

IVSC TAB Meeting Update June 2024

This IVSC Update highlights preliminary decisions of the IVSC Tangible Assets 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 as set out in the IVSC Standards Review Board Due Process and Working Procedures.

The Board met remotely on 12 June 2024. The topics in order of discussion were:

Administration

- Administration. Welcome and Attendance - Kim Hildebrandt
(2024.06.12. IVSC TAB Conference Call Agenda Final PDF)
- IVSC TAB Meeting Update May 2024 - All
(IVSC TAB Meeting Update May 2024))

Global Insights & Markets Update

Around the World – Markets update 2024 and Valuation Risk and Reasonable Range

- *Valuation Procedural Risk*
- *Valuation Risk or Value Uncertainty*
- *Investment Risk (over the investment)*
 - *Africa – Molefi Kubuzie*
 - *North America – James Gavin, Brendan Gallagher, Kyle TenHuisen*
 - *South America – Eduardo Rottman*
 - *Asia/Oceania – CK Lau, Sandip Kumar Deb, Kim Hildebrandt*
 - *Europe – Ludmila Simonova, Becky Gaughan*
 - *Middle East – Paakow Winful, Ron Cohen-Seban*

Agenda Consultation

- IVS Agenda Consultation – Alexander Aronsohn
(2024.06.07. IVSC Agenda Consultation 2024 without track changes)

Perspective Papers

- Inspection of Tangible Assets Perspectives Paper - All
(DRAFT - Perspectives Paper - Inspection of Tangible Assets 07.06.24))
- Prudential Value Perspectives Paper – All
(2024.06.07. IVSC - Prudential Value Perspectives Paper)
- Future Perspectives Papers Update - Kim Hildebrandt/Alexander Aronsohn
 - A. *Listed vs Unlisted Perspectives Paper*
 - B. *ESG and Plant, Equipment and Infrastructure*

Updates

- Chairs discussion regarding public meeting/IOSCO - Kim Hildebrandt/Alexander Aronsohn
- ESG Survey Update - Alexander Aronsohn
(Moody's Article on Sector in Depth Regulation Europe Basel 31-21Mar2024-PBC_1397449)
- Law Survey from Nicolas Konialidis - Kim Hildebrandt/Alexander Aronsohn
- 18th June Professor Srivastava Presentation (Optional) - Kim Hildebrandt/Alexander Aronsohn

Administration

- IVSC TAB Working Groups Update - Kim Hilderbrandt/Alexander Aronsohn
(2024.06.10. IVSC TAB Working Groups)
 - A. TAB MV and Prudential Value Working Group
 - B. TAB ESG Working Group
 - C. TAB Inspection Working Group
 - D. AI Working Group
- SRB Update London Meeting - Kim Hilderbrandt/Alexander Aronsohn
- IVSC Hong Kong AGM 2024 - Kim Hilderbrandt/Alexander Aronsohn
- AGM formally 20-22 November
 - *Discuss prospect of TAB meeting on 19th and 20th November*
- IVSC Physical Meetings Calendar 2025
 - February/March - Santiago, Chile
 - May/June – Amsterdam, Netherlands
 - Late September – Singapore AGM
- Stakeholder Engagement/Outreach - All
- AOB – All

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

Administration

Administration. Welcome and Attendance (2024.06.12. IVSC TAB Conference Call Agenda Final PDF)

KH welcomed the Board thanked them for attendance and advised the Board that of the Board members that had either sent their apologies or were absent.

AA advised the Board that he would reach out to the non-attending Board members and would provide a meeting update.

Next steps

AA to reach out to non-attending Board member and provide a Board update.

IVSC TAB Meeting Update May 2024 (IVSC TAB Meeting Update May 2024)

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

Next steps

No action required.

Global Insights & Markets Update

Around the World – Markets update 2024 and Valuation Risk and Reasonable Range

- *Valuation Procedural Risk*
- *Valuation Risk or Value Uncertainty*
- *Investment Risk (over the investment)*

KH advised that he wanted to ensure that all the views of the TAB members in relation to valuation risk and reasonable range were fully reflected in discussions with the SRB.

KH further advised that Valuation Risk was a key topic within the forthcoming IVS Agenda Consultation 2024

KH also advised that reasonable range was a concept that was used in business valuations and financial instruments valuations and both the BVB and FIB were supportive of the inclusion of this concept in the next edition of IVS.

KH added that almost all bases of value require a point estimate and that valuers can include a reasonable range if this is included in their scope of work.

KH further added that for tangible assets it is difficult to provide a confidence interval around the reported value.

KH asked the tangible assets board to answer the following questions when providing their market update:

- 1) Do you have any Basis of Value or scope of work that requires a value range?
- 2) Do you give a valuation range voluntarily and if so, how do you do it? Do you use a confidence interval for data or professional judgement?

KH added that there was some pressure to think about reasonable range within the concept of valuation risk.

- *Africa*
South Africa - Molefi Kubuzie
 - MK was absent so was unable to provide insight .
- *North America*
USA - James Gavin
 - From a procedural level once you have a purpose of valuation, you look at the users who may have a preferred bases of value.
 - Where there is broad range of users which doesn't allow legal language around a point estimate then you would limit exposure to other parties directly engaging and if you need to then you would share the valuation.
 - There is normally a third-party letter, which includes the terms and conditions that must be met which includes scope, purpose and users.
 - In some instances, the third-party letter could theoretically include reasonable range, but it is more likely to require a point estimate.
 - For real estate valuations for financing estate plan or IRS the valuation will always be a point estimate.
 - Reasonable range can be used for part of a transaction or a solvency opinion where there is fiduciary responsibility re ownership or transferral as the valuer is looking at what is truthful and fairness.

- Often when valuing there is a range of potential values and the valuer normally settles on a mid-point.
- JG advised that he recently had the situation in an engagement where the client is looking at land use and trying to negotiate a price. In these instances, the highest and best use is usually such a dramatic change from the original use that it is difficult to give a point estimate so the valuer would normally give a valuation conclusion that incorporates a range.
- JG also advised that he was happy to provide a range for one off consulting when requested and though he had no issue in providing this it was more of an exception to the rule.
- JG further advised that he provide a reasonable range with his valuations when a client requests it, and the reasonable range would be based on data analysis and professional judgement.
- JG added that generally the valuer would not go into statistical analysis and would not provide confidence ratings but would carry out a sensitivity analysis for inputs and ranges but would provide a point estimate for the valuation.

USA - Kyle TenHuisen

- KTH apologised as he was unable to make this call, but he was provided with a separate update post call and his comments were in line with those above.

Canada – Brendan Gallagher

- BRG apologised and was not present for this agenda item.

- *Europe*

Ludmila Simonova

- LS advised that in the Ukraine they would normally give a valuation range and since the war this was common practice as valuations were less certain.
- LS further advised that professional judgement requires data to be used but in some instances the data is so limited that it is more or less impossible to provide an estimate at a point in time so many valuers refer to a reasonable range for valuations.

Becky Gaughan

- BG apologised as he was unable to make this call, but she was provided with a separate update post call and her comments were in line with those above.

Charles Golding

- CG advised that his background was in commercial real estate.
- CG further advised that this was quite a philosophical exercise and in pricing exercises, which are often adjacent to valuation, the valuer will provide reasonable ranges and risk analysis.

- CG also advised that in regular purpose valuations the valuer will normally provide a point estimate.
- CG added that the valuer may look at reasonable range in the date provided and may use statistical analysis.
- CK further added that in court the practice was to provide a single valuation (i.e. a point estimate).
- CG also added that there is a distinction for court evidence as the valuer must provide a conclusion of value.
- Advised that in terms of best practice the Red Book warned against providing ranges but did support sensitivity analysis and scenario testing.

Paloma Arnaiz

- PA advised that she agreed with what CG said,
- PA further advised that clients want a point estimate particularly for financial reporting and secured lending purposes.
- PA also advised that reasonable range was only really used for transaction purposes and though some valuers did provide reasonable ranges they tend not to use statistical analysis to support that range but rely on professional judgement.
- PA added that if the market is volatile and it is difficult to provide a point estimate then a reasonable range will be used.
- PA further added that for the residential mortgage market a single point estimate was normally provided.

- *South America – Eduardo Rottman*

- ER advised that valuation risk and reasonable risk were commonly used in his jurisdiction and were referred to in the Brazilian valuation standards.
- ER further advised that reasonable range was particularly used when the market approach was adopted in valuations.
- ER also advised that the Brazilian standards include Present Expected Value, which includes an upper and lower range and confidence interval and statistical intervals.
- ER added that this is used for all asset classes but is particularly used for residential real estate but also applies to urban and rural real estate.
- ER further added that most valuers provide both a point estimate and a reasonable range and the Market Value will somewhere in between the reasonable range.

- *Middle East*
Paakow Winful
 - PW advised that valuation analysis would normally include a reasonable range, and this would normally be based on correlation.
 - PW further advised that the valuation conclusion would always be a point estimate.*Ron Cohen-Seban*
 - RC apologised as he was unable to make this call.

- *Asia/Oceania*
CK Lau
 - CK commented that JG had provided a good summary or market practice.
 - CK advised that in Asia a point estimate is common practice and still the norm for most valuation purposes.
 - CK further advised that the client will request a reasonable range only in exceptional circumstances such as when the market is extremely volatile or when there are limited transactions.
 - CK also advised that as stated by LL for ballpark valuations a reasonable range would normally be provided but once engaged the valuer would use his professional judgement to provide a point estimate.
 - CK added that the valuer would use data analysis to provide a narrow range or point figure, but the value would need to justify in court why a reasonable range or point estimate was provided.
 - CK further added that for normal engagements a point estimate would be provided.*Leo Lo*
 - LL advised that it was common practice for his clients to ask for a range of values/ballpark figure before an engagement and in this instance, he would normally provide an opinion of value.
 - LL further advised that as part of this process he would analyse transaction data and review the tenancy schedule provided.
 - LL also advised that the ballpark valuation would be done as professional as possible as once a ballpark figure was given and the valuer was given his instruction the final valuation cannot exceed the ballpark valuation range.
 - LL added that the valuation range used was normally +/- 10%.
 - LL further added that a wide range was normally provided as it gave room for the valuer to adjust their valuation later, if required.*Sandip Kumar Deb*
 - SKD apologised as he was unable to make this call.

Kim Hildebrandt

- KH noted that there were issues with reasonable range and gave the example of a gas storage facility where all the reports suggested that it would sell in the range of \$800 million to \$ 1 billion dollar, whereas the asset transacted for \$1.8 billion.
- KH gave another example of a significant asset where there a 40-year leasehold asset for sale. All the investors suggested that the value would be around \$6 billion but the asset eventually sold for \$10 billion.

CK commented on these examples and advised that this was not an unusual challenge as with investment transactions the owner will normally go with the initial price indicator, but competition may push the price up further.

CK added that this is where the skill of the valuer comes in as the valuer needs to check the market re potential investors and the valuer needs to talk to banks and potential investors to understand competing opportunities in the market.

KH concluded that in some jurisdictions reasonable range is quite common and established in standards and the reasonable range is typically determined using data and professional judgement but, on the whole, not using statistical analysis.

KH further added that the degree of professional judgement required was related to the availability and transparency of data.

Next steps

ER to provide a copy of the sections of the Brazilian valuation standards that deal with valuation risk and reasonable range.

Agenda Consultation

Agenda Consultation (2024.06.07. IVSC Agenda Consultation 2024 without track changes)

The Board was advised that further to the physical meeting between the 15th and 17th May the TAB was advised that the Agenda Consultation had been subject to the following revisions:

- *Order of the topics contained in the introduction had been revised to improve the flow of the document.*
- *Key topics had been revised in order to ensure the impartiality of these sections and to ensure that respondents were not being led to any particular conclusion.*
- *Timing for key topics had been revised for current topics to 0-2 years and for future topics to 2 years plus.*
- *Some topics had been moved to the current topic section in order to improve the balance between current and future topics.*
- *Additional topics had been revised to only include a short summary of the topic and the oversight Board.*
- *Some of the contents of the BVB additional topics had been revised by the BVB.*
- *Consultation questions had been revised to ensure consistency between the key topics and the Additional topics and to ensure that the consultation questions were more succinct and impartial.*

The Board was further advised that he had received some feedback from BRG and JG and had made the appropriate revisions.

The Board was also advised that the Agenda Consultation would be subject to final review at the next SRB conference call on the 26th of June 2024.

The Board was informed that the SRB were aiming for the Agenda Consultation to be published in July 2024 and would be subject to a 90-day consultation between July and October 2024.

The Board was asked to review the revised Agenda Consultation and to provide him with any comments or revisions by close of play on Monday 17th June.

Next steps

The Board should review the revised Agenda Consultation and provide him AA any comments or revisions by close of play on Monday 17th June.

Perspective Papers

Inspection of Tangible Assets Perspectives Paper - All (DRAFT - Perspectives Paper - Inspection of Tangible Assets 07.06.24)

The Board was advised that the draft perspective paper had been well received by both the TAB and SRB.

The Board was further advised that some members of the SRB suggested that the perspectives paper should be exposed to the VPO's prior to publication but further to discussion the SRB felt that this was not necessary.

The Board was also advised that BE had reviewed the perspectives paper and advised that it was one of the best IVSC perspectives paper that he had seen.

The Board was informed that the Inspection Perspective paper was due to be published later that day.

The Board was further informed that the Inspection Perspectives Paper would also be published in the June Enews.

The Board was asked to provide AA and Richard Stokes with any revisions/fatal flaws by 09:00 on the 12th of June in order to avoid any delays to publication.

Next steps

The Board should review the Inspection Perspectives Paper and provide AA with any comments or revisions by 09:00 on the 12th of June.

Prudential Value Perspectives Paper – All (2024.06.07. IVSC - Prudential Value Perspectives Paper)

The Board was advised that this was a long-standing topic that was particularly relevant to Europe and the UK.

The Board was further advised that the requirement to provide a Prudential Value would come into European law in January 2025.

The Board was also advised that both RICS and TEGOVA had published articles and comments in relation to Prudential Value.

The Board was informed that there appeared to be a difference of opinion between these organisations in relation to the proposed valuation methodology.

The Board was also informed that in a recent article RICS members were advised to be cautious about accepting valuation instructions to provide PV as it was a new topic and as there was a lack of guidance from regulators on how to implement PV.

The Board was advised that the TAB had previously sent a paper to the BCBS advising them of their concerns both in relation to the interpretation of the definition of PV and the valuation methodology.

The Board was further advised that the TAB was currently focussed on agreeing interpretation of the definition of PV.

The Board was also advised that there were a number of issues in relation to the availability of data and the valuation methodology.

The Board was informed that the draft perspectives paper is an abridged version of the original BCBS letter.

The Board was further informed that the intention of the perspectives paper was not only to inform VPO's but also to advise regulators of the issues in relation to implementing Prudential Value without an agreed definition and valuation methodology.

CG advised that the RICS had formed a working group with a number of experts to agree a methodology for Prudential Value.

CG informed the Board that he would advise them of any progress made.

The Board was advised that the EMF had also published a number of articles in relation to Property Value/Prudential Value, but the TAB had asked for the IVSC logo and references to be removed

The TAB was further advised that though the IVSC was supportive of this initiative the TAB was not in a position to discuss methodology at this point in time.

LS asked what the situation in other countries was such as the USA in relation to Prudential Value.

The Board was advised that the USA and other countries who were members of the Basel committee seemed to be unaware of the situation in relation to Prudential Value.

The Board was further advised that one of the purposes of the perspectives paper was to describe the situation in Europe and the UK and to raise awareness of this issue elsewhere.

KH further advised that the main purpose of the perspective paper was not only to advise VPO's of the issue but also to encourage regulators to come to the table and provide further guidance in relation to the practical implementation of Prudential Value.

KH also advised that he had also received some feedback from Doug Summa of the FIB and had set up a call to discuss his comments further and agree potential revisions to the perspectives paper.

KH added that it was not up to the TAB to say how to implement Prudential Value and that the role of the TAB was to advise members that this was not MV and to advise of the potential risk in undertaking instructions to provide a Prudential Value.

CK advised that he was supportive of the perspective paper and the proposed approach.

KH further advised that he would engage deeper with the SRB and had already received feedback from DS and IJ in relation to this issue.

Next steps

AA to resend the Prudential Value perspectives paper to the Board for consideration and review.

Future Perspectives Papers Update

A. Listed vs Unlisted Perspectives Paper

KH advised that the IVSC SRB working group was still working on drafting this perspectives paper.

KH further advised that the working group aimed to have a provisional draft for the TAB to consider at the next TAB conference call.

Next steps

A preliminary draft to be shared with the TAB over the next few weeks.

B. ESG and Plant, Equipment and Infrastructure

KH advised that AA, BRG , KTH and PW were currently considering a revised draft.

KH further advised that he hoped to share a revised draft with the IVSC TAB ESG working group during the course of the next week.

Next steps

None.

Updates

Chairs discussion regarding public meeting/IOSCO

The Board was advised that the SRB was in the process of drafting a policy for public meetings.

The Board was further advised that the policy would apply to both open and closed meetings.

The Board was also advised that the SRB aimed to prepare a single page policy, which would be applied to all Boards.

The Board was informed that this policy was still in the process of being drafted and would be shared with the Board in due course.

The Board was further informed that other standard setters such as the IASB held all meetings in public.

The Board was also informed that the SRB did not intend to adopt this approach at this point in time.

The Board was advised that the IVSC was currently being reviewed by IOSCO and as part of this process comparisons were being made with the IASB and IAASB.

The Board was further advised that IOSCO would be issuing a report on the IVSC and IVS towards the end of the year.

Next steps

None.

ESG Survey Update (Moody's Article on Sector in Depth Regulation Europe Basel 31-21Mar2024-PBC 1397449)

The Board was advised that the IVSC had received over 542 responses in relation to the ESG survey.

The Board was further advised that this was twice the number of responses previously received.

The Board was also advised that the IVSC SRB ESG working group were in the process of reviewing the responses and further details would be provided in due course.

Next steps

AA to share a summary of the responses during the next IVSC TAB conference call.

Law Survey from Nicolas Konialidis

AA advised that Nicolas Konialidis would be sharing a law survey with the TAB.

AA further advised that the main purpose of the survey was to encourage greater collaboration between valuers and the legal profession.

AA was also advised that as part of this process the IVSC wanted to create a summary of reference to IVS in case law.

AA asked the Board to participate in the Law Survey.

Next steps

Board to participate in the Law Survey,

18th June Professor Srivastava Presentation (Optional)

The Board was advised that Professor Srivastava would be providing a virtual presentation on intangible assets on the 18th of June 2024.

The Board was further advised that all Board members were welcome to join this virtual presentation.

The Board was also advised that if they wanted to join this presentation, they should send an email to Nicolas Konialidis expressing their interest.

Next steps

Board to advise Nicolas Konialidis if they wish to attend Professor Srivastava's Presentation on intangible assets.

Administration

IVSC TAB Working Groups Update (2024.06.10. IVSC TAB Working Groups)

A. TAB MV and Prudential Value Working Group

Board was advised that further to comments received from the BVB the draft perspectives paper was currently being revised to focus more on valuation risk.

B. TAB ESG Working Group

Board was advised that that the perspective paper on ESG and Plant, Equipment and Infrastructure was currently being revised.

C. TAB Inspection Working Group

Board was advised that the Perspective Paper on Inspection had been published and the Board was waiting for the results of the Survey prior to receiving further information.

D. AI Working Group

Board noted that the use of technology in valuation was a key topic within the IVS Agenda Consultation 2024.

Further to discussion the Board agreed not to activate this working group until the results of the IVS Agenda Consultation 2024 were received.

Board further noted that this would be an important TAB topic for the next two to three years.

SRB Update London Meeting

Board was advised that the SRB met in London between the 15th and 17th May 2024.

Board was advised that key topics included:

- ESG/Sustainability
- Illustrative Examples/FAQ's for Financial Instruments
- Academics and how to incorporate within the standard setting process
- IVS Capital Markets
- Inspection Perspectives Papers
- Agenda Consultation
- AI (included a number of external presentations)
- Presentation from ISSB

Board was further advised that the SRB also held a public meeting, which provided the initial results of the ESG survey.

Next steps

Board was asked to advise KH and AA of suitable academics to join the IVSC SRB and TAB working groups.

IVSC Hong Kong AGM 2024

- ***AGM formally 20-22 November***
- ***Discuss prospect of TAB meeting on 19th and 20th November***

Board was advised that the IVSC AGM was being held in Hong Kong between the 20th and the 22nd of November 2024.

Board was also advised that the IVSC would not be able to cover the costs for hotel rooms for the Monday night.

Board discussed the prospect of the TAB. meeting between the 19th and 20th November 2024.

Board agreed to meet on Tuesday of 19th November 2024 and to have a cross-Board dinner on Wednesday 20th November.

CK kindly offered to provide a meeting room for the 19th of November 2024.

Next steps

Board advised to block out these dates in their calendar and to arrange flights for the Hong Kong meeting.

IVSC Tentative Physical Meetings Calendar 2025

- ***February/March - Santiago, Chile***
- ***May/June - Amsterdam, Netherlands***
- ***Late September – Singapore AGM***

Board was advised that the SRB was in the process of discussing Board meetings dates for 2025.

Board was further advised that the 2025 meeting dates were being discussed in the IVSC Technical Board Chairs call and further details would be provided in due course.

Next steps

AA to include IVSC Physical Meetings 2024 as an agenda item for the next IVSC TAB Conference Call.

Stakeholder Engagement/Outreach

AA advised that the IVSC continued to focus on market outreach and during the next few weeks the TAB would be presenting to the following stakeholders:

- ASA on Valuation Review
- Australian Taxation Office
- Malaysian Institute of Accountants

AOB

There was no other business raised by the TAB.

Next steps

None.