

IVSC SRB New York Meeting Update February 2024

Items shown in bold italics should include links to the relevant documents.

This IVSC Update highlights preliminary decisions of the IVSC Standards Review Board (Board). Projects affected by these decisions can be found on the ***IVSC Publication Schedule***. The Board's final decisions on IVS® Standards and Amendments are formally balloted as set out in the ***IVSC Standards Review Board Due Process and Working Procedures***.

The Board met in person in New York (and remotely) on 28 February – 1 March 2024. The topics in order of discussion were:

Contents

Administration

- IVS Meeting Update February 2024
(IVSC SRB Meeting Update February 2024)
- IVSC CEO Update

Discussion and Agenda Consultation

- Valuation/Banking/Academic Round Table Round Table Discussion
- Asset Boards Agenda Consultation Topics - Asset Boards to present topic forms
 - *Presentation from Asset Boards for Proof of Concept of Agenda Consultation Topics*
 - *SRB to finalise Topics.*
 - *SRB to determine prioritisation.*
 - *Presentation from BVB - Richard Stewart/Nicolas Konialidis*
 - *Presentation from FIB - Thomas Lee/Doug Summa/Kumar Dasgupta*
 - *Presentation from TAB – Kim Hilderbrandt/Alexander Aronsohn*

Asset Board Updates

- BVB Update - Richard Stewart/Nicolas Konialidis
- FIB Update – Thomas Lee/Doug Summa/Kumar Dasgupta
- TAB Update – Kim Hilderbrandt/Alexander Aronsohn

IVS (effective 31 January 2025)

- IVS Update – Alexander Aronsohn
 - *Voted to approve Nov 2023*
 - *Released black and red Jan 31*
 - *Basis of conclusions*
 - *Stakeholder presentations (unified message)*
 - *Interrelation of Asset Standards (i.e. IVS 200 and IVS 500)*
- Review Due Process and Lessons Learnt from Recent Release – All
(2024.02.19. IVS Bylaws and IVSC Standards Review Board Due Process and Working Procedures)
 - *Review process.*
 - *Timing*
- Future Topics Emanating from IVS Consultation Responses - All
 - *AVM/AI*
 - *Digital Assets/Cyber Currency*
 - *Data Management*
 - *ESG*
 - *Long Term Value/Prudential Value*

- *Model Quality Control*
- *Social Value*
- *Valuation Risk/Uncertainty*

SRB Public Meeting – Valuation Risk

- *What is valuation risk?*
- *What causes it?*
- *What are the effects?*
- *How does it differ from valuation uncertainty?*
- *How do you minimise it?*
- *Can two IVS compliant valuations arrive at different results?*
- *Is there a reasonable range?*
- *How do you determine reasonable range?*
- *Does reasonable range vary by asset class?*

ESG

- ESG and Sustainability - Andreas Ohl
- ESG Discussion Next Steps - Richard Hayler/Alex Aronsohn

Listed vs Unlisted.

- Listed vs Unlisted - Ian Jedlin
 - *Why is there a divergence between the listed price and NAV?*
 - *Is there a difference in the way listed funds are valued in Business Valuation, Financial Instruments Valuation and Tangible Asset Valuation?*
 - *Does this difference relate to the basis of value (Market Value vs Fair Value)?*
 - *How do we ensure a consistent approach or minimise these differences?*
 - *How does following IVS help?*

Fair Value

- Fair Value Measurement and Practices under Accounting and IVS – All
 - *Consultation questions re compliance with IVS and Accounting Standards*
 - *AICPA Mandatory Performance Framework*
 - *FI VPO and AICPA CVFI Credential*
 - *Bridging Process*

Updates and Discussion

- IOSCO Update - Alex Aronsohn/Kumar Dasgupta/Nicolas Konialidis
- Technical Information Papers (TIP)/Illustrative Examples Discussion - Roy Farthing/Mauro Bini
 - *Perspective Papers vs TIPs*

Working Groups

- SRB Working Group Review - All (members and chairs)
 - *IVSC SRB ESG Working Group (Also ISSB)*
 - *IVSC SRB IOSCO Working Group*
 - *IVSC SRB Valuation Risk Working Group*
 - *IVSC SRB Listed vs Unlisted Working Group*
 - *Other Working Groups*

Administration

- Future SRB Physical Meetings 2024 – Susan DuRoss/Alexander Aronsohn
 - 13 May – 17 May (London) & 20 Nov – 22 Nov IVSC AGM (Hong Kong)

- AOB

The Board were asked if there were any conflicts of interest in relation to the proposed topics and no conflicts were declared.

Administration

IVSC Meeting Update January 2024 (IVSC Meeting Update January 2024)

The Board reviewed the IVSC meeting update and agreed that it was an accurate report of the public meeting. There were no further revisions suggested and the meeting update was approved by the SRB.

Next steps

None.

IVSC CEO Update

NT advised that further to the statement of cooperation signed with IOSCO in October IVSC is currently being reviewed by IOSCO with the initial focus being on governance.

NT further advised that IOSCO is currently comparing IVSC processes with those adopted by IASB and the IAASB and at the moment the processes seem similar though IVSC is at an earlier stage of development than IASB and IAASB and has more limited resources.

NT also advised that the initial review seems to show IVS as credible though we are missing the following that IVSC will need to develop in due course:

- Interpretation Committee
- Monitoring Committee
- Voices of Dissent

NT added that IVSC also needed to have an established policy in relation to public meetings.

NY advised that IVSC have an investors forum that meets on a quarterly basis and that the members of the forum manage 21 trillion dollars of investment.

NT also advised that IVSC have an Investors Bank Forum that comprises the biggest investor banks in the world.

NT added that the IVSC is in the process of looking for a new CEO, but it is hard to identify the correct individual as the IVSC is looking for an individual with equivalent standing to Alistair,

NT further added that IVSC are looking to open an office in the Middle East and Latin America.

NT advised that IVSC has continued to grow, and the Asian Development Bank has now become members of IVSC.

NT further advised that IVS is continuing to aim for more engagement with the World Bank and UN.

The Board discussed the possibility the Big 4 accounting firms making a statement within their valuation reports that they were IVS compliant.

The Boards felt that though the Big 4 firms are reluctant to make an IVS compliant statement they are considering saying that the "reports prepared are consistent with IVS.

The Board suggested that IVS should be made freely available for all stakeholders.

NT advised that the IVSC was supportive of this view, and this was the general direction of travel.

NT further advised that when he joined the IVSC, the policy was that everyone had to pay for IVS but since then the policy changed and IVS is freely available to all members.

NT added that there was still an income stream from sales of IVS to non-members, but IVSC was reviewing this policy and was considering making it freely available to all stakeholders in future.

NT advised that IVSC was working with organisation and regulators within Angola, Cape Verde, Mozambique on adoption amid implementation of IVS.

NT further advised that two stock exchanges were now members of IVS.

NT also advised that IVSC is also in ongoing discussions with IFAC, who are supportive of IVSC's principle-based standards.

The Board advised that the development of marketing materials and articles on IVS that communicated to the final users of valuations would be helpful.

SRB discussed how accountancy firms such as Deloitte, EY, KPMG and PwC could be encouraged to issue valuation reports stating either that they are IVS compliant, or reports prepared are consistent with IVS.

The Board was advised that the accountancy firms would never state their valuation reports were compliant with IVS as there was a risk issue.

The Board felt that regulatory approval of IVS was a critical part of IVS adoption.

The Board also discussed potential new members such as S&P and also how to get valuation report providers to ensure that their reports were compliant with IVS.

The Board generally discussed how IVS compliance worked in different markets and the possibility of creating a checklist for IVS compliance, but no conclusion was reached.

NT noted that this was the last SRB meeting for MB and RF as their terms had come to an end.

NT presented MB and RF with a plaque as a thank you gift for all their hard work on behalf of the IVSC over the past few years and hoped that they would continue to be involved with and support the IVSC in their market.

SD advised that MB would continue to work with the SRB as he would join the IVSC Academic working group.

Finally, NT thanked the Board for all their hard work on behalf of the IVSC and wished them a successful meeting.

Next steps

- SRB to establish a policy for all Technical Board public meetings.
- IVSC to consider the development of more marketing materials for IVS that communicated to the final users of valuations.

Discussion and Agenda Consultation

Valuation/Banking/Academic Round Table Round Table Discussion

DW advised that the Global Membership Standards and Recognition Committee (GMSRC) had recently met in Abuja, Nigeria.

DW further advised that the GMSRC was focussed on expanding the use of IVS and the development of VPO's within Africa, Middle East and Latin America.

D@W also advised that the GMSRC currently comprised 15 who were a mix of academics, government regulators, researchers, standard setters and valuation providers.

DW added that the Board was looking to expand to 20 members.

DW advised that IVSDC were looking to establish a desk in Latin America and the Middle East to aid adoption and integration of IVS within these markets.

DW also advised that FI outreach was the top of the list of their objectives.

MB provided a presentation on the value of integrating research, education, practice and standard setting in valuation.

MB advised that the contents of their presentation was as follows:

1. Integrating education, research, practice and standard setting.
2. Professionals, Academia and Standard setting: the existing gaps.
3. What can we learn from engineering and medical sciences?
4. A benchmark of low cost and valuable way to integrate practice, academia and standard setting.

MB also advised that:

- Valuation standards are public goods and standard setters should make the necessary social welfare trade-offs.
- Academic research is a valuable resource that can help standard setters to understand the possible effects of valuation standards.
- IVSC should outline a number of low-cost and valuable ways to integrate education, research, practice and standard setting.

MB added that the ecosystem and different categories of interlocutors was as follows:



MB provided slides illustrating the ecosystem and the following five relationship circuits:

Relationship Circuit 1: International Standard Setter, Regulatory Authorities, and National Standard Setters.

Relationship Circuit 2: International Standard Setter, Financial Analysts, Financial Institutions and Central Banks.

Relationship Circuit 3: International Standard Setter, VPO's and Professionals and Academia and ~Research Institutions.

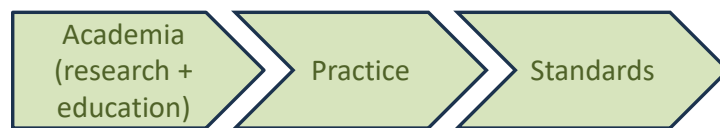
Relationship Circuit 4: International Standard Setter, Media and Data and Technology Providers.

Relationship Circuit 4: International Standard Setter and Users of Valuation.

MB advised that:

- It's difficult for user to comprehend why, in a complex and ever-evolving world, valuation techniques, concepts, and theories used by professionals have remained unchanged for decades.
- As financial markets expand and become more complex, it is a challenge to find substantive contribution by research in addressing questions relevant to standard setting.
- Should valuation standards reflect only sound practices or also the best body of knowledge? And if they reflect the best body of knowledge, should the sequence of relationships among academia, practice and standard setting be linear or circular?

Linear



Circular



MB further advised that Mukhlynina, Nyborg (2016) using a survey find that in Business Valuation:

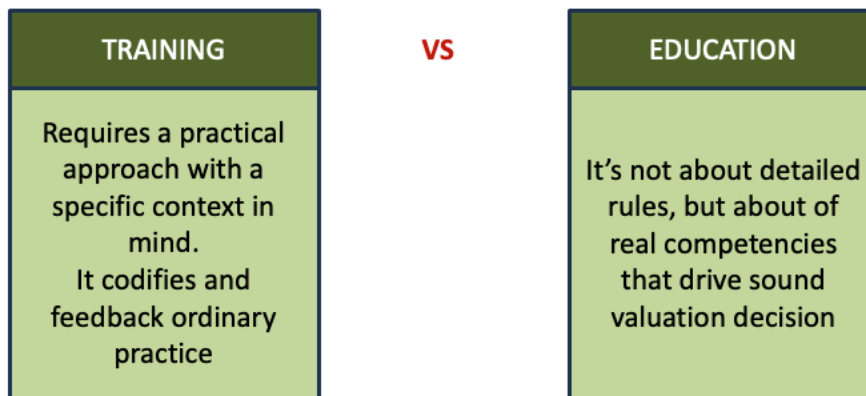
- *Valuation professionals 'approaches to valuation are influenced more by their peers at work than their educational background.*
- *Valuation professionals adopt the «valuation culture» of the professional subgroup (Consulting, Investment Banking, Private equity, Asset management, etc.) they are enlisted into.*
- *There is substantial evidence of various behavioural biases across valuers in the broader professional arena.*

MB also advised that the survey concluded that:

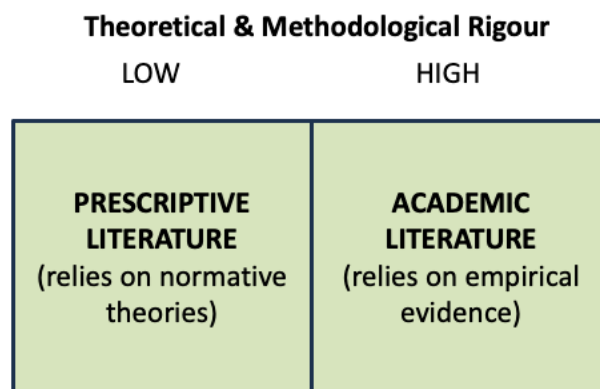
1. *valuation approaches vary across professions.*
2. *there are not many differences across educational levels (beyond the bachelor level).*
3. *experience has almost no significant effect.*
4. *the purpose of valuation has limited effect on the choice of valuation method.*

MB added that:

“Valuation professionals learn how to approach valuation in practice from their peers at work and the standards of their profession rather than from what they learned as advanced students at University» Mukhlynina, Nyborg (2016)”

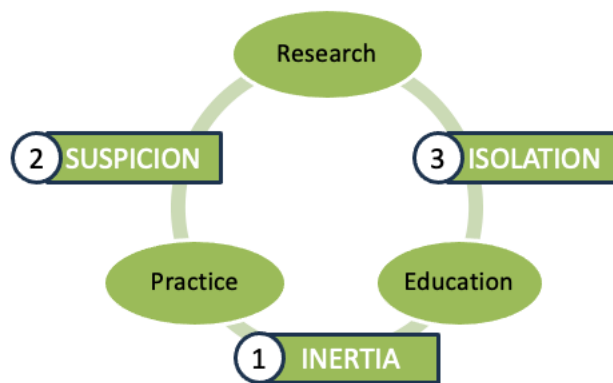


MB further added that Lukka and Grandlund (2002) explain that there are two genres of literature: Prescriptive and Academic. Fragmentation between these two genres is an explanation for the limited impact of academic research on the work of practitioners.



MB also highlighted the following gaps between academia and practice:

1. **INERTIA** = resistance to change = it's easier to continue following the same procedure
2. **SUSPICION** = research conducted in a vacuum = it's difficult to integrate research topics into practice
3. **ISOLATION** = difficulty on passing on research to education = it needs a decade between the development of valuation models and their incorporation into textbooks



MB advised that standard setters should be interested in research because they actively seek input from all constituents on all aspects of issues they consider. Research can be particularly helpful to standard setters because it is unbiased, rigorously crafted, and grounded in economic theory.

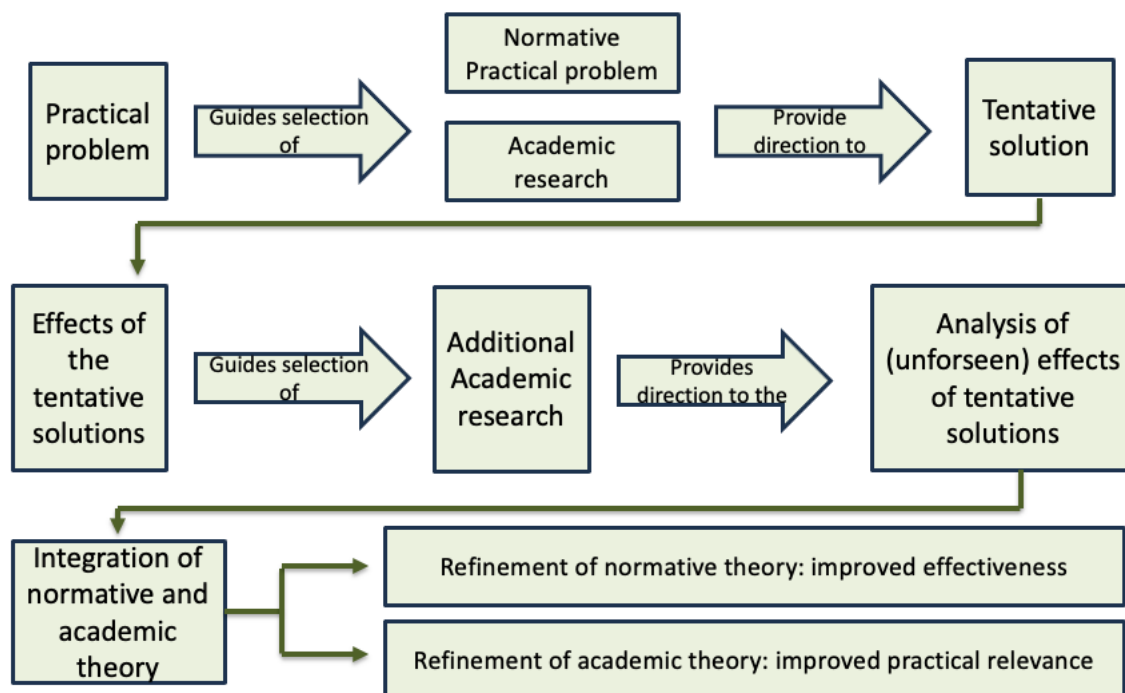
MB further advised that Academia could aid in:

1. *Providing evidence that informs the debate about an issue (e.g. valuation uncertainty)*
2. *Locating gaps in existing knowledge (e.g. ESG)*
3. *Developing a theoretical structure for data analysis (e.g. AI)*
4. *Shaping solutions for specific practical problem (e.g. negative risk-free rate; inflation)*
5. *Providing theories, concepts and techniques useful that help in solving practical problems*

MB also advised that Researchers are trained in developing research questions that contribute to the academic literature. Typically, they are not trained to develop research questions from questions motivated by standard-setting issues. Developing research questions from motivating questions is not a trivial task but is crucial in designing research that contributes to the academic literature and also provides insights relevant to standard-setting issues.

MB added that the key to designing and interpreting research relevant to standard-setting issues is to identify and clearly specify the link between the question motivating the research and the research question that the research can address. In making this link, researchers need to be explicit about which standard-setting criteria the research design operationalizes and how it does so. Without specifying this link, research might be able to contribute to the academic literature, but it is less likely to contribute to understanding standard-setting issues.

MB added that IVS could learn the following from medical science:



MB advised that the IVSC could follow a similar academic initiative to the Centre for Accounting Research and Education @University of Notre Dame.

MB further advised that the IVSC could employ the same formula through an alliance with a university capable of serving as a hub for attracting academics and non-academics in various fields of valuation (business valuation, tangible assets, financial instruments).

MN also advised that the elements for the formula to be successful are:

Distinguished Academics: Engaging renowned scholars who bring expertise and credibility to the initiative.

Education-Oriented Research Centres: Partnering with institutions focused on research and education in relevant fields.

Conferences, Roundtables, and Panels: Hosting events conducive to dialogue between academics and practitioners, fostering knowledge exchange and collaboration.

Provocative Speeches: Including thought-provoking talks to stimulate critical thinking and generate innovative ideas.

Digital Peer-Reviewed Journal: *Providing a platform for rigorous academic discourse and dissemination of research findings.*

Alliance with Universities around the world: *Leveraging the resources and networks of a reputable universities to enhance credibility and attract diverse expertise.*

Attractiveness Across Fields of Valuation: *Ensuring relevance and appeal across various domains such as business valuation, tangible assets and financial instruments.*

The Board thanked MB for his presentation and discussed the following questions:

- *Is this part of the Board mission?*
- *What are the unintended consequences of aligning with parties as the Board don't want to isolate academia by aligning to one University?*
- *Does it cross with what VPO's are doing?*
- *How to engage with valuation stakeholders?*

The Board felt it would be helpful to have more detailed staff research to inform the Boards.

The Board discussed with DW how the GMSRC and Board could work together on outreach and building a VPO with the Board providing some key contacts.

The Board felt that Artificial Intelligence and the Use of Technology in Valuation would be a good topic for an academic roundtable, but the Board would need to find a suitable University as a sponsor.

The Board also felt that this would help the IVSC to be more proactive than reactive on key issues.

The Board felt academic input for key valuation topics such as ESG, Valuation in Technology and Valuation Risk would be helpful to deal with challenges such as finding the necessary data for ESG.

The Board also felt it would be helpful to have academic for practice issues.

The Board also felt that an increased interaction with academia would also help the integration of IVS within course material.

The Board felt that the IVSC should also review how other standard setters such as IASAB dealt with academics and recommended that the Technical Directors should review the following website: www.ifrs.org/academics

The Board also felt that IVSC should send copies of IVS to academics and should invite academics to talk about the status of their research.

Next steps

The Board should set up an IVSC SRB Academic Working Group and should reach out to Mark Zyla for their participation. IVSC Technical Directors should review other standard setters' practices in relation to working with academia.

Asset Boards Agenda Consultation Topics

The Asset Boards Chairs and Technical Directors to present their topic forms.

LD and MCB of the Appraisal Foundation attended this part of the meeting as observers.

Further to discussions the Board agreed the following key topics and short-, medium- and long-term topics to be included in the IVS Agenda Consultation:

All = SRB, BVB, FIB and TAB

BVB = Business Valuation Board, TAB = Tangible Asset Board, FIB = Financial Instruments Board, SRB = Standards Review Board

Key Topics:

- *Environmental, Social and Governance (ESG)*
- *Technology in Valuation*
- *Valuation Risk*

Short Term Topics (0 – 2 years):

- *Digital Assets (e.g. Blockchain, Real Asset Tokenisation) – All Boards*
- *Environmental, Social and Governance (ESGs) – All Boards*
- *Investigations and Evidence (Inspections) - TAB*
- *Internally Generated Intangible Assets - BVB*
- *Private vs Public Markets – All Boards*
- *Prudential Value for Immovable Assets - TAB*
- *Technology in Valuation (e.g. Artificial Intelligence (AI), Artificial General Intelligence (AGI), Machine Learning, Deep learning) – All Boards*
- *Valuation Risk – All Boards*

Medium Term Topics (2 – 4 years):

- *Agricultural and Plantation Land /Biological Assets (e.g. forests, plantations etc) - TAB*
- *Bases of Value - BVB*
- *Calibration - BVB/FIB*
- *Capital Structure Considerations - BVB*
- *Discounts and Premia - BVB*
- *Early-Stage Businesses - BVB*
- *Impairment of financial instruments - FIB*
- *Quality Control and Individual Valuer - TAB*
- *Transfer Pricing - BVB*
- *Valuation Adjustments - FIB*
- *Valuation Reviews (incl. Appeals and External Audit) - TAB*

Long Term Topics (5 years plus):

- *Compulsory Purchase (Expropriation/compensation/Unregistered land) - TAB*
- *Insurance Valuations TAB*

The Board agreed that SD, IJ, DS and AA would form an IVSC SRB agenda Consultation Working Group.

The Board further agreed that this working group would draft the Agenda Consultation to be reviewed by the Board at the next SRB physical meeting in London.

The Board also suggested that the working group should review the Agenda Consultations issued by other standard setters such as the IASB and IOSCO.

Next steps

The IVSC SRB Agenda Consultation Working Group are to draft the Agenda Consultation and submit to the SRB for approval at the next SRB physical meeting between Wednesday 15th May and Friday 17th May in London.

Asset Board Updates

BVB Update

The Board was advised that in addition to the finalisation of IVS and the drafting of the Basis for Conclusions the Business Valuation Board (BVB) had been focussed on contributing to the IVS Agenda Consultation 2024.

The Board was further advised that the BVB had also been focussed in finalising the next perspective paper in their intangible asset series on valuation of data.

The Board was also advised that the BVB had been focussed on finalising the agenda for the BVB New York meeting and as part of this process had arranged the following speakers.

- Tuesday 27th February 2024; Professor Aswath Damodaran (NYU) on Valuation, ESG and other Topics (14:00 – 16:00)
- Wednesday 28th February 2024: Michael Mauboussin (Columbia University and Morgan Stanley Investment Management) on Valuation, Investor expectations, ROIC, Intangible Assets and other topics (09:30 – 11:30)

The Board was informed that the BVB would publish market insights on each of these presentations as part of a conversation series.

The Board advised the BVB that though this was a good idea to engage the market and encourage discussion on key topics the market insights needed to include the caveat that *“the opinions offered are not necessarily the views of the IVSC.”*

The Board was further informed that the BVB continued to focus on stakeholder outreach with the CPA and VPO's and had provided several presentations on IVS (effective 31 January 2025).

The Board was also informed that the BVB was focussed on increased academic engagement to encourage the adoption of the IVS Business Valuation Standards in all markets.

Next steps

BVB to publish market insights papers on the presentations provided.

FIB Update

The Board was advised that now IVS had been published the Financial Instruments Board (FIB) on encouraging adoption of the IVS 500.

The Board was further advised that with this purpose in mind the FIB had set up the following working groups:

- ***IVSC FIB Branding Working Group: message and purpose.***
- ***IVSC FIB Outreach Working Group: message and purpose.***
- ***IVSC FIB Illustrative Examples Working Group: how to do this? Examples should be conceptual.***
- ***IVSC Professionalism Working Group: how to do set up financial instruments VPO's?***
- ***IVSC FIB Technology Working Group: how to do this?***

The Board was further advised that the FIB was in the process of preparing briefs and milestones for these working groups, particularly as there was a lot of crossovers between the tasks of each working group.

Outreach⇒questions⇒examples⇒questions on topics⇒professionalism

The Board was also advised that as there was a lack financial instruments VPO's within the market and therefore stakeholder outreach was a key topic for the FI Board, and they need to work out how to leverage existing stakeholders.

The Board was informed that the FI Board had reached out to the IVSC Membership Standards and Recognition Committee to see if they could assist in this process.

The Board was also informed the creation of new IVSC offices in Latin America and the Middle East would assist in this process.

The Board was advised that it was important to have a structured outreach and the FI Board would build a list of key contacts and prioritisations to have a coordinated approach.

The Board was further advised that the FIB felt that the IVSC Banking Forum could be a catalyst for the adoption of IVS 500.

The Board was also advised that the FIB planned to carry out a cost benefit analysis for IVS 500 as there were multiple stakeholders in their market and the FIB should focus on the key stakeholders first.

Furthermore, the Board was informed that the FIB needed to illustrate the benefits of adopting IVS 500

The Board was further informed that the FIB needed to examine the intersection between business valuation and financial instruments valuation as they shared many topics such as digital assets. Furthermore, valuations are critical component for businesses.

The Board was also informed that the FI Board had focussed on their agenda for the next three years during the New York Board meeting.

The Board was also advised that the FI Board would be focussed on stakeholder outreach and providing presentations to aid the adoption and implementation of IVS 500.

Next steps

FI Board to reach out to Richard Stokes for a list of IVS Stakeholder contacts and to establish a list of key stakeholders for the FIB to contact.

TAB Update

The Board was advised that the main focus of the TAB had been the finalisation of IVS TAB chapters for publication, the drafting of the IVS TAB Basis for conclusions and contributing to the IVS Agenda Consultation 2024.

The Board was further advised that further to a review the TAB working groups were as follows:

- *TAB ESG Working Group*
- *TAB MV and Prudential Value Working Group*
- *TAB Inspection Working Group*

TAB ESG Working Group

The Board was also advised that the TAB ESG working group had made progress in drafting the brief for the ESG Plant, Equipment and Infrastructure perspectives paper which the TAB was aiming to publish in Q3 2024.

TAB MV and Prudential Value Working Group

The Board was also informed that the TAB MV and Prudential Value Working Group had been working on a perspectives paper and the TAB was aiming to publish a perspective paper highlighting the IVSC TAB position in relation to Prudential Value in Q3 2024.

TAB Inspection Working Group

The Board was advised that inspection and valuation was another key topic for the TAB and the TAB had noted that it was mandatory to inspect real estate assets in some jurisdictions. The Board was further advised that the TAB was aiming to publish a perspective paper on Inspections in Q2 2024.

In addition to the above working groups the Board was advised that as part of the IVSC SRB Listed vs Unlisted working group the TAB was also working on finalising the IVS Listed vs Unlisted perspectives paper for publication in Q3 2024.

The Board had been advised that the publication of perspectives papers and working group meetings had been delayed while the TAB focussed on the publication of the IVS Agenda Consultation.

The Board discussed the TAB inspection working paper and felt that the TAB should focus on the following matters:

- *Asset Class Views*
- *Varying Market Practices*
- *Hierarchy/ Classification of Inspection*
- *Purpose of Valuation/ Intended Use*
- *Intended User*
- *Retrospective Valuations*

Next steps

TAB to finalise the IVSC inspections Perspectives Paper in advance of the SRB May Physical meeting in London.

IVS (effective 31 January 2025)

IVS Update (IVS Effective 31 January 2025) Black Line and Red Line and the IVS Basis of Conclusions)

The Board was advised that the publication of IVS (*effective 31 January 2025*) was approved at a public meeting on 29 November 2023.

The Board was further advised that black and red line version of IVS (*effective 31 January 2025*) had been published on 31 January 2025.

The Board was also advised that the of IVS (*effective 31 January 2025*) Basis of Conclusion had now been finalised and would be published over the course of the next few days.

The Board was also informed that the IVSC Technical Directors in conjunction with SD, DS and IJ had prepared a presentation and script on the changes to IVS.

The Board was also informed that AA, SD, DS and IJ were in the process of providing presentations on the changed to IVS to numerous stakeholders.

The Board was also informed that AA would share the presentation and Board members were asked to provide presentations to key stakeholders in their markets to advise of changes and encourage adoption and implementation to IVS.

AA advised that he would be happy to co-present on IVS, if helpful and also asked IVSC Board members to advise AA of any presentations so AA could keep a centralised list of all the presentations.

AA further advised that the publisher was in the process of finalising the hard copy of IVS (*effective 31 January 2025*) and that the hard copy version should be completed in advance of the IVSC SRB London May meeting.

The Board was also advised that the changes to IVS had generally been well received though one respondent had questioned the interrelation of Asset Standards such as IVS 200 Business and Business Interests and IVS 500 Financial Instruments.

The Board noted that this was key issue and discussed issuing a perspective paper on the interrelation of the IVS General Standards and IVS Asset Standards, but no decision was taken.

Next steps

The Board to advise AA of any IVS presentations within their markets so AA can keep an updated list of stakeholder engagement. AA to provide hard copies of *IVS (31 January 2025)* to the Board at the IVSC SRB London May meeting.

Review Due Process and Lessons Learnt from Recent Release (2024.02.19. IVS Bylaws and IVSC Standards Review Board Due Process and Working Procedures)

The Board discussed the publication and review process for IVS (effective 31 January 2025) with a particular focus on timings.

The Board felt that it would be helpful to have a few weeks contingency at various stages of the review process as the SRB needed at least 8 weeks to review the comments received and to go back to the Asset Boards with questions.

Some members of the Board stated that though the Boards followed all the due process in respect of timings it would be helpful if the due process could be revised provide more time to consider the public comments, particularly as the number of stakeholder responses was increasing.

The Board also felt that it would be helpful if published deadlines were more general and not that specific to provide flexibility in the process.

The Board discussed the red line process and some members of the Board felt that it would be helpful to have a red line version of the IVS Exposure Draft.

The Board further discussed the public meetings and felt that though the drafting of standards should be done in private meetings, approvals of Exposure Drafts for consultation and approval of the standards should always take place in public meetings.

The Board also discussed former Board members being used for fatal flaw reviews.

Next steps

Board to review the due process for publication of IVS post the publication of the IVS Agenda Consultation 2024.

Future Topics Emanating from IVS Consultation Responses

AVM/AI

The Board generally discussed the definition of an AVM and the inclusion of professional judgement as a requirement within the definition.

The Board felt that in future IVS may include standards for the use of an AVM and that the IVSC SRB Technology in Valuation Working Group would be reviewing this issue.

AA advised that the use of Technology within valuations would be a key topic within IVS Agenda Consultation 2024.

Digital Assets/Cyber Currency

The Board generally discussed the valuation of digital assets/cybercurrency.

The Board noted that this topic was particularly relevant to both the Business Valuation Board and the Financial Instruments Board.

The Board further noted that this was a short to medium term topic within the agenda consultation.

Data Management

The Board noted that IVS now included IVS 104 on Data and Inputs.

The Board further noted that data management was a key issue within valuations.

The Board noted that they had no plans to issue further standards on data management at this point in time.

ESG

The Board was advised that IVS 104 Data and Inputs now included an Appendix on ESG considerations.

The Board was further advised that ESG was a key topic within the IVS Agenda Consultation.

The Board was also advised that the IVSC SRB ESG working group was continuing to review the quantification of ESG factors within valuations and integration with standards issued by the EU and the International Sustainability Standards Board.

Long Term Value/Prudential Value

The Board was advised that the TAB were in the process of drafting a perspective paper on Prudential Value stating the IVS position in relation to this issue.

The Board was further advised that this was a short-term topic for the TAB and the TAB was planning to publish a perspectives paper on this topic in Q3 2024.

Model Quality Control

The Board was advised that Model Quality Control and ensuring the correct degree of review and challenge was a key topic for the SRB.

The Board was further advised that both the IVSC SR Valuation Risk and Technology in Valuation Working Groups would continue to consider additional standards in relation to Model Quality Control within IVS.

Social Value

The Board was advised that Social Value continued to be a key topic for the TAB.

The Board was further advised that the TAB was considering links between the IPSASB and Operational Value and Social Value.

The Board was also advised that this work had been delayed while the Boards focussed on finalisation of IVs (effective 31 January 2025) and the Agenda Consultation.

Valuation Risk/Uncertainty

The Board was advised that valuation risk was a key topic within the IVS Agenda Consultation 2024.

The Board was further advised the IVSC SRB Valuation Risk working group was aiming to publish a perspectives paper on the nature of valuation risk in Q3/Q4 2024.

Next steps

None.

Public Meeting

SRB Public Meeting – Valuation Risk

- *What is valuation risk?*
- *What causes it?*
- *What are the effects?*
- *How does it differ from valuation uncertainty?*
- *How do you minimise it?*
- *Can two IVS compliant valuations arrive at different results?*
- *Is there a reasonable range?*
- *How do you determine reasonable range?*
- *Does reasonable range vary by asset class?*

The Board discussed “*valuation risk*” and “*prudential value*”, which are defined in IVS (effective 31 January 2025) as follows:

Valuation Risk: *The possibility that the value is not appropriate for its intended use.*

Professional Judgement: *The use of accumulated knowledge and experience, as well as critical reasoning, to make an informed decision.*

The Board noted that a user, preparer and third party may all have a different perspective in relation to valuation risk.

Furthermore, different valuation specialisms such as financial instruments used different terms when discussing valuation risk.

The Board also discussed the inclusion of reasonable range within IVS and how this could give greater precision to a valuation estimate.

The Board also discussed the resilience of valuations and how this related to the concept of Prudential Value and the concept of future value.

The Board also discussed Governance risk and how the BVB and TAB look at the risk of the preparer getting the answer wrong whereas financial instrument valuers are more focussed on governance risk.

The Board noted that there were the following types of valuation risk: -

- Valuation Process Risk
- Valuation Precision Risk
- Valuation Resilience Risk
- Valuation Governance Risk

The Board discussed how it was important to have a common set of definitions across all disciplines.

The Board further discussed how the measurement of valuation risk was also dependent on how much work was carried out, the resources available and the as part of this process the valuer needed to think about the valuation risk appetite.

The Board also discussed that decisions in relation to valuation risk often came from judges.

The Board generally debated how you determine error and the difference between valuation risk, which related to a particular valuation and market uncertainty, which was present in all valuations to a certain extent but was outside the remit of IVS.

The Board noted that when considering valuation risk it was important for the valuer to consider the basis of value and to understand whether the valuation is for the court or for financial reporting, secured lending etc.

The Board discussed how there may or may not be an error in a valuation, but this also related to the reasonable range as if there was a narrow reasonable range the error would be very small.

The Board further discussed whether two independent valuers using IVS would get to the same conclusion.

The Board noted that there may be a difference due to different professional judgements as even if the valuers are using the same data there still could be different assumptions used in the valuations.

Some Board members commented that in any case the difference should not be that wide as the valuation were either appropriate or not and though reasonable range can come into the valuation the difference really depends on other factors such as the intended use and the performing debt.

The Board discussed how many users require a conservative valuation for tangible assets as the valuations are often for secured lending purposes.

The Board noted that some assets such as technology start-ups are inherently risky as a large proportion of these assets are inherently risky.

The Board further noted that bias risk should be at zero.

The board discussed varying valuation risks such as limited data availability in emerging markets.

The Board noted that the following factors could mean that a valuation is inappropriate for its intended use:

- Wrong inputs
- Wrong Basis of Value Used
- Wrong data

The Board discussed breaking down valuation risk into smaller pieces and also how the valuer should explain the mitigants in place to reduce valuation risk.

The Board generally discussed the following elements of valuation risk:

- Error
- Bias
- Noise – variability in error

The Board further discussed traceability as a way of reducing valuation data risk.

The Board also discussed how IVS can be used to minimise valuation risk and noted that a key purpose of IVS was to minimise risk and if valuer followed IVS, then to a large extent many of the risk discussed would be minimised.

The Board agreed that the first step was to publish a perspective paper on valuation risk to engage the market on the different types of valuation risk.

The Board also felt it was important to understand the market views of the IVS definition of valuation risk and that the IVSC Boards should extract feedback on the proposed perspective paper at a market level as different asset classes had different perspectives.

The Board also felt that in advance of the publication of a perspectives paper on valuation risk the IVS Agenda Consultation 2024, which includes Valuation Risk as a key topic could include questions in relation to IVS and the definitions of *“valuation risk”* and *“professional judgement”*.

Several Board members felt that valuation risk varied between acceptable or not and added that reliable valuations will have considered valuation risk in an appropriate manner.

The Board also noted that the intended use of a valuation can increase or decrease the valuation risk and gave the following examples: -

- Public Purpose Valuation
- Expert Witness Valuations

The Board also generally discuss the difference between the valuation firm risk and the valuation process risk.

The Board noticed that most Basis of Value give a point estimate and encapsulated in this is the estimated amount.

The Board further noted that the courts can be very tough on valuations and refer to the terms of estimation or the reasonable range for a valuation in their judgements.

However, the Board also noted that courts did not often refer to valuation risk as most courts don't understand the valuation process and don't like uncertainty.

The Board also discussed the difference between what valuers saw as valuation risk and what members of the public saw as valuation risk.

Next steps

The Board to include questions on valuation risk within the IVS Agenda Consultation 2024. The IVSC SRB Valuation Risk working group is to review the Agenda Consultation 2024 responses on valuation risk and is to draft a perspectives paper on valuation risk to be published in Q3/Q4 2024.

ESG

ESG and Sustainability Presentation

The Board was advised that in the USA due to the fact that ESG had become a politically charged term most organisation had moved from ESG to sustainability.

The Board was further advised that though sustainability is supposed to be tied back to value, most people involved in sustainability know very little about value.

The Board was also advised that sustainability largely focussed on the reporting side of valuation.

The Board was informed that ESG had not succeeded in financial reporting as ESG covers an array of topics with some times up to 27 dimensions and when carrying out a valuation the firm was only seen as ESG compliant if the firm performed well in all 27 different dimensions.

The Board was further informed that this approach did not work as no one was good at everything and in reality, some firms were good at considering some ESG factors, while other firms were better at considering other ESG factors.

The Board was also informed that Sustainability was more thoughtful and when considering sustainability, the report should highlight the ESG considerations that the firm are good at but also needs to think about what ESG practices need to be changed that currently have negative consequences.

The Board was advised that for ESG factors that have negative consequences but don't hit the profit and loss account the firm needs to think, what do I do, how much does it cost, how long will it take and how hard will it be. However, as these factors have no effect on the value, no one must disclose them yet.

Thyer Board was further advised that the value needs to consider how sustainability factors are already considered in the beta it is mandatory for the report to talk about all the externalities and not just the negative ones and should also include a road map for how the firm is dealing with sustainability.

The Board was also advised that though ESG was too wide, sustainability was too generic and almost any business risk is under E, S or G.

The Board was informed that the EU taxonomy had the most robust framework, which includes the use of market power and includes detailed topics that need to be looked at.

The Board was advised in a sustainability report the environmental focus and focus on climate change was not always positive as it could affect business opportunities and put them at risk.

The Board was advised that this could also affect the materials used in construction as for example aluminium and glass are energy intensive when considering the environmental cost of production.

The Board was advised that though there was data for environmental factors there was less data on S and G and to a certain extent G was on or off, either you have governance in place, or you don't.

The Board was also advised on the issue of natural capital and how there was now a list of natural companies that were due to be quoted on a stock exchange.

The Board was provided with examples of natural capital for example a farmer may be give one million dollars an acre to not develop his land for 50 years. This can create a contractual right or easement.

The Board was advised that companies are buying all these rights and unlike carbon credits these rights come with some limited cash flow so can be traded.

The Board was further advised that these companies buy a portfolio and list it on an exchange and the cashflows will normally be around 20%.

The Board was also advised that natural asset companies were a new asset class which did not correlate with other asset classes.

The Board was informed that Natural Asset Companies are planning to list on the London Stock Exchange.

The Board discussed how the price of water had gone up in many countries and that in Australia they traded water rights.

The Board was also informed how the scope had changed around externalities and that ISSB and the EU taxonomy were both algorithms based, and algorithms were used to figure out the material risk and opportunities,

Thje Board was also advised that ESG could cause the following changes in the cashflow and in the reserve:

E = traditional domain for valuers which affects the forecasts and cashflows.

G = liquidity, don't price in.

S= includes a lot of topics, which are still challenging to price in cashflows.

The Board was informed that within the states it was difficult to look at Big 4 from the perspective of diversity and inclusion the average of employees is 27 but many of these employees are Caucasian.

The Board was further informed that some global firms are also challenged by diversity in some of the countries where they are located as service centres used in the India or Philippines often tend to only use local staff.

The Board was further informed that:

E can be shown in the cashflow

S can be shown via the discount rate

G very difficult to apply until there are governance issues.

The Board was also informed that many views in relation to ESG were western centric and other markets such as India, China, Taiwan and Egypt have a different perspective.

Furthermore, in terms of diversity there is a difference between the western and eastern European viewpoint.

The Board was also advised that the introduction of the ISSB standards may change market practices further and the ISSB have now opened an office in China and there are currently discussions taking place on whether China will adopt the ISSB standards.

Next steps

None.

ESG Discussion Next Steps

The Board discussed whether the definition of ESG contained in IVS should be revised as follows (proposed revisions in red):

Environmental, Social and Governance (ESG)/Sustainability

The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices, financial performance or operations of a company, asset or liability. ESG comprises three pillars: Environmental, Social and Governance, all of which may collectively impact performance, the wider markets and society. In some markets this is also known as sustainability.

The Board agreed that it was too early to change the definitions within IVS but thought that this was a revision worth considering for the future.

The Board also discussed the content of IVS 104 Data and Inputs Appendix and agreed that apart for the difference in nomenclature the standards equally applied to ESG.

The Board was advised that they were aware of this issue and in order to encourage participation in the ESG survey for valuation providers from markets such as the US the ESG survey stated that:

“ESG and sustainability are often used interchangeably. For the purposes of this survey and in order to encourage responses from all markets, we have used the term ESG/Sustainability. Ultimately, we are looking for your perspective on how these factors are incorporated into your valuations.”

The Board was advised that in the latter half of 2024 the IVSC ESG working group would publish a survey and hold round table aimed at investors and firms.

The Board was further advised that once the survey had closed the IVSC RSB working group would publish a report on the results of the ESG survey.

The Board was also advised that ESG was a key topic within the IVS 2024 Agenda Consultation.

Next steps

None.

Listed vs Unlisted

Listed vs Unlisted.

- *Why is there a divergence between the listed price and NAV?*
- *Is there a difference in the way listed funds are valued in Business Valuation, Financial Instruments Valuation and Tangible Asset Valuation?*
- *Does this difference relate to the basis of value (Market Value vs Fair Value)?*
- *How do we ensure a consistent approach or minimise these differences?*
- *How does following IVS help?*

The Board was advised that the IVSC SRB Listed vs Unlisted working group had gone into sabbatical while the IVSC Boards focussed on revisions to the standards.

The Board was further advised that this was an extremely important issue, which crossed both business valuation and tangible assets valuation.

The Board was also advised that there was a disconnect between listed REITS in terms of the trade prices and NAV.

The Board was informed that in some cases this was because the valuer was not looking at the best evidence available and in other instances it was because the wrong basis of comparison had been used.

The Boards discussed the difference between price and value and noted that IVS stated in its definition of price IVS stated as follows:

Price (noun): *The monetary or other consideration asked, offered or paid for an asset or to transfer a liability. Price and value may be different.*

The Board noted that listed REITS were very different from private deals and there were differences in liquidity.

The Board discussed Portfolio Discounts and Portfolio Premiums and how many of these differences could be caused by a timing issue in the accounts or due to the timing/holding difference between investors.

The Board also noted that some of the differences could be due to the cost of debt as for instance Japan has a low level of debt so some investors may be willing to pay more for the same asset.

The Board discussed how it was easier to value real estate assets than to value assets held by a pension fund and human error could be part of the reason for the difference.

The Board noted that the office market had been severely affected by events of the past few years and many office prices had fallen recently.

The Board further noted that the retail market and in particular shopping centres had suffered a fall in prices.

The Board also noted that there could be up to a 10% difference when two valuers were valuing the same asset, but this partly depended on the nature of the asset.

The Board agreed that another issue may be the basis of value used and there was a tendency to report Market Value not Fair Value.

The Board noted that the unit of account difference could account for up to 10-20% of the difference between listed and unlisted assets.

The Board also noted that when some assets went into a fund there was potentially a lack of rigour in valuation and that closed end funds pools listed securities and record NAV and Traded price and, in some instances, showed a discount to NAV of 31%.

The Board continued to discuss the difference between listed and unlisted and noted that there are a multitude of reasons for these differences which could be explored in the perspectives paper.

The Board also felt that following IVS would reduce these differences.

The Board also discussed the difference in value between a controlling interest and a minority interest could contribute to this issue as could the different circumstances relating to a valuation.

The Board noted that the valuer's role is to understand the issues and difference and feel comfortable with their valuation.

The Board further noted that the frequency of valuations may also contribute to this issue as most pension funds are valued on a quarterly basis whereas some REITS are only valued every three years.

The Board also noted that the Basis of value could be a reason for this issue as many valuers see Market Value and Fair Value as being the same, whereas market value is a hypothetical transaction whereas Fair Value is a transaction taking place between the actual market participants.

The Board noted the following potential reasons for the difference in value between listed and unlisted assets; -

- Different Basis of Value
- Price and Value and Unit of Evidence
- Quality of Evidence
- Range (*could be wider*)

The Board suggested that the structure of the listed vs unlisted perspectives paper should be as follows: -

1. Problem Statement – What is the problem and why?
2. Reasons for Differences – Provide some examples.
3. Valuation Considerations - how to do a better job.
4. Conclusion

The Board discussed how some of the challenges related to availability of data for example there was limited hotel data available during the corona virus crisis.

The Board further discussed the existence of contrary data but felt that many of the data challenges fell on the professional judgement of the valuer.

The Board also felt that the paper could show how using IVS can minimise the differences in value,

The Board noted that due to the complexity of the issue there may be a series of perspective papers on listed vs unlisted.

Next steps

IVSC SRB Listed vs Unlisted Working Group to draft a perspectives paper to be considered by the SRB for publication.

Fair Value

- *Fair Value Measurement and Practices under Accounting and IVS – All*
- *Consultation questions re compliance with IVS and Accounting Standards*
- *AICPA Mandatory Performance Framework*
- *FI VPO and AICPA CVFI Credential*
- *Bridging Process*

Yelena Miskevitch (YM) and Mark Smith (MS) from American Institute of Certified Public Accountants (AICPA) joined the SRB for an informal discussion.

The Board was advised that except for the AICPA there were currently no qualifications or VPO's for financial instruments valuers and that the closest thing to this was the Certified in Entity and Intangible Valuations (CEIV) or Mandatory Performance Framework (MPF) for FI.

The Board was advised that the MPF was in the process of being updated at the request of firms, who saw it as a best practice document, which demonstrated how much information should go into a valuation report.

The Board was further advised that the AICPA and CIMA certification in the Valuation of Financial Instruments (CVFI) followed much the same format and helps bolster transparency and consistency in financial instrument valuations.

The Board asked how the Accredited in Business Valuation (ABV) credential fitted in with this.

The Board was advised that the ABV credential was available to Certified Public Accountants (CPAs) and finance professionals and that the focus was similar to CEIV.

The Board was further advised that though the focus was on the valuer the credential applied to all those working in this sector.

The AICPA was advised that IVS stated that *"IVS are drafted on the basis that valuers who use the standards are competent and have the requisite knowledge, skills, experience, training, and education to perform valuations. For the purposes of IVS, a valuer is defined as an individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions,*

licensing is required before an entity, or an individual can act as a valuer (see IVSC Code of Ethical Principles for Valuers)."

The AICPA was further advised that this caused an issue in the field of financial instruments as there was no set route to be qualified as an FI valuer and with the exception of AICPA in the USA there were no VPOs for financial instruments.

The AICPA advised that they were largely focussed on Fair Value and that the CVFI qualification complemented the COPA qualification.

The Board generally discussed the synergies between AICPA and IVS and whether it would be possible to reference each other's standards to aid consistency and market practices, particularly as both organisations dealt with similar people and organisations and there were a lot of commonalities between them.

The Board generally discussed ways to harmonise the standards, bases of value and to work closer together in future.

The Board also discussed the benefits of detailed implementation guidance for financial reporting and explained that as IVS was an overarching principles-based standards it was largely agnostic to use cases.

Further to discussions the AICPA and SRB agreed to explore ways to work closer together in future, particularly as they shared many aims and had members on both Boards.

Next steps

AA to send the latest edition of IVS to YM and MS. The Board is to continue discussions with AICPA to explore ways to work closer together in future, particularly in the field of financial instrument valuations.

Updates and Discussion

IOSCO Update

The Board was advised that the IVSC Governance and processes were currently being reviewed by IOSCO and compared to the processes adopted by the IASB and the IAASB.

The Board was further advised that once this part of the review was completed IOSCO would begin to review IVS.

The Board was also advised that IOSCO would be issuing a report toward the end of this year and though IOSCO did not formally adopt standards IVSC hoped that the report would recommend the use of IVS for valuations.

Next steps

The Technical Directors to provide regular IOSCO updates.

Technical Information Papers (TIP)/Illustrative Examples Discussion

- *Perspective Papers vs TIPs*

The Board discussed Illustrative Examples and noted that the IVS Professional Board had previously drafted Illustrative Examples for Basis of Value but feedback from the VPO's was that this was not in the domain of IVS as the VPO's, in many instances, drafted illustrative examples for their members.

The Board also discussed the creation of Technical Information Papers (TIPs) on topics such as DECF where there was a large market demand.

The Technical Director advised that in the past the VPO's felt that TIPs crossed into the area of guidance notes provided by VPO's and were outside the limit of the IVSC.

The Board noted that though there were many VPO's within the tangible assets arena this was not the case for business valuation or financial instruments valuation.

Furthermore, there were only a few VPO's who dealt with business valuation and only the AICPA dealt with financial instruments valuation.

The Board also discussed the following IVSC Tips and noted that many of the were out of date:

- *Cost Approach*
- *DCF*
- *Intangible Assets*
- *Valuation Uncertainty*
- *Credit Value Adjustments*

The Board set up an IVSC SRB TIP working group to carry out a full review of the existing TIPs and see if any of these needed to be archived or withdrawn.

The Board felt that there was no reason why the Business Valuation Board and Financial Instruments Board should not issue Illustrative Examples on key topics to aid with the implementation and adoption with IVS.

The Board also felt that any Illustrative examples issued should only relate to the practical application of IVS and generally discussed examples of illustrative examples issued by other standard setters.

The Board also noted that the Code of Ethical Practices for Valuers was still a relevant document it may benefit from some updating.

The Board also discussed whether Illustrative Examples could be a key topic within the IVS Agenda Consultation 2024, but further to discussion the Board felt that this was more an internal policy matter, which could be discussed with members of the Advisory Forum.

Next steps

IVSC SRB TIP Working Group to review the existing IVSC TIPs and make recommendation to the SRB on whether any of these papers should be updated, archived or withdrawn.

Working Groups

SRB Working Group Review - All (members and chairs)

- *IVSC SRB ESG Working Group (Also ISSB)*
- *IVSC SRB IOSCO Working Group*
- *IVSC SRB Valuation Risk Working Group*
- *IVSC SRB Listed vs Unlisted Working Group*
- *Other Working Groups*

The Board was advised that the SRB working groups had recently been reviewed and SD and AA were in the process of incorporating new Board members within the working groups.

The Board was further advised that many working groups had been placed on sabbatical while the IVSC Technical Boards were focussed on finalising IVS for publication.

The Board was also advised that now IVS (effective 31 January 2025) had been published the IVSC Working Groups would be reactivated.

The Board discussed the SRB working groups and agreed that the following IVSC SRB working groups for 2024:

- 1. IVSC SRB ESG Working Group (Also ISSB)*
- 2. IVSC SRB Valuation Risk Working Group*
- 3. IVSC SRB Listed vs Unlisted Working Group*
- 4. IVSC SRB Technology in Valuation Working Group*
- 5. IVSC SRB Agenda Consultation Working Group*
- 6. IVSC SRB Academic Working Group*
- 7. IVSC SRB TIP and White Paper Working Group*

Next steps

AA to redistribute the IVSC SRB working Group list and to reactivate the working groups and send calendar invites for future calls.

Administration

Future SRB Physical Meetings 2024

- *13 May – 17 May (London)*
- *20 Nov – 22 Nov IVSC AGM (Hong Kong)*

The Board was advised that the next IVSC SRB meeting will be in London between Wednesday 15th May and Friday 17th May.

The Board was further advised that the new IVSC SRB members would be joining this meeting.

The Board was also advised that AA would distribute printed versions of IVS (effective 31 January 2025 to Board members.

Next steps

AA to distribute hard copies of IVS (effective 31 January 2025) to the SRB.

AOB

The Board was asked if there was any other business and as there was no other business the meeting was closed.