

IVSC TAB Meeting Update October 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 person and remotely on 10 – 11 October 2023. The topics in order of discussion were:

Contents

Administration

- IVSC TAB Meeting Update September 2023
(IVSC TAB Meeting Update September 2023)
- IVSC Publications Update
(23.10.05. IVSC Publication Schedule)

Global Insights & Markets Update

- Around the World – IVS Consultation Considerations
- *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*

Standard Setting

- IVS 300 Plant, Equipment, and Infrastructure Approval - All
(2023.10.05. IVS 300 Asset Standard Consultation Responses with and without track changes)
- IVS 400 Real Property Interests Approval - All
(2023.10.05. IVS 400 Asset Standard Consultation Responses with and without track changes)
- IVS 410 Development Property Approval - All
(2023.10.05. IVS 410 Asset Standard Consultation Responses with and without track changes)

Key Topics

- Valuation Risk Discussion – All
- Challenges to Market Value Discussion – All
(APLJ - *How relevant is Spencer's case 100 years on, The need for a new valuation definition, The most probable price - 2009*)
- Site Inspections - Defining What and Where – All
- Valuation Governance - Beyond Listed v Unlisted – All
(2023.10.05 *Listed vs unlisted - Catalina Miranda BVB Feedback and 2023.10.05 Valuation of assets in a listed v unlisted environment DP_SG_WB_CM_NK - Copy*)
- ESG - Next Steps & Upskilling

Standing Agenda Items

- Valuation Risk Discussion – All
 - *Prudential Value*
 - *Working Groups*
 - *Perspectives Papers*
 - *Council of Europe*

Standing Agenda Items

- AI / Machine Learning / AVM's (Interactive ChatGPT session) - All
 - *Strengths, Weaknesses, Opportunities, Threats*
 - *Building Future Valuation Standards*
- Trustees / SRB / BV / FI Updates- All
(2023.10.05. *Revised IVS General Standards with and without track changes plain word version*)
- Application / Guidance Notes, TAB Naming Convention – All
(2023.10.05. *IVSC SRB Working Groups and 2023.10.05. IVSC TAB Working Groups*)
- Agenda Consultation (Topic Review, Process & Timing) - All
(2023.10.02. *Proposed Agenda Consultation Topics and IVS Agenda Consultation Summary of Responses Published Final*)
- Future Topics - All
(*Goals, Actions, Responsibilities - Now until March 2024*)

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 August 2023 (IVSC TAB Meeting Update September 2023)

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.

IVSC Publications Update (23.10.05. IVSC Publication Schedule)

The Board discussed the proposed timetables for some of its forthcoming consultation documents. The Board felt that the publication dates might vary depending on the responses received from the IVS Exposure Draft consultation.

Next steps

No action required.

Global Insights & Markets Update

Around the World – Consultation Considerations and Market Update

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

Next steps

The TAB discussed valuing in times of material uncertainty provisionally felt that this should be included as an agenda item for the forthcoming Agenda Consultation.

Standard Setting

IVS 300 Plant, Equipment, and Infrastructure Approval (2023.10.05. IVS 300 Asset Standard Consultation Responses with and without track changes)

The Board reviewed IVS 300 and discussed the following changes (shown in green italics):

20. Introduction

20.4. *Intangible assets* typically fall outside the classification of PEI *assets*. However, an *intangible asset* may have an impact on the *value* of PEI *assets*. Operating software, technical data, production records and patents are examples of *intangible assets* that can have an impact on the *value* of PEI *assets*. *If the valuation of discrete or embedded intangible assets is necessary to value PEI assets, they should be included in the valuation.*

40. Scope of Work

40.3. 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*.

80. Income Approach

80.2. When PEI is valued on an income approach, elements of value that may be attributable to intangible assets and other contributory assets should *typically* be excluded (see *section 20.4, IVS 101 Scope of Work and IVS 210 Intangible Assets*).

80.4. When an income approach is used to value PEI, the valuation must consider the cash flows expected to be generated over the remaining economic life of the asset(s) as well as the value of the asset at the end of *the explicit forecast period*, often referred to as terminal value (see IVS 103 Valuation Approaches, Appendix A20.2–A20.22).

80.5. In accordance with IVS 103 Valuation Approaches, the income approach for an *asset* or group of complementary *assets* may be used where the main driver of *value* is largely driven by its income producing ability and afforded *significant weight* under the following circumstances such as:

100. Data and Inputs

100.1. In accordance with IVS 104 Data and Inputs, the valuer must maximise the characteristics of *relevant and observable data to the degree that it is possible*.

100.6. Significant ESG factors associated with the value of an asset should be considered as part of the data and input selection process.

The Board approved the proposed changes and agreed that the revisions could be sent to the Standards Review Board for final approval.

Next steps

The Technical Director is to send the revised IVS 300 Plant, Equipment, and Infrastructure to the Standards Review Board (SRB) on the 12th October 2023. The SRB is to provide the TAB with any comments or revisions in relation to IVS by close of play on Friday 10th November 2023.

IVS 400 Real Property Interests Approval (2023.10.05. IVS 400 Asset Standard Consultation Responses with and without track changes)

The Board reviewed IVS 400 and discussed the following changes (shown in green italics):

10. Overview

10.1. The principles contained in the General Standards apply to *valuations* of real property interests. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for *valuations* to which this standard applies. *Valuations of real property interests must also follow the applicable standard for that type of asset/s and/or liability/ies. (see IVS 300 Plant, Equipment and Infrastructure and IVS 410 Development Property, where applicable.)*

40. Scope of Work

40.3. 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*.

100. Data and Inputs

100.1. In accordance with IVS 104 Data and Inputs, the valuer must maximise the characteristics of *relevant and observable data to the degree that it is possible*.

100.6. Significant ESG factors associated with the value of an asset should be considered as part of the data and input selection process.

The Board approved the proposed changes and agreed that the revisions could be sent to the Standards Review Board for final approval.

Next steps

The Technical Director is to send the revised IVS 400 Real Property Interests to the Standards Review Board (SRB) on the 12th October 2023. The SRB is to provide the TAB with any comments or revisions in relation to IVS by close of play on Friday 10th November 2023.

IVS 410 Development Property Approval (2023.10.05. IVS 410 Asset Standard Consultation Responses with and without track changes)

The Board reviewed IVS 410 and discussed the following changes (shown in green italics):

10. Overview

10.1. The principles contained in the General Standards apply to *valuations* of development property. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for *valuations* to which this standard applies. *Valuations* of development property must also follow *the applicable standard for that type of asset/s and/or liability/ies* (see IVS 400 Real Property Interests and IVS 300 Plant, Equipment, and Infrastructure, where applicable.)

40. Scope of Work

40.3. 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*.

100. Residual Method

100.2. The market approach **and/or the income approach** may be appropriate for estimating the gross development value of a property as one of the inputs required under the residual method.

120. Data and Inputs

120.1. In accordance with IVS 104 Data and Inputs, the valuer must maximise the characteristics of **relevant and observable data to the degree that it is possible**.

120.6. Significant ESG factors associated with the value of an asset should be considered as part of the data and input selection process.

The Board approved the proposed changes and agreed that the revisions could be sent to the Standards Review Board for final approval.

Next steps

The Technical Director is to send the revised IVS 410 Development Property to the Standards Review Board (SRB) on the 12th October 2023. The SRB is to provide the TAB with any comments or revisions in relation to IVS by close of play on Friday 10th November 2023.

Key Topics

Valuation Risk Discussion

The TAB generally discussed Valuation Risk and the different types of risk contained within the valuation process such as:

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

The TAB was advised that the revised IVS General Standards contained the following definition for valuation risk:

10.35. Valuation Risk

The possibility that the value is not appropriate for its intended use.

The TAB was further advised that the SRB were planning to include the topic of Valuation Risk as a key topic within the forthcoming Agenda Consultation.

The TAB was also advised that there was a valuation risk working group who were looking to publish a perspective paper on the nature of valuation risk during the course of 2024.

The TAB noted that this was a cross specialism working group and that Becky Gaughan, Brendan Gallagher and Kim Hilderbrandt were members of this working group.

Next steps

TAB to assist in reviewing the future proposed section on valuation risk within the Agenda Consultation and the participating members of the TAB to assist in the drafting of the perspectives paper on the nature of valuation risk.

Challenges to Market Value Discussion (APLJ - *How relevant is Spencer's case 100 years on, The need for a new valuation definition, The most probable price - 2009*)

The Board did not have time to discuss the paper issued by J J Hockley and R T M Whipple on "*How relevant is Spencer's case 100 years on? The need for a new valuation definition: 'The most probable price'.*"

The Board did discuss the concepts of price and value and how it was currently stated in the Market Value definition, which related to ongoing discussions in relation to the difference in relation to the valuation of listed and unlisted assets.

Further to discussions the Board was updated that this would form part of ongoing discussions in the Listed vs Unlisted working group.

Next steps

No further actions, the TAB will continue to be informed of any updates on this topic.

Site Inspections - Defining What and Where

The Board was advised that the requirements in relation to site inspections was contained within the Scope of work sections of IVS 300, IVS 400 and IVS 410, which stated as follows:

40.3. 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 was further advised that number of members of the Advisory Forum wanted to make site inspections mandatory.

The Board discussed the following matters in relation to inspections:

- Scope of Work
- Intended Use
- Basis of Value
- Purpose
- Asset(s) (land, personal property, plant and equipment, real estate etc.)
- Frequency
- Degree of inspection
- Inspection of comparables and locality
- Inspections by other parties
- Increased use of technology (drones etc)
- Large Portfolios (inspection of representative samples – highest value assets)
- Plant and Equipment (e.g., 100,000 Herz rental cars)

The Board were also advised that USPAP Advisory Opinion (AO-2) provided four pages of advice in relation to inspections.

Further to discussion the Board agreed that the issue of inspection was quite complicated and the need to undertake a physical inspection largely depend on the purpose of valuation, the asset the scope of work the basis of value and the intended use.

The Board agreed that the current requirements contained within IVS were suitable and further exploration of this issue was required before additional requirements could be added to the IVS Tangible Asset chapters.

Next steps

The Board will draft a perspective paper on Inspection to be published during the first half of 2024. The aim of the perspective paper will be to fully explore the potential issues in relation to inspection and to gain market feedback.

Valuation Governance - Beyond Listed v Unlisted (2023.10.05 Listed vs unlisted - Catalina Miranda BVB Feedback and 2023.10.05 Valuation of assets in a listed v unlisted environment DP SG WB CM NK - Copy)

The Board was provided with an update in relation to the draft paper on listed vs unlisted assets.

The Board was further advised that there were ongoing discussions around the concept of price versus value, particularly in relation to the Market Value definition.

The Board was alerted to the glossary definitions within IVS where price and value were distinctly separate concepts and the definition of prices stated that *"price and value may be different"*.

The Board further noted that though the definition of Market Value referred to *"the estimated amount for an asset or liability"* the commentary for Market Value made multiple references to price.

The Board was advised that this issue would continue to be discussed by the IVSC SRB Listed vs Unlisted working group and the working group was planning to issue a perspective paper on this issue during 2024.

Next steps

Board will be kept updated on any progress made by the IVSC SRB Listed vs Unlisted working group and the Board will review the commentary for Market Value to ensure that it does not contradict the definitions of *"price"* and *"value"* contained within the IVS Glossary.

ESG - Next Steps & Upskilling

The Board generally discussed ESG and the need for upskilling of valuer to meet the ESG requirements contained within recently issued ISSB standards.

The Board also discussed the IVS 104 Environmental, Social and Governance Considerations: Appendix and felt that at this stage of development of the requirements contained within this section were fit for purpose.

The Board discussed future perspective papers to be issued as part of an upskilling process and felt that the next perspective paper should be on the topic of ESG for Plant Equipment and Infrastructure.

Next steps

Board are to discuss drafting a perspective paper on ESG for Plant Equipment and Infrastructure.

Updates

Valuation Risk Discussion

Board was provided with an update in relation to IVSC SRB valuation risk working group.

Board was advised the IVS Exposure Draft contained the following definition of valuation risk:

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

The Board was advised that Valuation Risk would be included as a topic within the IVS Agenda consultation due to be published in Q2 2024.

The Board was further advised that the working group were planning to issue a perspective paper exploring this topic post comments received from the agenda consultation.

The Board was also advised that this was a key topic for IOSCO and therefore would be an important part of IVS recognition of IVS.

Next steps

Board to be kept informed made by the IVSC SRB Valuation Risk working group.

Prudential Value

The Board was provided with a Prudential Value update and advised that the IVSC had sent a letter to the Basel Committee on Banking Supervisions and met with Banking Unit of European Commission to highlight their concerns.

The Board was further advised that no response had been received from either party and there were still concerns both in relation to the definition of Prudential and the interpretation of the definition. Furthermore, there were concerns in relation to methodology for calculating Prudential Value and the fact that there was no agreed methodology prior to Prudential Value being embedded in law in January 2025.

Next steps

Board to continue to monitor the issue in relation to Prudential Value with the BCBS and the EU commission.

Working Groups

The Board was advised that the TAB Standard Setting working groups were task specific and would have no further meetings in the immediate future now the IVS consultation responses had been reviewed and agreed revisions had been made to the IVS Tangible Asset standards.

The Board was further advised that the IVSC TAB Topic Related Working Groups were currently on sabbatical until the revisions to the IVS Exposure Draft had been completed.

Next steps

The Board to decide when the IVSC TAB Topic Related Working Groups are to be reinstated.

Perspectives Papers

The Board was advised that the following perspective papers were planned to be published during 2024:

- *ESG Survey*
- *Perspective Paper on Data*
- *Perspective Paper on Prudential Value*
- *Perspectives Paper ESG and Tangible Assets Valuation Part 2*
- *Perspectives Paper on Nature of Valuation Risk*
- *Perspectives Paper on Site Inspections*
- *Perspectives Paper on Valuation Review*

The Board was further advised that the publication of perspectives papers was currently on hold while the Boards focussed on the publication of the forthcoming revised IVS and IVS Agenda consultation.

Next steps

The Board to discuss topics and timings for the future IVSC TAB perspectives papers.

Council of Europe

The Board was advised that a letter had been sent to the Council of Europe.

The Board was further advised that no response had yet been received to this letter to date.

Other Agenda Items

AI / Machine Learning / AVM's (Interactive ChatGPT session)

The Board held an interactive session to carry out a SWOT analysis on Chat GPT and Professor Mary Barth of the Standards Review Board joined this part of the TAB meeting as an observer.

The Board noted that though significant advancement had been made in relation to Chat GPT of providing an independent valuation or providing comparables in relation to valuation.

However, Chat GPT was capable of drafting sections of valuation reports particularly in relation to geographical information and existing market information taken from the internet.

It was also noted that ChatGPT was still in developmental stage and different levels of information were available for paid subscribers.

Some members of the TAB had reviewed Chat GPT in the course of their and had used it in some instances for sorting data

Next steps

The Board noted that Chat GPT and other forms of artificial intelligence were still in the early stage of development and would continue to review the development of artificial intelligence systems and its practical application in valuations and the building of future valuation standards over the course of the next few months.

Trustees and SRB Updates

The Board was advised that a TAB update was provided to the Trustees and that the Trustees were extremely appreciative of all the hard work carried out by the Board, particularly in relation to the review of the consultation process and the revisions to the Tangible Asset standards.

The Board was provided with a General Update in relation to the Standards Review Board Meeting and was advised that the Standards Review Board had agreed that the next edition of IVS would be published on the 31st January 2024.

The Board was further advised that due to the significant changes made within IVS including the addition of two new standards (IVS 104 and IVS 105) and the inclusion of other topics such as quality control and ESG factors the date for the effective date for adoption and implementation would be one year post publication (i.e., 31st January 2025).

The Board was further advised that in order to align with Board appointments and to give sufficient time for post implementation feedback that in future IVS would be published on a three yearly cycle.

Next steps

None

Application / Guidance Notes, TAB Naming Convention

The Board briefly discussed Application/Guidance Notes and noted that many of the IVS Exposure Draft consultation responses received were requesting additional technical guidance in relation to valuation and the practical application of IVS.

The Board noted that Application/guidance notes were beyond the remit of the IVSC Technical Boards and within the remit of the VPO's, who are members of Advisory Forum.

The Board also discussed the nomenclature of the Tangible Assets Board and whether the nomenclature should be changed to the Physical Assets Board or Real Assets Board. The Board felt that though this was a worthy suggestion it may cause issue with the nomenclature of Intangible Assets.

The Board also noted that any change of nomenclature would need to be discussed with both the Trustees and the Standards Review Board and at this point of time the main focus of the Boards should be the publica of IVS and the forthcoming Agenda consultation.

Next steps

Board to advise the Advisory Forum of any consultation responses requesting additional technical guidance in relation to valuation and the practical application of IVS. Board further agreed to table any change in nomenclature of the Tangible Assets Board for future discussions throughout 2024.

Agenda Consultation

Board was advised that the IVSC was planning to issue its next Agenda Consultation in Q2 2024.

Board was further advised that any potential Agenda consultation topics would be divided into short term (0 to 2 years) , medium term (2 to 4 years) and long term (4 to 6 years) projects.

The Board was also advised that the Board would draft topic proposal forms on each potential topic to be considered by the SRB.

Further to discussion the Board agreed the following list of TAB Agenda consultation topics and allocated the responsibility for drafting these topic forms in advance of the Board December meeting:

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

Next steps

Allocated Board members to draft their allocated topic forms to be presented at the beginning of 2024. Further guidance was being sought from the SRB as to the process for selecting Agenda Consultation topics.

Future Topics

The Board discussed potential future topics to be considered within IVS Tangible Asset Standards and drafted the following preliminary list:

- *Art and Antiques*
- *Cattle*
- *Commodities (Mineral Rights)*
- *Natural Resource*
- *Water Rights*
- *Woodland*

The Board also discussed the prospect of Appendices for IVS 400, namely that of Development Property in the next edition of IVS.

Next steps

The Board made no decisions in relation to these topics and would continue to review these topics over the course of the next year.