



IVS Agenda Consultation 2020

Invitation to Comment



Issued: 16 October 2020
Comments Due: 15 January 2021



Notice to Recipients of this Agenda Consultation Invitation to Comment

The IVSC Technical Boards invite feedback on all matters in this Agenda Consultation Invitation to Comment. We request comments by 15 January 2021 by one of the following methods:

- Emailing comments to aaronsohn@ivsc.org or comments@ivsc.org.
File reference **IVS Agenda Consultation 2020**

or

- Respond using the IVS Agenda Consultation 2020 Feedback Form and send to aaronsohn@ivsc.org or comments@ivsc.org.

All comments received are part of the IVSC's public file and are available at www.ivsc.org.

A copy of this Agenda Consultation Invitation to Comment is also available at www.ivsc.org.

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Letter from Mark Zyla
Chair, IVSC Standards Review Board



Dear All

Further to the publication of IVS (*effective 31 January 2020*) the IVSC Standards Review Board, together with the IVSC Business Valuation Board and the IVSC Tangible Assets Board (collectively the IVSC Technical Boards), have decided to publish an Agenda Consultation Invitation to Comment paper to consult with stakeholders and other interested parties on future topics to be included in any revisions to IVS.

The IVSC is committed to publishing an Agenda Consultation on a triennial basis as part of an open consultative standard setting-process. This edition provides an update on the previous Gap Analysis included in the IVS Agenda Consultation 2017 together with a summary of potential future topics in order to gain feedback on the valuation topics that stakeholders feel should be prioritised or added to the IVSC's agenda.

The consultation process for this IVS Agenda Consultation is now open. Accordingly, the IVSC Technical Boards encourage participation within the 90 day consultation period ending 15 January 2021 from all individuals and organisations. As part of the IVSC's commitment to a fully open and collaborative consultation process, all comments received as part of the consultation process will be published on the IVSC website and within the IVS Agenda Consultation Invitation to Comment 2020: Basis for Conclusions.

We look forward to your participation in the IVSC Agenda Consultation and incorporating the views and recommendations from practitioners, valuation professional organisations, academics, corporations and regulators, among others.

Kind regards

A handwritten signature in blue ink, appearing to read 'Mark Zyla', written over a horizontal line.

Mark Zyla
Chair, IVSC Standards Review Board



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Introduction

Purpose of the Agenda Consultation Invitation to Comment

The purpose of this Agenda Consultation Invitation to Comment is to solicit feedback about:

1. The valuation topics that the IVSC should address as part of its current agenda, and
2. Additional valuation topics that stakeholders feel should be prioritised or added to the IVSC's agenda.

Stakeholders are invited to comment on all matters in this Agenda Consultation Invitation to Comment. Questions related to each specific valuation topic are included at the end of each chapter. In addition to the questions included within each chapter, the IVSC welcomes general feedback from respondents which may include among the following:

1. Are the valuation topics described in this Agenda Consultation Invitation to Comment areas for which there is potential for significant improvement as compared with IVS (effective 31 January 2020)?
2. What is the priority of addressing each topic?
3. What should be the IVSC's next step to address each topic? For example, should the IVSC issue a discussion paper, an exposure draft, or take some other action?
4. Are there other major valuation topics not described in this Agenda Consultation Invitation to Comment that the IVSC should consider adding to its agenda?

Background

The IVSC issued IVS (effective 31 January 2020), which represented its efforts to continue to harmonise and advance the entirety of IVS. In 2019, the IVSC published IVS (effective 31 January 2020): *Bases of Conclusions* (reflecting changes introduced to IVS). As such, with the completion of these major projects (see Appendix), the IVSC has begun to consider other major projects and additional targeted improvements to IVS. On the basis of comments received from previous IVS consultations and other inputs submitted from stakeholders, the IVSC Technical Boards have identified the following major valuation topics to include in this Agenda Consultation Invitation to Comment (*shown in chapter order*):

- IVS Gap Analysis
- Automated Valuation Models (AVMs)
- Environmental, Social and Governance (ESG)
- Long-Term Value
- Social Value
- Uncertainty and Risk
- Data Management

The IVSC Technical Boards acknowledge that these topics are unlikely to represent an exhaustive list of topics that are relevant to the IVSC's stakeholders. As such, as part of this Agenda Consultation Invitation to Comment, stakeholders are encouraged to provide feedback



on other valuation issues not described in this Agenda Consultation Invitation to Comment that the IVSC should consider adding to its agenda (see Chapter I Gap Analysis).

Structure of this Agenda Consultation Invitation to Comment

This Agenda Consultation Invitation to Comment also includes a chapter for the Gap Analysis on each of the seven major topics identified by the IVSC Technical Boards. Each chapter, with the exception of the Gap Analysis, includes:

1. A summary of the valuation topic including relevant context and history, discussion of stakeholder concerns related to the topic, and the IVSC Technical Boards' rationale on why Standards related to the topic may be necessary;
2. Specific questions for the respondents to address to aid the IVSC in its next steps related to each topic.



I: IVS Gap Analysis

Background

The IVSC Technical Boards published their previous Agenda Consultation Invitation to Comment in 2017 and the IVS Agenda Consultation Invitation to Comment 2017: Basis for Conclusions as part of an open consultative standard-setting process. Since the publication of the IVS 2017 Agenda Consultation Invitation to Comment the IVSC Technical Boards have made considerable progress in dealing with topics outlined in the previous Gap Analysis. Further details on the progress made on each topic are outlined in the Appendix, IVS 2017 Agenda Consultation Invitation to Comment Update contained to the rear of this document.

Scope

Further to the publication of the IVS Financial Instruments Agenda Consultation in 2019, the IVSC Technical Boards agreed that the scope of the Gap Analysis should be focussed on business valuation and intangible assets and tangible assets (ie, land, personal property, plant and machinery and real estate).

The IVSC Technical Boards identified the following topics for potential future projects. These projects identified in the previous Agenda Consultation in 2017 have not yet been re-prioritised as the IVSC Technical Boards are waiting for further market feedback from this Agenda Consultation Invitation to Comment as part of an open standard-setting process.

Future topics for projects may include the issuance of future standards and perspective papers and are discussed in additional detail in the Gap Analysis section below. These topics include:

1. Analysis of Commercial Lease Transactions
2. Contracts
3. International/Multinational Valuations
4. Recovery and Resolution
5. Valuation of Individual Trade-Related Properties
6. Depreciated Replacement Cost Method of Valuation for Financial Reporting
7. Funding Valuation Adjustments

The IVSC Technical Boards also discussed market needs with other stakeholders in order to gain further understanding on particular areas where there is inconsistent valuation practice and a need for additional valuation standards.



The IVSC Technical Boards have initially agreed the following alphabetised Gap Analysis topics for further prioritisation:

- Alternative investments
- Analysis of commercial lease transactions
- Automated valuation models
- Challenges to market value
- Contracts
- Contingent considerations
- Data and data integrity
- Data management
- Depreciated replacement cost method of valuation for financial reporting
- Environmental, social and governance (ESG)
- Funding valuation adjustments
- Governance
- IBOR replacement
- Impairment of financial instruments
- Insurance contracts
- Internally generated intangibles
- International/Multinational valuations
- IVS glossary
- IVS 500 financial instruments
- IVS additional technical revisions
- Long-term value
- Long-term growth rate and considerations in low interest rate environments
- Model risk management
- Model validation
- Negative interest rates
- Pension liabilities
- Personal property
- Recovery and resolution
- Social value
- Uncertainty and risk
- Valuation of individual trade-related properties
- Valuation adjustments
- Workforce valuation (human capital)

Revised Gap Analysis

Further to discussion amongst stakeholders the IVSC Technical Boards revised the previous IVS 2017 Gap Analysis (see Appendix) and identified and revised potential IVS topics either according to specialism or in some instances highlighting that these topics were relevant across specialisms. The IVSC Technical Boards further divided these topics into IVS Technical Review, Consequential Amendments, Standards and Perspective Papers to be issued by the relevant IVSC Technical Board. Certain topics, such as ESG and Social Value, may initially be issued as Perspectives Papers. Further to market feedback following publication of these Perspectives Papers the IVSC Technical Boards may subsequently decide to issue a standard on the topics. The Technical Boards also agreed the following categorisation and prioritisations for these topics:

- Short Term 0 to 2 years
- Medium Term 2 to 5 years
- Long Term 5 years plus

Based on the revised IVSC Gap Analysis, the following table shows topics which the IVSC Technical Boards perceived potential market need for future technical review, consequential amendments, standards and perspective papers to further understand the issues.



The revised suggested Gap Analysis is comprised of topics where the IVSC Technical Boards perceived there is a potential market need for future technical review, Consequential Amendments, Standards and Perspective Papers to further understand the issues or future standards follows in the table below.

| Topics | Board* | IVS Technical Review | Consequential Amendments | Standard | Perspective Paper |
|--|--------|----------------------|--------------------------|----------|-------------------|
| Short term (0-2 years) | | | | | |
| Automated Valuation Models | TA | | | X | |
| Challenges to Market Value | SR | | | | X |
| Contingent Considerations | BV | | X | | |
| Data and Data Integrity | FI | | | X | |
| Data Management | SR | | | X | |
| Environmental, Social & Governance (ESG) | SR | | | | X |
| Governance | SR | | | X | |
| IBOR Replacement | FI | | | X | |
| Impairment of Financial Instruments | FI | | X | | |
| Insurance Contracts | FI | | X | | |
| Internally Generated Intangibles | BV | | | X | |
| IVS Glossary | SR | X | | | |
| IVS 500 <i>Financial Instruments</i> | FI | | X | | |
| IVS Additional Technical Revisions | FI | | | X | |
| Long-term growth rate and considerations in low interest rate environments | BV | | | | X |
| Model Risk Management | FI | | | X | |
| Negative Interests Rates | BV | | | | X |
| Pension Liabilities | FI | | | X | |
| Personal Property | TA | | | | X |
| Social Value | TA | | | | X |
| Uncertainty and Risk | SR | | | X | |
| Valuation Adjustments | FI | | X | | |
| Workforce Valuation (Human Capital) | BV | | | | X |
| Medium Term (2-5 years) | | | | | |
| Alternative Investments | FI | | | X | |
| Analysis of Commercial Lease Transactions | TA | | | X | |
| Contracts | SR | | | | X |
| International/Multinational Valuations | SR | | | X | |
| Long-term Value | TA | | | X | |
| Recovery and Resolution | SR | | | X | |
| Valuation of Individual Trade-Related Properties | TA | | | X | |
| Long Term (5 years plus) | | | | | |
| Depreciated Replacement Cost Method of Valuation for Financial Reporting | SR | | | X | |
| Funding Valuation Adjustments | SR | | | | X |
| *Board Index: BV = Business Valuation TA = Tangible Asset FI = Financial Instruments SR = Standards Review | | | | | |

Questions for Respondents/Consultation Questions

Question 1.1: Do you agree with the current categorisation and timings of the topics contained in the IVS Gap Analysis and if not why?

Question 1.2: Are there any other topics which you believe should be included or deleted from the IVS Gap Analysis and if so why? (Please state the relevant specialism, categorisation and timing for any proposed additional topics).



II: Automated Valuation Models (AVMs)

Background

Further to the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft and additional discussions with stakeholders the IVSC Technical Boards engaged in discussions on Valuation Modelling and Automated Valuation Models (AVMs).

The IVSC Technical Boards had originally begun to look at this topic due to market feedback on technological disruption caused by the increasing use of Automated Valuation Models (AVMs) in many markets, particularly by banks and valuers for the valuation of residential properties for secured lending purposes. The IVSC Technical Boards felt that many of these AVMs were used by stakeholders who may take the valuations at face value without fully understanding the purpose, workings or limitations of the model that they are using. Moreover, certain valuers could mistakenly believe that calculations (such as those derived from AVMs) are compliant with IVS.

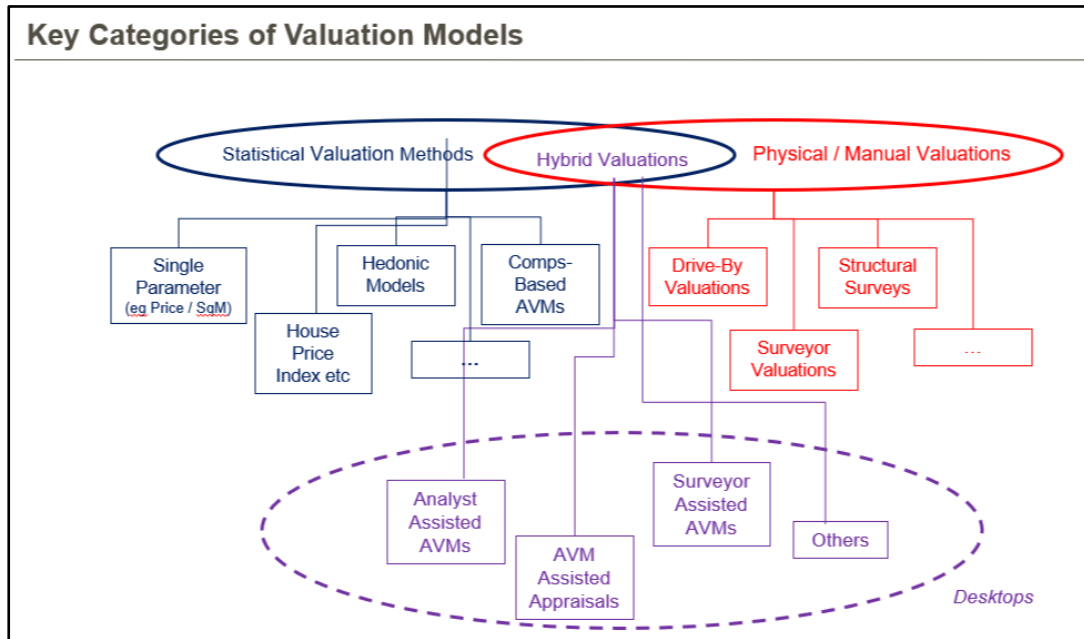
Further to discussions amongst the IVSC Technical Boards it was decided that the issue was greater than just the use of AVMs, as most valuations were conducted using some form of model as a tool for analysis, which can be applied in automated, semi-automated or manual format. Furthermore, the IVSC Technical Boards felt that when a valuation model is used *“the valuer must take responsibility for the output of the valuation model and keep appropriate records to support the selection of the model”*.

The IVSC Technical Boards agreed that in the first instance IVS should include a section comprising an overarching valuation standard on valuation modelling requirements within IVS 104 *Valuation Approaches and Methods*. This work has already been completed and IVS (effective 31 January 2020) includes Section 90 Valuation Model. The IVSC Technical Boards are planning to include standards on data management within the General Standards and within the forthcoming IVS Additional Technical Revisions. In the future the IVSC Technical Boards are also considering the inclusion of more specialism-specific valuation modelling standards within the Asset Standards, such as a possible section on the use of AVMs within IVS 400 *Real Property Interests* or further standards on the use of valuation models for business valuation or the valuation of financial instruments.

Further to the publication of IVS (effective 31 January 2020) the IVSC Technical Boards set up a cross specialism AVM, Data and Modelling working group in March 2020 to review the General and Asset Standards and see if further standards were required in relation to AVMs, Data and Modelling. The working group is comprised of the following members:

| Name | IVSC Board |
|--------------------|--|
| Alexander Aronsohn | Technical Director, IVSC Tangible Assets Standards |
| Mauro Bini | IVSC Standards Review Board |
| Kumar Dasgupta | Technical Director, IVSC Financial Instruments Standards |
| Ben Elder | Chair, IVSC Tangible Assets Board; IVSC Standards Review Board |
| Ian Jedlin | IVSC Standards Review Board |
| Colin Martin | IVSC Standards Review Board |
| Olivier Peronnet | IVSC Standards Review Board |
| Kevin Prall | Technical Director, IVSC Business Valuation Standards |

The working group has spent the past few months engaged with discussions with other stakeholders either directly or through the IVSC Technical Boards and, further to a presentation to the IVSC Tangible Assets Board from the European AVM Alliance, are currently considering the difference between AVMs and other forms of valuation models which are typically used in the tangible asset valuation process. An illustration of the different key categories of valuation models is shown in the diagram below.



Source: European AVM Alliance

Index: **Analyst Assisted AVM (AAAVM):** A Semi-Automated Valuation that relies on the experience and judgment of a professional, but not necessarily a qualified surveyor, to validate and supplement the output of an AVM.

AVM Assisted Appraisal (AVMAA): A Semi-Automated Valuation that relies on the experience and judgment of a qualified surveyor, to translate the output of an AVM into a legally compliant valuation. Please note this is obtained without conducting a physical inspection of the subject property, although it is supported by Comparable Evidence, which may or may not incorporate data from the AVM.

Surveyor Assisted AVM (SAAVM): A Semi-Automated Valuation that relies on the experience and judgment of a qualified surveyor, to validate and supplement the output of an AVM.

The working group recognised that AVMs are not only increasingly used in tangible asset valuations as a tool to aid banks and other entities to make secured lending decisions in relation to commercial mortgages but are also commonly used for financial instrument valuations.

The working group also discussed the current definition of value within IVS, which is “the word “value” refers to the judgement of the valuer of the estimated amount consistent with one of the bases of value set out in IVS 104 Bases of Value”. The definition provided the working group with some issues as it raised the question as to whether a fully automated valuation model with no human input would include “the judgement of the valuer”. The working group noted that the use of AVMs were becoming increasingly common in the fields of business valuation and tangible assets valuation, and also that in financial instrument valuations different forms of AVMs were often exclusively used in the valuation process.

The working group is still considering a number of issues in relation to the use of AVMs and models and are still engaging with stakeholders but as an initial first step have worked in



conjunction with the IVS Glossary working group (See *Chapter III - IVS Glossary*) to draft the following definitions for an AVM and a model;

Automated Valuation Model (AVM)

A system that provides an indication of value of a specified Asset at a specified date, using calculation techniques in an automated manner. An AVM may not be a Model as defined in this glossary.

Model

A Model is a formalised system relating several variables, assumptions, judgements and equations to calculate the Value of an Asset under a given Basis of Value.

Scope

The scope of the working group is initially restricted to revisions to IVS General Standards IVS 101 *Scope of Work* to IVS 105 *Valuation Approaches and Methods* to see if further standards should be included in relation to the use of AVMs or whether they should remain outside of IVS.

Questions for Respondents

Question 2.1: Do you consider AVMs to be a growing area and therefore something IVS needs to address? Please provide your reasoning for your answer as this will help the Technical Boards with their deliberations.

Question 2.2: Should AVMs be included/addressed within IVS? If you think AVMs should be outside IVS how should they be considered and what clarity will valuers require?

Question 2.3: Do you agree with the definition of AVM shown above. If no, please provide a suggested alternative definition together with a source for this definition.

Question 2.4: Do you agree with the definition of Model shown above. If no, please provide a suggested alternative definition together with a source for this definition.

Question 2.5: Should IVS consider Hybrid Valuations as illustrated in the diagram Key Categories of Valuation Methods. Please provide your reasoning together with any examples of Hybrid Valuations currently used in your market.



III: Environmental, Social and Governance

Background

ESG (Environmental, Social, and Governance) investing and analysis has become of increasing interest to valuation professionals globally as governments, asset owners, and high net worth investors consider the impact of ESG factors on their investments and local markets. The IVSC Technical Boards believe more thorough consideration of ESG factors by valuation professionals can improve the fundamental analysis they undertake and ultimately the valuation conclusions they make. The IVSC Technical Boards are specifically focused on the quality and comparability of the ESG information provided by valuers and how to integrate various ESG factors into the valuation process.

Further to discussions within the IVSC Technical Boards it was agreed that ESG was an issue of increasing importance across all markets and, although there was a significant amount of good qualitative information within the market there was very little, if any, relevant quantitative information within the market on how to account for ESGs within the valuation process.

As a result of these deliberations the IVSC Technical Boards decided to set up a cross specialism working group comprising the following participants to explore further the issue in relation to accounting for ESGs within the valuation process.

| Name | IVSC Board |
|--------------------|--|
| Alexander Aronsohn | Technical Director, IVSC Tangible Assets Standards |
| Mauro Bini | IVSC Standards Review Board |
| Ben Elder | Chair, IVSC Tangible Assets Board; IVSC Standards Review Board |
| Kim S Hildebrandt | IVSC Tangible Assets Board |
| Susann Ihlau | External specialist (Mazars partner) |
| Claire Magowan | IVSC Tangible Assets Board |
| Colin Martin | IVSC Standards Review Board |
| Kevin Prall | Technical Director, IVSC Business Valuation Standards |
| Mark Zyla | Chair, IVSC Standards Review Board |

The ESG working group initially focussed on the following research:

1. **ESG Ratings;** to understand how these are done and who is the best in class,
2. **Capitalisation Process;** do companies invest a lot of money in relation to ESG,
3. **Asset Valuations;** how to factor ESG within asset valuations.

The ESG working group noted that there are currently a number of varying definitions for ESG within the market and as part of this process the working group have reviewed the existing definitions. Unfortunately, none of the existing definitions were fit for purpose from a valuation perspective and the ESG working group, in conjunction with the IVSC Glossary working group, have drafted the following working definition for ESG;



Environmental, Social, and Governance (ESG) are the criteria that together establish the framework for assessing the impact of the sustainability and ethical practices of a company on its financial performance and operations. ESG comprises three pillars; environmental, social and governance, all of which collectively contribute to effective performance, with positive benefits for the wider markets, society and world as a whole.

The working group also noted that key ESG factors for consideration typically include:

Environmental

- Air and water pollution
- Biodiversity
- Climate change and carbon emissions
- Deforestation
- Resource efficiency (ie, energy and CO²)
- Waste management
- Water scarcity

Social

- Community relations
- Conflict
- Customer satisfaction
- Data protection and privacy
- Development of human capital (health & education);
- Employee engagement
- Gender and diversity
- Health & safety
- Human rights
- Working Conditions

Governance

- Audit committee structure
- Board diversity and structure
- Bribery and corruption
- Corporate governance
- Executive remuneration
- Institutional strength
- Donations and political lobbying
- Rule of law
- Transparency
- Whistle-blower schemes

The working group is still in the process of exploring the issues in relation to ESG and how they relate to valuation and have agreed that, prior to drafting any perspectives paper or research on this issue, there was a need to engage the industry via this Agenda Consultation Invitation to Comment to further understand how and whether ESG factors are currently being included within the valuation process for businesses and other entities.



Scope

The scope of ESG applies to all IVS specialisms (business valuation, financial instruments valuation and tangible assets valuation) but initially only from a quantitative perspective.

Questions for Respondents

Question 3.1: What role do you see IVS having in measuring the value of ESG? Please provide details and reasoning with your response.

Question 3.2: How do you consider ESG within your valuation process? Please provide details of your country, specialism and as detailed an example as possible together with any data sources used, if applicable.

Question 3.3: What definitions and/or framework do you currently use when considering ESG in your valuation work? Please provide the definition, framework and source.

Question 3.4: What are the demands from valuation stakeholders when considering ESG? Please provide details.

Question 3.5: As outlined above ESG can be subdivided into a number of issues. Can you separately account for any of these issues within the valuation process and if so please provide further details?

IV: Long-term Value

Background

In December 2017, the Basel Committee on Banking Supervision published a definition of property value in its report entitled *Basel III: Finalising post-crisis reforms*:

“Value of the property: the valuation must be appraised independently using prudently conservative valuation criteria. To ensure that the value of the property is appraised in a prudently conservative manner, the valuation must exclude expectations of price increases and must be adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan. National supervisors should provide guidance, setting out prudent valuation criteria where such guidance does not already exist under national law. If a market value can be determined, the valuation should not be higher than the market value...”

According to the Basel proposals, only one uniform definition of property value is envisaged; the option to choose between market and mortgage lending value, as currently implemented in the Capital Requirements Regulation/Capital Requirements Directive, would no longer apply. In its *Policy Advice on the Basel III Reforms: Credit Risk Standardised Approach and IRB Approach* from August 2019, the European Banking Authority (EBA) also emphasises that the requirements of the Basel III value definition “*will no longer allow institutions to solely apply a MV concept [...]*.” In principal, the EBA recommends the EU fully implements the Basel III proposals and suggests “*that the revised European regulatory framework concerning valuation of real estate collateral should be aligned with the final Basel III capital framework*”.

The EBA also recommends a “*harmonisation of valuation practices*”, which could mean the introduction of a principle-based uniform valuation basis across EU member states. The EBA concludes “*further guidance would be needed to fully clarify what banks are expected to do in order to comply with the Basel III value definition*”.

The appraisal and valuation framework applied across individual countries within Europe has been developed over many years with an increasing emphasis on harmonisation of both definitions of value and application of methods. Global and Regional Professional Institutions such as the IVSC, Royal Institution of Chartered Surveyors (RICS), and The European Group of Valuers' Associations (TEGoVA) have supported individual national valuation bodies in this standard-setting work since the 1970s, culminating in recognised valuation concepts, definitions and methods. This knowledge and skill base has been supported by an increasing academic and industry research base that has led to global developments in valuation theory and practice. Global, regional and national valuation practice is therefore an evolving discipline with a strong research and development capacity.

“It is therefore surprising that the Basel III framework, which the EBA statement above suggests it is minded to follow, does not appear to draw off that knowledge and research base. This is despite the fact that there has been a considerable amount of that research and development capacity aimed at the issue of sustainable long-term valuations since the Global Financial Crisis. This work has looked at both individual valuations and also market analysis for lending and financial stability purposes, with major collaborations between leading academic research



centres, Global, Regional and National professional institutions and, in one case, the central bank.” (Professor Neil Crosby, University of Reading, UK and Professor Aart Hordijk, Tilburg University (retired), NL).

Research addressing long-term valuations has accepted and indeed identified the issues with existing valuation methods applied to bank lending valuations. It endorses the need for a major review of the basis on which valuations are produced and used within financial monitoring, regulation and secured lending. However, this research also indicates that establishing concepts, definitions and methods of appraisal for long-term valuations is extremely complex. Definitions and methods developed without recourse to this complex environment are likely to become meaningless wish lists rather than genuine attempts to identify sustainable values that would protect lending institutions and ultimately governments and taxpayers from the impact of cyclical real estate market downturns.

The challenges to Market Value have increased further during the ongoing Covid-19 epidemic. In addition, the EBA is currently discussing the creation of a more prudential value to work in conjunction with market value and meet the requirements of Basel III. The Investment Property Forum, in conjunction with the Bank of England, is exploring a long-term value index to show where the market is in the property cycle and to assist banks in making long-term value decisions, particularly when properties are at the peak or trough of the property cycle.

As a result of these recent developments the IVSC Technical Boards are intending to explore the issue of long-term value further and are also researching whether there is a need for additional standards on future cash flows or an additional basis of value or a long-term value index. From an IVSC perspective, the definition of market value already incorporates the concept of prudential value.

The IVSC Technical Boards have also issued a letter in support of the research currently being carried out by Professor Neil Crosby of the University of Reading and Professor Aart Hordijk formerly of Tilburg University in relation to a Long-Term Value Index. The IVSC Technical Boards have also nominated Ben Elder, the chair of the IVSC Tangible Assets Board, to participate in the working groups, which are currently reviewing a Long-Term Value index.

In addition, the IVSC Tangible Assets Board is also planning to issue a Perspectives Paper on the challenges to market value later this year. Within this proposed section the IVSC Tangible Assets Board notes that there are currently a number of organisations that are considering the introduction of a more ‘prudential’ form of value. These organisations believe that this will create a more sustainable form of value over the property cycle. In many respects market value already is a prudential basis of value as the definition states “*where the parties had each acted knowledgeably, prudently and without compulsion*”. Whilst this does not necessarily remove the volatility that comes hand-in-hand with certain market circumstances, it does act in the public interest in that it reflects value under that premise as at a specified date.

As part of this research the IVSC Technical Boards felt that it would be helpful to engage with our stakeholders to illicit further views in relation to the creation of a Long-Term Value index.



Scope

The scope of Long-Term Value applies to all IVS specialisms (business valuation, financial instruments valuation and tangible assets valuation) but may be more relevant to business valuation and tangible assets valuation as there are already specific regulatory requirements in relation to prudential value in the financial instruments sector.

Questions for Respondents

Question 4.1: Have you faced pressure from banks or other institutions to provide a prudential valuation? If so, in which market and in which specialism do you operate?

Question 4.2: Do you agree that Market Value already incorporates the concept of a prudential valuation within its definition? If not, please provide your reasons.

Question 4.3: Do you feel that the research in relation to a European Long-Term Value Index would be helpful or not? Please provide the reasoning for our response.

Question 4.4: Should Long-Term Value be a separate basis of value or a concept to be included in a basis of value?

Question 4.5: The current research for a Long-Term Value Index is currently restricted to European Markets. Do you feel that this research should be extended to your market, and if so, in which market do you operate?



V: Social Value

Background

Whilst the concept of Social Value has relevance to both for-profit and not-for-profit entities, its growing importance is principally driven by investment or financial management decisions associated with entities with a not-for-profit focus, including:

1. The desire or requirement for governments, Non-Governmental Organisations (NGOs) and charities to select or assess the performance of investments or projects,
2. Corporates seeking to justify investments, particularly where planning permission or licences are required, not solely on commercial merits but also on the benefits to the wider community,
3. Governments, NGOs and charities seeking to administer valuations for financial reporting purposes to adhere to financial management standards and regulations.

The problems and challenges for valuers in the for-profit sector are perhaps better understood than they are in the not-for-profit sector. However, the lack of an internationally recognised valuation framework has the potential to result in jurisdictions and/or valuers developing their own divergent approaches and definitions. This has the potential to lead to reduced consistency, transparency and comparability across borders and asset classes, creating significant debate and reducing the credibility of such valuations amongst stakeholder groups.

As was once the case for discounted cash flow methods, the concept of Social Value is in its infancy in many jurisdictions, and as such is prone to challenges as practice develops. However, with an increased focus on governance and transparency we anticipate that in the longer term it has the potential to become a more prominent part of the standard reporting framework for investments and financial management decisions.

Further to discussions within the IVSC Technical Boards it was agreed that the concept of Social Value was an issue of increasing importance across all markets, however, there was limited, if any information available within the market on how the concept of Social Value should be reflected in the valuation process.

As a result of these deliberations the IVSC Technical Boards decided to set up a cross-specialism working group comprising the following participants to explore further the issues in relation to the concept of Social Value.

| Name | IVSC Board |
|--------------------|--|
| Alexander Aronsohn | Technical Director, IVSC Tangible Assets Standards |
| Roy Farthing | IVSC Standards Review Board |
| Brendan Gallagher | IVSC Tangible Assets Board |
| Richard Hayler | IVSC Standards Review Board |
| Kim S Hildebrandt | IVSC Tangible Assets Board |
| Claire Magowan | IVSC Tangible Assets Board |



The IVSC Social Value working group aims to carry out the following actions in relation to Social Value:

1. Review of existing Social Value research,
2. Review of existing definitions of Social Value,
3. Review of previous International Valuation Application 3 Valuation of Public Sector Assets for Financial Reporting (IVS 2007).

From research the IVSC Social Value working group identified several definitions of Social Value, however, while there were some consistent themes, there was also a lack of common language. At times it would be possible to draw quite different conclusions by applying two different definitions of Social Value.

On further analysis it appeared that much of the difference in the definitions arises from the perspective applied, specifically from whose perspective Social Value was being considered.

In a commercial valuation, the perspective is accounted for upfront and forms part of the Basis or Standard of Value. This might consider the value from the perspective of a particular buyer or seller, a market participant or even a hypothetical market participant where no observable market exists.

In the case of Social Value, the breadth of perspectives is vast as an asset may have different value to different stakeholders. It is therefore imperative that the definition of Social Value

- i) does not constrain the valuer to considering only one particular element and that,
- ii) the valuer is able to specify the group or groups from whose perspective it is being considered.

Furthermore, the IVSC Social Value working group has been considering which elements should be considered within the concept of Social Value and have initially proposed the following three elements;

1. **Monetary benefit to the asset owner:** the cash flows derived from the use of the asset that flow to the asset owner,
2. **Social benefit to asset users:** the benefits derived from the use of the asset that flow to the asset users,
3. **Social benefit to non-asset users:** the benefits derived from the asset that flow to the non-asset users including the wellbeing of individuals and communities, social capital and the environment.

The IVSC Social Value working group in conjunction with the IVSC Glossary working group believes the following definition of Social Value best encapsulates each of the elements described above:

Social Value

Social Value includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial impacts including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users.



The working group is still in the process of exploring the issues in relation to the concept of Social Value and are currently in the process of drafting a preliminary perspectives paper on this issue. However, in the interim the working group felt that there was a need to engage the industry via this IVSC Agenda Consultation Invitation to Comment to understand further how and whether the concept of Social Value is currently being addressed within the valuation process.

Scope

The scope of Social Value is currently restricted to not-for-profit and public sector assets though in some instances quasi not-for-profit assets would also be included.

Questions for Respondents

Please note that the IVSC Technical Boards are due to publish a Perspective Paper on Social Value in November 2020, which will contain additional details and questions on Social Value. The Boards would recommend stakeholders also review the forthcoming perspectives paper on Social Value which provides further detail and information on this topic and the Board's rationale.

Question 5.1: Do you agree with the proposed definition for Social Value outlined on the previous page? If not please provide your reasoning and proposed revisions to the above definition or an alternative definition, together with the source, if applicable.

Question 5.2: Are you currently required to address Social Value within your valuations, and if so, what is your specialism and in which country are you located?

Question 5.3: How do you address Social Value within your valuation process? Please provide as detailed an example as possible together with any data sources used, if applicable.



VI: Uncertainty and Risk

Background

The emergence towards the end of 2019 of COVID-19, and the resulting global pandemic, has created a huge amount of uncertainty around the world. Among the many manifestations; this has led to enormous market volatility. These times have been made even more challenging in respect of valuation as assets are having to be valued when there are limited to no comparable evidence with markets facing an uncertain future.

In response to the ongoing coronavirus crisis, the IVSC Technical Boards published a statement in March 2020 on [Dealing with valuation uncertainty at times of market unrest](#). In this statement it stated that IVS 103 *Reporting* requires the valuation report to disclose a number of matters, including any significant uncertainty or limiting conditions that directly affect the valuation. Furthermore, IVS 103 Section 10 para 10.1 and para 10.2 states;

- 10.1 *It is essential that the valuation report communicates the information necessary for proper understanding of the valuation or valuation review. A report must provide the intended users with a clear understanding of the valuation.*
- 10.2 *To provide useful information, the report must set out a clear and accurate description of the scope of the assignment, its purpose and intended use (including any limitations on that use) and disclosure of any assumptions, special assumptions (IVS 104 Bases of Value, para 200.4), significant uncertainty or limiting conditions that directly affect the valuation.*

The statement also went on to say that “*One of the main issues when dealing with valuation uncertainty is that a valuation is not a fact, but it is an estimate of the most probable of a range of possible outcomes based on the assumptions made in the valuation process. Market valuations are estimates of the most probable price that would be paid in a transaction on the valuation date. However, even where assets are identical and exchanged in contemporaneous transactions, fluctuations in the prices agreed between different transactions can often be observed. These fluctuations can be caused by factors such as differences in the objectives, knowledge or motivation of the parties. Consequently, an element of uncertainty is inherent in most market valuations as there is rarely a single price with which the valuation can be compared.*”

The statement also provided the following further clarification between Valuation Uncertainty and Risk.

Valuation Uncertainty should not be confused with risk. Risk is the exposure that the owner of an asset has to potential future gains or losses. Risk can be caused by various factors affecting either the asset itself or the market in which it trades. Examples include:

- for tangible assets reduction in market prices after the date of acquisition or valuation,
- a deterioration in the projected future income of a security,
- a loss of liquidity compared with other assets,
- costs for maintaining or developing an asset being higher than currently anticipated,



- the rate of an asset's technical or physical obsolescence being higher than currently anticipated.

Such risks are taken into account by informed buyers/sellers when considering a bid for an asset and are balanced against the perceived advantages of ownership. Risk is therefore normally reflected in market prices.

Risk can often be quantified. For example, market risk can be measured by applying statistical techniques to previous patterns of price fluctuation, or by assuming different market scenarios to model different outcomes. Techniques for identifying risks and quantifying them are central to the various methods used to determine disco

While risk may be thought of as a measure of future uncertainties that may result in an increase or decrease in the price or value of an asset, valuation uncertainty is concerned only with uncertainties that arise as part of the process of estimating value on a specific date.

Valuation certainty and market risk are independent of each other. For example, a valuation of a highly liquid quoted stock has little uncertainty, but that stock may still be seen as carrying a high market risk.

Valuation uncertainty should not be confused with stress testing, ie, measuring the impact on a current price or value of a specified event or series of events.

Valuation uncertainty can be caused by various factors. These can be broadly divided into the following categories:

- market disruption,
- input availability,
- choice of method or model.

These causes of valuation uncertainty are not mutually exclusive. For example, market disruption may affect the availability of relevant data which, in turn, may create uncertainty as to the most appropriate method or model to use. Interdependence and correlation between the causes of uncertainty are therefore likely to exist and account should be taken of this during the valuation process.

Further to publication of the statement on *Dealing with valuation uncertainty at times of market unrest* a number of stakeholders have suggested that IVS should include a section on uncertainty and risk.

As part of this Agenda Consultation Invitation to Comment the IVSC Technical Boards are seeking further feedback from stakeholders on this matter prior to determining whether to include uncertainty and risk within IVS.

Scope

The scope of Uncertainty and Risk applies to all IVS specialisms (business valuation, financial instruments valuation and tangible assets valuation) but may be more relevant to business valuation and tangible assets valuation as there are already specific regulatory requirements in relation to uncertainty and risk for financial instruments.



Questions for Respondents

Please note that the IVSC has published a Statement in March 2020 [on *Dealing with valuation uncertainty at times of market unrest*](#) that provides further detail in relation to this topic.

Question 6.1: Do you feel that IVS should include a section on Uncertainty and Risk? Please provide the reasoning for your response.

Question 6.2: Do you feel that it would be possible to provide an overarching section on Uncertainty and Risk which applies to all specialisms? If not, please indicate where you think it does not apply and provide your rationale.

Question 6.3: Do you feel that the text provided above in relation to the difference between valuation Uncertainty and Risk is sufficiently detailed for inclusion within IVS? If not, please provide details of the other elements you would like to be included and your rationale for including these elements.



VII: Data Management

Background

Further to the feedback received from the IVS 2017 Proposed Technical Revisions Exposure Draft and the publication of Section 90 on a Valuation Model within IVS 105 *Valuation Approaches and Methods* the IVSC Technical Boards have engaged in further discussions on additional standards that may be required in relation to Data Management.

The IVSC Technical Boards had originally begun to look at this topic due to market feedback from the consultation process and within the Exposure Draft the IVSC Technical Boards stated *“in due course the Boards are planning to include standards on data management within the General Standards”*.

Further to discussions amongst the IVSC Technical Boards it was decided that most valuations were conducted using some form of model as a tool for analysis, which can be applied in automated, semi-automated or manual format. Furthermore, the IVSC Technical Boards felt that when a valuation model is used *“the valuer must take responsibility for the output of valuation model and keep appropriate records to support the selection of the model”*.

The output of a valuation model depends on accurate calculations; and furthermore the output is only as reliable as the accuracy and appropriateness of the data used in the model. Therefore, it is essential that the valuer considers the source of the data and ensures that it is unbiased, reliable, appropriate, and free from significant material risks or limitations. Data used in a model may include contractual terms relating to the asset, related market transactions, market rates, indices, and other proxies. Historic data, performance data, and other inputs may include less-observable, judgement-based data, especially when there are limited transactions.

As part of the Additional Technical Revisions Exposure Draft, the IVSC Technical Boards made some further minor text revisions to the section on Valuation Modelling within IVS 105 *Valuation Approaches and Methods* as shown below to ensure this section not only applied to all specialisms but also to enable more detailed asset specific standards on valuation modelling and data management to be incorporated within the Asset Standards in the next edition of IVS.

90. Valuation Model

90.1 A valuation model refers collectively to the quantitative methods, systems, techniques and qualitative judgements used to estimate and document value.

90.2. When using or creating a valuation model, the valuer must:

- a. Keep appropriate records to support the selection or creation of the model,*
- b. Understand and ensure the output of the valuation model, the significant assumptions and limiting conditions are consistent with the basis and scope of the valuation, and*
- c. Consider the key risks associated with the assumptions made in the valuation model.*

90.3. Regardless of the nature of the valuation model, to be IVS compliant, the valuer must ensure that the valuation complies with all other requirements contained within IVS.



Further to the publication of IVS (effective 31 January 2020) the IVSC Technical Boards set up a cross-specialism AVM, Data and Modelling working group in March 2020 to review the General and Asset Standards and see if any further standards were required in relation to AVMs, Data and Modelling. The working group is comprised of the following members:

| Name | IVSC Board |
|--------------------|--|
| Alexander Aronsohn | Technical Director, IVSC Tangible Assets Standards |
| Mauro Bini | IVSC Standards Review Board |
| Kumar Dasgupta | Technical Director, IVSC Financial Instruments Board |
| Ben Elder | Chair, IVSC Tangible Assets Board; IVSC Standards Review Board |
| Ian Jedlin | IVSC Standards Review Board |
| Colin Martin | IVSC Standards Review Board |
| Olivier Peronnet | IVSC Standards Review Board |
| Kevin Prall | Technical Director, IVSC Business Valuation Board |

Moreover, the working group is currently in the process of drafting Section 100 on Data Management to be contained within IVS 105 *Valuation Approaches and Methods* and to be contained within the IVS Additional Technical Revisions Exposure Draft due to be published later this year.

Scope

The scope of the working group is initially restricted to revisions to the IVS General Standards IVS 101 to IVS 105 *Valuation Approaches and Methods* to see if further standards should be included in relation to Data Management. The scope does not include more specific asset-based standards on Data Management which will in future be considered by the Asset Boards on an individual basis.

Questions for Respondents

Question 7.1: Do you feel that IVS should include an overarching standard in relation to data management within IVS 105 *Valuation Approaches and Methods*? If no, please provide your reasoning.

Question 7.2: How detailed should IVS be in relation to data management, and are there any elements that you feel should be included or excluded from this standard?

Question 7.3: How should market uncertainty and risk impact the exercise of professional judgement when market data is not observable?



Appendix: IVS 2017 Invitation to Comment Update

Background

As part of the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Technical Boards revised the previous Gap Analysis and divided the topics into Discussion papers, International Valuation Standards to be issued by the relevant IVSC Board (Standards Review Board, Business Valuation Board, Tangible Assets Board), and Guidance Notes to be issued by the member organisations of the IVSC Advisory Forum Working Group.

The Boards also agreed the following categorisations and prioritisations for these topics:

- Short term 0 to 2 years
- Medium Term 2 to 5 years
- Long Term 5 years plus

Further to comments received from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Technical Boards issued the IVS Agenda Consultation – Invitation to Comment: Basis for Conclusions, which contained the following revised schedule.

| Timeframe | Board | IVS Technical Review | Standard | Discussion Paper | Guidance Note |
|--|-------|----------------------|----------|------------------|---------------|
| Short term/Critical (0-2 years) | | | | | |
| Allocation of Value | TA | X | | | |
| Automated Valuation Models & Data Analytics in Valuation | BV/TA | | | X | |
| Biological Assets | TA | | X | | |
| Complex Capital Structure | BV | X | | | |
| Discount Rates | BV | | X | | |
| Early Stage/Development Stage Valuations | BV | | X | | |
| Extractive Industries | TA | | X | | |
| Inventory | BV | | X | | |
| Non-Financial Liabilities | BV | | X | | |
| Price vs Value | BV/TA | X | | | |
| Review of Existing Development Value | TA | X | | | |
| Valuation in Markets Susceptible to Change; Certainty & Uncertainty | TA | X | | | |
| Medium Term (2-5 years) | | | | | |
| Analysis of Commercial Lease Transactions including Incentives | TA | | | | X |
| Alternative Financing Arrangements | BV/TA | | | X | |
| Discounts and Premiums | BV | | | | X |
| Infrastructure | TA | | | | X |
| Insurance Valuations | BV/TA | | X | | |
| Privatisation | BV/TA | | | X | |
| Recovery and Resolution | BV/TA | | X | | |
| Specialised Public Service Assets | TA | | | | X |
| Sustainability focusing on the Valuation of Renewable Energy | TA | | | X | |
| Trade Related Property | BV/TA | | | X | |
| Long Term (5 years plus) | | | | | |
| Sustainability (other than renewable energy) | BV/TA | | | X | |
| Valuation of Personal Property incl Art, Antiques and Trophy Assets | TA | | X | | |
| Board Index: BV = Business Valuation TA = Tangible Asset SR = Standards Review | | | | | |



Update

Over the past two years the IVSC Technical Boards have made considerable progress with the critical topics outlined as shown below.

Short Term (0-2 years)

Allocation of Value: A new paragraph on Allocation of Value was initially contained within the IVS 2017 Additional Technical revisions Exposure Draft published in 2019. As stated in the subsequent Basis for Conclusions “*the Board decided to delay inclusion of Section 220 on Allocation of Value until further investigations could be made to ensure these proposed revisions to the General Standards could work across all specialisms*”. Since that date the IVSC Technical Boards have set up a cross-specialism working group which has revised the proposed text for IVS Allocation of Value so that it applies to all specialisms (see section 5 Allocation of Value).

Automated Valuation Models and Data Analytics in Valuation: The IVSC Technical Boards included a new section on Valuation Models within IVS 105 *Valuation Approaches and Methods* and have set up an IVS AVM, Data and Modelling cross specialism working group to explore the inclusion of additional standards in relation to data handling and data control to be contained within IVS General Standards. This working group, in conjunction with the Glossary working group, have also drafted a definition for AVMs which is contained within this document (see Section 3 Additions to the *IVS Glossary*).

Biological Assets: Further to deliberations among the IVSC Technical Boards it was agreed that no additional chapter was required within IVS in relation to the valuation of Biological Assets as all the information required was already contained within *IVS General Standards*. However, the IVSC Technical Boards did feel that further guidance was needed to direct valuers to the relevant sections of IVS and in this regard the Tangible Assets Board published a perspectives paper in June 2019 titled [A roadmap to valuing agricultural properties \(including biological assets\)](#). The IVSC Technical Boards have also made revisions to IVS 400 *Real Property Interests* to include further reference to agricultural properties (see Section 6 *Real Property Interest*).

Complex Capital Structures: Further to feedback from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Technical Boards did note that there was consistent feedback from stakeholders with regard to a lack of standards related to complex capital structure considerations and that complex capital structures had itself been identified as a separate topic for consideration within IVSC’s Gap Analysis. Instead of preparing a separate chapter to provide additional standards on complex capital structure methods and considerations, the IVSC Technical Boards decided to expand upon the existing Capital Structure Considerations section within IVS 200 *Businesses and Business Interests* (see IVS 200 paras 130.1 to 130.25).

Discount Rates: Further to feedback from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Technical Boards noted that there was consistent feedback from stakeholders on discount rates and it was felt that further standards were needed to address the significant diversity in practice in the derivation of discount rates. In particular, it was felt that further detail regarding consideration of projected cash flows and the relationship to the



discount rate was needed. The IVSC Technical Boards decided to expand upon the existing discount rate section within IVS 105 *Valuation Approaches and Methods* (see IVS 105 paras 50.3 to 50.33).

Early Stage/Development Stage Valuations: Further to feedback from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Technical Boards noted that there was consistent feedback from stakeholders on significant diversity in practice for the valuation of early-stage companies resulting in a lack of transparency and market confusion. Further to discussion amongst the IVSC Technical Boards it was felt that many of the issues were shared with other valuations undertaken with limited information or high uncertainty, and therefore there was no need for an additional new chapter on the topic. However, the IVSC Technical Boards did include additional requirements in relation to early stage/development stage valuations within IVS 200 *Businesses and Business Interests* (see IVS 200 para 130.7, 130.11 and para 130.16).

Extractive Industries: Further to deliberations among the IVSC Technical Boards it was agreed that no additional chapter was required within IVS in relation to the valuation of Extractive Industries as all the information required was already contained within IVS General Standards. However, the Tangible Assets Board worked directly with the International Mineral Valuation Committee (IMVAL) and participated in the creation of an international IVS-compliant template which could be adopted by national mineral valuation organisations and used by other interested parties.

Inventories: Further to feedback from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Business Valuation Board noted that due to changes in the economy, what comprises inventory has evolved quite significantly in recent years. In the past, inventory consisted primarily of raw materials and the cost of the labour and manufacturing overheads needed to turn these materials into a finished product. Currently, many products include embedded software, brands and other intellectual property (IP). These developments have led to a number of questions in relation to the cost of IP and how and when these costs should be taken into account in the valuation process. Further to these deliberations the IVSC Business Valuation Board issued the IVS 230 *Inventories Exposure Draft* which came out of consultation on 30 June 2020. Further to feedback from the consultation process the IVSC Business Valuation Board have now revised the chapter on Inventories which is due to be published in the latest edition of IVS (see IVS 230 *Inventories*, Section 7).

Non-Financial Liabilities: Further to feedback from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Business Valuation Board issued a Non-Financial Liabilities Exposure Draft in 2019. The IVS Framework and the definition of Market Value specifically state that the standards can be applied to the valuation of both assets and liabilities. However, there was no definition of what constitutes a liability and little consideration of any characteristics or attributes that are specific to liabilities as opposed to assets, or standards specific to the valuation of liabilities. The IVSC Business Valuation Board also established that there was a lack of guidance in the broader marketplace related to the valuation of non-financial liabilities. IVS 220 *Non-Financial Liabilities* was incorporated into IVS (effective 31 January 2020) (see IVS 220 *Non-Financial Liabilities*).



Price vs Value: IVSC Technical Boards published provisional definitions for Price, Cost and Value within the IVS 2017 Additional Technical Revisions Exposure Draft. Almost all respondents who were in favour of including such terms also provided suggested revisions to the proposed definitions in the Technical Revisions Exposure Draft. While there were some common themes to the suggested revisions, the IVSC Technical Boards felt that the significant divergence in suggested revisions indicated that the inclusion of Price, and Cost at this time was not possible, particularly as there was significant crossover in these terms. In some instances, for example Price could also be a Cost or Value. Additionally, those respondents who did not support the inclusion of the terms provided thoughtful perspectives that required additional considerations by the IVSC Technical Boards. Further to comments received and Board discussions it was decided that IVS 2017 Technical Revisions should only include definitions for Valuation and Value. Since the publication of IVS (effective 31 January 2020) the IVSC Technical Boards have set up a Glossary working group which has drafted revised definitions for Cost and Price to be incorporated into IVS (see Additions to IVS Glossary, Section 3).

Review of IVS 410 *Development Property*: Further to feedback from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Tangible Assets Board published proposed revisions to IVS 410 *Development Property* within the IVS 2017 Additional Technical Revisions Exposure Draft. The IVSC Tangible Assets Board received feedback from stakeholders that, although the valuation process used for development properties is often correct when the development valuation is used for secured lending purposes, lenders do not always fully understand the risk implications contained within the report. Further to discussion the IVSC Tangible Assets Board revised IVS 410 *Development Property* to include an additional requirement for the report to include an As Is Value as well as an As Proposed Value to ensure that the report would not be misleading in relation to the risks and the assumptions made. Furthermore, the IVSC Tangible Assets Board revised this section to state that when carrying out a development valuation for secured lending purposes the valuer must carry out a minimum of two appropriate valuation methods and must be able to justify the selection of the one reported (see IVS 410 *Development Property*).

Valuation In Markets Susceptible to Change and Uncertainty: Further to feedback from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Technical Boards felt that it was unnecessary to include an additional standard on this topic as there was already significance guidance on this issued by VPOs and other member organisations. In some specialisms such as Financial Instruments there were specific requirements in relation to change and uncertainty. However, since this time all markets have been affected by the COVID-19 crisis which has prompted the IVSC Technical Boards to issue a statement on [Dealing with valuation uncertainty at times of market unrest](#) in March 2020. Since this statement the IVSC Technical Boards have revisited this topic and has included Uncertainty and Risk as a potential topic for future inclusion in IVS within this Agenda Consultation (see Section 12 Uncertainty and Risk).

Medium Term (2-5 years)

Analysis of Commercial Lease Transactions including Incentives: Since the publication of IFRS 16 on how an IFRS reporter will recognise, measure, present and disclose leases in 2016 and the subsequent amendment for Covid-19 Related Ren Concessions IVSC Technical



Boards have received market feedback that further information on how this relates to IVS and valuation would be helpful. IVSC Technical Boards have now identified this as a critical topic and subject to feedback received from this current Agenda Consultation Invitation to Comment are considering drafting a perspective paper on this topic over the next two years.

Alternative Financing Arrangements: Since the publication of the IVS 2017 Agenda Consultation Invitation to Comment the IVSC Technical Boards have discussed alternative financing arrangements. The consensus reached by the IVSC Technical Boards was that this was not a topic to include in IVS at this point in time.

Discounts and Premiums: Further to feedback received from the IVS 2017 Agenda Consultation Invitation to Comment process the IVSC Technical Boards made some revisions to IVS 105 *Valuation Approaches and Methods* and to IVS 200 *Business and Business Interests* IVS to provide additional clarification on Discounts and Premiums.

Infrastructure: The IVSC Tangible Assets Board has been discussing the topic of Infrastructure Valuation and felt that at this point that Infrastructure Valuation was sufficiently covered within IVS.

Insurance Valuations: Since the publication of the IVS 2017 Agenda Consultation Invitation to Comment the IVSC Technical Boards have discussed the topic of Insurance Valuations. The Boards have identified this as a priority topic to consider over the next two years.

Privatisation: Since the publication of the IVS 2017 Agenda Consultation Invitation to Comment the IVSC Technical Boards have discussed privatisation. The consensus of the IVSC Boards was that this was not a topic to include in IVS at this point in time.

Recovery and Resolution: Since the publication of the IVS 2017 Agenda Consultation Invitation to Comment the IVSC Technical Boards have discussed recovery and resolution. The IVSC Boards have identified this topic for further consideration over the next two to five years but are currently prioritising the revised IVS 500 *Financial Instruments* prior to considering other potential topics to be included within the IVS Financial Instruments Asset Standards.

Specialised Public Service Assets: Further to discussions among the IVSC Technical Boards, it was felt that the main issue in relation to the valuation of accounting for public sector assets was accounting for Social Value when undertaking a public sector valuation. The IVSC Technical Boards are currently working on a perspectives paper which will be published over the course of the next few months in order to gain further feedback on this issue. The IVSC Technical Boards have also included Social Value as a topic within this Agenda Consultation Invitation to Comment in order to gain further market feedback on this issue.

Sustainability focusing on the Valuation of Renewable Energy: Since the publication of the IVS 2017 Agenda Consultation Invitation to Comment the IVSC Technical Boards have discussed sustainability focusing on the valuation of renewable energy. The consensus of the IVSC Technical Boards was that this was not a topic to include in IVS at this point in time.

Trade Related Property: Since the publication of the previous IVS 2017 Agenda Consultation Invitation to Comment the IVSC Tangible Asset Board have discussed the topic of Trade Related Property valuations. The IVSC Tangible Asset Board have identified this as a priority a topic to consider over the next two years.



Long Term (5 year plus)

Sustainability (other than renewable energy): Further to discussions among the IVSC Technical Boards it was felt that the valuation of Sustainability (other than renewable energy) was contained within the valuation of Environmental, Social and Governance (ESG) and have identified this as a critical topic for consideration over the next two years. The IVSC Technical Boards have included ESG as a topic within this Agenda Consultation Invitation to Comment in order to gain further market feedback on this issue and depending on the responses received are planning to publish a perspective paper on this topic later this year.

Valuation of Personal Property including Art, Antiques and Trophy Assets: Since the publication of the IVS 2017 Agenda Consultation Invitation to Comment the IVSC Technical Boards have discussed the topic of the valuation of personal property including Art, Antiques and Trophy Assets. The IVSC Tangible Asset Board has identified this as an important topic for further consideration and are in the process of drafting a perspectives paper in order to highlight some of the valuation issues and to gain further market feedback.