

IVSC TAB Meeting Update November 2023

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

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 in remotely on 8 November 2023. The topics in order of discussion were:

Administration

- IVSC TAB Meeting Update October 2023
(IVSC TAB Meeting Update October 2023)

Global Insights & Markets Update

Around the World – Markets update, observations & feedback from the AGM

- *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*

Updates and Discussion

- Update from the V20
- Process for finalisation of the IVS & timing
(IVS 2024 Publication Process and Timetable)
- IVS Basis for Conclusions process & timing
- Inspection
- Change of name request for IVS 300 to “Plant, Equipment and Physical Infrastructure” and 80.4 *(2023.11.04. IVS 300 Asset Standard Consultation Responses without track changes - Copy_RJF comments)*
- Prudential Value - EMF-ECBC press release & moving forward
(Final Sectoral Paper on Operationalising the Property Value - October 2023.pdf)
- Challenges to Market Value – Price v Value
- TAB perspectives papers for Q2 2024 (Call for volunteers)
 - *ESG & PEI,*
 - *Real Asset Valuations & Site Inspections,*
 - *Listed v Unlisted,*
 - *Real Assets & AI*
- Call for applications for additional TAB members in IVSC Enews
(2023.11.04. IVSC Enews Board Vacancies)
- IVSC Q1 in person meeting – New York

Standing Items

- SRB update
- Agenda consultation list following AGM
(2023.11.04. Proposed Agenda Consultation Topics)
- IVSC TAB Working Groups – All
(2023.11.04. IVSC TAB Working Groups)
 1. *TAB MV and Prudential Value Working Group*
 2. *TAB ESG Working Group*
- Correspondence & communication
- AOB

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

Administration

IVSC TAB Meeting Update October 2023 (IVSC TAB Meeting Update October 2023)

The Chair advised that there had been some minor revisions to the October Meeting Update. The Board reviewed the provisional 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 provisionally approved by the TAB.

Next steps

Board to advise of any further changes to the IVSC TAB October Meeting Update. The Board suggested no further changes and the meeting update was approved.

Global Insights & Markets Update

Around the World – Markets update, observations & feedback from the AGM

The Board discussed the IVS Exposure Draft Consultation process and the proposed IVS General Standard consultation revisions and also provided general market updates.

- *Africa – Molefi Kabuzie*
 - Still a dearth of transactions with limited development taking place though there have recently been a number of businesses acquisitions in Nigeria.
 - Unfortunately, unable to attend the AGM though found the recordings of AGM panel discussions on topics like ESG helpful.
- *North America – James Gavin*
 - Transaction activity has slowly been picking up as there is an acceptance of reduced pricing with 30/40% reductions on certain commercial property.
 - Expect cycle of reduced transactions and prices to become positive in USA in 2025.
 - 2024 is seen more as a year of stabilisation of prices and interest rates.

- Noted greater use of AI with some using AI for investments, which could lead to industry changes down the road.
- Data protection and confidentiality will be a big issue for the development of AI.
- *Europe –Becky Gaughan*
 - Good to be at first AGM and helpful to meet Board members in person.
 - Starting to slowly see more transactions taking place in the UK.
 - As with USA 2024 is expected to be a quiet year with the market stabilising and the market is expected to pick up in 2025.
 - Data and data security and increased use of AI are seen to be big issues over the coming years.
- *South America – Eduardo Rottman*
 - In South America there is still some uncertainty in the capital markets.
 - Business is proceeding as normal in Brazil and there is a downward trend in interest rates.
 - There has been a recent election in Argentina and interest rates are still high there.
 - In Venezuela interest rates are also high and many people are looking to shelter behind the US dollar.
 - There have been no big changes since October though there is additional uncertainty across South American markets due to the current global political situation.
 - ER also attended V20 and South America is hosting V20 in 2025.
- *Middle East – Paakow Winful, Ron Cohen-Seban*
 - TAQEEM are supportive of the proposed IVS revisions and are currently working towards translation when IVS is published on the 31st January 2024.
 - Adoption implementation date for IVS of the 31st January 2025 is helpful as it will give sufficient time to translate and revise their manuals.
 - Lot of activity in Saudi Arabia with a 20% increase in real estate transactions in Riyadh as Saudi Arabia is aiming to reach a population of 50/60 million by 2030.
 - RC advised that he found the in-person meeting at the AGM to be really helpful.
 - The Israeli real estate market is currently frozen due to market uncertainty with no transactions taking place.

- The picture for Israeli capital markets is more mixed with a number of funds scooping up real estate opportunities due to high interest rates.
 - In Israel most residential developments have been cancelled though commercial developments are continuing so it is a bit of a mixed picture.
 - Most Israeli valuation reports now include a material uncertainty clause due to the current and political and economic situation.
 - There are a number of transactions in the listed space with investors targeting listed companies with real estate as they feel that these listed companies are trading at a discount to NAV.
 - Israeli population currently growing at 2% so there is currently a shortage of residential accommodation and the population is expected to double in 20 years.
- *Asia/Oceania –Kim Hildebrandt*
 - There is a current focus in relation to inspection and the most recent API guidance makes inspection mandatory for real estate transactions.
 - Some transactions are trading at a premium though the majority of transactions are via private sale.
 - Melbourne is looking to double its population by 2050 and there is a significant housing shortage and significant immigration, and the government are in the process of changing planning law to accommodate future growth.
 - There is also a significant investment in infrastructure to meet this future growth.

Next steps

None.

Updates and Discussion

Update from the V20

KH advised that he attended V20 conference in Delhi and added that the conference brought together participants from 15 countries and has approximately 200/300 participants from around the world.

The Board was advised that the aim was to bring valuation to the front of the agenda of G20 and to have V20 conferences held at the same time as the G20 meeting.

The Board was further advised that the main aim was to add a valuation subset to G20.

The Board was also advised that the next V20 would be hosted by Brazil.

The Board was informed that various VPO's also attended the V20 including the API, ASA and RICS, amongst others.

The Board was further informed that the overarching theme of the conference was alignment with the UN SDGS. And the topics discussed included;

- *Data*
- *ESG*
- *Land Use and Unregistered Land*
- *Site Inspections*
- *Strengthening Professional Capacity*
- *Valuing Livestock*

The Board was also informed that it was a great event, extremely well organised and that the organisers did a very professional job and here were great speakers, many of whom endorsed the work carried out by the Board.

Board was advised that MK also attended V20 virtually, both as a speaker and a panellist.

Next steps

ER to advise the Board of any future developments in relation to the V20 event in Brazil 2024.

Process for finalisation of the IVS & timing (IVS 2024 Publication Process and Timetable)

The Board was advised that the SRB had finalised the IVS General Standards and made revisions where appropriate.

The Board was further advised that the SRB had reviewed the proposed revisions to the Business Valuation Standards (*IVS 200 – IVS 230*) and the Tangible Assets Standards (*IVS 300 – IVS 410*) and had no further comments.

The Board was also advised that the Financial Instruments Board would be holding a public vote on the 22nd November 2023 for final approval of the Financial Instruments Standards.

The Board was informed that the Standards Review Board would be holding a Public meeting on the 29th November 2023 and that during this meeting the SRB would vote to approve the publication of the revised IVS.

The Board was further informed subject to Board approval the next edition of IVS would be published on 31st January 2024 with an effective date of 31st January 2025.

The Board was also informed that a red line version of the Standards would also be published on the 31st January 2024 and also that a hard cop of IVS (effective 31 January 2025) would be published several weeks later.

Next steps

The Technical Director to keep the Board informed of the publications process and advise them of any changes in schedule.

IVS Basis for Conclusions process & timing

The Board was advised that the Technical Directors would begin drafting the IVS Basis of Conclusions for the General and Asset Standards once the publication of IVS had been approved.

The Board was further advised that the IVS Basis of conclusions would follow a similar structure to the previous Basis of conclusion. And would focus on the following key topics:

- *Glossary*
- *Use of Must and Should in IVS*
- *Valuation Quality Control*
- *Competence*
- *Data and Inputs*
- *Valuation Models*
- *Documentation*

The Board was also advised that the Basis of conclusions would include a summary of the consultation comments received, any key comments in relation to the IVS Exposure Draft consultation responses and the Board rationale for any changes made or not made.

The Board was informed that the Basis of Conclusions would be published at the same time as IVS (effective 31 January 2024) on 31 January 2024.

The Board was further informed that the draft basis of conclusion would be distributed to the Board for consideration and review in the next few weeks.

Next steps

The Technical Director to distribute the provisional draft of the IVS Basis of Conclusion to the Board for consideration and review, once completed.

Inspection

The Board was advised that the API had published as part of their API Education series a document on *"What constitutes a Valuation of real property by an API Valuer under the API Rules?"*

The Board was further advised that the document states the following in relation to inspections:

"Existing API Rules state that valuations include full personal inspections by the Valuer as well as limited on-site inspections and kerbside inspections by the Valuer. The Rules further require the Valuer to include in the valuation report details of the extent/form of physical inspection of the asset personally undertaken by the Valuer, Furthermore) APiV Scheme documentation requires a physical inspection of the real property asset by the primary valuer.

The physical inspection by the Valuer could be in the form of a comprehensive inspection in accordance with accepted valuation practice in Australia, a limited (or partial) on-site inspection or a limited off-site (kerbside) inspection. In all scenarios the Valuer personally physically attends the real property asset that is the subject of the valuation.

A desktop assessment process, which does not include any form of physical inspection of the real property asset by the Valuer, therefore does not meet the requirements of a Valuation under the API Rules or APiV Scheme.

A Valuation, by an API Valuer! requires a physical inspection of the asset by the Valuer as well as all other enquires, investigations and procedures in accordance with accepted valuation practice in Australia and required under the API/APiV rules and standards."

The Board noted that this was a contrary position to IVS which did not mandate inspections but states in the Tangible Asset chapters (IVS 300 – IVS 410) that:

"Sufficient investigations and evidence must be assembled by means such as inspection, inquiry, research, computation or analysis to ensure that the valuation is

properly supported. When determining the extent of investigations and evidence necessary, professional judgement is required to ensure it is fit for the purpose of the valuation.”

The Board noted that this was a potential topic for the forthcoming IVS Agenda consultation and for a perspective paper on this issue to be published during 2024.

Next steps

The IVSC TAB inspection working group to begin drafting a perspectives paper on Inspection, which highlights the issues in relation to tangible asset inspections and engages the market.

Change of name request for IVS 300 to “Plant, Equipment and Physical Infrastructure” and 80.4 (2023.11.04. IVS 300 Asset Standard Consultation Responses without track changes - Copy RJF comments)

The Board was advised that the TAB received a number of comments from Roy Farthing (RF) of the SRB in relation to the proposed revisions to IVS 300.

The Board was further advised that the IVS 300 working group reviewed the comments made by RF and revised as appropriate.

The Board was also advised that the BVB had requested that the nomenclature for IVS 300 was changed from “Plant, Equipment and Infrastructure” to “Plant, Equipment and Physical Infrastructure”.

Further to the request KH provided the following response to the BVB:

“I have sought some feedback on your suggestion below, but there is full agreement from a TAB perspective that IVS 300 should remain as “Plant, Equipment & Infrastructure”, predominant reasons being:

- It’s inferred in the name, and to the contrary of “physical infrastructure” would be “non-physical infrastructure”, which is counter-intuitive. If we were to sway this way, IVS 400 would probably need to move to “Physical Real Property Interests” to mirror the change. One member has suggested the change is beyond a technical revision which may perhaps require re-exposure. Noting that we had zero comments raised as part of the consultation process about this from in excess of 100 responses (including Big 4 accounting firms).*

- *In no way does the standard refer to the valuation of a business. To the contrary, the introductory paragraph at 20.1 is extremely clear in saying “Items of PEI (which may sometimes be categorised as a type of personal property) are tangible assets that are usually held by an entity for use in the manufacturing/production or supply of goods or services, for rental by others or for administrative purposes and that are expected to be used over a period of time. PEI may also include infrastructure assets, which are typically part of a specialised system or network”. On this basis, readers of the standard would be under no illusion from the outset to the fact that the standard relates to tangible assets.*
- *Tangible asset valuers are frequently engaged by investors to consider the valuation of infrastructure assets, and hence the name change from the early stages of the IVS 300 re-drafting process to incorporate and recognize this important asset class in the tangible asset standard series (IVS 300, 400 or 410)."*

Since the TAB meeting and further to the email (*shown above*) it was agreed by the BVB that no change was necessary.

Next steps

The Technical Director to send the updated IVS 300 to be sent to the IVS publication team.

Prudential Value - EMF-ECBC press release & moving forward (*Final Sectoral Paper on Operationalising the Property Value - October 2023.pdf*)

KH advised that the Board had been discussing Prudential Value since he joined the Board in March 2020, and this had been perhaps the longest standing TAB Agenda item.

KH advised that the recent EMF statement on "*Property Value*" had been published without IVSC final approval though IVSC had been part of discussions on the topic via AA.

KH advised that the TAB did not agree with all the comments contained in the statement, some of which contradicted the TAB views on Prudential Value communicated to the Basel Committee on Banking Supervision (BCBS).

The Board discussed the issue and agreed that the IVSC logo and Asset was an extremely important asset and could not be used without board approval.

The Board felt that there should be an established process for the use of the IVS logo with a set of protocols that need to be observed.

Further to discussion the Board felt that they should publish a statement on Prudential Value and/or could potentially issue a perspectives paper clarifying the IVS position.

The Board discussed the issue of Prudential Value and noted that there were the following two main issues:

- 1) Definition of Prudential Value
- 2) Valuation Approach for Prudential Value

The Board felt that though the first issue *"Definition of Prudential Value"* was an issue to be considered by the Board the second issue *"Valuation Approach for Prudential Value"* was not an issue to be considered by the Board and was more of a market issue to be dealt with by IVSC members.

Next steps

The Board to consider publishing a second statement on Prudential Value within the IVS News, following further engagement with other members at the IVSC Chairs meeting. Depending upon the outcome of this, the Board may consider issuing a perspectives paper providing interpretation guidance on the issue of Prudential Value stating the limitations and risk and ensuring that the definition is fit for purpose.

Challenges to Market Value – Price v Value

The Board was advised that the definitions of Market Value was as follows:

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

The Board was further advised that though the definition of Market Value made no reference to price, the conceptual framework for Market Value made multiple references to price such as *"the estimated amount refers to a price expressed in terms of money payable for the asset in an arm's length market transaction."*

The Board was also advised that the conceptual framework had cause some issue particularly in relation to meetings of the *"IVSC SRB Listed vs Unlisted working group"*, where some members of the working group saw price as being

equivalent to value and as a result the market capitalisation of the shares was seen as equivalent to Market Value.

The Technical Director advised that the definition of Market Value and the conceptual framework had been agreed over twenty years ago by a round table of VPO's, all of whom had agreed to adopt the IVSC definition of Market Value and the conceptual framework.

The Technical Director further advised that in order to revise the conceptual framework it would be necessary to advise the Advisory Forum of the issue and to set up a round table with IVSC members to universally agree any revisions to the Market Value conceptual framework.

Further to discussions the TAB agreed that this issue should be raised with the SRB and subject to discussions should set up a meeting with the Advisory Forum and relevant IVSC members post publication of IVS to discuss potential revisions to the Market Value conceptual framework.

Next steps

The chair and Technical Director to raise issues in relation to the Market Value conceptual framework with the SRB in early 2024 and to discuss next steps.

TAB perspectives papers for Q2 2024 (*Call for volunteers*)

ESG & PEI

The Board discussed the next ESG perspectives paper on "*ESG and Plant, Equipment and Infrastructure*" and agreed that this should be dealt with by the IVSC TAB ESG working group.

KH volunteered to join this working group.

Real Asset Valuations & Site Inspections

Further to the previous item on inspection the Board discussed setting up an IVSC TAB Inspection working group and asked for volunteers.

BG, JG, MK, and PW volunteered to join the IVSC TAB Inspection working group.

Listed v Unlisted

The Board was advised that this topic was currently being considered by the IVSC SRB Listed vs Unlisted working group.

The Board was further advised that this issue crossed over with the issue of Valuation Risk and may also be included within the forthcoming IVS Agenda consultation.

The Board was also advised that the working group was looking to publish a perspective paper on listed vs unlisted during 2024.

Real Assets & AI

The Board was further advised that AVMs and AI would be a topic for the forthcoming IVS Agenda Consultation.

The Board was advised that this was an ongoing issue and agreed to further explore this issue during 2024.

Next steps

None.

Call for applications for additional TAB members in IVSC Enews (2023.11.04. IVSC Enews Board Vacancies)

The Board was advised that the latest edition of the IVSC Enews included a call for applications for additional TAB members.

The Board was further advised that as a number of Board members had recently reached the end of their three-year term or were due to come to the end of their term that in future there would be new TAB members on an annual basis.

The Board was also advised that both the Chair and Technical Director would be involved in the interview process.

Next steps

The Chair and Technical Director is to keep the Board informed of any potential new TAB members.

IVSC Q1 in person meeting – New York

The Board was advised that the SRB and Asset Boards would be meeting in New York between 26th February and 1st March 2024.

The Board was further advised that the Asset Boards would be meeting on the 26th and 27th February and the morning of the 28th February 2024.

The Board was also advised that the SRB would be meeting on the afternoon of the 28th February and on the 29th February and the 1st March 2024.

The Board was also informed that there would be a joint meeting for all the Boards on the evening of 27th February 2024.

Next steps

The Board to begin booking tickets for their New York meeting.

Standing Items

SRB update

The Board was advised that the main focus of the SRB was finalising revisions to IVS prior to publication on 31 January 2024.

The Board was further advised, as previously mentioned, that there would be a public vote on 29th November 2023 for approval of the publication of the next edition of IVS.

Next steps

The Chair and Technical Director to provide a further update at the next TAB meeting.

Agenda consultation list following AGM

The Board was advised that following the AGM in Paris the Board had prepared the following revised list of potential TAB Agenda consultation topics;

1. *Agricultural and Plantation Land / Biological Assets (forests, plantations etc) - SKD*
2. *Compulsory Purchase/ Expropriation/compensation/Unregistered land (TAB) – LS/SKD/MK*
3. *Insurance Valuations -PW/KH*
4. *Private vs Public Markets -KH*
5. *Prudential Value -KH*
6. *Quality Control and Individual Valuer --ER*
7. *Inspections and Investigations -JG and BG*
8. *Valuation Risk /Valuation in a volatile market, Reasonable Range – BGs*
9. *Trade Related Property – BG/RC/ER*
10. *Valuation Reviews, Appeals and External Audit – RC/BRG*

The Board was also asked to fill in the IVSC SRB Topic Form by early 2024 for their allocated topic before a final Agenda Consultation was draft by the IVSC.

Next steps

Board members to fill in the IVSC SRB topic form for their allocated topics in by early 2024.

IVSC TAB Working Groups (2023.11.04. IVSC TAB Working Groups)

The Board was provided with an updated list of the TAB working groups. The Board agreed that the current list of IVSC TAB working groups was sufficient.

Next steps

The Technical Director to send out meeting invites to BG. KH and KT to join the IVSC TAB ESG working group meeting and to send out invites to BG, JG, MK, and PW to join the IVSC TAB Inspection working group.

Correspondence & communication

This is a standing agenda item and there were no items to discuss under this section.

Next steps

None.

AOB

The were no additional agenda items under any other business.

Next steps

None.