method to produce a reliable conclusion.

Market Approach

56. The *market approach* provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.

57. Under this approach the first step is to consider the prices for transactions of identical or similar assets that have occurred recently in the market. If few recent transactions have occurred, it may also be appropriate to consider the prices of identical or similar assets that are listed or offered for sale provided the relevance of this information is clearly established and critically analysed. It may be necessary to adjust the price information from other transactions to reflect any differences in the terms of the actual transaction and the *basis of value* and any assumptions to be adopted in the valuation being undertaken. There may also be differences in the legal, economic or physical characteristics of the assets in other transactions and the asset being valued.

Income Approach

58. The *income approach* provides an indication of value by converting future cash flows to a single current capital value.

59. This approach considers the income that an asset will generate over its useful life and indicates value through a capitalisation process. Capitalisation involves the conversion of income into a capital sum through the application of an appropriate discount rate. The income stream may be derived under a contract or contracts, or be non-contractual, eg the anticipated profit generated from either the use of or holding of the asset.

60. Methods that fall under the *income approach* include:

- income capitalisation, where an all-risks or overall capitalisation rate is applied to a representative single period income,
- discounted cash flow where a discount rate is applied to a series of cash flows for future periods to discount them to a present value,
- various option pricing models.

61. The *income approach* can be applied to liabilities by considering the cash flows required to service a liability until it is discharged.

Cost Approach

62. The *cost approach* provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction.

63. This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenience, risk or other factors are involved, be

not more than the cost to purchase or construct an equivalent asset. Often the asset being valued will be less attractive than the alternative that could be purchased or constructed because of age or obsolescence. Where this is the case, adjustments may need to be made to the cost of the alternative asset depending on the required *basis of value*.

Methods of Application

64. Each of these principal valuation approaches includes different detailed methods of application. Various methods that are commonly used for different asset classes are discussed in the Asset Standards.

Valuation Inputs

65. Valuation inputs refer to the data and other information that are used in any of the valuation approaches described in this standard. These inputs may be actual or assumed.

66. Examples of actual inputs include:

- prices achieved for identical or similar assets,
- actual cash flows generated by the asset,
- the actual cost of identical or similar assets.

67. Examples of assumed inputs include:

- estimated or projected cash flows,
- the estimated cost of a hypothetical asset,
- market participants' perceived attitude to risk.

68. Greater reliance will normally be placed on actual inputs; however, where these are less relevant, eg where the evidence of actual transactions is dated, historic cash flows are not indicative of future cash flows or the actual cost information is historic, assumed inputs will be more relevant.

69. A valuation will normally be more certain where multiple inputs are available. Where only limited inputs are available particular caution is required in investigating and verifying the data.

70. Where the input involves evidence of a transaction, care should be taken to verify whether the terms of that transaction were in accord with those of the required *basis of value.*

71. The nature and source of the valuation inputs should reflect the *basis of value*, which in turn depends on the valuation purpose. For example, various approaches and methods may be used to indicate *market value* providing they use market derived data. The *market approach* will by definition use market derived inputs. To indicate *market value* the *income approach* should be applied using inputs and assumptions that would be adopted by market participants. To indicate *market value* using the *cost approach*, the cost of an asset of equal utility and the appropriate depreciation should be determined by analysis of market-based costs and depreciation. The data

available and the circumstances relating to the market for the asset being valued will determine which valuation method or methods are most relevant and appropriate. If based on appropriately analysed market derived data each approach or method used should provide an indication of *market value*.

72. Valuation approaches and methods are generally common to many types of valuation. However, valuation of different types of assets involves different sources of data that must reflect the market in which the assets are to be valued. For example, the underlying investment of *real estate* owned by a company will be valued in the context of the relevant *real estate* market in which the *real estate* trades, whereas the shares of the company itself will be valued in the context of the market in which the shares trade.

IVS 101 Scope of Work

Contents | Paragraphs

General Principle

1. There are many different types and levels of valuation advice that may be provided. IVS are designed to apply to a wide spectrum of valuation assignments including a *valuation review* where the reviewer may not be required to provide their own opinion of value. All valuation advice and the work undertaken in its preparation must be appropriate for the intended purpose. It is also important that the intended recipient of the valuation advice understands what is to be provided and any limitations on its use before it is finalised and reported.

Requirements

2. A scope of work shall be prepared and confirmed in writing that addresses the matters set out below. For certain asset classes or applications there may be variations from this standard or additional matters to be included or considered in preparing the scope of work. These are found in the relevant Asset Standard or Valuation Application. In the following list of requirements references to a valuer include a valuation reviewer and to a valuation assignment include a *valuation review*.

(a) Identification and status of the valuer

A statement confirming:

(i) the identity of the valuer. The valuer may be an individual or firm;

(ii) that the valuer is in a position to provide an objective and unbiased valuation;

(iii) whether the valuer has any material connection or involvement with the subject of the valuation assignment or the party commissioning the assignment;

(iv) that the valuer is competent to undertake the valuation assignment. If the valuer needs to seek material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance shall be agreed and recorded.

(b) Identification of the client and any other intended users

Confirmation of those for whom the valuation assignment is being produced is important when determining the form and content of the report to ensure that it contains information relevant to their needs.

Any restriction on those who may rely upon the valuation assignment shall be agreed and recorded.

(c) Purpose of the valuation

The purpose for which the valuation assignment is being prepared shall be clearly stated, eg the valuation is required for loan security, to support a share transfer or to support an issue of shares. The purpose of a valuation will determine the *basis of value*.
It is important that valuation advice is not used out of context or for purposes for which it is not intended.

(d) Identification of the asset or liability to be valued

Clarification may be needed to distinguish between an asset and an interest in or right of use of that asset.

If the valuation is of an asset that is utilised in conjunction with other assets, it will be necessary to clarify whether those assets are included in the valuation assignment, excluded but assumed to be available or excluded and assumed not to be available (see IVS *Framework* paras 23 and 24).

(e) Basis of value

The valuation basis must be appropriate for the purpose. The source of the definition of any *basis of value* used shall be cited or the basis explained. If a *valuation review* is to be undertaken where no opinion of value is to be provided or no comment is required on the *basis of value* used this requirement is not applicable.

The valuation bases recognised by IVS are defined and discussed in the IVS *Framework*, but other bases may be used. It may also be necessary to clarify the currency in which the valuation will be reported.

(f) Valuation date

The *valuation date* may be different from the date on which the valuation report is to be issued or the date on which investigations are to be undertaken or completed. Where appropriate these dates should be clearly distinguished.

(g) Extent of investigation

Any limitations or restrictions on the inspection, inquiry and analysis for the purpose of the valuation assignment shall be set out in the scope of work.

If relevant information is not available because the conditions of the assignment restrict the investigation, if the assignment is accepted, then these restrictions and any necessary assumptions or *special assumptions* shall be recorded in the scope of work.

(h) Nature and source of the information to be relied upon

The nature and source of any relevant information that is to be relied upon and the extent of any verification to be undertaken during the valuation process shall be agreed and recorded.

(i) Assumptions and special assumptions

All assumptions and any *special assumptions* that are to be made in the conduct and reporting of the valuation assignment shall be recorded.

Assumptions are matters that are reasonable to accept as fact in the context of the valuation assignment without specific investigation or verification. They are matters that, once stated, are to be accepted in understanding the valuation or other advice provided.

A *special assumption* is an assumption that either assumes facts that differ from the actual facts existing at the *valuation date* or that would not be made by a typical market participant in a transaction on the *valuation date*.

Special assumptions are often used to illustrate the effect of changed circumstances on value. Examples of *special assumptions* include:

- that a proposed building had actually been completed on the *valuation date*,
- that a specific contract was in existence on the *valuation date* which had not actually been completed,
- that a financial instrument is valued using a yield curve that is different from that which would be used by a market participant.

Only assumptions and *special assumptions* that are reasonable and relevant having regard to the purpose for which the valuation assignment is required shall be made.

(j) Restrictions on use, distribution or publication

Where it is necessary or desirable to restrict the use of the valuation advice or those relying upon it, this shall be recorded. If matters are identified that are likely to cause the valuation advice to be qualified, this shall also be recorded.

(k) Confirmation that the valuation will be undertaken in accordance with the IVS

While confirmation of conformity with IVS is required, there may be occasions where the purpose of the valuation assignment requires a departure from IVS. Any such departure shall be identified together with justification for that departure. A departure would not be justified if it results in a valuation that is misleading.

(l) Description of report

Confirmation of the format of the report to be provided shall be agreed and recorded. Reference shall be made to any of the report contents specified in IVS 103 *Reporting* that are to be excluded.

Changes to Scope of Work

3. Some of the above matters may not be capable of determination until the valuation assignment is in progress, or changes to the scope may become necessary during the course of the assignment, eg additional information may become available or a matter emerge that requires further investigation. The scope of work requirements can be contained in a single document issued at the outset or in a series of documents prepared throughout the course of the assignment providing all matters are recorded before the assignment is completed and the valuation report is issued.

Effective Date

4. The effective date of this standard is 1 January 2014, although earlier adoption is encouraged.

IVS 102 Implementation

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General Principle

1. Valuation assignments, including *valuation reviews*, shall be conducted in accordance with the principles set out in the IVS Framework that are appropriate for the intended purpose for which the assignment is required and the terms and conditions set out in the scope of work.

Investigations

2. Investigations made during the course of a valuation assignment must be adequate having regard to the purpose for which the valuation is required and the *basis of value* to be reported. References to a valuation or valuation assignment in this standard shall include *valuation reviews*.

3. Sufficient evidence shall be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate having regard to the purpose of the valuation. As a matter of practical expediency, it is normal for limits to be agreed on the extent of the valuer's investigations. Any such limits shall be recorded in the scope of work.

4. When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration shall be given as to the credibility and reliability of that information and whether it may be relied upon without adversely affecting the credibility of the valuation opinion. In cases where the valuer has doubts as to the credibility or reliability of information, such information shall either not be used or the valuer's concerns made known to the commissioning party. In considering the credibility and reliability of information provided account shall be taken of matters such as:
    - the purpose of the valuation,
    - the materiality of the information to the valuation conclusion,
    - the expertise of the source in relation to the subject matter,
    - the expertise of the valuer in relation to the subject matter,
    - whether the source is independent of either the subject or the recipient of the valuation,

- the extent to which the information is in the public domain and
- the limits on the duty to investigate included in the scope of work

5. The purpose of the valuation, the *basis of value*, the extent and limits on the investigations and any sources of information that may be relied upon are recorded in the scope of work, see IVS 101 *Scope of Work*. If during the course of an assignment it becomes clear that the investigations included in the scope of work will not result in a credible valuation or information to be provided by third parties is either unavailable or inadequate, an appropriate revision to the scope of work shall be made.

Valuation Approaches

6. Consideration shall be given as to the relevant and appropriate valuation approaches. The principal valuation approaches are described in the IVS *Framework* and methods that are commonly used to apply these approaches to different asset types are discussed in the commentaries to the Asset Standards.

7. The most appropriate valuation approach or method will depend upon consideration of the following:
   - the adopted *basis of value*, determined by the purpose of the valuation,
   - the availability of valuation inputs and data,
   - the approaches or methods used by participants in the relevant market.

8. More than one valuation approach or method may be used to arrive at an indication of value, especially where there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. Where more than one approach and method is used, the resulting indications of value should be analysed and reconciled to reach a valuation conclusion.

Valuation Record

9. A record shall be kept of the work done during the valuation process for a reasonable period having regard to any relevant legal or regulatory requirements. Subject to any such requirements this record shall include the key inputs, all calculations, investigations and analyses relevant to the final conclusion, and a copy of any draft or final report provided to the client.

Effective Date

10. The effective date of this standard is 1 January 2014, although earlier adoption is encouraged.

IVS 103 Reporting

<u>Contents</u> | <u>Paragraphs</u>

General Principle

1. The final step in the valuation process is communicating the results of the assignment to the commissioning party and any other intended users. It is essential that the report communicates the information necessary for proper understanding of the valuation or *valuation review*. A report shall not be ambiguous or misleading and shall provide the intended reader with a clear understanding of the valuation or other advice provided.

2. To provide comparability, relevance and credibility, the report shall set out a clear and accurate description of the scope of the assignment, its purpose and intended use and disclosure of any assumptions, *special assumptions,* material uncertainty or limiting conditions that directly affect the valuation.

3. This standard applies to all valuation reports or reports on the outcome of a *valuation review* whether printed on paper or transmitted electronically. For certain asset classes or applications there may be variations from this standard or additional requirements to be reported upon. These are found in the relevant Asset Standard or Valuation Application.

Report Contents

4. The purpose of the valuation, the complexity of the asset being valued and the users' requirements will determine the level of detail appropriate to the valuation report. The format of the report and any exclusion from the content requirements of this standard should have been agreed and recorded in the scope of work.

5. All reports shall include reference to the matters listed below. Items (a) to (k) in this list relate to matters that should be recorded in the scope of work (see IVS 101 Scope of Work). It is recommended that the scope of work be referred to in the report. In the following list of requirements references to a valuer include a valuation reviewer and references to a valuation assignment include a *valuation review*.

   (a) Identification and status of the valuer

   The valuer can be an individual or a firm. A statement confirming that the valuer is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation assignment shall be included.

The report shall include the signature of the individual or firm responsible for the valuation assignment.

If the valuer has obtained material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance shall be referenced in the report.

(b) Identification of the client and any other intended users

The party commissioning the valuation assignment shall be identified together with any other parties whom it is intended may rely on the results of the assignment (see also (j) below).

(c) Purpose of the valuation

The purpose of the valuation assignment shall be clearly stated.

(d) Identification of the asset or liability to be valued

Clarification may be needed to distinguish between an asset and an interest in or right of use of that asset.

If the valuation is of an asset that is utilised in conjunction with other assets, it will be necessary to clarify whether those assets are included in the valuation assignment, excluded but assumed to be available or excluded and assumed not to be available (see IVS *Framework* paras 23 and 24).

(e) Basis of value

This shall be appropriate for the purpose. The source of the definition of any *basis of value* used shall be cited or the basis explained. Some common valuation bases are defined and discussed in the IVS *Framework*.

If a *valuation review* is to be undertaken where no opinion of value is to be provided or no comment is required on the *basis of value* used this requirement is not applicable.

(f) Valuation date

The *valuation date* may be different from the date on which the valuation report is issued or the date on which investigations are to be undertaken or completed. Where appropriate these dates shall be clearly distinguished in the report.

This requirement does not apply to a *valuation review* unless the reviewer is required to comment on the *valuation date* used in the valuation under review.

(g) Extent of investigation

The extent of the investigations undertaken, including the limitations on those investigations set out in the scope of work, shall be disclosed in the report.

(h) Nature and source of the information relied upon

The nature and source of any relevant information relied upon in the valuation process and the extent of any steps taken to verify that information shall be disclosed. To the extent that information provided by the commissioning party or another party has not been verified by the valuer, this should be clearly stated with reference, as appropriate, to any representation from that party.

(i) Assumptions and special assumptions

All assumptions and any *special assumptions* made shall be clearly stated.

(j) Restrictions on use, distribution or publication

Where it is necessary or desirable to restrict the use of the valuation or those relying upon it, this shall be stated.

(k) Confirmation that the assignment has been undertaken in accordance with the IVS

While confirmation of conformity with IVS is required, there may be occasions where the purpose of the valuation assignment requires a departure from the IVS. Any such departure shall be identified, together with justification for that departure. A departure would not be justified if it results in a valuation that is misleading.

(l) Valuation approach and reasoning

To understand the valuation figure in context, the report shall make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusions reached.

Where the report is of the results of a *valuation review* it shall state the reviewer's conclusions about the work under review, including supporting reasons.

These requirements do not apply if it has been specifically agreed and recorded in the scope of work that a report shall be provided without reasons or other supporting information.

(m) Amount of the valuation or valuations

This shall be expressed in the applicable currency.

This requirement does not apply to a *valuation review* if the valuer is not required to provide their own valuation opinion.

(n) Date of the valuation report

The date on which the report is issued shall be included. This may be different from the *valuation date* (see (f) above).

Effective Date

6. The effective date of this standard is 1 January 2014, although earlier adoption is encouraged.

IVS 200 Businesses and Business Interests

<u>Contents</u> <u>Paragraphs</u>

REQUIREMENTS

1. The principles contained in the General Standards apply to valuations of businesses and business interests. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for valuations to which this standard applies.

Scope of Work (IVS 101)

2. To comply with the requirement to identify the asset or liability to be valued in IVS 101 para 2(d), the specific interest in the business to be valued shall be recorded. This will include items such as specifying the legal structure of the business, whether it is a whole or partial interest, whether it is confined to or excludes certain assets or liabilities and the class or classes of shares involved.

3. Typical assumptions or *special assumptions* that may need to be stated to comply with IVS 101 para 2(i) when valuing a business or business interest include:
   - in the case of a partial interest, an assumption clarifying whether the owner or owners of the remaining interest(s) are either intending to sell or retain their holdings,
   - whether certain assets or liabilities owned by the business are to be disregarded.

Implementation (IVS 102)

4. If the valuation is of an interest that has the ability to liquidate the assets of the business, consideration shall be given as to whether the total value of the assets sold individually following liquidation would exceed their combined value as a going concern.

Reporting (IVS 103)

5. There are no additional requirements for businesses and business interests other than inclusion of appropriate references to matters addressed in the scope of work in accordance with paras 2 and 3 above.

Effective Date

6. The effective date of this standard is 1 January 2014, although earlier adoption is encouraged.

IVS 210 Intangible Assets

REQUIREMENTS

1. The principles contained in the General Standards apply to valuations of *intangible assets*. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for valuations to which this standard applies.

Scope of Work (IVS 101)

2. To comply with the requirement in IVS 101 para 2(d) to identify the asset or liability to be valued, the *intangible asset* shall be clearly defined by reference to its type and the legal right or interest in that asset. The main types of *intangible asset* and their typical characteristics are discussed in paras C1 to C13 of the Commentary to this standard.

3. The scope of work should identify any contributory assets and confirm whether or not these are to be included in the valuation. A contributory asset is one that is used in conjunction with the subject asset to generate the cash flows associated with the subject asset. If contributory assets are to be excluded, it will be necessary to clarify whether the subject *intangible asset* is to be valued on the assumption that the contributory assets are available to a buyer or on the assumption that they are not, ie the subject asset is valued on a stand-alone basis.

4. Common examples of assumptions or *special assumptions* that arise when valuing *intangible assets* and that are required to be referred to by IVS 101 para 2(i) include that a patent has been granted when none exists at the *valuation date* or that a competing product had entered or had left the market.

Implementation (IVS 102)

5. There are no additional requirements for *intangible assets*.

Reporting (IVS 103)

6. There are no additional requirements for *intangible assets* other than inclusion of appropriate references to matters addressed in the scope of work in accordance with paras 2 to 4 above.

Effective Date

7. The effective date of this standard is 1 January 2012, although earlier adoption is encouraged.

IVS 220 Plant and Equipment

<u>Contents</u> <u>Paragraphs</u>

REQUIREMENTS

1. The principles contained in the General Standards apply to valuations of plant and equipment. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for valuations to which this standard applies.

Scope of Work (IVS 101)

2. To comply with the requirement to identify the asset or liability to be valued in IVS 101 para 2(d), consideration shall be given to the degree to which the item of plant and equipment is attached to or integrated with other assets. For example:

   - assets may be permanently attached to the land and could not be removed without substantial demolition of either the asset or any surrounding structure or building,
   - an individual machine may be part of an integrated production line where its functionality is dependent upon other assets.

   In such cases it will be necessary to clearly define what is to be included or excluded from the valuation. Any necessary assumptions or *special assumptions* relating to the availability of any complementary assets shall also be stated, see also para 4 below.

3. Plant and equipment connected with the supply or provision of services to a building are often integrated within the building and once installed are not separable from it. These items will normally form part of the *real property* interest. Examples include plant with the primary function of supplying electricity, gas, heating, cooling or ventilation to a building and equipment such as elevators. If the purpose of the valuation requires these items to be valued separately the scope of work shall include a statement to the effect that the value of these items would normally be included in the *real property* interest and may not be separately realisable. When different valuation assignments are undertaken to carry out valuations of the *real property* interest and plant and equipment assets at the same location, care is necessary to avoid either omissions or double counting.

4. Because of the diverse nature and transportability of many items of plant and equipment, additional assumptions will normally be required to describe the state and circumstances in which the assets are valued. In order to comply with IVS 101 para 2(i) these must be considered and included in the scope of work. Examples of assumptions that may be appropriate in different circumstances include:

- that the plant and equipment assets are valued as a whole, in place and as part of the business, considered as a going concern,
- that the plant and equipment assets are valued as a whole, in place but on the assumption that the business is closed,
- that the plant and equipment assets are valued as individual items for removal from their current location.

In some circumstances, it may be appropriate to report on more than one set of assumptions, eg in order to illustrate the effect of business closure or cessation of operations on the value of plant and equipment.

Implementation (IVS 102)

5. There are no additional requirements for plant and equipment.

Reporting (IVS 103)

6. In addition to the minimum requirements in IVS 103 *Reporting*, a valuation report on plant and equipment shall include appropriate references to matters addressed in the scope of work in accordance with paras 2 to 4 above. The report shall also include comment on the effect on the reported value of any associated tangible or *intangible assets* excluded from the valuation, eg operating software for a machine or a continued right to occupy the land on which the item is situated.

Effective Date

7. This standard is effective from 1 January 2012, although earlier adoption is encouraged.

IVS 230 Real Property Interests

<u>Contents</u> <u>Paragraphs</u>

REQUIREMENTS

1. The principles contained in the General Standards apply to valuations of *real property* interests. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for valuations to which this standard applies.

Scope of Work (IVS 101)

2. To comply with the requirement to identify the asset to be valued in IVS 101 para 2(d) the following matters shall be included:

   - a description of the real property interest to be valued,
   - identification of any superior or subordinate interests that affect the interest to be valued.

3. To comply with the requirements to state the extent of the investigation and the nature and source of the information to be relied upon in IVS 101 para 2(g) and (h) respectively the following matters shall be considered:

   - the evidence required to verify the *real property* interest and any relevant related interests,
   - the extent of any inspection,
   - responsibility for information on the site area and any building floor areas,
   - responsibility for confirming the specification and condition of any building,
   - the extent of investigation into the nature, specification and adequacy of services,
   - the existence of any information on ground and foundation conditions,
   - responsibility for the identification of actual or potential environmental risks,
   - Legal permissions or restrictions on the use of the property and any buildings.

4. Typical examples of *special assumptions* that may need to be agreed and confirmed in order to comply with IVS 101 para 2(i) include:

- that a defined physical change had occurred, eg a proposed building is valued as if complete at the *valuation date*,
- that there had been a change in the status of the property, eg a vacant building had been leased or a leased building had become vacant at the *valuation date*.

Implementation (IVS 102)

5. There are no additional requirements for *real property* interests.

Reporting (IVS 103)

6. There are no additional requirements for *real property* interests other than inclusion of appropriate references to matters addressed in the scope of work in accordance with paras 2 to 4 above.

Effective Date

7. The effective date of this standard is 1 January 2014, although earlier adoption is encouraged.

IVS 233 Investment Property under Construction

Contents	**Paragraphs**

REQUIREMENTS

1. The principles contained in the General Standards and in IVS 230 *Real Property Interests* apply to valuations of *investment property* under construction. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for valuations to which this standard applies.

Scope of Work (IVS 101)

2. To comply with the requirements to state the extent of investigations and nature and source of the information to be relied upon in IVS 101 para 2(g) and (h) respectively the following matters shall be commented upon:

   - the source of information on the proposed building, eg identifying the plans and specification which will be used to indicate the value of the completed project,
   - the source of information on the construction and other costs required to complete the project.

3. Typical examples of assumptions or *special assumptions* that may need to be agreed and confirmed in order to comply with IVS 101 para 2(i) include:

   - that the building will be completed in accordance with the identified plans and specification,
   - that any preconditions required for agreed leases of the completed building would be met or complied with.

Implementation (IVS 102)

4. There are no additional requirements for *investment property* under construction.

Reporting (IVS 103)

5. In addition to the requirements of IVS 103 *Reporting* and IVS 230 *Real Property Interests* a valuation report on *investment property* under construction shall include appropriate references to matters addressed in the scope of work in accordance with paras 2 and 3

above. The report shall also include comment on such of the following matters as is relevant to the purpose of the valuation:

- a statement that the project is under construction,
- a description of the project,
- a description of the stage of development reached, the estimated cost to complete and the source of that estimate,
- identification of and, where possible, quantification of the remaining risks associated with the project, distinguishing between the risks in respect of generating rental income and construction risks,
- a description of how the risks have been reflected in the valuation,
- the key inputs to the valuation and the assumptions made in determining those inputs,
- a summary of the status of any outstanding major contracts, if relevant.

Effective Date

The effective date of this standard is 1 January 2014, although earlier adoption is encouraged.

IVS 250 Financial Instruments

Contents   Paragraphs

REQUIREMENTS

1. The principles contained in the General Standards apply to valuations of financial instruments. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for valuations to which this standard applies.

Scope of Work (IVS 101)

2. When valuations are being undertaken by the holding entity that are intended for use by external investors, regulatory authorities or other entities, to comply with the requirement to confirm the identity and status of the valuer in IVS 101 para 2(a), reference shall be made to the control environment in place, see Commentary paras C31 to C35 below.

3. To comply with the requirement to identify the asset or liability to be valued as in IVS 101 para 2(d) the following matters shall be addressed:

   - the class or classes of instrument to be valued,
   - whether the valuation is to be of individual instruments, a portfolio of identical instruments or a whole portfolio of assets.

Implementation (IVS 102)

4. There are no additional requirements for financial instruments.

Reporting (IVS 103)

5. To comply with the requirement to disclose the valuation approach and reasoning in IVS 103 para 5(l), consideration shall be given to the appropriate degree of reporting detail. This will differ for different categories of financial instrument. Sufficient information should be provided to allow users to understand the nature of each class of instrument valued and the primary factors influencing the values. Information that adds little to a users' understanding as to the nature of the asset or that obscures the primary factors influencing value shall be avoided. In determining the level of disclosure that is appropriate, regard shall be had to the following:

- Materiality

  The value of an instrument or class of instruments in relation to the total value of the holding entity's assets and liabilities or the portfolio that is valued.

- Uncertainty

  The value of the instrument may be subject to material uncertainty on the *valuation date* due to the nature of the instrument, the model or inputs used or to market abnormalities. Disclosure of the cause and nature of any material uncertainty should be made.

- Complexity

  For complex instruments a more detailed description of the nature of the instrument and the factors influencing value is normally appropriate.

- Comparability

  The instruments that are of particular interest to users may differ with the passage of time. The usefulness of the valuation report, or any other reference to the valuation, is enhanced if it reflects the information demands of users as market conditions change, although to be meaningful the information presented should allow comparison with previous periods.

- Underlying assets

  If the cash flows of an instrument are generated from or secured by specific underlying assets, information about matters affecting the current value of those assets will help users to understand the reported value of the instrument.

6. When financial instruments are valued for inclusion in a financial report prepared under IFRS, IFRS 7 requires specific disclosures depending upon where the instrument is classified within the hierarchy of valuation inputs, see IVS 300 *Valuations for Financial Reporting.*

Effective Date

7. This effective date of this standard is 1 January 2012, although earlier adoption is encouraged.

IVS 300 Valuations for Financial Reporting

Contents | Paragraphs

INTRODUCTION

Valuations are required for different accounting purposes in the preparation of the financial reports or statements of companies and other entities. Examples of different accounting purposes include measurement of the value of an asset or liability for inclusion on the statement of financial position, allocation of the purchase price of an acquired business, impairment testing, lease classification and valuation inputs to the calculation of depreciation charges in the profit and loss account.

The Guidance section of this Application (excluded from this version) makes references to various requirements under the International Financial Reporting Standards (IFRSs). Although the IFRSs are the most widely adopted *Financial Reporting Standards* globally, national standards are also extensively used. Although it is impractical to make reference to national accounting standards in an international guidance document, many are similar to or converging with IFRSs. The guidance given may therefore be relevant for valuations for use in Financial Reporting Standards other than IFRSs.

DEFINITIONS

In this Application the following definitions apply:

Financial Reporting Standards: any recognised or adopted standards for the preparation of periodic statements of an entity's financial position. These may also be referred to as accounting standards.

International Financial Reporting Standards (IFRSs): standards and interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

(a) International Financial Reporting Standards,

(b) International Accounting Standards, and

(c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Unit of Account: the level at which an asset to be valued is aggregated or disaggregated with other assets.

REQUIREMENTS

1. Valuations undertaken for inclusion in a financial statement shall be provided to meet the requirements of the Financial Reporting Standards that are applicable. The principles contained in the General Standards (IVS 101, 102 and 103) also apply except as specifically modified by a requirement of the relevant accounting standard or by this standard.

Scope of Work (IVS 101)

2. To comply with the requirement to confirm the purpose of the valuation in IVS 101 para 2(c) the scope of work shall include identification of the applicable Financial Reporting Standards including the specific accounting purpose for which the valuation is required. The accounting purpose is the use for which the valuation is required in the financial statements, eg measuring the carrying amount, undertaking an allocation of the purchase price following a business combination, impairment testing, lease classification or for calculating the depreciation charge for an asset.

3. In addition to the requirement to identify the asset to be valued in IVS 101 para 2(d) the scope of work shall include confirmation of how that asset is used or classified by the reporting entity. The required accounting treatment for identical or similar assets or liabilities can differ according to how they are used by an entity. For example:

   - the treatment of *real property* owned by an entity may differ depending on whether it is occupied for the purpose of the entity's business, is held as an investment, is surplus to requirements or, in the case of a development company, is treated as stock in trade,
   - financial instruments that are held to collect contractual cash flows that consist solely of payments of the principal and interest may be treated differently to other forms of instruments,
   - *intangible assets* acquired by a business merger or acquisition may be treated differently from similar assets already owned by an entity.

   Where an asset is utilised in conjunction with other separately identifiable assets the unit of account shall be identified. The relevant Financial Reporting Standard may stipulate how the unit of account, or degree of aggregation, is to be determined for different asset types or for different accounting purposes.

   To comply with IVS 101 para 2(e) the specific *basis of value* shall be clearly identified. Examples of bases required in accounting standards include fair value, net realisable value and recoverable amount. The definition will be provided in the relevant accounting standard.

4. To comply with IVS 101 para 2(i) any assumptions to be made shall be stated. The appropriate assumptions will vary depending on how an asset is held or classified. Most Financial Reporting Standards provide that financial statements are produced on the assumption that the entity is a going concern unless management either intends to liquidate the entity or cease trading or has no realistic alternative but to do so. Except in the case of financial instruments it is therefore normally appropriate to include an assumption that the asset or assets will continue to be used as part of the business of which they form part. This assumption does not apply in cases where it is clear that there is either an intention to liquidate the entity, to dispose of a particular asset or that there is a requirement to consider the sum that could be recovered from disposal or retirement of the asset.

5. It will also be necessary to state the assumptions that will be made to define the unit of account, eg whether the asset is to be valued on a stand-alone basis or in combination with other assets. The relevant accounting standard may have stipulations as to the assumptions, or valuation premise that can be made.

6. It would not normally be appropriate for a valuation prepared for inclusion in a financial statement to be made on the basis of a *special assumption*.

7. In considering any restrictions referred to under IVS 101 para 2(j) consideration shall be given to:

   (a) the extent and form of any references to the valuation that may appear in the published financial statements,

   (b) the extent of the valuers' duty to respond to any questions on the valuation raised by the entity's auditor.

   Appropriate references to these matters shall be included in the scope of work.

Implementation (IVS 102)

8. There are no additional requirements when undertaking valuations for financial reporting.

Reporting (IVS 103)

9. In addition to the minimum requirements in IVS 103 *Reporting*, a valuation report for use in a financial statement shall include appropriate references to matters addressed in the scope of work in accordance with paras 2 to 7 above.

10. The report shall also contain any information that the reporting entity is required to disclose about the valuation by the relevant Financial Reporting Standards. Examples of disclosures required about fair value measurements include methods and significant assumptions used in the measurement and, or whether, the measurement was determined by reference to observable prices or recent market transactions. Some standards also require information about the sensitivity of the measurement to changes in significant inputs.

11. Where the effect on value of any assumption made is material, the effect of that assumption shall be disclosed in the report.

12. To comply with the requirement to state restrictions on use, distribution or publication in IVS 103 para 5(j) the report shall include reference to any conditions on how it may be reproduced or referred to in the published financial statements of the entity.

Effective Date

13. This standard is effective from 1 January 2014, although earlier adoption is encouraged.

IVS 310 Valuations of Real Property Interests for Secured Lending

<u>Contents</u> | <u>Paragraphs</u>

INTRODUCTION

Loans from banks and other financial institutions are often secured by the collateral of the borrower's *real property* interests. The lending may be by way of a mortgage or other forms of fixed or floating charge. The common factor is that the lender has the power to recover the loan by taking control of the collateral in the event of default by the borrower. Different types of property may be offered as collateral.

REQUIREMENTS

1. The principles contained in the General Standards and in IVS 230 *Real Property Interests* apply to valuations for secured lending unless these are modified by this standard. This standard includes only any modifications, additional requirements or specific examples of how the General Standards apply.

Scope of Work (IVS 101)

2. To comply with the requirement to confirm the identity and status of the valuer in IVS 101 para 2(a), the scope of work shall additionally include a disclosure of any material involvement that the valuer has with either the property to be valued, the borrower or a prospective borrower. The materiality of existing or past involvement is a matter of professional judgement for the valuer but the principal criteria is whether the involvement would be likely to give rise to doubt in the mind of a reasonable person as to the ability of the valuer to provide an impartial valuation if it were discovered after the valuation had been carried out.

3. To comply with the requirement to identify the assets to be valued in IVS 101 para 2(d), the *real property* interest to be used as the collateral for securing the loans or other financing arrangements shall be clearly identified, together with the party in whom the interest is currently vested.

4. The *basis of value* to be specified in accordance with IVS 101 para 2(e) will normally be *market value*. Some lenders request valuations on the assumption of a forced sale or impose a time limit for the hypothetical disposal of the property. Because the impact on price of any constraint on the marketing period will depend upon the circumstances at the time that sale takes place, it is not realistic to speculate on the price that could be obtained without knowledge of those circumstances. A valuation may be provided on the basis of defined *special assumptions* recorded in the scope of work. In such cases, a statement should be made that the value will be valid only at the *valuation date* and may not be achievable in the event of a future default, when both market conditions and the sale circumstances may be different.

5. Valuations for secured lending are often required on the *special assumption* that there has been a change in the state or condition of the property. To comply with the requirement to state any assumption in IVS 101 para 2(i) any *special assumptions* that are necessary shall be included in the scope of work. Examples of *special assumptions* that are commonly made in secured lending valuation include:

   (a) that a proposed building had been completed at the *valuation date*,

   (b) that a proposed lease of the property had been completed at the *valuation date*,

   (c) that a specified occupancy level had been reached by the *valuation date*,

   (d) that the seller had imposed a time limit for disposal that was inadequate for proper marketing.

Implementation (IVS 102)

6. There are no additional requirements when undertaking valuations for secured lending.

Reporting (IVS 103)

7. In addition to those matters required by IVS 103 *Reporting*, a valuation report for secured lending shall include appropriate references to matters addressed in the scope of work in accordance with paras 2 to 5 above. The report shall also include comment on factors that are relevant to a lenders assessment of the performance of security over the life of the proposed loan. Examples of these factors include:

   (a) current activity and trends in the relevant market,

   (b) historic, current and anticipated future demand for the type of property and location,

   (c) any potential, and likely demand for, alternative uses that exist or can be anticipated at the *valuation date*,

   (d) the impact of any events foreseeable at the *valuation date* on the probable future value of the security during the loan period. An example would be a tenant exercising an option to break a lease,

   (e) where the *market value* is provided subject to a *special assumption*, the report shall include:

      (i) an explanation of the *special assumption,*

      (ii) a comment on any material difference between *market value* and the *market value* subject to the *special assumption*,

      (iii) a comment that such value may not be realisable at a future date unless the factual position is as described in the *special assumption*.

8. Where the proposed loan is to support a purchase of a property interest, there will normally be a sale price agreed or confirmed. Enquiries should be made to establish this price and the result of those enquiries referred to in the report. Where there is a difference between a recent or pending transaction price and the valuation, the report shall comment on the reasons for this difference.

Effective Date

9. This standard is effective from 1 January 2012, although earlier adoption is encouraged.