IVS Exposure Draft BASIS FOR CONCLUSIONS

Reflecting changes introduced to
IVS (effective 31 January 2028)
Exposure Draft

INTERNATIONAL VALUATION
STANDARDS COUNCIL

All items appearing in grey boxes are direct quotations from IVS (effective 31 January 2025) Exposure Draft.

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IVS Exposure Draft Basis of Conclusions Summary

As part of ongoing efforts to improve its standard-setting process and consistent with the goals in the *IVSC Purpose and Strategy Document*, the International Valuation Standards Council (IVSC) believes that it should be "operating in an open and transparent way." In order to achieve this, the IVSC Standards Review Board and associated Technical Boards, comprising the Business Valuation Board, Financial Instruments Board and Tangible Asset Board, collectively the IVSC Boards, have issued this *IVS (effective 31 January 2028) Exposure Draft* ("*IVS Exposure Draft Basis of Conclusions*") to provide the Boards' rationale for the changes proposed to IVS.

This is the first IVS Exposure Draft Basis of Conclusions issued by the IVSC and its issue is seen as a critical part of a transparent standard-setting process, consistent with the practices of other standard-setters around the world.

The *IVS Exposure Draft Basis of Conclusions* outlines the Boards' rationale for many of the changes proposed within IVS and as such will enable more detailed response to the consultation questions contained within the "*IVS Exposure Draft Jan -26 Summary and Consultation Questions* "published on the 31 January 2026.

This *IVS Exposure Draft Basis for Conclusions* does not attempt to provide the rationale for every proposed change within IVS but does outline the reasoning for proposed changes on key issues within IVS.

This *IVS Exposure Draft Basis for Conclusions* does not form part of IVS but has been drafted to provide the reader with the rationale behind certain technical revisions made within IVS. It is based on comments received from the IVSC Agenda Consultation between 11 July 2024 and 9 October, previous consultations including questions contained within IVS perspectives papers and additional engagement (see IVS Consultation Process section which follows).

The IVSC believes that this *IVS Exposure Draft Basis for Conclusions* document provides important insights into the standard-setting process and historical context for these standards, which may be considered in the interpretation of these standards and in future standard-setting activities.

Goals for Updating IVS

Based upon numerous consultations and additional engagement (see IVS Consultation Process), the IVSC Boards undertook to address the following:

- Ongoing changes in global markets and global valuation practices, including the increased use of technology and the abundance of available data sources.
- Increased use of artificial intelligence or other technology-based tools and resources that employ opaque or non-transparent judgement by valuers in the performance of valuations.
- Additional demands on valuation professionals to expand the application of valuations into areas such as sustainability.
- Increased demand by stakeholders, including financial institutions, investors, and regulators, for clarity related to valuation process and the management of valuation risk, through quality controls.

In addition, the IVSC Boards took the following matters into consideration:

- Revisions to Glossary to include new definitions such as the inclusion of definitions for quality control and sustainability.
- Introduction of a new chapter titled IVS 107 Quality Controls.
- Amendment of Business Valuation Asset Standards for alignment with the General Standards; revisions to section on Capital Structure Considerations; introduction of new section on Calibration.
- Inclusion of new requirements on physical inspection within the tangible asset standards; merger of IVS 400 Real Property Interests and IVS 410 Development Property.
- Consequential amendments to IVS 500 to align with the revisions to the General Standards and to provide additional clarity to users and other stakeholders (e.g., valuers, clients, regulators, and investors).

Consultation Process

The process for developing revisions to IVS began with feedback from the *IVS Agenda Consultation*

The IVSC Boards issued the *IVS Agenda Consultation* in July 2024 to obtain feedback from stakeholders on how to modify existing standards. Further to the 90-day consultation process, the IVSC published the *IVSC Agenda Consultation Summary of Responses and Agenda 2025 to 2028* in July 2025, which highlighted the following key topics for further consideration and review:

Key topics

- *Environmental, Social and Governance,*
- *Technology in Valuation*
- *Valuation Risk*

In addition, the IVSC Agenda Consultation Summary of Responses and Agenda 2025 to 2028 highlighted the following current and future additional topics to be considered by the Board over the next three years.

Current Topics (0 – 2 years)

- *Capital Structure Considerations*
- *Digital Assets*
- *Discounts and Premia*
- *Investigations and Evidence*
- *Internally Generated Intangible Assets*
- *Model Calibration*
- *Private vs Public Markets*
- *Prudential Value for Immovable Assets*
- *Trophy Assets*
- *Valuation Adjustments for Financial Instruments*
- *Weighting of Inputs and Outputs*

Future Topics (Beyond 2 years)

- *Agricultural and Plantation Land /Biological Assets*
- *Bases of Value*
- *Compulsory Purchase*
- *Early-Stage Businesses*
- *Insurance Valuations*
- *Quality Control and Individual Valuer*

- *Transfer Pricing*
- *Valuation Reviews*

In addition, the Boards have considered responses contained in recently published perspectives papers on varied topics including the difference between public and

private markets, ESG and real assets, inspection and the use of artificial intelligence in valuation and valuation risk. Furthermore, the Boards have also considered comments emanating from the IVS.

In addition, the Board published the ESG Survey in 2025, which was particularly focussed on the inclusion of sustainability considerations within the proposed revisions to IVS.

Moreover, the Board has also considered comments provided by stakeholders and other interested parties during multiple external presentations and meetings since the publication of the current edition of IVS (effective 31 January 2025) on the 31st of January 2024.

The IVS (effective 31 January 2028) Exposure Draft consultation questions are contained within a separate document titled "IVS Exposure Draft Summary and Consultation Questions." The questions are set out as follows:

- General information about respondent (9) – mandatory.
- IVS General Standards (10) – mandatory.
- IVS 200 – IVS 230 Business Valuation (4) – as applicable.
- IVS 300 Plant, Equipment and Infrastructure (3) – as applicable.
- IVS 400 Real Property Interests (5) – as applicable.
- IVS 500 Financial Instruments (4) – as applicable.

The consultation period on the proposed changes within the *IVS (effective 31 January 2028) Exposure Draft* opens on 30 January 2026 for 3 months until 30 April 2026.

Comments can be submitted in the following ways:

By personal letter or email to:

- aaronsohn@ivsc.org
- online via the IVSC website
- Link to PDF on website

The following additional documents are published as part of the IVS (effective 31 January 2028) Exposure Draft process:

- *IVS Exposure Draft – publication date 30th January 2026*
- *IVS Exposure Draft Red Line – publication date 30th January 2026*
- *IVS Summary of Exposure Draft Changes & Consultation Questions - online publication date 30th January 2026.*

How to use the IVS Exposure Draft Basis of Conclusions

The IVS Exposure Draft Basis of Conclusions highlights some of the key changes from IVS (effective 31 January 2025). It is designed to help users quickly identify the Board rationale for new, amended or deleted text in the IVS (effective 31 January 2028) Exposure Draft and to support review and comment through the IVS Exposure Draft Summary and Consultation Questions.

Please follow these formatting conventions when using the red-line version:

1. **Unchanged Text**

   Text that has not been moved or amended remains in black.

2. **Previously located text from IVS (effective 31 January 2025)**

   Text that has been *moved* from its earlier location appears in blue, together with its previous reference shown [within brackets].

   The reference uses the IVS numbering system: [From XXX.XX.XX], which corresponds to Chapter, Section and Paragraph.

   Examples: [From 100.20.01], [From 230.30.01.c], [From 300.70.07.d.iii]

3. **New text proposed for IVS (effective 31 January 2028)**

   All new or added text appears in red, together with its new reference shown [within brackets].

   Example: [Moved to 210.40.04]

4. **Deleted Text**

   Any text shown in red with strikethrough represents deletions from IVS (effective 31 January 2025).

IVS General Standards

Proposed Revisions

General Standards

IVS Foreword

The IVSC Standards Review Board (SRB) reviewed the IVS Foreword and noted that the Foreword provided general information on both the IVSC, IVS and states the following in relation to the use of IVS.

> The use of IVS can either be mandated or voluntarily adopted by:
>
> - a body having legal jurisdiction over the purpose for which the valuation is required, or
> - a valuation professional organisation requiring their use by members for specific purposes, or
> - agreement between the party requiring the valuation and a valuer.

In respect of the section on the Structure of IVS the SRB noted that many users tend not to always read the introduction to standards and therefore important information on the structure of IVS may be missed.

Furthermore, the SRB considered this section to be misplaced as it directly related to the IVS Framework and therefore should be contained within IVS 100 Valuation Framework.

As a result of these deliberations, the SRB deleted the section on the *"Structure of International Valuation Standards"* and moved this section to IVS 100 Valuation Framework.

IVS Glossary

Further to a review of the IVS Glossary and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the SRB in conjunction with the IVSC SRB Glossary Working Group revised the introduction to the Glossary to provide additional clarification that the glossary defines certain used specifically in the context of IVS.

This glossary forms an integral part of the standards and defines certain terms used specifically in the context of IVS. All glossary definitions are italicised and should be used in context as described in the standard.

The SRB also included references to contents within the standard next to the definitions to provide additional clarity and depth to the definitions where appropriate.

In addition, the SRB revised the following definitions of Liability and Liquidation Value to standardise the definitions contained within the Glossary:

10.16 Liability

The present obligation to transfer or otherwise provide ~~an~~ economic benefits to others. ~~A *liability* has the following two essential characteristics:~~

~~(a) it is a present obligation~~

~~(b) the obligation requires an entity to transfer or otherwise provide economic benefits to others.~~

10.17 Liquidation Value

The gross amount that would be realised when an *asset* or group of *assets* are sold from a liquidation sale, with the seller being compelled to sell as of a specific date, as determined under either an orderly transaction with a typical marketing period, or a forced transaction with a shortened marketing period. ~~*Liquidation value* can be determined under two different premises of value.~~ (see IVS 102 *Bases of Value*, Appendix 60)

~~(a) an orderly transaction with a typical marketing period, or~~

~~(b) a forced transaction with a shortened marketing period.~~

Further to discussions the SRB revised the definitions of professional scepticism and professional judgement *(as shown below)* to clarify that at this point in time this cannot be done by the use of artificial intelligence and can only be done with a valuer's input.

10.23 Professional Judgement

The use of accumulated knowledge, experience~~,~~ ~~as well as~~ and critical reasoning of the *valuer*, to make an informed decision.

10.24 Professional Scepticism

~~Professional scepticism is a~~An attitude of the *valuer* that includes a questioning mind and critical ~~assessment of valuation evidence.~~ analysis throughout the *valuation*.

The SRB also carried out some minor revisions to the following definitions to provide additional clarity:

- Synergistic Value
- Tangible Asset
- Valuation Model

Further to comments received from the publication of the IVSC Perspectives Paper Getting the Process Right Exploring Valuation Risk and responses to the consultation questions contained within the SRB received **several** comments requesting clarity on the definition of Valuation Risk.

The SRB discussed the definition in depth and noted that whereas valuation risk related to valuation process risk and therefore to a certain extent could be mitigated by the valuer, valuation uncertainty related to external factors such as how the market operates or external events such as the coronavirus crisis or a global financial crisis, which are outside the valuer's control.

As a result of these deliberations the SRB revised the definition of valuation risk as shown below *(changes shown in red)* and the IVSC SRB Working Group are currently drafting a perspective paper to explore the issue of addressing value uncertainty within valuations with an eventual aim of drafting a definition of value uncertainty to be included within the Glossary.

10.40 Valuation Risk

The possibility of errors, omissions, biases, or inadequate documentation arising within the valuation process (e.g., in *valuation method*, *valuation model*, data, assumptions, *professional judgment* and *quality controls*) that ~~the value~~ could lead to a *value* that is not appropriate, credible or supportable for its *intended use*.

Further to market engagement the SRB also noted that some stakeholders were confused between a valuation review, which takes place after the issuance of a valuation report and a valuation audit. In order to clarify this issue, the definition of a valuation review has been revised as shown below.

10.39 Valuation Review

~~A valuation review~~ An analysis undertaken after the issuance of a valuation report that is either a *valuation process review* or a *value review* or both.

Since the publication of several perspective papers on ESG and the ESG Survey and subsequent publication of the IVSC ESG Global Survey Results in January 2025 and further to feedback from the IVSC SRB Glossary Working Group. The SRB noted that diverging viewpoints in some areas of the world have also led some stakeholders to avoid the use of the term ***"ESG*,"** focusing instead on '*sustainability*' to encapsulate similar factors.

In addition**,** the IVSC SRB Sustainability and ESG working group advised that whereas sustainability is a broader concept encompassing the ESG framework and organizational resilience, ESG is a tool for evaluating risks and opportunities and their impact on a company or an asset's financial performance.

The SRB noted that the terminology varies across jurisdictions and the IVS Glossary should include both ESG and sustainability definitions to remain relevant to all stakeholders and to ensure that consideration of sustainability and ESG factors are incorporated in all IVS compliant valuations.

Further to these deliberations the SRB revised the following definition of ESG *(proposed changes and new additions shown in red)* and incorporated a new definition for sustainability (both shown below). The IVS SRB Sustainability and ESG Working Group will be publishing a further ESG and Sustainability survey in Q1 of this year to further explore how valuers are incorporating both sustainability considerations and ESG factors within their valuations.

10.07 Environmental, Social and Governance (ESG)

The criteria that together establish the framework for assessing the resilience of operations ~~impact of sustainability and ethical practices, financial performance or operations resiliency of 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. *(*see IVS 104 *Data and Inputs* Appendix*)*

10.30 Sustainability

A concept that encompasses the extent to which *ESG*, resilience and other *significant* considerations may impact the ability of a company, *asset*, *liability* or investment to generate, maintain, or enhance economic value.

In reviewing the IVSC Glossary and further to comments received the SRB also noted that there were currently no definitions of business, financial instrument or non-financial liability within the IVS Glossary despite the presence of chapters on each of these topics within the IVS Asset Standards.

Further to discussions it was agreed that the following definitions should be included in the IVS Glossary:

10.02 Business

An organisation or integrated collection of activities, *assets* and/or *liabilities* engaged in commercial, industrial, service or investment activity. (see IVS 200 *Business and Business Interests*)

10.09 Financial Instrument

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity*. (see IVS 500 Financial Instruments)*

10.20 Non-Financial Liability

A *liability* requiring a non-cash performance obligation to provide goods or services. (see IVS 220 *Non-Financial Liabilities*)

The SRB also reviewed the existing definitions within the Glossary and decided to remove the definition of an Automated Valuation Model (AVM) from the Glossary. The reasons for this removal were that firstly the IVSC Boards felt the reference to AVMs was somewhat outdated in scope as not only had most AVMs been replaced by automated valuation systems, but also recent focus had changed to the use of AI and other sources of technology within valuations.

Furthermore, the SRB noted that the requirements contained within IVS 105 Valuation Models related to all valuation models including AVMs and therefore there was no need to separately highlight the use if AVMs within the standard.

The SRB also removed the definition of data as a general principle of the IVS Glossary is that it does not include generally defined terms.

Finally in respect of Quality Control, which now has a separate chapter within the IVS standards, the SRB in conjunction with the IVSC SRB Quality Control Working Group agreed to include the following proposed definition within the IVS Glossary.

10.25 Quality Control

The process and procedures used to mitigate *valuation risk* and to verify the *valuation* is in accordance with IVS and appropriate for its *intended use*.

IVS 100 Valuation Framework

Further to a review of IVS 101 Valuation Framework and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the SRB agreed that valuation process quality control was such an important part of the valuation process that it warranted its own chapter within the IVS General Standards.

The SRB discussed the placement of this chapter and noted that quality control applied to each stage of the valuation process from the IVS 100 Valuation Framework all the way through to IVS 106 Documentation and Reporting.

Further to discussion the SRB agreed to delete section 20 on valuation process quality control and create a new chapter called IVS 107 Quality Controls.

Furthermore, as outlined in the Basis of Conclusions in the Valuation Framework the IVSC Boards agreed to move the section on the Structure of the International Valuation Standards (shown below) to the IVS 100 Valuation Framework.

(Continued on next page)

20. Structure of International Valuation Standards (IVS)

20.01 International Valuation Standards comprise General Standards that are applicable across all valuations, and Asset Standards that relate to specific valuation disciplines. Appendices, which are part of International Valuation Standards, provide additional information for certain concepts articulated. In order to provide an IVS-compliant valuation, all IVS General Standards, Asset Standards and Appendices must be followed.

20.02 **General Standards**

20.03 General Standards apply to all valuations. The General Standards are structured as follows.

IVS 100 *Valuation Framework*
IVS 101 *Scope of Work*
IVS 102 *Bases of Value*
Appendix:
IVS-Defined Bases of Value
Other Bases of Value
Premise of Value
IVS 103 *Valuation Approaches*
Appendix: Valuation Method
IVS 104 *Data and Inputs*
Appendix: Environmental, Social and Governance Considerations
IVS 105 *Valuation Models*
IVS 106 *Documentation and Reporting*
IVS 107 Quality Control

20.04 **Asset Standards**

20.05 In addition to the requirements of the General Standards, Asset Standards apply to specific types of assets and liabilities as follows:

IVS 200 *Businesses and Business Interests*
IVS 210 *Intangible Assets*
IVS 220 *Non-Financial Liabilities*
IVS 230 *Inventory*
IVS 300 *Plant, Equipment and Infrastructure*
IVS 400 *Real Property Interests*
~~IVS 410 Development Property~~
IVS 500 *Financial Instruments*

In addition to these changes the SRB made a few minor changes to the wording within the sections shown below to provide additional clarity and update the references contained within section 50 Effective Date.

Use of a Specialist or Service Organisation	30
Compliance	40
Effective Date	50

IVS 101 Scope of Work

Further to a review of the IVS 101 Scope of Work and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the SRB reviewed section 20, Valuation Requirements and noted that some additional requirements were required within the Scope of Work.

The SRB discussed the issue of range and noted that though the provision of a valuation range was not a requirement within IVS, many business and financial instrument valuations reported a range for their valuations.

Noting the use of valuation ranges varied by specialism, asset class and purpose, the following has been incorporated into the scope of work requirement:

> *(i) range:* Whether the *value* is to be expressed as a point estimate, a range, or a point estimate within a range.

Further to the publication of the IVSC perspectives paper *on "Navigating the Rise of Artificial Intelligence in Valuation Opportunities, Risks, and Standards"* and comments received from the consultation questions within, the SRB noted the increased use of artificial intelligence and other forms of technology within valuation.

The SRB discussed how artificial intelligence and other technology based tools and resources were now being used in many valuations, in whole or in part, to assist with data, market research, valuation modelling and report writing.

The SRB noted that though there was an overarching requirement within IVS 104 Data and Inputs and IVS 105 Valuation Modelling for the valuer to use their professional judgement and professional scepticism in the selection of data and models, many valuers were using artificial intelligence and other technology-based tools and resources to assist in this process.

Further to discussion the SRB agreed that valuers must be transparent about their proposed *significant* use of artificial intelligence and other technology-based tools and resources and therefore incorporated the following scope of work requirement.

> *(k)* proposed *significant* use of artificial intelligence or other technology-based tools and resources, that employ opaque or non-transparent logic, as applicable, whether in whole or in part, in conducting the *valuation* and preparing the report.

In addition, and to reinforce this requirement regarding the proposed use of artificial intelligence or other technology-based tools and resources, the SRB also included the following requirement within the Scope of work.

> 20.02 The scope of work *must* indicate any *significant* proposed use of artificial intelligence or other technology-based tools and resources that employ opaque or non-transparent logic where the decision pathways and underlying rationale cannot be readily explained or verified by the *valuer* during the *valuation*.

The SRB further noted that the current requirement regarding the use of a specialist did not include a service organisation (e.g. data provider, model vendor, valuation platform) and therefore revised this requirement as follows:

> *(n) Specialist* and/or *service organisation:* the use and role of a *specialist* and/or *service organisations.*

Regarding the current requirements for ESG factors within the scope of work the SRB were advised by the IVSC SRB Sustainability and ESG Working Group that political viewpoints in some areas of the world have also led some stakeholders to avoid the use of the term 'ESG', focusing instead on 'sustainability' to encapsulate similar factors.

The SRB discussed this issue and agreed to revise the following requirements in relation to ESG Factors to incorporate Sustainability considerations:

> *(o) Sustainability* considerations and *Environmental, Social and Governance* factors: any requirements in relation to the consideration of *significant sustainability* considerations and *environmental, social and governance* factors.

Finally, the SRB noted that though all IVS compliant valuations complied with the IVS General Standards, the Asset Standards used may vary according to the agreed scope of work. In order to provide additional transparency in relation to the Asset Standards used the SRB included the following additional requirement within the scope of work:

(p) the IVS Asset Standards to be considered within the valuation,

IVS 102 Bases of Value

Further to a review of the IVS 102 Bases of Value and comments received from market engagement since the publication of IVS (effective 31 January 2025) the SRB noted that this was a well-established chapter that was often referenced in guidance and terms of engagement by other IVSC members and stakeholders. As a result, the SRB decided to only make minimal changes to this chapter.

The SRB made some minimal changes to the Introduction to provide further clarity.

In addition, further to comments received the SRB also made the following changes to paragraphs within section 20 Bases of Value to provide additional clarity:

20.05 The *valuer* is responsible for understanding legal, statutory, regulatory and/or other authoritative requirements ~~the regulation, case law and other interpretive guidance~~ related to all *basis(es) of value* used.

20.06 The *bases of value* illustrated in IVS 102 Bases of Value, Appendix A70-A80, are defined by organisations other than the IVSC and the *valuer* is responsible for ensuring they are using the applicable/relevant definition. ~~the onus is on the valuer to ensure they are using the relevant definition.~~

Further to comments received the SRB also revised the following introductory paragraph within section 30 Entity Factors to provide additional clarity:

30.01 Most *bases of value* generally exclude from their [permissible] inputs factors that are specific to a particular buyer or seller and are not available to participants generally. ~~For most *bases of value*, the factors that are specific to a particular buyer or seller and not available to participants generally are excluded from the *inputs* used in a market-based valuation.~~

In respect of the section 40. Assumptions and section 50. Special Assumptions some minor revisions were made to the current text to provide additional clarity.

Finally, further to comments received and deliberations within the SRB it was noted that the section on Allocation of Value would be better placed within IVS 106 Documentation and Reporting as values were usually allocated within the valuation report as part of the reporting process.

As a result of these deliberations the SRB deleted the section on the *"Allocation of Value"* and moved this section to IVS 106 Documentation and Reporting.

IVS 103 Valuation Approaches

Further to a review of the IVS 103 Valuation Approaches and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the SRB noted that this was a well-established chapter that was often referenced in guidance and terms of engagement by IVSC members and stakeholders. As a result, the SRB decided to only make minimal changes to this chapter.

The SRB reviewed this chapter and with the exception of a few words which were revised to provide additional clarity without changing the meaning, there were no further changes made within this chapter.

IVS 104 Data and Inputs

Further to a review of the IVS 104 Data and Inputs and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) and comments received from the consultation questions contained within the IVSC perspectives paper on *"Navigating the Rise of Artificial Intelligence in Valuation - Opportunities, Risks, and Standards"* and comments received from the consultation questions within, the SRB noted the increased use of artificial intelligence and other forms of technology within valuation.

The SRB discussed how artificial intelligence and other technology-based tools and resources were now being used in many valuations, in whole or in part, to assist with the data and inputs used in valuation.

The SRB noted that though there was an overarching requirement within IVS 104 Data and Inputs and IVS 105 Valuation Modelling for the valuer to use their professional judgement and professional scepticism in the selection of data and models, many valuers were using artificial intelligence and other technology-based tools and resources to assist in this process.

Further to discussion the SRB agreed that valuers must be transparent about their proposed significant use of artificial intelligence and other technology-based tools and resources in relation to data and inputs and therefore incorporated the following requirements within the introduction section of IVS 104 Data and Inputs:

10.05 If the *valuer* uses AI and/or other technology-based tools and/or other technology-based tools and resources that employ opaque or non-transparent logic where the decision pathways and underlying rationale cannot be readily explained or verified in the collection of data and *inputs*, the *valuer* remains ultimately responsible for IVS Compliance. (see *IVS 101 Scope of Work* para 20.02)

10.06 All data and *inputs*, including those generated by AI and/or other technology-based tools and/or other technology-based tools and resources that employ opaque or non-transparent logic where the decision pathways and underlying rationale cannot be readily explained or verified by the *valuer* during the *valuation*, *must* be subject to *quality controls*.

The SRB also discussed the use of data provided by the management or the client within valuations and noted that in some instances this information was incorporated in valuations without sufficient due diligence or verification.

The SRB also discussed performance projections provided by management or the client and further to discussion the SRB agreed that the valuer must assess the historic record of fulfilling expectations and whether an adjustment needs to be applied.

Further to discussions the SRB decided to include the following new section within IVS 104 Data and Inputs on the Use of Data provided by Management or the Client:

30. Use of Data provided by Management or the Client

30.01 The *valuer must* assess the reasonableness of data provided by management or the *client*.

30.02 If data provided by the management or the c*lient* includes performance projections then the *valuer must* assess the historic record of fulfilling expectations and determine if an adjustment needs to be applied.

Regarding the current requirements for ESG factors within the IVS 104 Data and Inputs: Appendix, the SRB were advised by the IVSC SRB Sustainability and ESG Working Group that controversies in some areas of the world have led some stakeholders to avoid the use of the term 'ESG', focusing instead on 'sustainability' to encapsulate similar factors.

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The SRB discussed this issue and agreed to revise the requirements contained with the IVS 104: Data and Inputs Appendix in relation to considerations of ESG Factors. These incorporate Sustainability considerations in order to ensure the applicability of IVS across all markets:

IVS 104 Data and Inputs: Appendix

The *valuer should* be aware of relevant legislation and frameworks in relation to *sustainability* considerations and *environmental, social and governance* factors impacting a *valuation*.

A10. *Sustainability* Considerations *Environmental, Social and Governance (ESG)* Factors

A10.01 The impact of *significant* *sustainability* considerations and *ESG* factors *should* be considered in determining the *value* of ~~a company~~ an entity, *asset* or *liability*.

A10.02 *Sustainability* considerations and *ESG* factors may impact *valuations* both from a qualitative and quantitative perspective and may pose risks or opportunities that *should b*e considered.

A10.06 *Sustainability* considerations and *ESG* factors and the *sustainability* and *ESG* regulatory environment *should* be considered in *valuations* to the extent that they are measurable and would be considered reasonable by the *valuer* applying *professional judgement*.

IVS 105 Valuation Models

Further to a review of the IVS 105 Valuation Models and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the SRB reviewed the introduction and noted that the overarching requirement that "No model without the *valuer* applying *professional judgement*, for example an *automated valuation model (AVM),* can produce an IVS-compliant *valuation*" applied to all *valuations* and not just to AVMs.

Further to discussions the SRB noted that as this was such an important requirement for all valuation models it should be located within the Introduction section and revised the text as follows:

> 10.07 No *valuation model* can produce an IVS-compliant *valuation* without the application of the *valuer's professional judgement* and *professional scepticism*.

The SRB further reviewed the requirements contained within the introduction and noted that in some instances a valuation model may rely on other valuation models for inputs or to adjust its outputs and there may be a need to document lineage/traceability when one model feeds another and therefore incorporated the following text within the introduction:

> 10.02 A *valuation model* may rely on other *valuation models* to derive its *inputs* or adjust its output.

Further to the IVSC perspectives paper on *"Navigating the Rise of Artificial Intelligence in Valuation-Opportunities, Risks, and Standards"* and comments received from the consultation questions within, the SRB noted the increased use of artificial intelligence and other forms of technology within valuation.

The SRB discussed how artificial intelligence and other technology-based tools and resources were now being used in many valuations, in whole or in part, to assist with the valuation models used.

Further to discussion the SRB agreed that valuers must be transparent about their proposed use of artificial intelligence and other technology-based tools and resources in relation to valuation models. The SRB therefore incorporated the following two requirements within the introduction section of IVS 105 Valuation Models:

> 10.06 If the *valuation model* uses AI and/or other technology-based tools and resources that employ opaque or non-transparent logic, where the decision pathways and underlying rationale cannot be readily explained or verified, the *valuer* remains ultimately responsible for IVS Compliance. (see *IVS 101 Scope of work* para 20.02)

and:

> 10.08 All *valuation models*, including those generated by artificial intelligence or other technology-based tools and resources that employ opaque or non-transparent logic where the decision pathways and underlying rationale cannot be readily explained or verified by the *valuer* during the *valuation, must* be subject to *quality controls*.

In addition, the SRB made the following minor revisions to section 30 Use of a Specialist or Service Organisation:

> **30. Characteristics of Appropriate Valuation Models**
>
> 30.01 The *valuer must* determine that the v*aluation model* is appropriate, ~~which for the purposes of IVS 105 Valuation Models means "fit for purpose" in terms of~~ for the *assets* or *liabilities* being valued, the scope of work and the *valuation method*. The valuer must apply *professional judgement* to balance the characteristics of a *valuation model* ~~in order~~ to choose an appropriate *valuation model*.
>
> 30.03 [From 105.30.02] In certain cases, the *valuation model* may not incorporate all of these characteristics. Therefore, the *valuer must* assess and conclude that the *valuation model* is appropriate to value the *assets* ~~and/~~or liabilities in accordance with the scope of work and the *valuation method*.

Finally, the SRB made some minor revisions to the following paragraph within section 40 Valuation Model Selection and Use to provide additional clarity:

> **40. Valuation Model Selection and Use**
>
> 40.02 Regardless of whether the *valuation model* is developed internally or sourced externally, the *valuer must* assess the *valuation model* ~~in order~~ to determine that the valuation model is ~~fit~~ appropriate for its *intended use*.

IVS 106 Documentation and Reporting

Further to a review of the IVS 106 Documentation and Reporting and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the SRB inserted the following paragraph within Section 20 to ensure that the *valuer* documents the significant use and *quality controls* for artificial intelligence or other technology-based tools and resources:

> 20.03 Further to the requirements of 20.03, documentation *must* also include any *significant* use and *quality controls* for artificial intelligence or other technology-based tools and resources.

In addition, the SRB made the following minor revisions to the following paragraphs within IVS 106 Documentation and Reporting to provide additional clarity:

> 20.04 Documentation *must* be adequate to allow a *valuer* applying *professional judgement* and *professional scepticism* to understand the scope of the *valuation*, the work performed, and the conclusions reached.
>
> 20.06 Documentation *should* include but is not limited to communications with the *client*, alternative methods explored, additional data and *inputs* considered, risks and biases addressed, *professional judgement* ~~used~~ applied, and the *quality control* procedures followed including review and challenge, where applicable.
>
> 20.07 In all cases, documentation *should* describe the *valuation* or *valuation review* and how the *valuer* ~~managed~~ minimised *valuation risk* to ensure the valuation is in accordance with IVS.

The SRB reviewed section 30 Valuation reports and noted that for some valuation reports, such as those done for internal accounting purposes there may be no external *intended users* and therefore the SRB revised the valuation reporting requirement as follows:

> f) *intended users*, if applicable,

IVSC

Further to the publication of the IVSC perspectives paper on "*Navigating the Rise of Artificial Intelligence in Valuation-Opportunities, Risks, and Standards"* and comments received from the consultation questions within, the SRB noted the increased use of artificial intelligence and other forms of technology within valuation.

The SRB discussed how artificial intelligence and other technology-based tools and resources were now being used in many valuations, in whole or in part, to assist with data, market research, valuation modelling and report writing.

The SRB further noted that though there was an overarching requirement within IVS 104 Data and Inputs and IVS 105 Valuation Modelling for the valuer to use their professional judgement and professional scepticism in the selection of data and models, many valuers were using artificial intelligence and other technology-based tools and resources to assist in this process.

Further to discussion the SRB agreed that valuers must be transparent about their use of artificial intelligence and other technology-based tools and resources and therefore incorporated the following valuation reporting requirement.

> *(n) the significant use of artificial intelligence or other technology-based tools and resources.*

Regarding the current requirements for ESG factors within the scope of work the SRB were advised by the IVSC SRB Sustainability and ESG Working Group that political viewpoints in some areas of the world have led some stakeholders to avoid the use of the term *'ESG'*, focusing instead on '*sustainability'* to encapsulate similar factors.

The SRB discussed this issue and agreed to revise the following requirements in relation to ESG Factors to incorporate Sustainability considerations:

> *(m)* *significant* *sustainability* considerations and *environmental, social and governance* factors used and considered,

In addition, the SRB noted that though all IVS compliant valuations complied with the IVS General Standards, the Asset Standards used may vary according to the agreed scope of work. In order to provide additional transparency in relation to the Asset Standards used the SRB included the following additional requirement within the valuation reporting requirements:

> *(q)* the IVS Asset Standards used within the *valuation,*

The SRB discussed the issue of range and the requirement to state whether a range was used in the scope of work. As discussed in the section on the scope of work, the SRB noted that though the provision of a valuation range was not a requirement within IVS, many business valuations reported a range for their valuations.

The SRB further noted that most tangible asset valuations used a bases of value that required valuations to be reported at a point in time and the use of a range was often prohibited for secured lending purposes. However, many development appraisals incorporated ranges within their valuation reports.

Further to its deliberations the SRB incorporated the following valuation reporting requirement:

> 30.08 When a value range is used, the *valuer must:*
>
> a) Disclose the purpose of the range and what it communicates to *the intended user,*
>
> b) Disclose how the boundaries of the range are derived,
>
> c) Disclose how the point estimate within a range is derived (where applicable).

Finally, further to comments received and deliberations within the SRB it was noted that the section on Allocation of Value would be better placed within IVS 106 Documentation and Reporting than within IVS as values were usually allocated within the valuation report as part of the valuation reporting process.

As a result of these deliberations the SRB move the following Allocation of Value section and made some minor changes to improve clarity:

40. *[From IVS 102 Bases of Value section 80]* **Allocation of Value**

40.01 Allocation of *value* is the separate apportionment of *value* of an *asset* on an individual or component basis.

40.02 When apportioning *value*, the allocation method *must* be consistent with the applicable premise and *basis(es) of value.* ~~overall valuation premise/basis and~~ The *valuer must*:

a) follow any applicable legal or regulatory requirements,

b) set out a clear description of the *intended use* of the allocation,

c) consider the facts and circumstances, such as the relevant characteristic(s) of the item(s) being apportioned,

d) adopt appropriate methodology(ies) in the circumstances.

The SRB also reviewed the requirements for section 50 Valuation Review Reports and agreed that no further changes were needed.

IVS 107 Quality Controls

Further to a review of IVS 101 Valuation Framework and comments received from market engagement since the publication of IVS (effective 31 January 2025) the SRB agreed that valuation process quality control was such an important part of the valuation process that it warranted its own chapter within the IVS General Standards.

The SRB discussed the placement of this chapter and noted that quality control applied to each stage of the valuation process from the IVS 100 Valuation Framework all the way through to IVS 106 Documentation and Reporting.

Further to discussion the SRB agreed to delete the section 20 on valuation process quality control and create a new chapter called IVS 107 Quality Controls.

The SRB further discussed the contents of this chapter and agreed that it should comprise (of preliminary requirements shown in bold, an introduction section and an implementation section. The contents of this new chapter are shown below*:*

Quality controls **are processes and procedures used to mitigate *valuation risk* to ensure the *valuation* is in accordance with IVS and appropriate for its *intended use*.**

Quality controls **include things like math and logic checks, reviews of the appropriateness of *valuation approaches*, *valuation models*, inputs and assumptions, and any other significant areas of *professional judgment* in a *valuation*. These review procedures are performed in conjunction with the *valuation*, applied throughout the *valuation*, and completed prior to report delivery.**

Quality controls **contemplated in IVS 107 and conducted during the *valuation* differ from *valuation reviews*, which are undertaken after the issuance of a valuation report by a third party. *(see IVS 106 Documentation and Reporting section 40)***

[Continued]

10. Introduction

10.01 *Quality controls must* be designed, implemented and executed to ensure that *the valuation* is IVS compliant.

10.02 *Quality controls must* cover all *significant* steps within the valuation process as outlined in IVS 100 to IVS 106 and the Asset Standards, as appropriate.

10.03 *Quality controls must* be in place to mitigate *valuation risk* for the *intended use* to ensure that the *valuation* conclusion is appropriate for the *intended use*. *Quality controls* apply to the operational steps of the *valuation*, as well as the *professional judgements, professional scepticism* and assumptions that underpin the *valuation* conclusion.

10.04 *Quality controls must* include an appropriate level of review and challenge and *must* be performed in an objective, unbiased and competent manner.

10.05 *Quality controls must* be completed prior to the valuation report being issued.

20 Implementation

20.01 *Quality controls* may be manual, automated, or hybrid and in all instances *must* incorporate *professional judgement* and *professional scepticism* to ensure they are effective.

20.02 *Quality controls must* be regularly reviewed to ensure they remain effective as of the *valuation date.*

20.03 *Quality controls must* be appropriate for the *intended use*, *intended users*, the characteristics of the *asset* or *liability* being valued and the degree of *valuation risk* present in the engagement.

20.04 Quality controls *must* be documented and *must* contain sufficient detail to be understood by a *valuer applying professional judgement* and *professional scepticism* to understand *the quality control* procedures performed.

20.05 The extent of the *quality controls* and supporting documentation *must* be appropriate for the specific *valuation*, taking into account the complexity of the *valuation* and other relevant risk factors including, but not limited to, market or *asset* or *liability* specific factors.

20.06 *Quality control* procedures~~,~~ and supporting documentation*, must* therefore be more extensive for engagements having a higher degree of *valuation risk*.

IVS Asset Standards

Proposed Revisions

IVS 200 Businesses and Business Interests

The Business Valuation Board (BVB) reviewed IVS 200 *Businesses and Business Interests* and further to the review and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the BVB agreed to focus on the following revisions within IVS 200:

- *Revised structure to follow General Standards.*
- *New sections on valuation framework, scope of work, data and inputs, valuation models and documentation and reporting.*
- *Revisions to Capital Structure Considerations to provide additional detail.*
- *New section on Calibration.*
- *Further revisions to provide greater clarity.*

In its preparatory work to the current Exposure Draft, the Business Valuation Asset Board acknowledged that IVS 200 *Businesses and Business Interests* had not been substantially modified in the previous revision of the IVS that resulted in the promulgation of the IVS (effective 31 January 2025). At the time, the adoption and implementation of IVS was at critical junctures in several key jurisdictions. Substantial changes to the Business Valuation Standards may have risked jeopardising the effective adoption of the IVS in those jurisdictions.

Furthermore, the Board remarked that the practice of Business Valuation had evolved in recent years and that in numerous jurisdictions, valuation professional communities and organisations had evolved.

In its preparatory work to the current Exposure Draft, the Business Valuation Asset Board took note of several trends impacting the practice of Business Valuation. These trends include:

a) Technological advances and the growing use of Artificial Intelligence (AI) tools.

b) The evolution of the practice of Business Valuation and the maturation of the professional communities in numerous jurisdictions compared to the previous cycle when the Standards were substantially revised.

c) Announced re-examinations of, and changes in certain financial reporting standards that usually inform business valuations.

d) Shifting expectations by stakeholders towards an increase in the frequency of valuations.

e) The growth in the number of stakeholders with an interest in IVS-compliant valuations, including:

    i. national, regional and supranational policymakers,

    ii. Development Finance Institutions (DFIs) and multinational organisations, as well as

    iii. adjudicatory bodies (Courts, arbitral tribunals) such as courts and arbitral tribunals.

f) Uncertainty in the timing and implementation of policy prescriptions around ESG considerations and attendant disclosure requirements in certain jurisdictions.

These considerations informed several changes to IVS 200 *Businesses and Business Interests*.

Changes to the standard include a revised structure that follows the general standards.

a) This results in the introduction of several new sections including:

    i. Valuation Framework (Section 30)

    ii. Scope of Work (Section 40)

    iii. Data and Inputs (Section 100)

    iv. Valuation models (Section 110)

    v. Documentation and Reporting (section 120)

b) These sections provide for better alignment with the General Standards and for better comparability with other asset standards, both within the Business Valuation standards, as well as with IVS 300 and IVS 400.

c) These new sections provide the framework for amplifications in future revision cycles.

d) In other cases, however, these new sections were deemed to be more appropriate for certain provisions previously contained elsewhere. For instance, the content of Section IVS 200.100 Business Information was dispatched to the new section IVS 200.100 Data and Inputs. The identical numbering is entirely coincidental. Furthermore, the text was modified.

100. Data and Inputs

100.03 [From 200.100.01 *Business Information*] The *valuation* of a *business* entity or interest frequently requires reliance upon information received from management, representatives of the management or other experts

100.04 [From 200.100.01 *Business Information*] ~~As required by IVS 103 *Valuation Approaches*, Appendix A20.13~~ The *valuer must* assess the reasonableness of information received from management, representatives of management or other experts and evaluate whether it is appropriate to rely on that information for the *valuation*. (See IVS 104.30 on Use of Management or Client Data) ~~As required by IVS 103 *Valuation Approaches*, Appendix A20.13 The *valuer must* assess the relevance of information received from management, representatives of management or other experts and evaluate whether it is appropriate to rely on that information for the *valuation*~~. For example, prospective financial information provided by management may reflect specific synergies that may not be consistent be inconsistent with the requirements of the *valuation*.

(Continued on next page)

Further revisions to the text provide greater clarity and ease of use to the valuer and the intended user of the valuation. These revisions fall into several broad categories:

a) Certain paragraphs are split into two, allowing for a clearer articulation of the requirements contained in the standards. For example:

70.04 [From 200.50.03] There *must* be a reasonable basis for comparison with, and reliance upon, similar *businesses* in the market approach. ~~These similar *businesses* should be in the same industry as the subject *business* or in an industry that responds to the same economic variables.~~

70.05 [From 200.50.03] ~~Factors that *should* be considered in assessing whether a reasonable basis for comparison between the subject company and the comparable companies exists include but are not limited to:~~ The *valuer must* consider whether a reasonable basis for comparison between the subject *asset* and the comparable *assets* exists. These factors include but are not limited to:

(a) similarity to the subject *business* in terms of qualitative and quantitative ~~*business*~~ characteristics,

(b) amount and verifiability of *data* on the similar *business*, and

(c) whether the *price* of the similar *business* represents a transaction consistent with the applicable *basis of value*. (...)

b) The text is turned to the active voice and provides a clearer, more direct requirement of what the valuer must or should do. For example:

80.05 [From 200.60.05] ~~The income approach requires the estimation of:~~ When using the income approach, the *valuer must:*

(a) ~~a capitalisation rate when capitalising income, or~~ Select an appropriate measure of income and estimate a capitalisation rate, or

(b) ~~cash flow and a *discount rate* when discounting cash flows.~~ Estimate cash flows and a *discount rate* when discounting cash flows.

c) The level of detail in prescriptions of certain methods and techniques has been curtailed.

i. This reflects:

(1) The assessment that the IVS are principles-based standards and are not intended to be detailed technical handbooks, and

(2) The evaluation of the maturity of the business valuation community in numerous jurisdictions as well as the availability and profusion of educational resources for valuers looking to acquire certain techniques and develop their professional judgement in the application thereof.

ii. The text was streamlined in the following sections:

(1) In the paras covering the calculation of discount rate and nominal vs real cash flow in IVS 200.60.08 and IVS 200.60.09 in IVS (effective 31 January 2025).

(2) Several paragraphs covering Operating and Non-Operating Assets, including IVS 200.150.01, IVS 200.150.02 and IVS 200.150.05. For example:

150.02 [From 200.120.02] ~~Most *valuation methods* do not capture the value of *assets* and/or *liabilities* that are not required for the operation of the *business*. For example, the valuation of a *business* using a multiple of EBITDA would only capture the value the *assets* utilised in generating that level of EBITDA. If the *business* has non-operating *assets* or *liabilities*, such as an idle manufacturing plant, the value of that non-operating plant would not be captured in the value. Depending on the scope of the valuation engagement (see para 120.03 of this standard), the *value* of non-operating *assets* and/or liabilities may need to be separately determined and added to the value of the operating *assets* to determine the *value*.~~ If specified by the scope of work, the *valuer must* separately determine and add the *value* of non-operating *assets* and/or *liabilities* to the *value* of the operating *assets* to determine the *value* of a *business*, a business interest or a subject *asset*.

The section on Capital Structure Considerations was substantially revised.

a) The Board assessed that Capital Structure Considerations are important in the context of business valuation, and that it had been the subject of numerous queries by stakeholders. In updating this section, the Board aimed to reflect current best practice and to remain at the level of principles-based standards.

b) The principal revisions include:

    i. Streamlining the description of the Current Value Method (CVM) and reorganising the steps the valuer must perform into a numbered list (a to d), rather than a block of solid text (200.160.15).

    ii. Updating the guidance on the Option Pricing Method (OPM), to place less emphasis on detailed prescription for determining option input parameters.

    iii. Restructuring the guidance on Probability-Weighted Expected Return Method (PWERM), IVS 200.130.23 to IVS 200.130.27 in IVS (effective 31 January 2025) through a subsection on Scenario Based Methods (SBM) (IVS 200.160.36 to 200.160.42)).

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160.26 ***Scenario Based Methods (SBM)***

160.27 Scenario-based methods consider the payoff of each class of equity across multiple exit scenarios, discounted to the *valuation date.* Scenario-based methods require forward-looking analysis of potential future outcomes available to the subject *business*.

160.28 Under a full scenario analysis, the *valuer must* estimate present values of future scenarios under each outcome and apply a probability factor to each scenario as of the valuation date.

160.29 In some circumstances, the *valuer* may not be able to reasonably estimate all potential scenarios. In such cases, the *valuer should* consider the hybrid method as an alternative to explicitly modelling all scenario outcomes.

160.30 In considering the hybrid method, the *valuer must* consider the complexity of the method and assess its relative advantages and disadvantages.

160.31 In applying the hybrid method, the *valuer should* estimate the probability-weighted value across multiple scenarios while also using the OPM to allocate value within the remaining scenarios.

160.32 The *valuer should* assess the required rate of return for other classes of equity, considering the relative risk of each class.

A new section on Calibration (Section 200.170) was added.

a) The Board noted that calibration techniques are commonly used in business valuation. Calibration is particularly deployed in the valuation of portfolios for the purposes of financial reporting. The Board decided that Calibration should be covered in the IVS.

b) In writing this section, the Board aimed to reflect current best practice and to remain at the level of principles-based standards. For conciseness, the text is not reproduced here.

IVS 210 Intangible Assets

The Business Valuation Board (BVB) reviewed IVS 210 *Intangible Assets* and further to the review and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the BVB agreed to focus on the following revisions within IVS 210:

- *Revised structure to follow General Standards.*
- *New sections on valuation framework, scope of work, data and inputs, valuation models and documentation and reporting.*
- *Further revisions to provide greater clarity.*

In its preparatory work to the current Exposure Draft, the Business Valuation Asset Board acknowledged that IVS 210 *Intangible Assets* had not been substantially modified in the previous revision of the IVS that resulted in the promulgation of the IVS (effective 31 January 2025). At the time, the adoption and implementation of IVS was at critical junctures in several key jurisdictions. Substantial changes to the Business Valuation Standards may have risked jeopardising the effective adoption of the IVS in those jurisdictions.

Furthermore, the Board remarked that the practice of Business Valuation had evolved in recent years and that in numerous jurisdictions, valuation professional communities and organisations had evolved.

The Board acknowledged that Intangible Assets continue to be a major area of focus for several constituencies, including:

a) Investors, whose assessment of the value of intangible assets often inform capital allocation decisions,

b) Financial reporting standard setters, preparers of financial statements and auditors for whom the recognition and measurement of intangible assets are topics of ongoing discussion and examination,

c) Development Finance Institutions, whose financing criteria are not solely commercial but include considerations of equity,

d) Policymakers keen to facilitate the use of intangible assets and intellectual property (IP) to achieve their goals (lending, taxation, prudential considerations, etc.),

e) Adjudicatory bodies (Courts, arbitral tribunals) where intangible assets and intellectual property are either at the centre of disputes (e.g. patent infringement) or are deeply embedded in the broader object of the dispute (e.g. abuse of IP rights within an alleged pattern of minority oppression).

To inform its deliberations, the Board drew on:

- the series of six (6) perspective papers that were published by the IVSC on the topic of Intangible assets between 2021 and 2024, as well as
- the continued engagement of the IVSC Board members, volunteers and employees with relevant stakeholders.

Since the IVS (effective 31 January 2025) came into force, Board and several of its members had received multiple, direct, and unequivocal feedback that while *IVS 210 Intangible Assets* remains the reference for the valuation of intangible assets in numerous settings, its ease of use is sometimes hindered by aligning too closely with the nomenclature and requirements of financial reporting standards. For example, the principle of incorporating returns required on assets necessary to generate an earnings stream applies to all valuations. However, the expression “Contributory Asset Charge” (CAC) is mostly used in financial reporting. Furthermore, the Board noted that extensive and detailed guidance exists for the valuation of intangible assets in the context of financial reporting. The Board expects, and looks forward to, a continued engagement with stakeholders of the financial reporting community on the topic of intangible assets.

Finally, the Board emphasised that the integrated nature of the IVS entailed that Asset standards remain principles based.

These considerations informed several changes to IVS 210 *Intangible Assets*.

Changes to the standard include a revised structure that follows the general standards.

a) This results in the introduction of several new sections including:
   i. Valuation Framework (Section 30)
   ii. Scope of Work (Section 40)
   iii. Data and Inputs (Section 100)
   iv. Valuation models (Section 110)
   v. Documentation and Reporting (section 120)
b) These sections provide for better alignment with the General Standards and for better comparability with other asset standards, both within the Business Valuation standards, as well as with IVS 300 and IVS 400.

c) The content of some of these new sections is still embryonic but provides the framework for amplifications in future revision cycles.

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d) In other cases, however, these new sections were deemed to be more appropriate for certain provisions previously contained elsewhere. For instance, the content of paragraphs 210.50.04 and 210.50.05 about the heterogeneity of intangible assets was moved from section IVS 210.50 in IVS (effective 31 January 2025) on the market approach to the proposed section IVS 200.10 Data and Inputs in the Exposure Draft.

100. Data and Inputs

100.03 [From 210.50.04] ~~The heterogeneous diverse nature of *intangible assets* and the fact that *intangible assets* are seldom transacted separately from other *assets* limit the availability of market evidence of transactions involving identical *assets*. Where market evidence is available, it usually comprises *assets* that are similar, but not identical to the subject *asset*.~~ The diverse nature of *intangible assets*, combined with the fact that these are often transacted as part of a broader portfolio of *assets* in transactions such as mergers and acquisitions, limits the availability of market evidence for transactions involving identical or comparable *assets*. Where market evidence is available, it usually comprises *assets* that are similar, but not identical to the subject *asset.* The *valuer must* document any *significant* adjustments made to the *observable data* about transactions of *intangible assets*.

100.04 [From 210.50.05] ~~Where evidence of either prices or valuation multiples is available, the *valuer should* adjust these to reflect differences between the subject *asset* and the *assets* involved in the transactions. These adjustments reflect the differentiating characteristics of the subject *intangible asset* and the *assets* involved in the transactions. Such adjustments may only be determinable at a qualitative, rather than quantitative, level. However, the need for significant qualitative adjustments may indicate that another approach would be more appropriate for the valuation.~~ Where evidence of either *prices* or valuation multiples is available, the *valuer must* consider adjusting these to reflect differences between the subject *asset* and the *assets* involved in the transactions.

100.05 [From 210.50.05] The *valuer should* assess whether such adjustments are only determinable at a qualitative, rather than quantitative, level. The need for *significant* qualitative adjustments could indicate that the valuer *should* employ another approach for the *valuation*.

Further revisions to the text to provide greater clarity and ease of use to the valuer and the intended user of the valuation. These revisions fall into several broad categories:

a) Certain paragraphs are split into two, allowing for a clearer articulation of the requirements contained in the standards. For example:

20.07 ***Goodwill***

20.08 [From 210.20.07] Generally, goodwill is any future economic benefit arising from a *business*, an interest in a *business* or from the use of a group of *assets* which has not been separately recognised in another *asset*. The *value* of goodwill is typically measured as the residual amount remaining after the values of all identifiable tangible, intangible and monetary *assets*, adjusted for actual or contingent liabilities, have been deducted from the value of a *business*.

20.09 [From 210.20.07] In certain *intended uses* of a *valuation*, such as financial reporting, the *value* of goodwill is ~~typically~~ determined [~~measured~~] as the residual amount remaining after the *values* of all identifiable *tangible*, *intangible* and monetary *assets*, adjusted for actual or contingent *liabilities*, have been deducted from the *value* of a *business* or from the *price* paid in the purchase of a *business*.

b) The text is turned to the active voice and provides a clearer, more direct requirement of what the valuer must or should do. For example:

70.06 [From 210.50.08] ~~In rare circumstances, a security sufficiently similar to a subject *intangible asset* may be publicly traded, allowing the use of the guideline public company method~~. The *valuer must* consider using the guideline public company method under the market approach to value an intangible *asset* where a security comparable to the subject *intangible asset* is publicly traded. For example, contingent value rights (CVRs) are tied to the performance of a particular product or technology.

c) The level of detail in prescriptions of certain methods and techniques has been curtailed.

   i. This reflects:

      (1) The assessment that the IVS are principles-based standards and are not destined to be detailed technical handbooks, and

      (2) The evaluation of the maturity of the business valuation community in numerous jurisdictions as well as the availability and profusion of educational resources for valuers looking to acquire certain techniques and develop their professional judgement in the application thereof.

   ii. The text was streamlined in its coverage of the following methods:

      (1) The excess earnings method (IVS 210.80.07 to 210.80.20), which is part of the income approach method, and

(Continued on next page)

(2) The relief from royalty method (IVS 210.80.21 to 210.80.27), which is part of the income approach. It is noteworthy that the Board assessed that the streamlined text of the preamble as well as in items (a) to (c) allow the substitution of "should" with the more rigorous "must." For example:

80.19 [From 210.60.20] ~~Whether a royalty rate is based on market transactions or a profit split method (or both), its selection *should* consider the characteristics of the subject intangible *asset* and the environment in which it is utilised. The consideration of those characteristics forms the basis for the selection of a royalty rate within a range of observed transactions and/or the range of profit available to the subject intangible *asset* in a profit split. Factors that *should* be considered include but are not limited to the following:~~ When selecting a royalty rate, the *valuer must* consider the following factors, including [but not limited to:

(a) The competitive environment: ~~[the size of the market for the intangible *asset*, the availability of realistic alternatives, the number of competitors, barriers to entry, and presence (or absence) of switching *data*,~~]

(b) The importance of the subject intangible *asset* to the owner: ~~whether the subject *asset* is a key factor of differentiation from competitors, [its] the importance [to] it plays in the owner's marketing strategy, its relative importance compared with other tangible and intangible *assets*, and the amount the owner spends on its creation, upkeep and improvement of the subject *asset*,~~

(c) The life cycle of the subject intangible~~: the expected economic life of the subject *asset* and any risks of the subject intangible becoming obsolete.~~

(3) The greenfield method (IVS 210.80.36 to 210.80.41), which is part of the income approach.

iii. The text was streamlined but not deleted for the following special considerations:

(1) Intangible Asset Economic Lives (IVS 210.150), and

(2) Tax Amortisation Benefit (TAB), (IVS 210.160) where a general requirement replaces a detailed discussion.

d) Conversely, the exposure draft includes details for the Cost Savings or Avoided Cost Method (IVS 210.80.47). The method had previously been included in the list at IVS 210.60.05.(f) in IVS (effective 31 January 2025), but corresponding paras had not been created.

Certain other changes reflect the multiplicity of intended uses of valuations involving intangible assets and the varying applicable constraints.

a) For instance, in the enumeration of broad categories of intangible assets in IVS 210.20.03, and specifically within 210.20.03 (e) technology-related intangible assets, the proposed standard includes “data”, in addition to “databases.” This reflects the growth in the number and importance of transactions involving data, either directly, or indirectly. We refer the reader to the IVSC perspective paper V*alue and Data* published in February 2024.

b) The Board assessed that the pervasive use of the word “Goodwill” in multiple settings, including financial reporting and disputes, warranted that the discussion of this important concept have a dedicated subsection. This can be found from IVS 210.20.07 to IVS 210.20. We refer the reader to the IVSC series of three (3) perspective papers on goodwill published September 2019 (*Is Goodwill a Wasting Asset?*), February 2020 (*The Information Value of the Current Impairment Test*), and May 2020 (*Opportunities for Enhancing the Goodwill Impairment Framework*).

IVS 220 Non-Financial Liabilities

The Business Valuation Board (BVB) reviewed IVS 220 *Non-Financial Liabilities* and further to the review and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the BVB agreed to focus on the following revisions within IVS 220:

- *Revised structure to follow General Standards.*
- *New sections on valuation framework, scope of work, data and inputs, valuation models and documentation and reporting.*
- *Further revisions to provide greater clarity.*

In its preparatory work to the current Exposure Draft, the Business Valuation Asset Board acknowledged that IVS 220 *Non-Financial Liabilities* had not been substantially modified in the previous revision of the IVS that resulted in the promulgation of the IVS (effective 31 January 2025). At the time, the adoption and implementation of IVS was at critical junctures in several key jurisdictions. Substantial changes to the Business Valuation Standards may have risked jeopardising the effective adoption of the IVS in those jurisdictions.

Furthermore, the Board remarked that the practice of Business Valuation had evolved in recent years and that in numerous jurisdictions, valuation professional communities and organisations had evolved.

The re-examination of IVS 220 by the Board catalysed a constructive discussion about the continued relevance of the Chapter.

The Board had received stakeholder feedback that the chapter has a limited scope and is only infrequently used, especially in the context of financial reporting.

The Board recognised that IVS 220 might reflect preoccupations presently less topical than when the chapter was developed. However, a consensus emerged that in principle, the valuation of “liabilities requiring a non-cash performance obligation to provide goods or services” was becoming more, not less, relevant in view of:

- the emergence and continued growth of more complex business models and transactions,
- the pervasiveness of broad Sustainability considerations,
- the growing use of IVS for intended uses other than financial reporting, including in judicial settings and for policymaking, as well as
- ongoing projects by financial reporting standard-setters around

certain relevant standards.

The Board considered a range of options, including abrogating the chapter altogether, or subsuming part of its contents into IVS 200 *Businesses and Business Interests*.

Nevertheless, given the strong preference towards a gradualist approach, and in view of possible developments in future revision cycles, the Board decided to retain the chapter, while increasing its flexibility.

Finally, the Board emphasised that the integrated nature of the IVS entailed that Asset standards remain principles based.

These considerations informed several changes to IVS 220 *Non-Financial Liabilities*.

Changes to the standard include a revised structure that follows the general standards.

a) This results in the introduction of several new sections including:

   i. Valuation Framework (Section 30)

   ii. Scope of Work (Section 40)

   iii. Data and Inputs (Section 100)

   iv. Valuation models (Section 110)

   v. Documentation and Reporting (section 120)

b) These sections provide for better alignment with the General Standards and for better comparability with other asset standards, both within the Business Valuation standards, as well as with IVS 300 and IVS 400.

c) The content of some of these new sections is still embryonic but provides the framework for amplifications in future revision cycles.

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Further revisions to the text to provide greater clarity and ease of use to the valuer and the intended user of the valuation. These revisions fall into several broad categories:

a) Certain paragraphs are split into two, allowing for a clearer articulation of the requirements contained in the standards. For example:

70.07 [From 220.50.07] Where evidence of market prices of *non-financial liabilities* is available, the *valuer must* ~~*should*~~ consider adjustments to these to reflect differences between the subject *non-financial liability* and the recorded transactions. ~~These adjustments are necessary to reflect the differentiating characteristics of the subject *non-financial liability* and those involved in the transactions.~~

70.08 [From 220.50.07] ~~Such adjustments may only be determinable at a qualitative, rather than quantitative, level. However, the need for significant qualitative adjustments could indicate that another approach would be more appropriate for the valuation.~~ The *valuer should* assess whether adjustments to market prices of *non-financial liabilities* are only determinable at a qualitative, rather than quantitative, level. The need for *significant* qualitative adjustments could indicate that the valuer *should* employ another approach for the *valuation*. The need for *significant* qualitative adjustments could indicate that the valuer *should* employ another approach for the *valuation*.

b) The text is turned to the active voice and provides a clearer, more direct requirement of what the valuer must or should do. For example:

140.01 [From 220.90.02] The *discount rate should* account for the time value of money and non-performance risk. ~~Non-performance risk is typically a function counterparty risk (ie, credit risk of the entity obligated to fulfil the *liability*) (see para 60.05 (c) of this standard).~~

c) The level of detail in prescriptions of certain methods and techniques has been curtailed.

   i. This reflects:

      (1) The assessment that the IVS are principles-based standards and are not destined to be detailed technical handbooks, and

      (2) The evaluation of the maturity of the business valuation community in numerous jurisdictions as well as the availability and profusion of educational resources for valuers looking to acquire certain techniques and develop their professional judgement in the application thereof.

   ii. The text was streamlined in its coverage of the following methods:

      (1) The top-down method (IVS 220.70.14 to 220.70.18), which is part of the market approach method, and

(Continued on next page)

(2) The bottom-up method (IVS 220.80.05 to 220.80.07), which is part of the income approach. For example:

80.07 [From 220.60.05] T~~he list of steps the *valuer should* perform in applying the Bottom-Up method includes but is not limited to~~: When applying the Bottom-Up method, the *valuer must*:

(a) determine the *data* required to fulfil the performance obligation. ~~Such *data* will include the direct *data* to fulfil the performance obligation but and may also include indirect *data* such as charges for the use of contributory *assets*. Fulfilment *data* represent those *data* that are related to fulfilling the performance obligation that generates the *non- financial liability*. *Data* incurred as part of the selling activities before the acquisition date *should* be excluded from the fulfilment effort;~~

(i) ~~contributory *asset* charges *should* be included in the fulfilment *data* when such *assets* would be required to fulfil the obligation and the related cost is not otherwise captured in the income statement,~~

(ii) ~~in limited instances, in addition to direct and indirect *data*, it may be appropriate to include opportunity *data*. For example, in the licensing of symbolic intellectual property, the direct and indirect *data* of fulfilment may be nominal. However, if the obligation reduces the ability to monetise the underlying *asset* (in an exclusive licensing arrangement for example), then the *valuer should* consider how participants would account for the potential opportunity *data* associated with the *non-financial liability*,~~

(b) determine a reasonable mark-up on the fulfilment effort. ~~In most cases It may be appropriate to include an assumed profit margin on certain *data* which can be expressed as a target profit, derived either as a lump sum or as a percentage return on *cost* or *value*.~~

The Board recognised the emergence and continued growth of more complex business models and transactions, sometimes with long durations.

a) Some of those transactions creating non-financial liabilities might involve a combination of overlapping performance obligations and of financial instruments used either as assets or as liabilities.

   i. Examples of such transactions include the delivery of commodities, and/or of energy, and attendant options or obligations. These transactions might involve hedges and/or other financial instruments.

   ii. The valuation of these transactions and of the non-financial liabilities they create is sometimes necessary for intended uses and with scopes other than financial reporting wherein the relevant standards would apply.

   iii. In recognition of that complexity and to provide flexibility for future enrichment of the IVS, the non-exhaustive list in para 220.20.02 as expanded to include "certain transactions also involving *financial instruments.*"

   iv. The relevant paragraph is reproduced below:

20.02 ~~*Liabilities* that may in part or in full require a non-cash fulfilment and be subject to IVS 220 *Non-Financial Liabilities*~~ *Non-financial liabilities* include but are not limited to:

(a) deferred revenue or contract liabilities,

(b) warranties,

(c) environmental liabilities,

(d) *asset* retirement obligations

(e) certain contingent consideration obligations,

(f) loyalty programmes,

(g) certain litigation reserves and contingencies,

(h) certain indemnifications and guarantees, and

(i) certain transactions also involving *financial instruments*

IVS 230 Inventory

The Business Valuation Board (BVB) reviewed IVS 230 *Inventory* and further to the review and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the BVB agreed to focus on the following revisions within IVS 230:

- *Revised structure to follow General Standards.*
- *New sections on valuation framework, scope of work, data and inputs, valuation models and documentation and reporting.*
- *Further revisions to provide greater clarity.*

n its preparatory work to the current Exposure Draft, the Business Valuation Asset Board acknowledged that IVS 230 *Inventory* had not been substantially modified in the previous revision of the IVS that resulted in the promulgation of the IVS (effective 31 January 2025). At the time, the adoption and implementation of IVS was at critical junctures in several key jurisdictions. Substantial changes to the Business Valuation Standards may have risked jeopardising the effective adoption of the IVS in those jurisdictions.

Furthermore, the Board remarked that the practice of Business Valuation had evolved in recent years and that in numerous jurisdictions, valuation professional communities and organisations had evolved.

These considerations informed several changes to IVS 230 *Inventory*.

Changes to the standard include a revised structure that follows the general standards.

a) This results in the introduction of several new sections including:

   i. Valuation Framework (Section 30)

   ii. Scope of Work (Section 40)

   iii. Data and Inputs (Section 100)

   iv. Valuation models (Section 110)

   v. Documentation and Reporting (section 120)

b) These sections provide for better alignment with the General Standards and for better comparability with other asset standards, both within the Business Valuation standards, as well as with IVS 300 and IVS 400.

c) The content of some of these new sections is still embryonic but provides the framework for amplifications in future revision cycles.

i. In some cases, text that was previously included under other sections such as "Special Considerations" was subsumed into these new sections. For example:

100.03 [From 230.100.01] The *valuer should* maintain appropriate consistency between the assumptions used in the *valuation* of inventory and the assumptions used in the *valuation* of other *assets* and/or liabilities.

Further revisions to the text to provide greater clarity and ease of use to the valuer and the intended user of the valuation, and for all intended uses. These revisions fall into several broad categories:

a) Certain paragraphs are split into two, allowing for a clearer articulation of the requirements contained in the standards. For example:

70.02 [From 230.50.04] The valuer *must* comply with paras 20.02 and 20.03 of IVS 103 *Valuation Approaches* when determining whether to apply the market approach to the valuation of inventory.

70.03 [From 230.50.04] The *valuer should* only apply the market approach to value inventory if both of the following criteria are met:

(a) information is available on arm's-length transactions involving identical or similar inventory on or near the *valuation date*, and

(b) sufficient information is available to allow the *valuer* to adjust for all *significant* differences between the subject inventory and those involved in the transactions.

b) The text is turned to the active voice and provides a clearer, more direct requirement of what the valuer must or should do. For example:

c) Certain sections were deleted since their applicability was assessed to be limited, and their content was covered in more general terms within other sections. The deleted sections include:

80.06 [From 230.60.05] ~~The list of steps the valuer *should* perform in applying the top-down method for the valuation of inventory includes but is not limited to:~~ When applying the top-down method, the *valuer must* ~~*should*~~:

i. Relationship to Other Acquired Assets, IVS 230.150 in IVS (effective 31 January 2025),

ii. Obsolete Inventory Reserves, IVS 230.160 in IVS (effective 31 January 2025), and

iii. Unit of Account, IVS 230.160 in IVS (effective 31 January 2025).

d) The level of detail in prescriptions of certain methods and techniques has been curtailed.

   i. This reflects:

      (1) The assessment that the IVS are principles-based standards and are not destined to be detailed technical handbooks, and

      (2) The evaluation of the maturity of the business valuation community in numerous jurisdictions as well as the availability and profusion of educational resources for valuers looking to acquire certain techniques and develop their professional judgement in the application thereof.

   ii. The text was streamlined in its coverage of the following methods:

      (1) The general considerations about the market approach (IVS 230.70.04).

      (2) The top down method (IVS 230.80.03 to 230.80.10) which is part of the income approach.

      (3) The bottom-up method (IVS 230.80.11 to 230.80.12), which is part of the income approach.

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(4) The current replacement cost method (CRCM) (IVS 230.90.05), which is part of the cost approach. For example:

80.07 [From 230.60.05] ~~The list of steps the valuer *should* perform in applying the top-down method for the valuation of inventory includes but is not limited to:~~ When applying the top-down method, the *valuer must* ~~*should*~~:

(a) estimate the selling price that includes an estimate of gross margin.

~~(i) The valuer should rely on direct observations of selling prices when the information is available.~~

~~(ii) However, such data is often not available and the selling price is often estimated by applying an appropriate gross profit margin to the net book value of finished goods at the product level or the aggregate level.~~

~~(iii) Typically, the projected gross profit margin in the period the inventory will be sold is used;~~

(b) For work in process only, estimate the *data* to completion, including direct and indirect expenses to be incurred after the *valuation date*. Subtract those *data*. ~~estimate the *data* to complete (for work-in-process only)~~

~~(i) Completion *data* should include all the expenditures directly or indirectly remaining to be incurred after the valuation date in bringing the work in progress inventory to its finished condition.~~

~~(ii) *Data* to complete should be adjusted to remove expenses benefitting future periods;~~

IVS 300 Plant, Equipment, and Infrastructure

The Tangible Asset Board ("TAB") reviewed IVS 300 Plant, Equipment and Infrastructure and further to the review and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the TAB agreed to focus on the following revisions within IVS 300:

- *Minor revisions to provide greater clarity.*
- *New requirements within Section 40 Scope of Work re physical inspection.*
- *Additional documentation requirements re intangible assets and physical inspection.*

Further to a review of the IVS 300 Plant, Equipment and Infrastructure and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the TAB agreed to make minimal chang es to this chapter as much of the contents of this chapter this chapter had been significantly revised prior to the publication of IVS (effective 31 January 2025).

The TAB reviewed the introduction and in order to make this chapter more user friendly and consistent with the structure of other chapters within IVS the TAB revised the section 10 overview as follows:

10. Overview

10.01 The principles contained in the General Standards apply to *valuations* of plant, equipment and infrastructure (PEI).

10.02 [From 300.10.01] This standard includes modifications, additional requirements or specific examples of how the General Standards apply to *valuations* to which this standard applies. *Valuations* of PEI *must* also follow the applicable standards for that type of *asset* and/or *liability* (see IVS 400 *Real Property Interests* ~~and IVS 410~~ ~~*Development Property*~~, ~~where applicable~~).

Further to comments received from market engagement the TAB further reviewed Section 40 Scope of work and revised and moved paragraph 40.03 to provide additional clarity:

40.02 ~~In such cases, it will be necessary to~~ When clarifying the degree to which the *asset* is attached to, or integrated with, other *assets*, the *valuer must* clearly define what is to be included or excluded from the valuation. Any special assumptions relating to the availability of any complementary *assets must* also be stated.

40.03 PEI connected with the supply or provision of services to a building are often integrated within the building and once installed, are often difficult to separate from it. These items will normally form part of the real property interest and therefore the requirements contained within IVS 400 *Real Property Interests* ~~and IVS 410~~ ~~*Development Property*~~ *must* also be considered, where appropriate. Examples include *assets* with the primary function of supplying electricity, gas, heating, cooling or ventilation to a building and equipment such as elevators.

40.04 [From 300.40.03] If the purpose of the *valuation* requires these items to be valued separately, the scope of work *must* include a statement to the effect that the *value* of these items would normally be included in the real property interest and may not be separately realisable.

In relation to inspection the TAB had received a number of comments from the consultation questions contained in within the IVSC Inspection Perspectives Paper, which was published in June 2024.

The TAB noted that several markets had included mandatory inspection requirement for real estate assets when the intended use was secured lending.

The TAB reviewed the conclusion of the Inspection perspectives paper, which stated as follows:

"Whilst the TAB would generally agree that a physical inspection is an important part of the valuation process, because of the vast variety of asset classes, jurisdictions, and valuation purposes, we remain firmly of the view that the primary role of the IVSC is to promote 'transparent and consistent standards' for all valuation stakeholders, and not to act as the gatekeeper for mandatory valuation inspection requirements.

Of primary importance is the requirement for valuation professionals to be clear in their scope of work (terms of engagement) with their intended inspection *classification and process. Assuming that this is clearly agreed upfront in the valuation assignment, this provides greater clarity to the client, and helps avoid any unexpected surprises in*

the reporting process. Collectively, this promotes greater transparency and trust in the valuation process and helps provide greater clarity to the users of valuations as to the process that has taken place as part of a valuation assignment."

The TAB further discussed the issue of inspection and though agreeing that mandating physical inspection was not practical for all plant, equipment and infrastructure the TAB revised the following scope of work sections to provide additional clarity:

40.07 [From 300.40.05] In ~~addition to~~ accordance with the requirements contained within IVS 101 *Scope of Work*, sections 20 and 30, investigations made during the course of a *valuation* engagement *must* be appropriate for the *intended use* of the *valuation* engagement and the *basis(es) of value*.

40.08 [From 300.40.06] 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*.

40.09 When considering 40.07 to 40.08 the *valuer must* state the extent of physical inspection that is to be undertaken (where applicable) within their scope of work.

40.10 In some instances, the *valuer* may carry out a physical inspection of a sample of *asset(s)*. This *must* be stated within the scope of work.

40.11 If no physical inspection is to be undertaken this *must* be stated within the scope of work.

The TAB further made the following minor revision to this section to provide additional clarity:

40.12 When a valuation engagement involves reliance on information supplied by a party other than the *valuer*, consideration *should* be given as to whether the information is credible or that the information may otherwise be relied upon without adversely affecting the credibility of the *valuation*. *Significant inputs* provided to the *valuer* (e.g., by management/owners) *should* be considered, investigated and/or corroborated. In cases where credibility or reliability of information supplied cannot be supported, ~~consideration *should* be given as to~~ the *valuer should* consider whether or how such information is used (see IVS 101 *Scope of Work*, para 20.01 (j)).

The TAB also reviewed section 50 basis of value and made the following minor revisions to provide additional clarity:

50.02 Using the appropriate *basis(es) of value* and associated premise of value (see IVS 102 *Bases of Value*, Appendix A10–A120) is ~~particularly crucial~~ critical in the *valuation* of PEI because differences in *value* can be *significant*, depending on whether an item of plant and equipment is valued under an "in use" premise, orderly liquidation or forced liquidation (see IVS 102 *Bases of Value*, Appendix A60). The *value* of most PEI is particularly sensitive to different premises of value.

50.07 ~~In the event that~~ When a scope of work specifically requires the determination of a net amount (as opposed to gross amount) that would be realised from a liquidation sale, the nature and quantum of the *data* that will likely be incurred by the seller to get from the gross to the net amount *should* be ~~made clear~~ clearly stated in the *valuation*.

The TAB reviewed the Valuation Approaches section and split the following paragraph within the Market Approach section to provide additional clarity and to make this section more user friendly:

70.02 [From 300.70.01] However, many types of plant and equipment are specialised, and, in these instances, care *must* be exercised in offering *valuation* using a market approach when available market data is poor or non-existent. In such circumstances it may be appropriate to adopt either the income approach or the cost approach to the *valuation* (see IVS 103 *Valuation Approaches*, para 20.03).

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The TAB reviewed the Income Approach section and made some minor changes to the text within to provide additional clarity.

80. Income Approach

80.01 The income approach ~~to the~~ can be used for the *valuation* of PEI ~~can be used where~~ when specific cash flows can be identified for the *asset* or a group of complementary *assets*, e.g., where a group of *assets* forming a process plant is operating to produce a marketable product/service or generating income from a lease.

80.02 When PEI is valued on an income approach, elements of *value* that may be attributable to *intangible assets* and to other contributory *assets should* typically be excluded (see section 20.04 of this standard, IVS 101 *Scope of Work* and IVS 210 *Intangible Assets*).

80.03 The income approach can also be ~~utilised~~ used, in conjunction with other approaches, ~~in assessing~~ to assess the existence and quantum of economic obsolescence and/or goodwill for an *asset* or group of complementary *assets*. Care *should* be taken when using the income approach because it may be challenging to apportion aggregated cash flows relating to a group of complementary *assets* down into individual *assets* (where necessary).

80.05 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 including but not limited to ~~such as~~:

(a) the asset or group of complementary assets have a high barrier to entry for market participants,

(b) ~~there is~~ when *significan*t time ~~involved~~ is required to create an *asset* or group of complementary assets of equal utility, whether by purchase or construction, Further to a review of the Cost Approach section the TAB moved and minimally revised the following paragraph win this section to provide additional clarity:

90.02 [From 300.90.01] The first step when applying the cost method is to estimate the *cost* to a market participant of replacing the subject *asset* by reference to the lower of either reproduction or replacement cost. The replacement cost is the *cost* of obtaining an alternative *asset* of equivalent utility; this can either be a modern equivalent providing the same functionality or the *cost* of reproducing an exact replica of the subject *asset*. After concluding on a replacement cost, the *value should* be adjusted to reflect the impact on *value* of physical, functional, technological and economic obsolescence on *value*. In any event, adjustments made to any particular replacement cost *should* be designed to produce the same *cost* as the modern equivalent *asset* from an output and utility point of view.

The TAB reviewed section 100 Data and inputs and added the following additional paragraph in relation to sustainability considerations and ESG factors in order to bring the changes in line with the Proposed revisions to the IVS 104 Data and Inputs Appendix:

100.06 In accordance with IVS 104 *Data and Inputs* Appendix the *valuer should* consider ~~S~~*significant* sustainability considerations and *ESG* factors in determining the value of plant, equipment and infrastructure. ~~associated with the *value* of an *asset should* be considered as part of the *data* and *input* selection process~~.

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Finally in respect of section 120 Documentation and Reporting the TAB made the following consequential amendments in order to bring this section in line with the proposed changes to IVS 106 Documentation and Reporting:

120. Documentation and Reporting

120.01 In addition to the requirements in IVS 106 *Documentation and Reporting*, a valuation report *must* be issued for a *valuation* of PEI. ~~and *must* include appropriate references to all matters addressed in the agreed scope of *work* (see IVS 101 *Scope of Work*)~~.

120.02 [From 300.120.01] The report *must* also ~~include comment on~~ document the effect on the reported *value* of any associated *tangible* or *intangible assets* excluded from the actual or assumed transaction scenario.

120.03 Furthermore the valuer *should* be explicit within the valuation report about the ~~degree~~ extent of inspection in line with the agreed scope of work. If no inspection is undertaken this should be explicitly stated.

IVS 400 Real Property Interests

The Tangible Asset Board ("TAB") reviewed IVS 400 Real Property Interests and further to the review and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the TAB agreed to focus on the following revisions within IVS 400:

- *Merger of IVS 400 Real Property Interests and IVS 410 Development Property.*
- *Minor revisions to provide greater clarity.*
- *New requirements within Section 40 Scope of Work re physical inspection.*
- *Additional documentation requirements re intangible assets and physical inspection.*
- *Additions to residual method to include proposed development, development timetable and contractual obligations.*

Further to a review of the IVS 400 Real Property Interests and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025) the TAB noted that several comments had been received on the division between IVS 400 Real Property Interest and IVS Development Property and when a development property became a real property interest.

The TAB discussed these comments and agreed that development property was a subset of a real property interest. The TAB noted that this division had caused some market confusion and to resolve this market confusion agreed to merge these chapters and incorporate the requirements for IVS 410 Development Property within IVS 400 Real Property Interests.

Further to a review of the contents of these two chapters the TAB agreed to revise the structure as shown below (*changes shown in red)* and incorporate the requirements from *IVS 410 Development Property* into appropriate subsections within the standard titled "*Additional considerations for Development Property.*"

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Contents	Paragraphs

The TAB reviewed the introduction and in order to make this chapter more user friendly and consistent with the structure of other chapters within IVS the TAB revised the section 10 overview as follows:

10. Overview

10.01 The principles contained in the General Standards apply to *valuations* of real property interests.

10.02 [From 400.10.01] This standard includes ~~modifications,~~ additional requirements ~~or~~ and specific examples of how the General Standards apply to *valuations* to which this standard applies. *Valuations* of real property interests *must* also follow the applicable standard for that type of *asset* and/or *liability* (see IVS 300 *Plant, Equipment and Infrastructure* ~~and IVS 410 *Development Property*, where applicable~~).

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The TAB reviewed the chapter and changed all references to "*property Interests"* to *"real property interests"* in order to ensure consistent reference to *"real property interests"* within the chapter.

The TAB reviewed the introduction section within this chapter and incorporated the following section on "*Additional considerations for Development Property"*, which was previously contained within IVS 410 Development Property:

Additional considerations for Development Property

20.07 Development Properties are a subset of Real Property Interests.

20.08 [From 410.20.01] In the context of this standard, development properties are defined as real property interests where development is required to achieve the highest and best use, or where improvements are either being contemplated or are in progress at the *valuation date* and may include:

(a) the construction of buildings,

(b) previously undeveloped land which is being provided with infrastructure (see *IVS 300 Plant, Equipment and Infrastructure*),

(c) the redevelopment of previously developed land,

(d) the improvement or alteration of existing buildings or structures,

(e) undeveloped land,

(f) land allocated for development in a statutory plan or by the permission of the relevant authorities, and

(g) land allocated for higher *value* uses or higher density in a statutory plan or by the permission of the relevant authorities.

In relation to inspection the TAB had received a number of comments from the consultation questions contained within the IVSC Inspection Perspectives Paper, which was published in June 2024.

The TAB noted that several markets had included a mandatory inspection requirement for real estate assets when the intended use was secured lending.

The TAB reviewed the conclusion of the Inspection perspectives paper, which stated as follows:

"Whilst the TAB would generally agree that a physical inspection is an important part of the valuation process, because of the vast variety of asset classes, jurisdictions, and valuation purposes, we remain firmly of the view that the primary role of the IVSC is to promote 'transparent and consistent standards' for all valuation stakeholders, and not to act as the gatekeeper for mandatory valuation inspection requirements.

Of primary importance is the requirement for valuation professionals to be clear in their scope of work (terms of engagement) with their intended inspection classification and process. Assuming that this is clearly agreed upfront in the valuation assignment, this provides greater clarity to the client and helps avoid any unexpected surprises in the reporting process. Collectively, this promotes greater transparency and trust in the valuation process and helps provide greater clarity to the users of valuations as to the process that has taken place as part of a valuation assignment."

The TAB further discussed the issue of inspection and though agreeing that the mandating physical inspection was not practical for all real property interests the TAB revised the following scope of work sections to provide additional clarity:

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40.02 In accordance with requirements contained within IVS 101 *Scope of Work*, sections 20 and 30, investigations made during ~~the course of~~ a *valuation* engagement *must* be appropriate for the *intended use* of the *valuation* engagement and the *basis(es) of value*. In the case of a *valuation review* the scope of work *must* state whether the review is a *valuation process review* or a *value review*.

40.03 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*.

40.04 When considering 40.02 to 40.03, the *valuer must* state the ~~degree~~ extent of physical inspection that is to be undertaken (where applicable) within their scope of work.

40.05 In some instances, the *valuer* may carry out a physical inspection of a sample of *asset(s)*. This *must* be stated within the scope of work.

40.06 If no physical inspection is to be undertaken this *must* be stated within the scope of work.

The TAB reviewed section 50 Bases of Value, and with the exception of a few minor text revisions to provide additional clarity, incorporated the following section on "*Additional Considerations for Development Property*", which was previously contained within IVS 410 Development Property:

(Continued on next page)

Additional Considerations for Development Property

50.04 [From 410.50] ~~However in~~ In considering the value of a development property, regard should be given to the probability that any contracts in place, e.g., for construction or for the sale or leasing of the completed project, may become void or voidable in the event of one of the parties being the subject of formal insolvency proceedings. Further regard should be given to any contractual obligations that may have a material impact on value. Therefore, it may be appropriate to highlight the risk to ~~a lender~~ an *intended user* caused by a prospective buyer of the property not having the benefit of existing building contracts and/or pre-leases, and pre-sales and any associated warrantees and guarantees in the event of a default by the ~~borrower~~ developer.

~~50.05 The *valuation* of development property often includes a significant number of assumptions and special assumptions regarding the condition or status of the project when complete. For example, special assumptions may be made that the development has been completed or that the property is fully leased. As required by IVS 101 *Scope of Work*, *significant* assumptions and special assumptions used in a *valuation must* be communicated to all parties to the *valuation* and *must* be agreed and confirmed in the scope of work. Particular care may also be required where reliance may be placed by third parties on the valuation outcome.~~

50.05 Frequently it will be either impracticable or impossible to verify every feature of a development property which could have an impact on potential future development, such as where ground conditions have yet to be investigated. When this is the case, it may be appropriate to make specific assumptions (e.g., that there are no abnormal ground conditions that would result in *significantly* increased *data*). If this was an assumption that a participant would not make, it would need to be presented as a special assumption.

50.06 In situations where there has been a change in the market since a project was originally conceived, a project under construction may no longer represent the highest and best use of the land. In such cases, the *data* to complete the project originally proposed may be irrelevant as a buyer in the market would either demolish any partially completed structures or adapt them for an alternative project. The *value* of the development property under construction would need to reflect the current *value* of the alternative project and the *data* and risks associated with completing that project.

50.07 For some development properties, the property is closely tied to a specific use or *business*/trading activity, or a special assumption is made that the completed property will trade at specified and sustainable levels. In both cases, the *valuer must*, as appropriate, also comply with the requirements of IVS 200 *Businesses and* Business interests and, where applicable, IVS 210 *Intangible Assets*.

~~50.08 Special assumptions used for valuation of a development property *must* follow IVS 102 Bases of Value, section 60.~~

The TAB reviewed section 60 Valuation Approaches and agreed the following changes to provide additional clarity:

60. Valuation Approaches

60.01 There are three main *valuation approaches* ~~described in IVS 103 Valuation Approaches can all be applicable~~ *for the valuation* of real property interests. These are:

(a) the market approach (see section 70),

(b) the income approach (see section 80), and

(c) the cost approach (see section 90).

The TAB further reviewed section 60 Valuation Approach and incorporated the following section on "*Additional Considerations for Development Property*", which was previously contained within IVS 410 Development Property:

Additional Considerations for Development Property

60.03 [From 410.40.03] The *valuation approach* to be used will depend on the required *basis of value* as well as specific facts and circumstances, e.g., the level of recent transactions, the stage of development of the project, and movements in property markets since the project started and *should* always be that which is most appropriate to those circumstances. Therefore, the exercise of *professional judgement* in the selection of the most suitable approach is critical.

60.04 [From 410.150.02] To demonstrate an appreciation of the risks involved in valuing development property, the *valuer should* apply a minimum of two appropriate and recognised methods to valuing development property for each valuation project, as this is an area where there is often "insufficient factual or observable *inputs* for a single method to produce a reliable conclusion" (see IVS 103 *Valuation Approaches* para 10.06).

60.05 [From 410.150.03] The *valuer must* be able to justify the selection of the *valuation approach(es)* and *should* provide an "as is" (existing stage of development) and an "as proposed" (completed development) *value* for the development property and record the process undertaken and a rationale for the *value.*

The TAB reviewed section 70 Market Approach, and with the exception of a few minor text revisions to provide additional clarity, incorporated the following section on "*Additional Considerations for Development Property*", which was previously contained within IVS 410 Development Property:

Additional Considerations for Development Property

70.05 [From 410.70.01] Some types of development property can be sufficiently homogenous and frequently exchanged in a market for there to be sufficient *data* from recent sales to use as a direct comparison where a *valuation* is required (see ~~para 100.09-100.16~~ section 100 below).

70.06 [From 410.70.02] In most markets, the market approach may have limitations for larger or more complex development property, or smaller properties where the proposed improvements are heterogeneous. This is because the number and extent of the variables between different properties make direct comparisons of all variables inapplicable, although correctly adjusted market evidence (see IVS 103 *Valuation Approaches,* section 20) may be used as the basis for several variables within the *valuation*.

70.07 [From 410.70.03] For development property where work on the improvements has commenced but is incomplete, the application of the market approach is even more problematic. Such properties are rarely transferred between participants in their partially completed state, except as either part of a transfer of the owning entity, or where the seller is either insolvent or facing insolvency and therefore unable to complete the project. Even in the unlikely event of there being evidence of a transfer of another partially completed development property close to the *valuation date*, the degree to which work has been completed would almost certainly differ, even if the properties were otherwise similar.

70.08 [From 410.70.03] The market approach may also be appropriate for establishing the *value* of a completed property as one of the *inputs* required under the residual method, which is explained more fully in section 130 on the residual method ~~(section 100 of this standard)~~.

The TAB reviewed section 80 Income Approach, and with the exception of a few minor text revisions to provide additional clarity, incorporated the following section on "*Additional Considerations for Development Property*", which was previously contained within IVS 410 Development Property:

Additional Consideration for Development Property

80.07 [From 410.80.01] Establishing the ~~residual~~ *value* of a development property may involve the use of a cash flow model in some markets ~~(see paras 170.09-170.16 of this standard)~~ (see IVS 103 Appendices paras A20.02 -A20.27 of this standard).

80.01 [From 410.80.02] The income approach may also be appropriate for establishing the *value* of a completed property as one of the *inputs* required under the residual method, which is explained more fully in the section on the residual method. ~~(see section 170 of this standard)~~ (see paras 130.09 – 130.48 of this standard)

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The TAB reviewed section 90 Cost Approach, and with the exception of a few minor text revisions to provide additional clarity, incorporated the following section on "*Additional Considerations for Development Property*", which was previously contained within IVS 410 Development Property:

Additional Considerations for Development Property

90.07 [From 410.90.01] Establishing development *data* is a key component of the residual ~~approach~~ method. ~~(see section 170 of this standard)~~ (see paras 130.39 to 130.35).

90.08 [From 410.90.02] The cost approach may also exclusively be used as a means of indicating the *value* of development property such as a proposed development of a building or other structure and infrastructure for which there is no active market on completion.

90.09 [From 410.90.03] The cost approach is based on the economic principle that a buyer will pay no more for an *asset* than the amount to create an *asset* of equal utility. To apply this principle to development property, the *valuer must* consider the *cost* that a prospective buyer would incur in acquiring a similar *asset* with the potential to earn a similar profit from development as could be obtained from development of the subject property. However, unless there are unusual circumstances affecting the subject development property, the process of analysing a proposed development and determining the anticipated *data* for a hypothetical alternative effectively replicates either the market approach or the residual method as described above, which can be applied directly to the subject property.

90.10 [From 410.90.04] Another difficulty in applying the cost approach to development property is in determining the profit level, which is its "utility" to a prospective buyer. Although a developer may have a target profit at the commencement of a project, the actual profit is normally determined by the *value* of the property at completion. Moreover, as the property approaches completion, some of the risks associated with development are likely to reduce, which may impact on the required return of a buyer. Unless a fixed *price* has been agreed, profit is not determined by the *data* incurred in acquiring the land and undertaking the improvements.

The TAB reviewed section 100 Data and Inputs. The TAB noted that for complex valuations the requirement for the valuer to explain, justify and document all inputs in valuations may be too onerous and therefore revised this requirement to refer to significant inputs:

100.05 The selection, source and use of ~~the~~ *significant* *inputs must* be explained, justified, and documented.

The TAB further reviewed the requirements contained in IVS 110 Data and Inputs and added the following additional paragraph in relation to sustainability considerations and ESG factors in order to bring the changes in line with the Proposed revisions to the IVS 104 Data and Inputs Appendix:

100.06 *In accordance with IVS 104 Data and Inputs* Appendix the valauer should consider ~~S~~significant sustainability considerations and *ESG* factors in determining the value of real property interests. ~~associated with the *value* of an *asset should* be considered as part of the *data* and *input* selection process.~~

Further to comments received from stakeholders the TAB revised the following paragraph in section 110 Valuation Models to provide additional clarity:

110.01 In accordance with IVS 105 *Valuation Models*, the *valuer must* ~~maximise the characteristics of relevant and *observable data* to the degree that it is possible~~. apply *professional judgement* to balance the characteristics of a *valuation model* in order to choose an appropriate *valuation model*.

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Finally in respect of section 120 Documentation and reporting the TAB made the following consequential amendments in order to bring this section in line with the proposed changes to IVS 106 Documentation and Reporting:

120. Documentation and Reporting

120.01 In addition to requirements within IVS 106 *Documentation and Reporting*, a *valuation* report *must* be issued for a *valuation.* ~~*and must* include appropriate references to all matters addressed in the agreed scope of work (see IVS *101 Scope of Work*). The report *must* also include comment on the effect on the reported value of any associated tangible or intangible *assets* excluded from the actual or assumed transaction scenario.~~

120.02 Furthermore the *valuer should* be explicit about the ~~degree~~ extent of inspection in line with the agreed scope of work. If no inspection is undertaken this *should* be explicitly stated.

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In respect of section 130 Special Considerations for Real Property Interests the Board kept the requirements for Hierarchy of Interests and deleted the previous section on Rent as these requirements were already contained within the previous text with the exception of the paragraph on contractual obligations, which were moved to *"k) contractual obligations"* within the Residual Approach.

The TAB reviewed the previous contents on the residual method that was contained within IVS 410 Development Property and noted that this chapter was very much focussed on secured lending and referred to the "*lender"* and "*prospective buyer for the property"* and *"buyer"* throughout these sections.

The TAB discussed these references in detail and considered these references to be incorrect as the residual method was not only used for secured lending and therefore revised these sections to refer to the *"intended user"*, the *"market participant"* and the "developer" in order to ensure that the sections on the residual approach were relevant for all intended uses.

The TAB reviewed the basic elements of the residual method and revised some of the nomenclature and the order of the elements in order to align with market practice:

130.16 The following basic elements *should* be considered in the application of the residual method (see IVS 104 *Data and Inputs*):

(a) proposed development,

(b) development timetable,

(c) completed property *value*,

(d) construction *data*,

(e) ~~consultant's~~ professional fees,

(f) statutory fees,

(g) marketing *data*,

(h) finance *data*,

(i) development profit (on both land and building),

(j) *discount rate*, and

(k) contractual obligations.

The TAB reviewed the elements of the residual method (illustrated above) and made a few minor revisions to provide addition clarity.

Further to a review of d) Construction Costs the TAB made the following revisions:

130.34 [From 410.100.22] Moreover, ~~if there is a material risk that the contract may not be fulfilled (eg, due to a dispute or insolvency of one of the parties),~~ it may be more appropriate to reflect the *cost* of engaging a new contractor to complete the outstanding work.

~~100.35~~ [From 410.100.23] ~~When valuing a partly completed development property, it is not appropriate to rely solely on projected *data* and income contained in any project plan or feasibility study produced at the commencement of the project.~~

~~100.36~~ [From 410.100.24] ~~Once the project has commenced, this is not a reliable tool for measuring *value* as the *inputs* will be historic. Likewise, an approach based on estimating the percentage of the project that has been completed prior to the *valuation date* is unlikely to be relevant in determining the current *market value*.~~

130.35 *Professional judgement* is required when considering projected *data* and income through all stages of the development.

The TAB reviewed the nomenclature for e) consultants fees and further to discussion revised the nomenclature to e) professional fees in order to make the standard more user friendly, particularly when translated into languages other than English.

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Finally in respect of k) contractual obligations the TAB revised this section to ensure that it applied to all intended uses of the residual method:

K. Contractual Obligations

130.49 [From 410.150] ~~The appropriate basis of value for secured lending is normally *market value*. However, in~~ In considering the *value* of a development property, regard *should* be given to the probability that any contracts in place, e.g., for construction or for the sale or leasing of the completed project may become void or voidable in the event of one of the parties being the subject of formal insolvency proceedings. Further regard *should* be given to any contractual obligations that may have a material impact on *value*. Therefore, it may be appropriate to highlight the risk to the ~~a lender~~ intended user caused by a ~~perspective buyer of the property~~ market participant not having the benefit of existing building contracts and/or pre-leases, and pre-sales and any associated warrantees and guarantees in the event of a default by the ~~borrower~~ developer.

IVS 500 Financial Instruments

Further to a review of the IVS 500 Financial Instruments and comments received from stakeholder engagement since the publication of IVS (effective 31 January 2025), the Financial Instruments Board ('FIB") agreed to focus on the following revisions:

- *Minor revisions to provide greater clarity.*
- *Further emphasis on professional scepticism.*
- *Minor revisions to data and input and valuation models.*
- *Minor revisions to review and challenge.*

In its deliberations on the extent and nature of revisions, the FIB considered the following:

(a) In IVS (effective 31 January 2025), IVS 500 Financial Instruments was significantly revised, adding several requirements on data, inputs, models and quality controls that we not in earlier IVS. As such, the FIB recognised that stakeholders needed time to adopt and implement those revised standards. In the view of the FIB, making significant of IVS as part of this update to the IVS could to be detrimental to stakeholders who had implemented or were in the process of implementing In IVS 500.

(b) In IVS (effective 31 January 2025), IVS 500 Financial Instruments included requirements on data, inputs, models and quality controls. Given the revisions to the General Standards that include additional requirements related to these topics, the FIB concluded that it was important to concentrate on ensuring the appropriate alignment between the IVS 500 and the General Standards.

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The FIB reviewed section 20 Scope and made the following revisions in order to provide additional clarity in relation to the use of professional judgement and professional scepticism:

20. Scope

20.01 This asset standard *must* be applied in all *valuations* of *financial instruments* used for, but not limited to, financial, tax, or regulatory reporting and *professional judgement* and *professional scepticism* of *valuers* with experience on the specific type of *financial instrument* being valued.

The FIB reviewed section 30 on the Valuation of Financial Instruments and deleted the following parts within 30.06 as these requirements are now contained within IVS 107 Quality Controls:

30.06 As part of a *valuation*, *quality controls must* be in place, ~~Quality controls should include a degree of review and challenge. Review and challenge should assess the process implemented and judgements made during the valuation and in determining the value, including review of work performed by specialist or service organisations. In those circumstances in which review and challenge is performed, the processes should be performed by an individual or function that has appropriate skills and experience in valuing *financial instruments*.~~ *must* be documented and *should* include a degree of review and challenge.

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The FIB reviewed section 40 Data and Inputs Overview and made the following changes to provide greater clarity and consistency with the proposed revisions to the IVS General Standards:

40. Data and Inputs Overview

40.01 This section supplements IVS 104 *Data and Inputs*, ~~adding greater detail~~ provides additional clarity as it relates to *financial instruments*.

40.02 Processes related to data and *inputs*, including *quality controls*, *must* be designed, implemented and executed to mitigate *valuation risk* for the intended use that arises from the size of data sets and frequency of valuations.

40.05 The *valuer* is responsible for assessing and selecting relevant *data*, assumptions, and adjustments to be used as *inputs* in the *valuation* based upon *professional judgement* and *professional scepticism.* ~~The *valuer must* determine the *data* that is relevant, which for the purposes of IVS 500 *Financial Instruments* means "fit for use" in terms of the *asset* and/or *liability* being valued, the scope of work, the *valuation method*, and the *intended use.*~~

40.06 *Inputs must* be selected from the relevant data, along with assumptions and adjustments, in the context of the *asset* or *liability* being valued, the scope of work, the *valuation method* and the *valuation model*.

The FIB reviewed section 50 on Characteristics of Data and Inputs for Financial Instruments and noted that many of the paragraphs contained within this section repeated the requirements contained within IVS 104 Data and Inputs. Further to a review of these requirements the FIB proposed the following revisions to this section:

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50. Characteristics of Data and Inputs for Financial Instruments

50.01 The identification and selection of relevant *data* and *inputs* and applying them appropriately is an important part of the *valuation* to produce *values* consistent with the scope of work and *intended use* (see IVS 104 Data and Inputs section 30.02). ~~The characteristics of relevant data are shown below.~~

~~(a) accurate: *data* are free from error and bias and reflect the characteristics that they are designed to measure,~~

~~(b) complete: the set of *data* is sufficient to address the attributes of the *assets* and/or *liabilities*,~~

~~(c) timely: *data* reflect the market conditions as of the *valuation date*,~~

~~(d) transparent: the source of the *data* can be traced from their origin.~~

50.02 The *valuer must* apply *professional judgement* to balance the characteristics of relevant data ~~listed below~~ in order to choose the *inputs* used in the *valuation*.

~~(a) accurate: data are free from error and bias and reflect the characteristics that they are designed to measure,~~

~~(b) complete: the set of data is sufficient to address the attributes of the assets and/or liabilities,~~

~~(c) timely: data reflect the market conditions as of the valuation date,~~

~~(d) transparent: the source of the data can be traced from their origin.~~

50.03 In certain cases, the *data* may not incorporate all of these characteristics. Therefore, the *valuer must* assess *data* and conclude, based on *professional judgement*, that the data, including any assumptions or adjustments, is relevant to value the *asset* or *liability* in accordance with the scope of work, *valuation method*, *valuation model* and *intended use*. Data and *inputs* used for the *valuation* of *financial instruments* can vary due to the size of data sets and frequency of *valuations*. The *valuer must* ensure that *quality controls* are in place to reduce the *valuation risk* emerging from complexities related to these characteristics.

The FIB reviewed section 60 Selecting Inputs and made the following revisions to incorporate professional judgement and scepticism and deleted the para on inputs as these requirements are already contained within IVS 104 Data and Inputs:

60.03 *Inputs must* be selected from relevant *data,* assumptions, and adjustments in the context of the *asset* and/or *liability* being valued, the scope of work, the *valuation method*, the *valuation model* and *intended use* based on the *valuer* using *professional judgement* and *professional scepticism*.

~~60.04~~ [From 500.60.04] ~~*Inputs must* be sufficient for the *valuation models* being used to value the *asset* and/or *liability* based on the valuer using *professional judgement*.~~

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The FIB reviewed section 70 on Data and Inputs and with the exception of a few minor text changes to improve clarity and consistency across IVS made the following revisions to para 70.06 in relation to Quality Control:

70.06 [From 500.70.05] Since data, assumptions, adjustments and *inputs* can be provided or used by various parties across a valuation process, individuals with the appropriate experience *must* be responsible for identifying and ensuring that these *data* elements are reflected appropriately in the *valuation*. ~~Once data, assumptions, adjustments and inputs have been determined to be appropriate, they should not be altered or amended unless they go through a rigorous quality control process. If the valuer uses a data set that is altered, the original data, assumptions, adjustments and inputs set should remain available for comparison.~~

Further to a review of section 90 Valuation Models overview the FIB have made the following changes to improve clarity and consistency and to highlight the importance of Quality Control:

90.03 A *valuation model* is a quantitative implementation of a method in whole or in part that converts *inputs* into outputs used in the development of a *value*. This includes models generated by artificial intelligence or other technology-based tools.

90.04 A *valuation model* may rely on other *valuation models, or* artificial intelligence or other technology-based tools, to derive its *inputs* or adjust its outputs.

90.07 *Quality controls* must be designed, implemented and executed to minimise *valuation risk* for the intended use that arises from *valuation models*.

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The FIB reviewed section 100 on Characteristics of Appropriate Valuation. Models and noted that paragraph 100.03 repeated the requirements contained within IVS 105 Valuation Models. Further to a review of these requirements the FIB proposed to provide reference to this section and to delete para 100.03:

100.02 The *valuer must* determine that the *valuation model* is appropriate, which for the purposes of IVS 500 *Financial Instruments* means "fit for use" in terms of *assets* and/or *liabilities* being valued, the scope of work, and the *valuation method* (see IVS 105 Valuation Models section 30.01).

~~100.03~~ [From 100.03] ~~The *valuer must* apply *professional judgement* to balance the characteristics of a *valuation model* shown below:~~

~~(a) accuracy: the *valuation model* is free from error and functions in a manner consistent with the objectives of the *valuation*,~~

~~(b) completeness: the *valuation model* addresses all the features of the *asset* and/or *liability* to determine *value*,~~

~~(c) timeliness: the *valuation model* reflects the market conditions as of the *valuation date*,~~

~~(d) transparency: all persons preparing and relying on the *valuation model* must understand how the *valuation model* works and its inherent limitations.~~

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The FIB reviewed section 120 on Testing a Valuation Model and revised the following paragraphs shown below and added an additional paragraph to provide clarity on the use of artificial intelligence:

120. Testing a Valuation Model

120.01 *Valuation models must* be tested prior to use to allow that *valuer* to assess and conclude that the *valuation model* is appropriate to *value* the *financial instrument* in accordance with the scope of work, the *valuation method* and *intended use*.

120.12 [From 500.120.10] For *valuation models* that are relied upon on an ongoing basis, ~~or in the case of multi-use models, regular~~ monitoring the performance of the model *must* be performed to evaluate whether they continue to be fit ~~for their intended use~~ appropriate.

120.13 [From 500.120.11] Ongoing monitoring *must* be performed periodically, with a frequency appropriate to the nature of the model usage, the availability of new data, assumptions, adjustments, *inputs*, modelling approaches, changes in the market environment, and the magnitude of the *valuation risk* involved. The process to monitor *must* be designed and implemented to determine the appropriateness of the *valuation model's* characteristics, including:

(a) ongoing review of appropriateness,

(b) ongoing review of accuracy, and

(c) ongoing review of transparency.

120.18 [From 500.120.17] If *significant* deficiencies are identified in the *valuation model* as part of ~~control processes~~ *quality controls*, including review and challenge, the resulting *value* is not IVS compliant.

120.19 *Valuation models*, or part of model, that are based on artificial intelligence or other technology-based tools, *must* be subject to *quality controls* to ensure that the *valuation models* are appropriate for its *intended use*.

The FIB reviewed section 130 on Documentation for Valuation Models and added an additional paragraph to provide clarity on the use of artificial intelligence:

> 130.05 The *valuer must* document *significant* use of artificial intelligence and other technology-based tools.

Further to a review of section 140 Quality Control Overview and taking into consideration the proposed contents of IVS 107 Quality Controls the FIB made the following revisions to provide additional clarity and avoid repeating contents already contained within IVS 107:

140. Quality Control Overview

140.01 This section supplements ~~IVS 100 Valuation Framework, section 30, adding~~ 107 Quality Controls and provides greater detail as it relates to *financial instruments*.

140.02 *Quality controls* ~~are procedures that~~ *must* be implemented to ensure the *valuation* is performed consistent with IVS. The nature and extent of the quality control process depend on the *intended use*, *intended user*, the characteristics of the ~~*asset* and/or *liability*~~ financial *instrument* being valued and the complexity of the *valuation*.

140.06 *Quality controls* must be ~~appropriately~~ designed ~~and executed in a manner that affirms the completeness and integrity of the valuation process and the appropriateness for the *intended use* of the conclusion of value.~~, implemented and executed to mitigate *valuation risk* to a level appropriate for the *intended use*.

140.07 ~~For recurring valuations,~~ Quality controls *must* be ~~*periodically*~~ assessed to ensure that integrity, completeness and effectiveness of the control environment is appropriate as of the *valuation date*. The ~~review process~~ assessment *must* be documented.

~~140.09~~ [From 500.140] ~~*Quality controls should* include a degree of review and challenge.~~

The FIB reviewed section 150 on the Characteristics of Appropriate Quality Control and made the following revisions to provide additional clarity:

150. Characteristics of Appropriate Quality Control

150.01 In selecting and implementing quality controls~~, such controls~~ needs to comply with IVS 107 and must address the following:

(a) complete: *valuations* produce *values* that are sufficient to address attributes of the *assets* and/or *liabilities*,

(b) effective: ~~successful in~~ producing an IVS-compliant *value and* to mitigate *valuation risk* to a level appropriate for the *intended use*, and

(c) transparent: provide a record of the *valuation* and include sufficient information to describe the valuation conclusion reached, such that the *valuer* applying *professional judgement* is able to understand and review the *valuation.*

The FIB reviewed section 160 on the Application of Quality Control and made the following revisions to provide additional clarity on the application:

160. Application of Quality Control

160.01 *Quality controls must* be designed, implemented and operating effectively to help ensure that *valuations* are performed ~~in compliance with IVS~~ to mitigate valuation risk. For *valuations* having a higher degree of *valuation risk*, *quality control* procedures *should* be more extensive.

~~160.02~~ To achieve this, *quality controls should* confirm as of the *valuation date* ~~that *quality control* processes have ensured~~ the following:

(c) Quality control processes have been executed over:

(i) data, assumptions, adjustments and *inputs*,

(ii) the selection of *valuation models* used to determine *value*,

(iii) manual or other interventions over the established process,

(iv) communication and documentation of the *valuation* process and the resultant *value*.

The FIB also reviewed section 170 on Review and Challenge and made the following revision to provide additional clarity:

170. Review and Challenge

170.01 Review and challenge is an assessment ~~of~~ on the *valuation* or the *value* ~~independent of the~~ performed by a valuer not directly involved in preparing the valuation. This is an integral part of *quality control*. ~~In performing a valuation~~ An appropriate level of review and challenge *must* be performed to assess the reasonableness of the decisions made by the *valuer* throughout the *valuation* and compliance with IVS. In those circumstances in which review and challenge ~~*should* be~~ is performed ~~to assess the reasonableness of the decisions made by the valuer throughout the valuation and compliance with IVS.~~, the processes *must* be performed by an individual or function that has appropriate skills and experience in valuing *financial instrument.*

Further to a review of this chapter and with the exception of a few minor text changes to provide additional clarity no further changes were proposed to IVS 500 Financial Instruments.

International Valuation Standards

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