



Ecuador, 30<sup>th</sup> May 2022

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**Ref: Perspectives Paper: Market Value, an Established Basis of Value**

Dear Alexander,

Whilst the first perspective paper "Challenges to Market Value" was addressing several issues relating the consideration of Market Value as a basis of value or standard of value as a key consideration by a valuer to perform a valuation as it must be consistent with other valuation principals such as purpose and approaches which in the end must lead to the valuation conclusion, confusion relating concepts which belong to economy, finance and accountancy as related sciences are quite common from valuers.

We suggested in the past the inclusion of more terms into the IVS, some of them were indeed cost, value and price, and glad to have worth (non in Spanish language) as part of the standards, even if not necessary. Terms and definitions might turn into a challenging issue when releasing translated editions as they may lead to a misleading understanding from original version due perhaps to jurisdictional linguistic and regulations frameworks, and in the end, these challenges become bigger when using addressed by other standards such as ISO.

Since the IVS are meant to be international standards, the need from a common voice and accurate translations is extremely important as well as tackling any risk of IVS misleading or misunderstanding due to differences in the valuation maturity in the market.

We've had several issues when performing valuations in some jurisdictions, particularly relating the possibility of misunderstanding or non-understanding about the differences between definitions of price, cost and value as it is quite common by many relevant valuation stakeholders and market participants to consider them as to have the same meaning. Worth not even considered as it more common term to belong to English languages.



Indeed, It is still common to be questioned by end users and valuation advisors about the reason why we “established or fixed a price for their assets on our valuation report” or asking why “the market prices are not the same as the prices we’ve “put on” a valuation report”. The misunderstanding about what valuation is, its rationale and the minimum requirements which leads to valuation conclusion might be a sign of appropriate technical standards and/or regulations.

On this regard, there’s a challenge for VPOs, regulators and valuers to understand why a valuation performed for, why to the uses of consistent standards are extremely important for their markets, and why their contribution as professional organizations and valuation providers respectively is important for improving valuations in the public benefit.

The Market Value as basis of value could be better understood in some of these jurisdictions only if VPOs have a clear understanding of the IVS and if they are capable to provide appropriate professional education to valuation providers as part of its role within professionalism. We also believe that Academic Institutions might play a good role in professionalism by providing sufficient academic educations to professionals.

We understand there may be differences in terms of matureness and developing in the profession of different jurisdictions in the globe. Therefore, we consider this first paper along with the new edition of the IVS 31 January 2022 will help tremendously to deal this issue with along with complementary information and activities organized by the international global setter and VPOs for the overarching use of common agreed consistent standards. So, a matter of time.

However, we’d like to provide you and Tangible Assets Board with some feedback about the perspective papers relating Market Value by answering the questions at the end of this paper relating them to the most common issues we’ve come across after 11 years of IVS uses.

Kind regards

Javier Ayala

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## First paper: Challenges to the Market Value

### 1. Are you encountering difficulties in utilising the Market Value definition, and if so under what scenarios?

The only difficulties we found using Market Value are related to the IVS or other valuation standards not recognized and not in use but also the lack of development of local regulations according to the Market changes. However, this issue may find a solution through VPOs and Academic Institutions proper professional education delivery as part of their professionalism contribution.

The most common valuations in most of the LATAM jurisdictions are valuations for “secure lending” under “valor comercial” (which may be translated as commercial value) but in definition, very closed to Market Value. However, it is not considered as a basis of value precisely and has no connection neither to the purposes of the valuation and any consideration about the entire loan and/or collateral cycle.

Whilst, the (valor comercial) used for every existent valuation purpose, for example: cadastral, taxation, all judiciary purposes, compensation, auction without consideration of existent obligations related to the asset, social impact programmes and funding, financial statements, ecc. PPE would be valued at “Fair Value” and only for IFRS mandatory accomplishment but, in most of the cases not declared as a such.

It is also common for the terms Price, value and cost to be considered as the same thing, in some cases, even in regulations.

### 2. Are there bases of value that don't currently exist that you would like considered as part of the IVS to remedy any difficulties you might be having with the Market Value definition?

Not really, perhaps an in future clarification about the appropriateness of the Market Value for secure lending according to the markets which do not transaction collaterals in the same way as other mature markets where

This might be due to the fact that under the (Valor comercial) Comercial value it might be assumed the value to be the same after several years which is very unlikely under asymmetric understanding of the Market itself or its lack of maturity

While the regulations are orientated for financial entities but, lack of development at same pace of markets needs and/or there's no connection between valuation rationale with

### 3. Are there certain aspects surrounding the conceptual framework associated with Market Value that you would like further guidance on to assist in the valuation process?

Not really. However, and for overarching understanding purposes about the consistency needed between basis of value, assets type, purpose of the valuation. In the case of Secure

Lending, to emphasise whether or not more than one valuations “may/may not be required” as well as whether or not consideration about the uses of same or different basis of value during the loan cycle “may/may not be required” might be worth mentioning.

This is to avoid confusion caused by the consideration of the (Valor Comercial) Market Value as the only basis of value for all purposes of valuation, and because of the loan cycle may not be the same in all jurisdictions.

## Second Paper: Market Value: An establish Basis of Value

These paper goes deeper onto some of the definitions related to most of the common problems in valuation where the profession may be/are still at early stages of development with all related problems. Therefore, needs further guidance.

Accordingly, it would be desirable for market participants, regulators, professional organizations and other stakeholders, to get involved more actively with the IVSC. On this regard, the global standard setter is doing a good work in approaching the referred stakeholders so, we’d believe that a good understanding of basis of value is just a matter of time

Despite that there may be more upcoming issues about Market Value as a Basis of Value or standard of value related the market itself in future. It is fundamental for stakeholders to clearly understand for all basis of value:

1. The difference between what a standard of value is and what the value itself is,
2. Why a Basis of Value it’s being requested for by the valuation user
3. Why a Basis of Value and/or is extremely important when providing advised by a valuer as it determines the “value”.
4. The type of Asset to be valued and the purpose of the valuation itself prior to the define a consistent basis of value under which it will be valued.
5. On depending on the purpose, the stage or stages of asset cycle uses (for example collaterals) and if it is appropriate to perform more than one valuations or not.

The above stated key elements should be included in appropriate academic and/or professional education programmes, performed by VPOs and Academic Institutions.