

BASIS FOR CONCLUSIONS

Reflecting changes introduced to IVS
(effective 31 January 2025)



IVSC

INTERNATIONAL VALUATION
STANDARDS COUNCIL

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Contents

Consultation Summary	3
Consultation Process	5
General Standards	8
Key Topics	9
Asset Standards	31
Business Valuation	32
Key Topics	32
IVS 200 <i>Businesses and Business Interests</i>	35
IVS 210 <i>Intangible Assets</i>	36
IVS 220 <i>Non-Financial Liabilities</i>	37
IVS 230 <i>Inventory</i>	38
Tangible Assets	39
Key Topics	39
IVS 300 <i>Plant, Equipment, and Infrastructure</i>	40
IVS 400 <i>Real Property Interests</i>	44
IVS 410 <i>Development Property</i>	49
Financial Instruments	56
Key Topics	56
IVS 500 <i>Financial Instruments</i>	57

Consultation 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, collected and reviewed public feedback and determined if proposed revisions to the International Valuation Standards (IVS, effective 31 January 2022) were warranted, using the processes described in this *Basis for Conclusions*.

The IVSC Boards issues this *Basis for Conclusions* outlining the basis for many changes made in IVS as a critical part of a transparent standard-setting process, consistent with the practices of other standard-setters around the world.

This *Basis for Conclusions* does not attempt to summarise every consultation response or provide the rationale for how the IVSC Boards dealt with each response but does outline the reasoning behind their decisions on key issues and any post-consultation amendments to IVS.

This *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 numerous consultations and additional engagement (see IVS Consultation Process section which follows).

The IVSC believes that this *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:

- Modernising IVS to include key components of the valuation process that continue to be important in determining values (eg, inputs, data and models),
- Increasing understandability and relevance of IVS to users and other stakeholders (financial institutions, investors, and regulators),
- Future-proofing IVS for valuation of new and different assets and/or liabilities.

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

- Addressing changes in global markets and global valuation, including the increased use of technology and the abundance of available data sources,
- Describing roles and responsibilities of specialists and service providers increasingly used by the valuer in the performance of valuations,
- Aligning IVS with the valuation processes that the valuer performs to provide clarity, understandability, and relevance to stakeholders, including financial institutions, investors, and regulators,
- Creating IVS which allow for new types of assets and/or liabilities and expanding the application of valuations into areas such as environmental, social and governance considerations (ESG),
- Providing integrated requirements to enhance consistency in valuation across all assets and/or liabilities.

Consultation Process

The process for developing revisions to IVS began with feedback from the *IVS Agenda Consultation 2020 Invitation to Comment*. This was followed by the publication of the *IVS Additional Technical Revisions 2021*. This was followed by the subsequent publication of the *IVS Agenda Consultation 2020 Summary of Responses* and the publication of *IVS (effective 31 January 2022)* as well as the corresponding *Basis for Conclusions* document.

The IVSC Boards issued the *IVS Agenda Consultation 2020 Invitation to Comment* on 16 October 2020 to obtain feedback from stakeholders on how to modify existing standards. Further to the 90-day consultation process, the IVSC published the *IVS Agenda Consultation 2020 Summary of Responses* on 30 April 2021, which highlighted the following topics for further consideration and review:

- Automated Valuation Models (AVMs),
- Environmental, Social and Governance considerations,
- Long-term Value,
- Social Value,
- Uncertainty and Risk,
- Data Management.

In January 2021 the IVSC Boards went into consultation with *Additional Technical Revisions*, which contained proposed revisions to the IVS (effective 31 January 2022). In 2021, the IVSC published *IVS (effective 31 January 2022)* and the accompanying *Basis for Conclusions*. The IVSC Boards noted in this *Basis for Conclusions* that there was a wide diversity of views on potential revisions to IVS across the range of assets and/or liabilities (Business Valuation, Tangible Assets and Financial Instruments). It subsequently engaged in further market outreach with key IVS stakeholders, member organisations, and the IVSC Advisory Forum to fully examine and explore the issues raised as part of the consultation process.

As a consequence of this outreach, the IVSC Boards decided to delay the inclusion of definitions for Automated Valuation Models, Model, Social Asset, Social Value, Valuation Assignment and Valuation Engagement, as well as the introduction of the new sections on Data Management and Governance, until further investigations could be made to ensure these proposed revisions to the General Standards could apply across all assets and/or liabilities.

In addition, the Financial Instruments Board conducted an *Agenda Consultation* to obtain feedback from stakeholders on how to modify and enhance the existing standard, *IVS 500 Financial Instruments*. The Financial Instruments Board was formed in December 2018 to review *IVS 500 Financial Instruments*. Based on the responses received on the *Financial Instruments Agenda Consultation*, the Financial Instruments Board decided to review and significantly improve *IVS 500 Financial Instruments*.

During the course of 2022 and Q1 2023, the IVSC Boards performed a complete review of *IVS (effective 31 January 2022)* and issued the *IVS Exposure Draft* on 28 April 2023 with proposed changes. The ninety-day consultation period concluded on 28 July 2023.

In order to encourage consultation responses, the IVSC Boards provided six *IVS Exposure Draft* presentations at public meetings and a further 29 presentations to stakeholders who had requested them.

To assist the consultation process and to ensure that consultation responses be directed to key issues which required stakeholder input and feedback, the *IVS Exposure Draft* included ten General Standards consultation questions and a further twenty-one Asset Standards consultation questions. These questions encompassed key issues on which the IVSC Boards required further input, including Quality Control, ESG, Data and Inputs, Valuation Models and Documentation and Reporting.

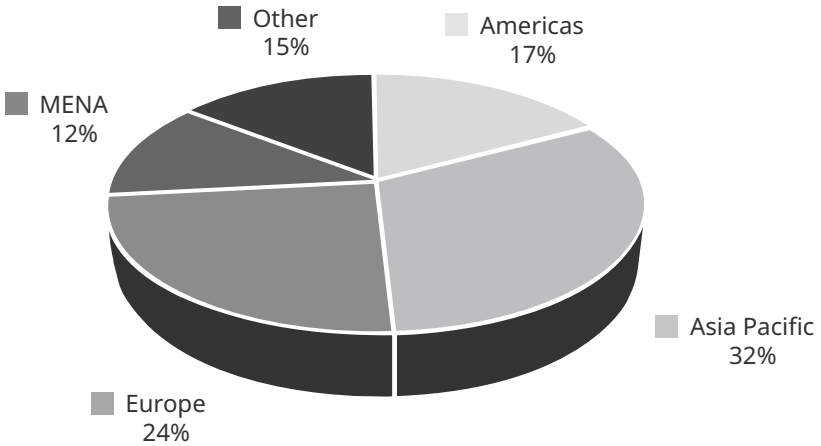
The IVSC received a total of 116 consultation responses, of which 26% (30) were categorised as full responses as they addressed many or all the specific questions posed. The remaining 74% (86) of responses were categorised as partial responses since they provided high level comments or suggestions or did not attempt to address many or all the specific questions posed in the *IVS Exposure Draft*.

Many of the responses received were prepared by groups made up of numerous members working across all types of assets and/or liabilities. 35 responses were received from professional organisations and standard setters, 42 responses were received from professional services firms, banks, and consultancies, and 39 responses were received from academic institutions, research collectives, and individuals. Therefore, although a total of 116 responses were received, the consultation responses represent hundreds or thousands of stakeholders.

The number of consultation responses received for the *IVS Exposure Draft* compared favourably with the most recent previous *IVS Agenda Consultation 2020 Invitation to Comment* in which 55 responses were received as part of the consultation process.

The spectrum of responses was representative of the geographic variety of global valuation stakeholders, shown in the chart below.

IVS Exposure Draft | Responses by World Region



The IVSC Boards discussed all stakeholder views in depth. Ultimately, the IVSC Boards determined which proposed revisions were both appropriate and met the needs of the IVSC and its stakeholders. On 29 November 2023 the Standards Review Board held a public meeting where the revisions to IVS were approved for publication.

The IVSC Boards plan to issue an *Agenda Consultation* in 2024 to provide stakeholders with the opportunity to highlight potential areas for future changes to IVS.



General Standards

General Standards

Key Topics

The IVSC Boards noted that, although the majority of respondents agreed with the proposed changes to IVS there were several comments pertaining to the following issues:

- Review of use of “must” and “should” for consistency,
- Review of requirements for quality control and ESG,
- Additional clarity on compliance, data and inputs characteristics and valuation model characteristics,
- Revisions to definition term valuation review,
- Additional topics requested (eg, materiality and valuation risk),
- Additional technical guidance, and
- Guidance on how IVS integrates with other reporting standards.

The IVSC Boards and their affiliated Working Groups reviewed the General Standards consultation responses and noted that the majority of responses focussed on the following key issues:

- Valuation Framework,
- Clarification of Key Concepts,
- Data and Inputs,
- Valuation Models,
- Valuation Process Quality Controls,
- Documentation,
- Environmental, Social and Governance Considerations,
- Valuation Review,
- Compliance, and
- Other Matters.

Valuation Framework

In developing IVS, the IVSC Boards focussed on establishing a General Standards principle-based structure that would enable constituents to derive valuations of all asset classes in all market conditions and circumstances, and for a range of purposes, including for financial reporting, secured lending, tax, and regulatory reporting as well as judicial proceedings such as litigation and arbitration.

In order to achieve this a valuation framework was introduced that can be universally applied across all asset classes, ensuring a systematic approach to enhance rigour and control in valuation processes and mitigate valuation risks.

IVS comprise General Standards that are applicable across all valuations, and Asset Standards that relate to specific valuation disciplines. Appendices to certain Standards are part of IVS and provide additional information on concepts articulated within IVS.

In answer to the consultation question on the enhanced structure of the General Standards, the majority of respondents approved the changes and considered that the new proposed structure was clear and logical and mirrored the process flow of valuation across all assets and/or liabilities and improved the ability of users to understand and apply IVS.

Some respondents commented that the introductory text highlighting the contents of each chapter was helpful and should be included for each of the General Standards chapters.

The IVSC Boards agreed with this comment and revised IVS to include introductory text within all the General Standards chapters to add clarity and to make IVS more user friendly.

Some further respondents commented on the status of the Appendices and whether they were a mandatory part of IVS.

The IVSC Boards discussed the Appendices in depth and agreed that, although the Appendices were a mandatory part of IVS the inclusion of separate Appendices was necessary:

- To provide additional flexibility within IVS for the inclusion of new types of assets and/or liabilities (*ie*, IVS 104 *Data and Inputs Appendix: Environmental, Social and Governance Considerations* and
- To provide additional guidance within the standards for matters that related to more than one asset class, but did not necessarily relate to all asset classes (*ie*, IVS 102 *Bases of Value: Appendices*).

The IVSC Boards agreed that future editions of IVS will continue to incorporate Appendices and have added the following additional text to the IVS *Foreword* to provide clarity on the status of the Appendices stating that:

In order to provide an IVS-compliant valuation, all IVS General Standards, Asset Standards and Appendices must be followed.

Clarification of Key Concepts

Further to consultation responses received there were a number of consultation comments in relation to the clarification of key concepts.

As a result of these comments the IVSC Boards have updated IVS to help clarify several concepts including:

- Requirements that “must” be followed in all valuations and those that “should” be followed in certain circumstances.
- Distinctions between “valuations” and “valuation reviews” in describing the scope of work and the type of reporting.
- Clarification on compliance with IVS and other legal, regulatory, and reporting standards.

Use of Must and Should

Some respondents commented that there was an inconsistency in the use of “must” and “should” within IVS, with some suggesting that in some instances the General and Asset Standards provided contradictory requirements on the use of these words.

The IVSC Boards reviewed the use of these terms within the General and Asset Standards to ensure that the correct requirement was used and that there was no contradiction between the General and Asset Standards.

In the view of the IVSC Boards this enables the valuation to be tailored according to their specific intended use, intended user, characteristics of the asset and/or liability being valued and the complexity of the valuation.

Further respondents commented on the removal of “may” as a defined term within IVS.

The IVSC Boards reviewed the comments on “may” and noted that a number of respondents had found the previous distinction between “should” and “may” within IVS (effective 31 January 2022) not only confusing but also difficult to translate.

Considering these comments the IVSC Boards concluded that “may” would no longer be a defined term within IVS.

Valuation and Valuation Reviews

In relation to the distinctions between “valuation” and “valuation review”, the majority of respondents were happy with these changes and considered that these changes provided additional clarity.

However, some respondents were still confused between a “value conclusion review” and a “valuation process review.”

In order to resolve any potential confusion, the IVSC Boards changed the nomenclature of a “value conclusion review” to a “value review” and revised the definitions for these terms within the IVS *Glossary* as follows:

10.35 Valuation Process Review

An analysis by the *valuer* to assess compliance with IVS or a component of IVS applicable as at a *valuation date*. This does not include an opinion on the *value*.

10.36 Valuation Review

A *valuation review* is either a *valuation process review* or a *value review* or both.

10.40 Value Review

An analysis by the *valuer* applying IVS to assess and provide an opinion on the *value* of another *valuer’s* work. This does not include an opinion on the *valuation* process.

IVS Glossary

In relation to the IVS Glossary, the majority of respondents considered the changes made to IVS definitions were appropriate. However, some respondents suggested additional definitions to add further clarity.

Further to a full review of the definitions contained within the IVS Glossary the IVSC Boards added the following additional definitions:

10.02 Automated Valuation Model (AVM)

A type of model that provides an automated calculation for a specified *asset* at a specified date, using an algorithm or other calculation techniques without the *valuer* applying *professional judgement* over the model, including assessing, and selecting *inputs* or reviewing outputs.

10.06 Data

Quantitative and qualitative information available to the *valuer*.

10.08 Environmental, Social and Governance (ESG)

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

10.10 Input

Data, assumptions, and adjustments determined to be relevant and assessed or selected by the *valuer* to be used in the *valuation*, based upon *professional judgement*.

10.20 Observable Data

Information that is readily available to market participants about actual events or transactions that are used in determining the *value* for the *asset* and/or *liability*.

10.23 Professional Scepticism

Professional scepticism is an attitude that includes a questioning mind and critical assessment of valuation evidence.

In addition, the IVSC Boards revised the following definitions in order to provide greater clarity particularly in relation to valuation process quality control:

10.22 Professional Judgement

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

10.27 Specialist

An individual or group of individuals possessing technical skills, experience and knowledge required to perform or assist in the *valuation* or the review and challenge process. A *specialist* can be internally employed or externally engaged.

10.37 Valuation Risk

The risk that the resultant *value* is not appropriate for its *intended use*.

Moreover, further to a review of comments received and a review of IVS 500 by the Financial Instruments Board the following terms were removed from the Glossary as they were no longer required:

Financial Instrument

Financial Liability or Liabilities

There were also several comments in relation to the following definition of valuation risk.

Valuation Risk: The risk that the resultant value is not appropriate for its intended use.

The IVSC Boards reviewed this definition and noted that even though the definition for valuation risk contained within the IVS Glossary is fit for purpose, the interrelation between valuation risk and the concept of “valuation uncertainty” is a complicated issue and further research is required to fully explore this issue and understand standard setting needs.

Respondents, whilst agreeing with the need for the concept of valuation risk in ensuring that the application of IVS can be tailored to the varied circumstances faced by the valuer, also pointed out that the concept would benefit from further consideration of potential application issues. They recommended that IVSC Boards consider providing application guidance on the use of the concept of valuation risk to aid consistent implementation of IVS.

As a result, the IVSC Boards have set up a working group to further delve into the concept of valuation risk and the working group are planning to issue a perspectives paper exploring the nature of valuation risk during 2024.

IVS and other legal, regulatory, and reporting standards

Finally, a number of comments were received in relation to how IVS worked in conjunction with other legal, regulatory, and reporting standards. In order to clarify this matter, the IVSC Boards carried out a full review of the section on compliance contained within IVS 100 *Valuation Framework* and made revisions where necessary.

In addition, the IVSC Boards added the following paragraphs to the compliance section to provide extra clarity on the interaction between IVS and other legal, regulatory, and reporting standards:

- 40.04 If legal, statutory, regulatory and/or other authoritative requirements appropriate for the purpose and *jurisdiction* of the *valuation* conflict with IVS, such requirements *should* be prioritised, explained, documented, and reported in order to remain compliant with IVS.
- 40.05 If there are any legal, statutory, and regulatory or other authoritative requirements that significantly affect the nature of the procedures performed, inputs and assumptions used, and/or value(s), the valuer must also disclose the specific legislative, regulatory or other authoritative requirements and the significant ways in which they differ from the requirements of IVS (for example, identifying that the relevant jurisdiction requires the use of only a market approach in a circumstance where IVS would indicate that the income approach should be considered).
- 40.06 Any other deviations would render the *valuation* not compliant with IVS.

Data and Inputs

IVS 104 *Data and Inputs* is a new chapter that has been added to IVS to address the importance of data quality in valuations and requires the valuer to assess and select data and inputs using professional judgement.

The majority of respondents agreed with the inclusion of this section and a number of respondents commented that there should be definitions for data and inputs within the IVS Glossary.

The IVSC Boards agreed with these comments and has now included the following definitions for data and inputs within the IVS Glossary:

10.06 Data

Quantitative and qualitative information available to the *valuer*.

10.10 Input

Data, assumptions, and adjustments determined to be relevant and assessed or selected by the *valuer* to be used in the *valuation*, based upon *professional judgement*.

Further respondents commented on this section and questioned whether there was a hierarchy of data characteristics and whether there was one key overarching characteristic for data.

The IVSC Boards discussed the hierarchy of data characteristics in detail and agreed that relevant and observable data were key overarching characteristics for suitable data.

In order to provide additional clarity on this issue the IVSC Boards added the following introductory paragraph to IVS 104 *Data and Inputs*:

IVS 104 *Data and Inputs* deals with the selection and use of *data* to be used as *inputs* in the *valuation*. The aim of the *valuation* is to maximise the use of relevant and observable *data* to the degree that it is possible.

The IVSC Boards further reviewed IVS 104 *Data and Inputs* and divided the previous Section 30 on Characteristics of Suitable Data and Inputs into the following two sections to provide additional clarification:

Section 30 Characteristics of Relevant Data

Section 40 Input Selection

In order to provide further clarification on the characteristics and choice of relevant data the IVSC Boards revised this section as follows:

30. Characteristics of Relevant Data

30.01 The *valuer must* determine the *data* that is relevant, which for the purposes of IVS 104 *Data and Inputs* means “fitness for use” in terms of the *asset* and/or *liability* being valued, the scope of work, the *valuation method* and the *valuation model*.

30.02 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*. The characteristics of relevant *data* are:

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

- (b) complete: set of *data* are sufficient to address attributes of the *assets* 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.
- 30.03 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* is relevant to value the *assets* and/or *liabilities* in accordance with the scope of work and the *valuation method*.

The IVSC Boards also noted that IVS 104 *Data and Inputs* and IVS 105 *Valuation Models* were interrelated and in some instance the nature and the availability of data would dictate the choice of the valuation model employed, whereas in other instances, the selection of the valuation model might inform the choice of data. The IVSC Boards therefore reviewed the Characteristics of Relevant Data and the Characteristics of Appropriate Valuation Models to ensure that these characteristics worked in conjunction with each other and that there were no contradictions in relation to the terminology used between these two chapters.

Finally, there were a few comments in relation to data and input documentation requirements. In order to provide technical clarification and consistency across the General Standards, a new section 50 on Data and Input Documentation was included, stating amongst other requirements that:

- 50.01 The source, selection and use of *significant data* and *inputs must* be explained, justified, and documented.

Valuation Models

IVS 105 *Valuation Models* is a new chapter that has been added to IVS. It addresses the selection and use of Valuation Models. IVS 105 *Valuation Models* states that models must be supplemented by the valuer's professional judgement to achieve IVS compliance.

In relation to the consultation question asked on IVS 105 *Valuation Models* the majority of respondents agreed with the inclusion of this section although a number of respondents questioned whether there was one key overarching characteristic for valuation models.

The IVSC Boards discussed the hierarchy of valuation model characteristics in detail and agreed that the overarching characteristic for valuation models was that they be appropriate for the valuation.

In order to provide further clarity on the appropriate valuation models, the IVSC Boards revised this section as follows:

30. Characteristics of Appropriate Valuation Models

- 30.01 The *valuer must* determine that the *valuation model* is appropriate, which for the purposes of IVS 105 *Valuation Models* means “fit for purpose” in terms of *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 the most appropriate *valuation model*. The characteristics of appropriate *valuation models* are 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.
- 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*.

The IVSC Boards also noted that IVS 104 *Data and Inputs* and IVS 105 *Valuation Models* were interrelated and in some instances the nature and the availability of data would dictate the choice of the valuation model employed, whereas in other instances, the selection of the valuation model might inform the choice of data. The IVSC Boards therefore reviewed the Characteristics of Relevant Data and the *Characteristics of Appropriate Valuation Models* to ensure that these characteristics worked in conjunction with each other and that there were no contradictions in relation to the terminology used between these two chapters.

In addition, further comments were received stating that the sections on Model Selection and Valuation Model Use were interrelated and therefore the IVSC Boards merged the two previous *Exposure Draft* sections on these topics into a new section 40 titled Valuation Model Selection and Use.

Finally, the IVSC Boards received a number of comments in relation to automated valuation models (AVMs) and whether an AVM could be compliant with IVS.

The IVSC Boards discussed this topic in detail. They agreed that an AVM could be a useful tool to assist the valuer in developing an IVS-compliant valuation. However, the IVSC Boards concluded that no model would be IVS compliant without the valuer applying professional judgement.

In order to provide additional clarity on this issue the IVSC Boards revised the introductory paragraphs to IVS 105 *Valuation Models* as follows:

IVS 105 *Valuation Models* addresses the selection and use of *valuation models* to be used in the *valuation* process.

No model without the *valuer* applying *professional judgement*, for example an *automated valuation model (AVM)*, can produce an IVS-compliant *valuation*.

Furthermore, in order to provide additional clarification on this issue, the IVSC Boards has included the following definition of AVM within the IVS Glossary:

10.02 Automated Valuation Model (AVM)

A type of model that provides an automated calculation for a specified *asset* at a specified date, using an algorithm or other calculation techniques without the *valuer* applying *professional judgement* over the model, including assessing, and selecting *inputs* or reviewing outputs.

However, the IVSC Boards have noted that both AVMs and Artificial Intelligence (AI) are rapidly developing and are becoming more prevalent tools used by some market participants, including by banks for the purpose of secured lending, and by governments for the purpose of taxation.

The IVSC Boards also noted that greater stakeholder engagement was required to fully understand the use of AVMs within valuations across all assets and/or liabilities (business valuation, financial instruments valuation and tangible assets valuation).

As a result of these deliberations, it is expected that AVMs and AI will be a key topic in the upcoming *IVS Agenda Consultation* due to be published in 2024.

Valuation Process Quality Controls

IVS 100 *Valuation Framework* integrates Valuation Process Quality Control as a core component of the valuation process, ensuring objective, transparent valuations and mitigating valuation risk.

In relation to the consultation question posed on the Valuation Process Quality Controls, the majority of respondents agreed with the inclusion of this section although a number of respondents commented that the Quality Control title for this section could be construed as overreaching since the IVSC has no jurisdiction over a firm's/organisation's/valuer's quality controls, which often form part of their governance processes.

The IVSC Boards agreed with this comment and found that the proposed title for this section could be somewhat misleading. To prevent any confusion, the IVSC Boards thus changed the title of this section to Valuation Process Quality Control to highlight that quality control within IVS only related to the valuation process.

Some respondents also raised concerns over para 20.7 shown as follows and objected to the idea that the valuer could ever control the quality their own work by self-review or monitoring.

20.07 If the *valuer* is able to address *valuation risk* they may then perform monitoring procedures with respect to their own compliance and control policies and procedures.

The IVSC Boards discussed these comments in detail and agreed that there must be valuation process quality controls (“the controls”) around the valuation process.

The IVSC Boards further agreed that the valuer should conclude that the level of valuation risk is appropriate given the:

- intended use,
- intended user,
- characteristics of the asset and/or liability being valued, and
- complexity of the valuation.

However, not all members of the IVSC Boards were convinced that the valuer could control the quality of their own work by self-review or monitoring. Such dissenting voices were concerned that there may be elements of bias within the valuation, particularly if, in the case of a sole practitioner, the valuer and quality controller are the same person.

Further to discussion, the IVSC Boards agreed that General Standards applied to all valuations, whether undertaken by firms or sole practitioners, and therefore it was better to include *Valuation Process Quality Control* within IVS 100 *Valuation Framework* than not.

Furthermore, the IVSC Boards noted that many valuation professional organisations would issue their own in-depth guidance in relation to valuation process quality control and sole operators.

Following these discussions, the IVSC Boards added para 20.08 to ensure the valuation process quality controls were appropriate:

20.08 The *valuer* should conclude that the level of *valuation risk*, subject to controls in place, is appropriate given the *intended use*, *intended user*, the characteristics of the *asset* or *liability* being valued and the complexity of the *valuation*.

The IVSC Boards previously considered including the following paragraph within the Quality Controls section in IVS 100 Framework: “*Quality controls should include a degree of review and challenge. Review and challenge should assess the judgements made including their reasonableness and freedom from bias during the valuation and in determining the value.*”

Further to discussion the IVSC Boards that the level of development in various markets was not sufficiently consistent to make this a mandatory requirement. The IVSC Boards considered that for the time being this requirement should be contained within IVS 500 *Financial Instruments*. As a result, the IVSC Boards removed this requirement from the General Standards.

The IVSC Boards also received several comments in relation to the use of “must” and “should” within this section. The IVSC Boards fully reviewed the use of these terms within this section and changed several required instances from “must” to “should” which is presumptively mandatory as the IVSC Boards recognised that many markets were still in developmental stage when it came to valuation process quality controls.

The IVSC Boards noted that both the concepts of proportionality and valuation risk are a key part of valuation process quality control and therefore are intending to include valuation risk as a key part of the *IVS Agenda Consultation 2024*.

In recognition of this priority, the IVSC Boards have set up a Valuation Risk Working Group that is researching this topic further, with a view to issuing a perspective paper on valuation risk during the latter part of 2024.

Documentation

IVS 106 *Documentation and Reporting* now includes documentation requirements to maintain sufficient records of the valuation process and conclusions to help ensure:

- Consistency,
- Professionalism,
- Transparency,
- Comparability,
- Trust in valuation.

The IVSC Boards also agreed that documentation should describe the professional judgements made during the valuation to assess and manage valuation risk.

In relation to IVS 106 *Documentation and Reporting*, most respondents agreed that section 20 is generally clear, complete and provides adequate clarity to ensure compliance with IVS.

However, some respondents questioned the following wording contained within the last sentence of 20.03:

“...degree of judgement used, and quality control and governance procedures followed.”

These respondents found that it is not clear what degree of judgement should be used or whether the valuer would have knowledge of all the governance procedures that should be followed for a contracted/external instruction.

The IVSC Boards reviewed this section and agreed that some additional clarity would be helpful and revised the following section to refer to “professional judgement”, which is a defined term and to refer to “quality procedures followed for the valuation.”

Further to discussion the IVSC Boards revised paragraph 20.03 as follows:

20.03 In some cases, all documentation is included in the *valuation report* or *valuation review report*. In other cases, depending on the agreed scope of work, additional documentation *must* be maintained. Documentation *should* include but is not limited to communications with the *client*, alternate methods explored, additional *data* and *inputs* considered, risks and biases addressed, *professional judgement* used, and the *valuation* quality control procedures followed.

Further respondents questioned what a reasonable period would be to keep your documentation.

The IVSC Boards discussed this issue in depth and noted that it was not possible to provide a mandatory requirement for record keeping within IVS as this would largely vary according to the jurisdiction in which the valuation took place and legal, regulatory, authoritative, or contractual requirements relative to the intended use.

Furthermore, the IVSC Boards noted that many Valuations Professional Organisations (VPOs) provided their own members’ requirements for record keeping, all of which varied on a jurisdictional basis.

As a result of these deliberations the IVSC Boards revised para 20.04 as follows in order to provide additional clarity on the record keeping issue.

20.04 In all cases, documentation *should* describe the *valuation* or *valuation review* and how the *valuer* managed *valuation risk*. The *valuer* *must* keep a copy of any report issued on the *value* and a record of the valuation work performed for a period in accordance with legal, regulatory, authoritative, or contractual requirements relative to the *intended use*.

Environmental, Social and Governance Considerations

IVS 104 *Data and Inputs* now incorporates an Appendix on Environmental, Social and Governance (ESG) Considerations to reflect the growing global focus on ESG considerations in valuations across all assets and/or liabilities.

In relation to the consultation question asked on Environmental, Social and Governance Considerations, the majority of respondents agreed that the requirements and framework for ESG considerations are clear, complete and provide adequate clarity to ensure compliance with IVS.

However, several respondents commented that not all markets were at the same stage of incorporating ESG factors within their valuations and that ESG requirements varied on a jurisdictional basis.

Moreover, legislation and frameworks in relation to ESG were constantly developing. Examples include the EU taxonomy and the global sustainability disclosure standards issued by the International Sustainability Standards Board (ISSB).

The IVSC Boards agreed that ESG is still in a developmental stage and therefore further changes are anticipated.

However, although the IVSC Boards recognised that it had no predictive power in relation to future ESG requirements and legislation, the IVSC Boards noted that this was largely dealt with by the inclusion of the following introduction to the Appendix:

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

Some respondents commented that the requirements contained within this Appendix were too prescriptive and would not be possible in all markets where there were serious challenges in relation to finding the relevant data for ESG consideration.

The IVSC Boards agreed with this comment and reviewed the use of “must” and “should” within the Appendix to ensure applicability of ESG considerations within all markets and revised the following paragraphs accordingly:

A10.01 The impact of *significant ESG* factors should be considered in determining the *value* of a company, *asset*, or *liability*.

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

The IVSC Boards agreed that at the current stage of development it was not possible to be more prescriptive and therefore used “should” in this section, as it provided the valuer with sufficient flexibility to either comply or explain.

Further, respondents commented that not all ESG factors were measurable and therefore it was not possible to consider ESG factors within every valuation.

The IVSC Boards were also in agreement with this comment but noted that this issue was dealt with by the following paragraph within the Appendix and therefore no further change was necessary:

A10.06 *ESG* factors and the *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*.

Some respondents requested that an explicit consideration of ESG should also be contained within the Asset Standards.

The Standards Review Board passed these comments to the IVSC Asset Boards who carried out a full review of the Asset Standards as part of the post consultation process. The Asset Boards included further requirements in relation to the consideration of ESG factors where applicable. Further details are on this matter are contained with the Asset Standards *Basis for Conclusions*.

Finally, a number of respondents requested more detailed application guidance in relations to the consideration of ESG factors within valuations.

The IVSC Boards discussed this issue in detail but noted that as IVS is an overarching principle-based standard it should not provide application guidance.

Furthermore, application guidance in relation to the use of IVS is provided by Valuation Professional Organisations (VPOs).

Moreover, the IVSC Boards did not consider that at this stage it was practical to provide more prescriptive application guidance in relation to the consideration of ESG as this was subject to variance not only on an asset-by-asset basis but also on a country-by-country basis.

However, the IVSC Boards will continue to consider ESG within valuations and will be including ESG as a key topic within the forthcoming *IVS Agenda Consultation 2024*. It will also be issuing an updated ESG survey during 2024 to more fully understand the extent that firms, investors, and valuation providers consider ESG within their valuations.

Furthermore, the Asset Boards will continue to issue ESG-related Perspective Papers during the course of 2024 to engage stakeholders, acting as precursors for future standard setting efforts, and to provide further information on how ESG can be quantified within the valuation process.

Valuation Review

IVS 101 *Scope of Work* and IVS 106 *Documentation and Reporting* now include separate scope of work and reporting requirements for valuations and valuation reviews.

In relation to the consultation question asked on valuation reviews, the majority of respondents agreed with the inclusion of valuation review requirements within IVS and with the inclusion of two types of valuation review (valuation process review and value conclusion review).

However, some respondents commented that the name for “value conclusion review” should be changed to “value review” as value is defined as “the valuer’s quantitative conclusion...” and therefore the use of conclusion within the nomenclature was unnecessary.

The IVSC Boards agreed with this comment and changed the name of “value conclusion review” to “value review”.

Other respondents did not fully understand the difference between a “valuation process review” and a “value conclusion review” despite the definition of a “valuation review” stating that:

10.36 Valuation Review

A valuation review is either a valuation process review or a value review or both.

To mitigate this possible confusion, the IVSC Boards revised the definitions of a “valuation process review” and “a value review” to include the additional sentences shown in **bold**:

10.35 Valuation Process Review

An analysis by the *valuer* to assess compliance with IVS or a component of IVS applicable as at a *valuation date*. **This does not include an opinion on the value.**

10.40 Value Review

An analysis by the *valuer* applying IVS to assess and provide an opinion on the *value* of another *valuer's* work. **This does not include an opinion on the valuation process.**

Some respondents commented that in order to provide further clarification of the difference between a “valuation” and a “valuation review” the scope of work requirements for these different types of “valuation review” contained within IVS 101 *Scope of Work* should specifically state that “a valuation review is not a valuation.”

The IVSC Boards agreed with this comment and revised the scope of work requirements for a “valuation review” accordingly.

In relation to the valuation review section contained within IVS 106 *Documentation and Reporting* some respondents made similar comments as to the difference between a “valuation” and a “value review”.

The IVSC Boards discussed this matter in detail and agreed that if a “value review” included a “value” then this was not a “valuation review” but was in fact a “valuation” and all the valuation requirements contained within IVS must apply.

Further to discussion and in order to provide additional clarification the IVSC Boards revised section 40.02 as follows:

40.02 If a *value* is provided as part of the *value review*, then this is a *valuation* (see section 30 of this standard).

Some respondents commented that IVS should explicitly state that valuation reviews can only be carried out by the valuer.

The IVSC Boards discussed this comment in detail but considered that this addition was unnecessary as the *IVS Foreword* already stated that “*IVS are drafted on the basis that valuers who use the standards are competent and have the requisite knowledge, skills, experience, training, and education to perform valuations.*”

Furthermore, section 40 Valuation Review Reports within *IVS 106 Documentation and Reporting* already states that:

40.04 In all instances the valuation review report *must* be sufficient to describe the conclusion reached and be considered reasonable by the *valuer* applying *professional judgement*.

Compliance

IVS 100 Valuation Framework is now a mandatory part of *IVS* as it provides overarching requirements for compliance with *IVS*, including sections on valuer principles, valuation process quality control, use of a specialist and service organisation, compliance, and the effective date.

Furthermore, in order to comply with *IVS*, the *IVS 100 Valuation Framework* introductory text states as follows:

General Standards apply to all *assets* and *liabilities* and are the starting point for any *valuation*. Asset Standards provide requirements in addition to the General Standards for specific types of *assets* and *liabilities*.

Compliance with *IVS* includes adherence to General Standards, applicable Asset Standards, and the Appendices.

In performing *valuations*, the *valuer* *must* comply with the Valuer Principles.

In relation to the consultation question asked on the *IVS 100 Valuation Framework* the majority of respondents agreed that *IVS 100 Valuation Framework* should be a mandatory part of *IVS* as it contained overarching requirements which relate to the valuation of all assets and/or liabilities.

However, some respondents had comments in relation to the sections contained within *IVS 101 Valuation Framework*.

In relation to the Valuer Principles, some respondents asked for additional clarification on the principle of professional scepticism. The IVSC Boards reviewed this principle and revised this requirement as follows.

10.04 Professional Scepticism: The *valuer must* apply an appropriate level of *professional scepticism* at every stage of the *valuation*.

In addition, and in order provide additional clarity the IVSC Boards have included the following definition of professional scepticism within the IVS Glossary:

10.23 Professional Scepticism

Professional scepticism is an attitude that includes a questioning mind and critical assessment of valuation evidence.

Further respondents commented on the inclusion of the Valuer Principle for Documentation and commented that the inclusion of this principle was unnecessary as IVS 106 *Documentation and Reporting* already contained mandatory requirements in relation to documentation.

The IVSC Boards agreed with these comments and deleted the Valuer Principle for documentation.

Some respondents commented on the Valuation Principles and considered that the inclusion of Valuer Principles was unnecessary as these Valuation Principles were already contained in greater detail within IVS. Furthermore, in some instances the Valuation Principles conflicted with or reworded existing concepts within IVS, increasing the possibility of confusion.

The IVSC Boards agreed with these comments and reviewed the Valuation Principles in depth. Further to discussion the IVSC Boards agreed that there was no need to include the Valuation Principles within IVS 100 *Valuation Framework* as these were already contained within IVS and so the repetition of these concepts was not only unnecessary but could cause confusion in relation to practical application of IVS.

In relation to the section on quality control, the IVSC Boards received several comments in response to its consultation question on quality. Further details on revisions to this section are contained within the previous section on Valuation Process Quality Controls (see pp 18-20).

In relation to the sections on Use of a Specialist and Use of a Service Organisation some respondents commented that in some instances the specialist and service organisation could be the same.

Furthermore, several comments argued that the requirements for the use of a specialist or a service organisation should be the same.

The IVSC Boards agreed with these comments and reviewed the requirements contained within these sections, merging these requirements, where applicable, in Section 40 Use of a Specialist or Service Organisation.

The IVSC Boards also noted it is possible for certain parts of the valuation to be outsourced to specialists and service providers. These outsourced activities could be performed by individual valuers or by entities providing expert valuation services or the data needed for the valuations. The IVSC Boards further noted that if the valuer does not possess the necessary technical skills, experience, data, models, or knowledge to perform all aspects of a valuation, it is acceptable for the valuer to seek the assistance of a specialist or a service organisation. In delegating aspects of a valuation, the valuer must ensure that these parties have performed their specific procedures in a manner that is consistent with the IVS or perform incremental procedures to comply with IVS, in the event such procedures are significant.

In the instance where an external specialist or service organisation only completes an element of the valuation, for example only provides the data necessary for the valuation, the IVSC Boards also noted that again the external specialist or service organisation cannot provide a statement of compliance with IVS as such a statement of compliance requires compliance with all the requirements in IVS which covers the entire valuation and not just elements of the same. When an external specialist or service organisation is involved in only a discrete element or elements of the valuation process, they must provide adequate documentation to enable the valuer to ensure that work undertaken by the external specialist or service organisation is compliant with the requirements in IVS.

In relation to the compliance section some respondents questioned under what circumstances the valuer could depart from IVS and pointed to the previous departure section contained within the previous edition of IVS (effective 31 January 2022).

The IVSC Boards discussed this issue in detail and concluded that there were no circumstances under which the valuer could depart from IVS when issuing an IVS compliant valuation.

To clarify this matter, the IVSC Boards revised para 40.02 to state as follows:

40.02 IVS consist of mandatory requirements that *must* be followed in order to state that a *valuation* was performed in compliance with IVS.

Several respondents commented that they found the compliance contained within section 60.3 confusing and requested additional clarification.

The IVSC Boards reviewed this comment and agreed that the proposed compliance hierarchy was confusing, and that further clarification was required.

Further to these deliberations and discussions with the Advisory Forum, the IVSC Boards deleted section 60.3 and drafted new paragraphs 40.04 to 40.06. These provide additional clarification on the need to comply with legal, regulatory, or other authoritative requirements in order to maintain IVS compliance.

- 40.04 If legal, statutory, regulatory and/or other authoritative requirements appropriate for the purpose and *jurisdiction* of the *valuation* conflict with IVS, such requirements *should* be prioritised, explained, documented, and reported in order to remain compliant with IVS.
- 40.05 If there are any legal, statutory, and regulatory or other authoritative requirements that *significantly* affect the nature of the procedures performed, *inputs* and assumptions used, and/or value(s), the *valuer must* also disclose the specific legislative, regulatory or other authoritative requirements and the *significant* ways in which they differ from the requirements of IVS (for example, identifying that the *relevant jurisdiction* requires the use of only a market approach in a circumstance where IVS would indicate that the income approach should be considered).
- 40.06 Any other deviations would render the *valuation* not compliant with IVS.

Finally in respect of the Effective Date section there were some comments in relation to which edition of IVS should be used for valuations or valuations reviews with a retrospective or historic valuation date.

The IVSC Boards discussed this issue in detail and researched various market practices on both a country and specialism basis and noted that there was no consistent market practice for historic valuations. Some standard setters and valuation professional organisations required the use of the standard or guidance that was in existence at the valuation date whereas others required the use of the current version of their standards or guidance.

The IVSC Boards were unable to come to a decision on this matter, particularly as in some instances there would be additional standards in the latest versions that would also be applicable to historic valuations. Examples of this would include the new standards on valuation process quality control, data, ESG considerations, valuation models and documentation and reporting.

Further to discussion the IVSC Boards noted that this issue was subject to intended use and therefore it was not possible to provide a prescriptive requirement on this issue.

As a result of these deliberations the IVSC Boards agreed that IVS should require transparency and clarification on the version of IVS that was used for retrospective valuations and therefore revised section 50.02 as follows:

- 50.02 When undertaking *valuations* or *valuation reviews* with a retrospective or historical *valuation date*, the *valuer should* document the editions of IVS that;
- (a) they have relied upon, and
 - (b) are applicable at the *valuation date*.

Other Matters

In relation to the consultation question on other matters, the majority of respondents had no comments.

A few respondents requested further guidance on how IVS integrates with other standards such as IFRS or standards issued by Valuation Professional Organisations.

The IVSC Boards discussed this issue in detail and noted that other international standard setters did not issue guidance on how their standards integrate with other standards.

Furthermore, the IVSC Boards did not consider that it was practical to provide guidance on an overarching principle-based standard.

However, to provide further clarification on this matter, the IVSC Boards included the following paragraphs within the IVS Foreword:

The purpose of IVS is to promote and maintain a high level of public trust in valuation practice. As such, they establish appropriate global requirements for valuations that apply both to the parties involved in the process and to those who oversee this process.

IVS are international principle-based valuation standards. They outline a process that can be used in conjunction with other standards, laws, and regulations requiring a value.

In respect of additional guidance in relation to standards and guidance issued by Valuation Professional Organisations, the IVSC Boards discussed this issue with the Advisory Forum and were advised that this guidance is normally incorporated within the standards/guidance issued by the relevant Valuation Professional Organisations as part of their IVS adoption process.

However, the IVSC Boards noted that it has occasionally provided guidance such as *A Bridge to USPAP*. This document was produced in conjunction with the Appraisal Foundation and provided a guide on how valuers could produce USPAP and IVS compliant valuations. The IVSC Boards will continue to issue such guidance during 2024.

Finally, there were some comments in relation to professionalism and what constitutes a competent valuer. The IVSC Boards noted the significant implication of these comments for certain asset classes, where the requirements for valuer qualifications were less developed. However, the IVSC Boards considered this issue to be outside the remit of technical standard-setting activities and accordingly decided to flag the issue with the IVSC Board of Trustees for their consideration and future action.

However, the IVSC Boards have included the following paragraph within the IVS *Foreword* to provide additional clarification:

IVS are drafted on the basis that valuers who use the standards are competent and have the requisite knowledge, skills, experience, training, and education to perform valuations. For the purposes of IVS, a valuer is defined as an individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability, and experience to execute a valuation in an objective, unbiased, ethical, and competent manner. In some jurisdictions, licensing is required before an entity, or an individual can act as a valuer (see *IVSC Code of Ethical Principles for Valuers*).

During the course of 2024, the IVSC Boards will continue to work with both the IVSC Board of Trustees and the Global Membership Standards Recognition Committee to encourage the development of the valuation profession across all markets and across all assets and/or liabilities.



Asset Standards

Business Valuation

Key Topics

During the preparatory review of IVS in the course of 2022 and Q1 2023, the Business Valuation Board determined, and the Standards Review Board approved, that no significant changes were proposed to the Business Valuation Standards.

The remit of the Business Valuation Board encompasses:

- IVS 200 *Businesses and Business Interests*,
- IVS 210 *Intangible Assets*,
- IVS 220 *Non-financial Liabilities*, and
- IVS 230 *Inventory*.

These Standards are collectively referred to as Business Valuation Standards or Asset Standards in this section.

The Business Valuation Board recommend broad stability in the Asset Standards under its purview for the following reasons:

- (a) The Asset Standards effectively represent current international best practice. The Business Valuation Board also recognised that a growing and increasingly heterogenous population of market participants use valuations with increasing frequency. These participants include but are not limited to regulators, asset allocators, as well as courts and arbitration venues. Thus, valuation practices are rapidly evolving under the compounded impulsion of technological changes, academic advances and shifting stakeholder expectations.
- (b) Furthermore, the Business Valuation Board recognised that the adoption and implementation of IVS was at critical junctures in several key jurisdictions. These jurisdictions are characterised by disparate practices reflecting varying stages of economic development, especially with regards to business valuation. Substantial changes to the Business Valuation Standards at this stage were deemed unnecessary and may have risked jeopardising the effective adoption of the IVS in those jurisdictions.
- (c) Finally, the Business Valuation Board recognised that the General Standards would incorporate ESG considerations in the upcoming changes. However, the Business Valuation Board decided to avoid creating any possibility of confusion by adding further detail on ESG within the Business Valuation Standards, given that the timeline for release of the ISSB disclosure overlapped the development of the new IVS.

In summary, the Business Valuation Board considered that in making substantial changes at this juncture, it risked doing either too much, or too little. It therefore decided to concentrate on ensuring alignment between the IVS Business Valuation standards and the General Standards, reserving more substantial changes for the next revision of IVS.

The formulation of the question pertaining to the Business Valuation Standards was deliberately designed:

- (a) To invite an approval or disapproval by stakeholders of the Asset Board's decision, and
- (b) To elicit comments that would inform the Board's deliberations and future work.

At the conclusion of the open ninety-day consultation on 28 July 2023, the IVSC received a total of 116 consultation responses.

The majority of the responses agreed with the Business Valuation Board's proposed changes in the Exposure Draft. None of these responses included any substantial suggestions.

The remaining responses constituted a rich array of comments and suggestions, which can be broadly categorised as follows:

- (a) Comments and suggestions that addressed topics pertaining to valuation but beyond the remit of the Business Valuation Board. Examples of such comments included but were not limited to the responsibility and liabilities of the valuer during an engagement. These comments were referred to the Standard Review Board for examination and further action.
- (b) Comments and suggestions that addressed topics contiguous to or only partially relevant to valuation. In most cases, the Business Valuation Board noted that these comments and suggestions pertained to accounting and financial reporting standards.
- (c) Finally, comments and suggestions that indisputably fell within the remit of the Business Valuation Standards. This latter category included a spectrum of responses ranging from brief, explicit approval of the Business Valuation Board's decision with an appended single comment, to a full line-by-line review of the Asset Standards. In some cases, the comments and suggestions recommended a level of granularity that would have gone beyond the level of detail appropriate for principle-based standards.

Every response was examined in its entirety by every member of the Business Valuation Board.

In conclusion, the Business Valuation Board proposed changes to the standards within its purview that encompassed:

- (a) Changes to the Business Valuation Standards rendered necessary by changes in the General Standards. These included updating the references (eg, IVS 103 *Valuation Approaches*) and aligning the Business Valuation Standards with substantial changes to the General Standards.

- (b) Amendments emanating from comments and suggestions from stakeholders. As noted above, these suggestions ranged from narrow changes in phrasing to exhaustive line-by-line reviews.
- (c) Modifications, clarifications, and edits suggested by members of the Business Valuation Board as part of their mandate.

These changes, proposed by the Business Valuation Board and ratified on 29 November 2023 by the Standards Review Board are discussed as follows.

IVS 200 *Businesses and Business Interests*

Key Topics

The principal changes to IVS 200 *Businesses and Business Interests* include, but were not limited to:

- (a) The separation of paragraphs into shorter more succinct paragraphs. The purpose of these changes was to narrow the scope of each paragraph without altering the unity or the reach of the Business Valuation Asset Standards. An example of this is where paragraphs 90.1 and 90.2 within IVS effective 31 January 2022 became paragraphs 90.01, 90.02, and 90.03 within IVS effective 31 January 2025.
- (b) A simplification of the definition of Business (IVS 200.20.04).
- (c) The definition of a business or business interest (IVS 200.20.07 (2025)). This elicited a constructive discussion within the Business Valuation Board, since enterprise value, invested capital, operating value and equity value are subject to differing definitions. The Business Valuation Board recognised this ambiguity but declined to impose a definition for each. Rather, the Business Valuation Board homogenised the structure of each definition, allowing for nuances by specifying that total invested capital, operating value, and equity are “often described” as, followed by the calculation. Previously (in IVS effective 31 January 2022), only enterprise value had the qualifier “often described”. The Business Valuation Board did note that a commentator recommended that all definitions within IVS adhere to a textbook in widespread usage and/or the International Valuation Glossary - Business Valuation.

Comments by stakeholders also prompted the Business Valuation Board to improve and clarify some key concepts. This was the case for “going concern” and “goodwill”. The previous reference held that:

... excess value is often referred to as going concern value or goodwill. This excess value may constitute a separate asset under certain bases of value in certain situations.

The reference was amended to:

20.03 ... the excess value is often referred to as goodwill.

Finally, certain respondents made suggestions that, if adopted, would have resulted in IVS having a level of detail and granularity incompatible with principle-based standards. Such recommendations centred mostly on more technical aspects of complex capital structures.

IVS 210 *Intangible Assets*

Key Topics

Most of the changes in IVS 210 *Intangible Assets* pertained to simplification, and clarification of text, with no alterations in the substance of the standard.

Several respondents spotted an involuntary inversion between “include” and “exclude” certain expenses in the Relief from Royalty method in para 60.19 (d) in IVS effective 31 January 2022. This was corrected.

Section 100 Intangible Asset Economic Lives was abridged by removing overly detailed examples such as in paras 100.02 and 100.05 (e) and prescriptions, such as the calculation of client attrition in para 210.06.

The Business Valuation Board noted that the nature and thoughtfulness of the recommendations from respondents suggested continued interest in intangible asset valuation standards.

IVS 220 *Non-Financial Liabilities*

Key Topics

Most of the changes in IVS 220 *Non-Financial Liabilities* pertained to simplification, and clarification of some text, with no alterations in the substance of the standard.

The list of liabilities that may in part or in full require a non-cash fulfilment and be subject to IVS 220 *Non-Financial Liabilities* saw:

- the removal of “*power purchase agreements*” in para 20.2 (g) (IVS effective 31 January 2022), and
- the addition of para 20.02 (g) “*certain litigation reserves and contingencies*”, as well as “*certain indemnifications and guarantees*” in para 20.02 (h).

These suggestion for the removal of “*power purchase agreements*” emanated from a respondent.

Further comments received led to clarification in 20.06 that:

20.06 ... non-financial *liabilities* will most often be valued using a liability framework that does not require a corresponding *asset* to be recognised or valued by another party.

The Business Valuation Board noted that some comments recommended changes to IVS 220 *Non-Financial Liabilities* of an amplitude that would have required re-exposure of the asset standard, significant modifications of the General Standards as well as of other Asset Standards under the purview of the Business Valuation Board. The tenor of these comments and suggestions will be included in the upcoming *Agenda Consultation* scheduled for 2024.

Overall, the Business Valuation Board noted that the nature and thoughtfulness of the recommendations from respondents suggested ongoing interest in IVS 220 *Non-Financial Liabilities*.

IVS 230 *Inventory*

Key Topics

Most of the changes in *IVS 230 Inventory* pertained to simplification, and clarification of some text, with no alterations in the substance of the Standard.

The stipulation in para 60.09 that:

60.09 The application of the top-down and of the bottom-up method should yield the same result for the *valuation* of inventory.

emanated from a respondent.

Furthermore, the Business Valuation Board noted that the contribution of intangible assets to the value of inventory elicited constructive commentary from respondents.

The Board noted that some comments recommended changes to *IVS 230 Inventory* of an amplitude that would have required re-exposure of the asset standard, significant modifications of other Asset Standards under the purview of the Business Valuation Board and of the General Standards. The tenor of these comments and suggestions will be included in the upcoming *Agenda Consultation* scheduled for 2024.

Tangible Assets

Key Topics

The Tangible Assets Board noted that although the majority of respondents agreed with the proposed changes to IVS there were a number of comments in relation to the following;

- Review of use of “must” and “should” for consistency,
- Review of requirements for quality control and ESG,
- Additional clarity on compliance, data, and inputs characteristics,
- Revisions to valuation review,
- Additional Technical Guidance, and
- Guidance on how IVS integrates with reporting standards.

The Tangible Assets Board reviewed the IVS consultation responses and noted that the majority of responses focussed on the following key issues:

- Valuation Framework,
- Clarification of Key Concepts,
- Environmental, Social and Governance Considerations, and
- Other Matters.

This *Basis for Conclusions* does not attempt to examine every consultation response and provide the rationale for how the Tangible Assets Board dealt with each response individually but does outline the reasoning behind their decisions on the key issues and any amendments to IVS post consultation.

IVS 300 *Plant, Equipment, and Infrastructure*

Key Topics

There was a total of 116 consultation responses in relation to the questions asked on IVS 300 *Plant, Equipment, and Infrastructure* and the majority of respondents were in accordance with the changes proposed for this standard.

The Tangible Assets Board and its affiliated Working Group on Plant, Equipment and Infrastructure reviewed the responses and noted that the majority of responses focussed on the following key issues:

- Clarification of Key Concepts
- Other Matters

Clarification of Key Concepts

In relation to the consultation question asked on the inclusion of infrastructure within IVS 300, the majority of respondents either commented that this was sufficiently covered or had no comment.

Some respondents requested the inclusion of an Infrastructure definition within IVS to add further clarity.

The Tangible Assets Board discussed the inclusion of an infrastructure definition within the IVS *Glossary* but noted that there were many different types of infrastructure and therefore it would not be possible to provide an exhaustive list of all the various types of infrastructure within a definition.

Furthermore, the Tangible Assets Board considered that infrastructure was a commonly understood term and therefore the inclusion of an all-encompassing definition was not only impractical but also unnecessary.

In relation to the consultation question asked in relation to the additional content included within the income approach section, most respondents were in accordance with the revisions and considered no further changes were needed or had no comment.

Some respondents commented that section para 80.01 should be divided into two paragraphs as the consideration of intangible assets was an important issue and should be separately stated. Furthermore, a number of respondents considered that the references to the inclusion of intangible assets within scope of work was unnecessary as this was an overarching principal that was already contained within IVS 101 *Scope of Work*.

As a result of the comments received the Tangible Assets Board divided para 80.01 into two separate paras and revised para 80.02 as follows;

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

Further respondents commented on 80.03 and considered that the reference to the “*remaining economic life of the asset was incorrect*” and it should in fact be referring to the “*explicit forecast period*”.

The Tangible Assets Board agreed and revised the renumbered 80.03 as follows:

80.04 When an income approach is used to value PEI, the *valuation must* consider the cash flows expected to be generated over the explicit forecast period of the *asset(s)* as well as the value of the *asset(s)* at the end of the explicit forecast period, often referred to as terminal value (see IVS 103 *Valuation Approaches*, Appendix A20.02–A20.22).

A comment was also received in relation to additional clarification on the value of other contributory assets (para 80.06 (e)).

The Tangible Assets Board agreed with this comment and revised this section as follows:

80.06 (e) the value of other contributory *assets* that are inherently included within the income generated can be readily valued in isolation from the *asset* or group of complementary *assets* using other valuation methodologies.

A comment was also received in relation to further details in relation to the use of discount rates, Weighted-Average-Return-on-Assets (WARA) and Weighted-Average-Cost-of-Capital (WACC) within the Income Approach Section.

The Tangible Assets Board discussed this comment in detail and noted that further details on these matters were contained within IVS 103 *Valuation Approaches: Appendix* (paras 20.09 to 20.40), which are applicable to all Asset Standards and therefore no further changes were required.

In relation to the consultation question asked in relation to the additional content included within the market approach section most respondents were in accordance with the revisions and considered no further changes were needed or had no comment.

Some respondents commented that the market approach should contain a ranking of evidence or hierarchy of evidence within not only the market approach section but also within the section on data and inputs.

The Tangible Assets Board discussed these comments and considered that not only was a hierarchy of evidence too detailed for principle-based standards and more within the remit of Valuation Professional Organisations to provide, but it would also be difficult to do at an international level as the types of data available would vary across markets.

Furthermore, the Tangible Assets Board noted that in relation to a hierarchy of evidence IVS 104 *Data and Inputs*, which applies to all asset classes, provided a hierarchy in terms of the data considered and the inputs used. This had been revised to include “relevant and observable data” as an overarching characteristic and terms of the asset and/or liability being valued, scope of work, the valuation method, and the valuation model.

In relation to the consultation question asked in relation to whether IVS 300 was sufficiently detailed, the majority of consultation respondents considered that the standard was sufficiently detailed for its intended purpose.

Some respondents commented on the use of “must” and “should” within IVS 300 and whether the requirements contained in this chapter were consistent with the General Standards.

Further to these comments the Tangible Assets Board carried out a full revision of the use of “must” and “should” and made revisions where appropriate.

Other respondents commented on the Scope of Work and whether physical inspections should be mandatory for all Plant, Equipment, and Infrastructure valuations.

The Tangible Assets Board discussed this comment in detail and considered that a prescriptive requirement was impractical for all PEI valuations and valuation purposes. These discussions included matters such as inspections of remote assets or large portfolios where it noted in a variety of instances mandatory inspections would be impractical.

What defines an inspection amongst valuation stakeholders also varies significantly, and ranges from the use of technology to conduct virtual inspections, to kerbside inspections, to highly detailed inspections in some instances involving the use of third parties to verify asset condition and maintenance.

However, the Tangible Assets Board noted that the issue of inspection was a key issue in a number of markets and further to the comments received the Tangible Assets Board revised para 20.3 to provide additional clarification on this issue;

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*.

The Tangible Assets Board will include Inspection as a key topic for the upcoming *IVS Agenda Consultation*, which is due to be published in 2024.

The Tangible Assets Board have set up an IVSC Tangible Assets Board Working Group to publish a Perspectives Paper in 2024 on Inspection to discuss this issue in greater detail and to engage the market to gain a greater understanding of inspection requirements across all markets, for all asset classes and valuation purposes.

Some respondents commented on Liquidation Value with some stating that this section was not sufficiently detailed and requesting additional requirements on removal costs, whereas other respondents considered this section was too detailed.

The Tangible Assets Board discussed these comments in detail and considered that the level of detail provided in IVS 300 was appropriate for an overarching principle-based valuation standard.

Other Matters

In relation to the consultation question asked on whether there any elements within IVS 300 that should be contained within the General Standards the majority of respondents had no comment.

Some respondents commented on the consistency of nomenclature for Development Profit within IVS 300.

The Tangible Assets Board reviewed this chapter and either made revisions as appropriate or include direct references to IVS 410 *Development Property*, where applicable.

IVS 400 *Real Property Interests*

Key Topics

There was a total of 116 consultation in relation to the questions asked on IVS 400 *Real Property Interests* and the majority of respondents were in accordance with the changes contained within the standard.

The Tangible Assets Board and its affiliated Real Property Interests Working Group reviewed the responses and noted that the majority of responses focussed on the following key issues:

- Valuation Framework,
- Environmental, Social and Governance Considerations,
- Clarification of Key Concepts, and
- Other Matters.

Valuation Framework

In relation to the consultation question asked on the restructuring of IVS 400 to align with the General Standards, the inclusion of additional contents on data and inputs, and valuation models as part of this process, the majority of respondents were in accordance with the restructuring and considered that IVS 400 provided sufficient content on the additional topics.

Some respondents commented that within their markets it was difficult to find the correct data to use within markets due to a lack of transparency and deficiencies within the data available.

The Tangible Assets Board discussed this comment in detail and recognised the data challenges faced in some markets and considered that the hierarchy of comparable evidence contained within 100.02 provided sufficient flexibility for less transparent markets.

Furthermore, the Tangible Assets Board noted that it was not the role of an overarching principle-based standard to provide more detailed requirements as this was the role of the Valuation Professional Organisations.

Further respondents commented on the Income Approach section and requested further examples and guidance in relation to the valuation of trade related property and the consideration of intangible assets.

The Tangible Assets Board agreed with this comment and revised the following section to include additional examples;

80.02 For some real property interests, the income-generating ability of the property is closely tied to a particular use or business/trading activity (for example, cinemas, retirement or care homes, clinics, hotels, etc). Where a building is suitable for only a particular type of trading activity, the income is often related to the actual or potential cash flows that would accrue to the owner of that building from the trading activity. The use of a property's trading potential to indicate

its *value* is often referred to as the “profits method” (see following para 80.03).

- 80.03 When the potential income used in the income approach represents cash flow from a business/trading activity (rather than cash flow related to rent, maintenance and other real property-specific costs), and includes *intangible assets* then this is no longer solely a real property interest *valuation* and the *valuer should* also comply as appropriate with the requirements of IVS 200 *Business and Business Interests* and, where applicable, IVS 210 *Intangible Assets*.

Further comments were received in relation to Section 110 Valuation Models with some respondents commenting that the requirement for the valuation models used to “be explained, justified, tested and the use must be documented” was overly prescriptive and not always possible in practice.

The Tangible Assets Board did not agree with this comment but noted that this requirement was already contained within IVS 105 *Valuation Models* and IVS 106 *Documentation and Reporting* and therefore deleted this requirement to avoid unnecessary repetition.

Additional comments were received in relation to clarification of the characteristics of suitable data and inputs within IVS 104 *Data and Inputs*.

These comments and other comments in relation to the General Standards were passed to the Standards Review Board, who reviewed these comments and made revisions, where appropriate (see the General Standards section on Data and Inputs).

Environmental, Social and Governance (ESG) Considerations

In relation to the consultation question on ESG and whether the General Standards provide sufficient additional content in relation to the consideration of ESG, or whether IVS 400 should provide additional content, some respondents commented that the requirements contained within the IVS 104 *Data and Inputs: Appendix* were too prescriptive and would not be possible in all markets where there were serious challenges in relation to finding the relevant data for ESG considerations.

The Tangible Assets Board passed the General Standards comments to the Standards Review Board who reviewed the use of “must” and “should” within the Appendix to ensure applicability of ESG considerations within all markets and revised the following paragraphs accordingly:

A10.01 The impact of *significant ESG factors should* be considered in determining the *value* of a company, *asset, or liability*.

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

The Standards Review Board agreed that at the current stage of development it was not possible to be more prescriptive and through the use of “should” it provided the valuer with sufficient flexibility to either comply or explain.

Further respondents requested for further requirements to be included within IVS 400 to provide additional clarification on ESG considerations.

The Tangible Assets Board reviewed these requirements and added the following requirement within para 100 to provide additional clarity on the consideration of ESG factors:

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

Finally, a number of respondents requested more detailed application guidance in relation to the consideration of ESG factors within valuations.

The Tangible Assets Board discussed this issue in detail but noted that as IVS is an overarching principle-based standard it should not provide application guidance.

Furthermore, application guidance in relation to the use of IVS is usually provided by Valuation Professional Organisations.

Moreover, the Tangible Assets Board did not consider that at this stage of the development of ESG requirements that it was practical to provide more prescriptive application guidance in relation to the consideration of ESG as this was subject to variance not only on an asset-by-asset basis but also on a country-by-country basis.

However, the Tangible Assets Board will continue to consider ESG within valuations, and will be including ESG as a key topic within the upcoming *IVS Agenda Consultation 2024*. It will also be issuing an updated ESG survey during 2024 to understand the extent that firms, investors, and valuation providers consider ESG within their valuation.

Furthermore, the Tangible Assets Board will continue to issue ESG related Perspective Papers during the course of 2024 to engage the market, acting as a precursor to future standard setting and to provide further information on how ESG can be quantified within the valuation process.

As part of this process, the Tangible Assets Board ESG Working Group are in the process of drafting a Perspectives Paper on ESG and Plant, Equipment, and Infrastructure, which is planned to be issued in 2024.

Clarification of Key Concepts

In respect of the consultation questions on whether there were any other comments or observations on IVS 400 and whether IVS 400 is sufficiently detailed, the majority of respondents had no further comments.

Some respondents commented that further standards in relation to valuing with limited information or in times of material uncertainty would be helpful.

The Tangible Assets Board discussed this comment in detail and noted that the IVSC had published a perspectives paper on "*Dealing with valuation uncertainty at times of market unrest*" in 2021 and the contents contained within this Perspective Paper were still relevant to the revised standards.

The Tangible Assets Board also noted that some members of the Tangible Assets Board were participants of the Standards Review Board Valuation Risk Working Group, which is planning to issue a Perspective Paper on Valuation Risk during the second half of 2024.

Furthermore, the Tangible Assets Board noted that Valuation Risk and Uncertainty would be a key topic within the *IVS Agenda Consultation 2024* due to be issued in 2024, and therefore considered that no additional standards within IVS in relation to material uncertainty were required at this time.

However, the Tangible Assets Board will continue to review material uncertainty over the next few years through the Advisory Forum and direct market engagement with key stakeholders to understand additional standard setting needs.

Some respondents questioned whether IVS 400 should cover options (call and put type options) for real property interests.

The Tangible Assets Board reviewed this comment in detail and considered that though options were a specialist asset class, IVS could still be used for the valuation of options, and therefore no further revisions were necessary.

Further respondents commented on consistency between the General and Asset Standards.

The Tangible Assets Board carried out a full review of the General and Asset Standards and the use of “must” and “should” within these standards to ensure consistency and provide additional clarification.

Other Matters

In relation to the consultation question asking whether there were any other elements within IVS 400 that should be included within the General Standards the majority of respondents had no further comment.

Some comments were received in relation to inspection and whether there should be a mandatory requirement to physical inspect all tangible assets.

The Tangible Assets Board discussed this comment in detail and considered that a prescriptive inspection requirement was impractical for all Real Property Interest valuations and discussed matters such as valuations of international or remote portfolios within short time frames, or long-term instructions of large portfolios and noted that in a variety of instances mandatory inspections for all real property interests would be impractical.

What defines an inspection amongst valuation stakeholders also varies significantly, and ranges from the use of technology to conduct virtual inspections, to kerbside inspections, to highly detailed inspections in some instances involving the use of third parties to verify asset condition and maintenance.

However, the Tangible Assets Board noted that the issue of inspection was a key issue in a number of markets and further to the comments received the Tangible Assets Board revised para 40.03 to state as follows to provide additional clarification on this issue;

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*.

The Tangible Assets Board will include inspection as a key topic for the upcoming *IVS Agenda Consultation*, which is due to be published in 2024.

The Tangible Assets Board have set up a Tangible Assets Working Group to publish a Perspectives Paper on Inspection in 2024 to discuss this issue in greater detail and to engage the market to gain a greater understanding of inspection requirements across all markets, for all asset classes and valuation purposes.

Other than comments in relation to inspection, there were no further comments in relation to other matters.

IVS 410 *Development Property*

Key Topics

There was a total of 116 consultation responses in relation to the questions asked on IVS 410 *Development Property* and the majority of respondents were in accordance with the changes contained within the standard.

The Tangible Assets Board and its affiliated Development Property Working Group reviewed the responses and noted that the majority of responses focussed on the following key issues:

- Valuation Framework,
- Environmental, Social and Governance Considerations,
- Clarification of Key Concepts, and
- Other Matters.

Valuation Framework

In relation to the consultation question asked on the restructuring of IVS 410 to align with the General Standards, the inclusion of additional contents on data and inputs, and valuation models as part of this process, the majority of respondents were in accordance with the restructuring and commented that IVS 400 provided sufficient content on the additional topics.

Some respondents commented that there were inconsistencies between the requirements contained within the Tangible Asset chapters (*IVS 300 Plant, Equipment and Infrastructure*, *IVS 400 Real Property Interests*, and *IVS 410 Development Property*). Furthermore, some respondents noted that there were inconsistencies between *IVS 400 Real Property Interests* and *IVS 410 Development Property* when carrying out a valuation within *IVS 400 Real Property Interests* under the special assumption that a development had been completed.

The Tangible Assets Board noted these comments and carried out a full review of the Tangible Asset chapters and revised references to ensure consistency between these chapters. The Tangible Assets Board also carried out a full review of *IVS 400 Real Property Interests* and *IVS 410 Development Property* to ensure that there were no contradictions between the requirements contained within these Tangible Asset chapters.

Further respondents commented that it would be useful to discuss or cross-reference the different inputs in a residual appraisal. As a result of this comment the Tangible Assets Board reviewed this section and made revisions where appropriate.

Other respondents commented that within their markets it was difficult to find the correct data to use within markets due to a lack of transparency and deficiencies within the data available.

The Tangible Assets Board discussed this comment in detail and recognised the data challenges faced in some markets and considered that the hierarchy of comparable evidence contained within para 100.02 provided sufficient flexibility for less transparent markets.

Furthermore, the Tangible Assets Board noted that it was not the role of an overarching principle-based standard to provide more detailed requirements as this was the role of the valuation professional organisations.

Some respondents commented on whether IVS 410 *Development Property* should include a section on infrastructure as often large development properties would also include the development of infrastructure.

The Tangible Assets Board reviewed this comment and noted that IVS 300 *Plant, Equipment and Infrastructure* applied to all infrastructure, whether located in an infrastructure pure-play or a hybrid real estate role. Further to this comment the Tangible Assets Board reviewed references to IVS 300 *Plant, Equipment and Infrastructure* within IVS 410 *Development Property*.

Environmental, Social and Governance Considerations

In relation to the consultation question on ESG and whether the General Standards provide sufficient additional content in relation to the consideration of ESG or should IVS 410 provide additional content.

Some respondents commented that the requirements contained within the IVS 104 *Data and Inputs* Appendix were too prescriptive and would not be possible in all markets where there were serious challenges in relation to finding the relevant data for ESG consideration.

The Tangible Assets Board passed the General Standards comments to the Standards Review Board who reviewed the use of “must” and “should” within the Appendix to ensure applicability of ESG considerations within all markets and revised the following paragraphs accordingly:

A10.01 The impact of *significant ESG factors should* be considered in determining the *value* of a company, *asset*, or *liability*.

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

The Standards Review Board agreed that at the current stage of development it was not possible to be more prescriptive and through the use of “should” it provided the valuer with sufficient flexibility to either comply or explain.

Further respondents requested for further requirements to be included within IVS 410 to provide additional clarification on ESG considerations.

The Tangible Assets Board reviewed these requirements and added the following requirements within Section 100 Development Profit, para 100.34 (f), Section 110 Existing Asset, para 110.1 (c) and Section 120 Data and Inputs, para 120.06, to provide additional clarity on the consideration of ESG factors:

Development Profit

100.34 The following are examples of factors that *should* typically need to be considered in an assessment of the relative risks associated with the completion of a development project:

- (f) changes in *environmental, social and governance* requirements in relation to the proposed development.

110. Existing Asset

110.01 In the *valuation* of development property, it is necessary to establish the suitability of the real property in question for the proposed development. Some matters may be within the *valuer's* knowledge and experience, but some may require information or reports from other *specialists*. Matters that typically need to be considered for specific investigation when undertaking a *valuation* of a development property before a project commences include:

- (c) whether there are other non-financial obligations that need to be considered (political, environmental, or social criteria).

120. Data and Inputs

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

Further comments were received in relation to the use of specific rating systems such as BREAM or LEED within IVS 410.

The Tangible Assets Board reviewed this comment and noted that there was no rating system that was internationally applicable and also considered that the mention of specific rating systems was too detailed for a principles-based standard and was more a matter for perspective papers or guidance issued by Valuation Professional Organisations.

Finally, a number of respondents requested more detailed application guidance in relations to the consideration of ESG factors within valuations.

The Tangible Assets Board discussed this issue in detail but noted that as IVS is an overarching principle-based standard it should not provide application guidance.

Furthermore, application guidance in relation to the use of IVS is provided by Valuation Professional Organisations.

Moreover, the Tangible Assets Board did not consider that at this stage of the development of ESG requirements that it was practical to provide more prescriptive application guidance in relation to the consideration of ESG as this was subject to variance not only on an asset-by-asset basis but also on a country-by-country basis.

However, the Tangible Assets Board will continue to consider ESG within valuations, and will be including ESG as a key topic within the upcoming *IVS Agenda Consultation 2024*. It will also be issuing an updated ESG survey during 2024 to understand the extent that firms, investors, and valuation providers consider ESG within their valuation.

Furthermore, the Tangible Assets Board will continue to issue ESG-related Perspective Papers during the course of 2024 to engage the market, acting as a precursor to future standard setting and to provide further information on how ESG can be quantified within the valuation process.

As part of this process, the Tangible Assets ESG Working Group are in the process of drafting a Perspectives Paper on ESG and Plant, Equipment, and Infrastructure, which is planned to be issued in 2024.

Clarification of Key Concepts

In respect of the consultation questions on whether there were any other comments or observations on IVS 410 and whether IVS 410 is sufficiently detailed, the majority of respondents had no further comments.

Some respondents commented that the valuer should draw attention to the risk that parties to contracts in place regarding the subject property may become insolvent, and to contractual obligations impacting on the value of the property. In the opinion of the Tangible Assets Board, the valuer is not necessarily an expert on all legal contracts affecting property such as building contracts, etc.

However, the Tangible Assets Board reviewed this comment and added the following additional paragraph to Section 50 Bases of Value:

50.02 However, in considering the *value* of a development property, regard *should* be given to the probability that any contracts in place, eg, 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 market value. Therefore, it may be appropriate to highlight the risk to a lender 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 warranties and guarantees in the event of a default by the borrower.

Further respondents commented on potential revisions to Section 100 Residual Method paragraph 100.08 such as the inclusion of statutory fees and contingency.

The Tangible Assets Board reviewed these comments and revised paragraph 100.08 as follows:

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

- (a) completed property *value*,
- (b) construction costs,
- (c) consultants' fees,
- (d) statutory fees,
- (e) marketing costs,
- (f) timetable,
- (g) finance costs,
- (h) development profit (on both land and building),
- (i) contingency,
- (j) *discount rate*.

In addition, the Tangible Assets Board included the following paragraph on statutory fees within IVS 410:

Statutory fees

100.26 These are the fees associated with getting necessary permissions and approvals, which include but are not limited to building approvals, environmental clearance and fire safety.

Furthermore, some respondents commented on development profit and the fact that development profit should be considered for land as well as buildings.

The Tangible Assets Board was in accordance with these comments and revised para 130.02 and para 130.03 as follows:

Development Profit

100.32 Allowance *should* be made for development profit, or the return that would be required by a buyer of the development property in the marketplace for taking on the risks associated with completion of the project on the *valuation date*. This will include the risks involved in achieving the anticipated income or capital value following physical completion of the project. Development profit *should* be considered for both land as well as building(s).

100.33 This target profit can be expressed as a lump sum, a percentage return on the *costs* incurred on purchase of land as well as construction of the building/structure or a percentage of the anticipated value of the project on completion or a rate of return. Market practice for the type of property in question will normally indicate the most appropriate option. The amount of profit that would be required will reflect the

level of risk that would be perceived by a prospective buyer on the *valuation date* and will vary according to factors such as:

- (a) the stage which the project has reached on the *valuation date*. A project which is nearing completion will normally be viewed as being less risky than one at an early stage, with the exception of situations where a party to the development is insolvent,
- (b) whether a buyer or lessee has been secured for the completed project, and
- (c) the size and anticipated remaining duration of the project. The longer the project, the greater the risk caused by exposure to fluctuations in future costs and receipts and changing economic conditions generally.

Other respondents commented that there was some unnecessary duplication within IVS 410.

The Tangible Assets Board carried out a full review of IVS 410 and removed any unnecessary duplication but in some instances considered that duplication was helpful if it highlighted an important issue for consideration in the valuation of development properties.

Finally, some respondents requested further technical guidance on the use of the residual method.

The Tangible Assets Board discussed this issue in detail and noted that as a principal-based standards IVS did not usually issue technical guidance, and this was more in the domain of Valuation Professional Organisations who issue more detailed guidance for their members.

However, the Tangible Assets Board did pass on comments in relation to additional technical guidance to the Advisory Forum, whose members include Valuation Professional Organisations that may choose to issue additional technical guidance on the residual method for their members.

Other Matters

In relation to the consultation question asking whether there were any other elements within IVS 410 that should be included within the General Standards the majority of respondents had no further comment.

Some comments were received in relation to inspection and whether there should be a mandatory requirement to physical inspect all tangible assets.

The Tangible Assets Board discussed this comment in detail and noted that a prescriptive inspection requirement was impractical for all real property interest valuations and discussed matters such as valuations of international or remote portfolios within short time frames, or long-term instructions of large portfolios and noted that in a variety of instances mandatory inspections for all real property interests would be impractical.

What defines an inspection amongst valuation stakeholders also varies significantly, and ranges from the use of technology to conduct virtual inspections, to kerbside inspections, to highly detailed inspections in some instances involving the use of third parties to verify asset condition and maintenance.

However, the Tangible Assets Board noted that the issue of inspection was a key issue in a number of markets and further to the comments received the Tangible Assets Board revised para 40.02 to state as follows to provide additional clarification on this issue;

40.02 Sufficient investigations and evidence must be assembled by means such as inspection, inquiry, research, computation, or analysis to ensure that the *valuation* is properly supported. When determining the extent of investigations and evidence necessary, *professional judgement* is required to ensure it is fit for the purpose of the *valuation*.

The Tangible Assets Board will include inspection as a key topic for the forthcoming *IVS Agenda Consultation*, which is due to be published in 2024.

The Tangible Assets Board have set up an Tangible Assets Working Group to publish a Perspectives Paper in 2024 on Inspection to discuss this issue in greater detail and to engage the market to gain a greater understanding of inspection requirements across all markets, for all asset classes and valuation purposes.

Finally, some respondents made comment on valuation risk and commented that there should be more requirements in relation to the management of valuation risk within IVS 410, particularly as the valuation of development is generally seen as a high-risk area due to the number of assumptions that are made within a residual valuation.

The Tangible Assets Board reviewed these comments and noted that the *IVS Glossary* includes the following definition of valuation risk.

10.37 Valuation Risk

The risk that the resultant *value* is not appropriate for its *intended use*.

Furthermore, the Tangible Assets Board noted that as part of the consultation process the Standards Review Board had reviewed this definition and noted that even though the definition for valuation risk contained within the *IVS Glossary* is fit for purpose, the interrelation between valuation risk, market uncertainty and market risk is a complicated issue and further discussion, and engagement is required to fully explore this issue and understand standard setting needs.

As a result, the Standards Review Board and Asset Boards, including members of the Tangible Assets Board, have set up a Working Group to review Valuation Risk with the intention to issue a Perspectives Paper exploring the nature of valuation risk during 2024.

Furthermore, the Tangible Assets Board noted that valuation risk and uncertainty would be a key topic within the *IVS Agenda Consultation 2024* and therefore considered that no additional standards within IVS in relation to material uncertainty were required at this time.

Other than comments in relation to inspection and valuation risk there were no further comments in relation to other matters.

Financial Instruments

Key Topics

Introduction

The Financial Instruments Board was formed in December 2018. The Financial Instruments Board initially conducted an *Agenda Consultation* to obtain feedback from stakeholders on how to modify and enhance the existing Standard, IVS 500 *Financial Instruments*. Based on the responses received on the *Agenda Consultation*, the Financial Instruments Board decided to review IVS 500 and significantly improve the same. The Financial Instruments Board also decided that the improvements to IVS 500 *Financial Instruments* will provide guidance on the following areas:

- Governance,
- Data,
- Methods and Models, and
- Controls and Reporting.

The Financial Instruments Board decided to publish the guidance in stages with Governance and Data being addressed first, followed by Methods and Models, and Controls and Reporting. The Financial Instruments Board noted that given the interdependencies between the areas the second Exposure Draft would be cumulative. The second Exposure Draft would not only contain the proposals on Methods and Models, and Controls and Reporting, but also the revised sections on Governance and Data incorporating the comments received on the first Exposure Draft.

The Financial Instruments Board published its first Exposure Draft on revisions to IVS 500 on 11 December 2020 with comments due by 19 April 2021. After the publication of the first Exposure Draft, the Financial Instruments Board continued its deliberations on developing the guidance on Methods and Models and Controls and Reporting. In addition, the Financial Instruments Board also reviewed and addressed comments received from constituents on the sections on Governance and Data outlined in the first Exposure Draft.

The Financial Instruments Board published its second Exposure Draft on revisions to IVS 500 on 28 April 2023. As per the FI Boards' plans the Exposure Draft contained the complete set of proposals to enable stakeholders to form a view on the revisions to IVS 500 *Financial Instruments* in their entirety, prior to their being finalised in a standard.

IVS 500 *Financial Instruments*

Key Topics

The Financial Instruments Board reviewed the consultation responses and noted that the majority of responses focussed on the following key issues:

- Principle-based Approach to IVS 500,
- Structure of IVS 500,
- Interaction with General Standards,
- Valuation Process,
- Entity Approach,
- Scope,
- Application Challenges,
- Definitions,
- Data,
- Valuation Models, and
- Quality Control.

The aim of this *Basis for Conclusions* is not to attempt to examine every consultation response and provide a rationale for how the Financial Instruments Board dealt with the same. This *Basis for Conclusions* outlines the reasoning behind the decisions on key issues and the consequential amendments made to IVS 500 pursuant to such discussions by the Financial Instruments Board.

Principle-based approach to IVS 500 *Financial Instruments*

In considering the comments received in response to the IVS 500 *Financial Instruments Agenda Consultation*, the Financial Instruments Board decided that the proposals in the standard would be principle-based. This approach was supported by constituents in the subsequent consultations undertaken by the Financial Instruments Board and also consistent with the overall approach to IVS. Accordingly, the Financial Instruments Board developed the guidance in the standard using a principle-based approach.

Structure

As previously noted, the Financial Instruments Board had tentatively decided that IVS 500 *Financial Instruments* would provide guidance on the following areas:

- Governance,
- Data,
- Methods and Models, and
- Controls and Reporting.

However, based on constituent comments on the need for consistency between IVS 500 and the General Standards (see Interaction with General Standards which follows) the Financial Instruments Board decided to restructure IVS 500 to include guidance on the following areas:

- Data
- Valuation Models, and
- Quality Control

The Financial Instruments Board noted that the change in structure, whereby the sections on Governance and Controls and Reporting are merged into Quality Control, streamlines the requirements in IVS 500 without losing key principles and also ensures consistency between the structure of IVS 500 and the structure of the General Standards.

Interaction with General Standards

Commentators on the first Exposure Draft pointed out that certain elements of the valuation process, such as Governance and Data, are applicable for all valuations and requested that this be addressed for all valuation areas and not just be restricted to financial instruments. They also pointed out that this would also ensure consistency between the proposals for financial instruments and with the requirements of the General Standards.

In view of the above comments the Standards Review Board undertook a comprehensive review of the General Standards to ensure consistency of proposals in the General Standards with not only IVS 500 *Financial Instruments* but with all other Asset Standards. The proposals to revise the *General Standards* were exposed for comment along with the proposals on IVS 500. The Financial Instruments Board also acknowledged this critical need for consistency across all IVS Standards and accordingly revised and restructured the proposals in IVS 500 to ensure that they were consistent with the requirements in the General Standards.

The Financial Instruments Board noted that the IVS comprise General Standards that are applicable across all valuations, and Asset Standards that relate to specific valuation disciplines and Appendices, which are part of IVS and provide additional information for certain concepts articulated in the IVS *Valuation Framework*.

Valuation Process

In developing the proposals, the Financial Instruments Board focussed on establishing principles that would enable constituents to derive values of financial instruments in all market conditions and intended uses, including for financial, tax and regulatory reporting.

Whilst commentators agreed with the above objective, some raised certain issues that they recommended the Financial Instruments Board consider in their subsequent deliberations. They pointed out that tax legislation around the world and regulations for the oversight and stability of banks by the competent authorities do not have consistent valuation requirements. In many such cases a body of law over the correct use and interpretation of these requirements has been developed. Any legal or regulatory requirements would take precedence over IVS requirements.

The Financial Instruments Board took cognisance of the above comments and decided to clarify that the approach taken in IVS 500 is a process approach. IVS 500 sets out a valuation process with which entities need to comply. The basis of value is often informed by the intended use for example 'fair value' for financial reporting purposes. The Financial Instruments Board noted that such an approach was also consistent with the approach taken in the General Standards.

The Financial Instruments Board noted that the objective of IVS 500 is to outline the process that should be followed to arrive at a compliant valuation for any intended use and was not designed to describe specific requirements for a specific use case. Accordingly, the issue of possible conflict between the specific requirements of the given intended use and the requirements in IVS 500 does not arise. For example, the fact that IVS 500 does not prioritise the use of Level 1 inputs is moot as that requirement comes from the intended use case for financial reporting and must be followed for that intended use. What the requirements in IVS 500 aims to ensure is that in the case of financial reporting an entity has implemented the relevant controls and processes to ensure that Level 1 inputs are prioritised.

Entity approach

In developing the proposals in IVS 500 the Financial Instruments Board noted that historically IVS have been drafted with a focus on the valuer, providing internationally agreed principle-based standards for the valuer to apply. However, given the nature of constituents involved in a significant number of the valuations of financial instruments, the Financial Instruments Board initially decided to explicitly state that the entity was ultimately responsible for the valuations of financial instruments. Simultaneously, the Financial Instruments Board also noted that the aim was not to exclude any constituents and accordingly the proposals would be so designed such that they could be applied universally irrespective of the size or scale of the entity applying the guidance.

Commentators agreed that the aim of valuation standards should be to set the requirements to arrive at a compliant valuation. However, they also raised certain concerns regarding the application of the entity approach. They pointed out that the specific mention of the entity approach seemed to imply that IVS 500 could only be applied by entities and not by individual valuers, with the latter forming a significant part of constituents. The Financial Instruments Board noted this concern.

Subsequent to the publication of the second Exposure Draft a review of global valuation regulation conducted by the IVSC in conjunction with IOSCO showed that different jurisdictions have different approaches regarding allocating responsibility for valuations. In most instances it is the entity that is responsible with limited or no scope for delegating this responsibility. However, the review also demonstrated that on occasion, it is possible for the valuer to be responsible for the valuation. The Financial Instruments Board noted that in case of financial instruments, although such circumstances were rare, they did exist and accordingly IVS should be able to accommodate such circumstances.

In its deliberations the Financial Instruments Board took cognisance of the fact that the ultimate responsibility for the valuation is set by regulation or law and valuation standards such IVS 500 do not determine this. The Financial Instruments Board also noted that the entity approach as adopted by the Financial Instruments Board did not imply that only entities can apply the Standard. From the outset the aim of the Financial Instruments Board has been to design proposals that could

be applied by all constituents. In addition, the Financial Instruments Board also took cognisance of the comments that pointed out that consistency with other IVS Standards, especially the General Standards was of paramount importance.

Considering the above arguments, the Financial Instruments Board decided not to explicitly mention that it is the entity that is responsible for the valuation and to ensure consistency with the General Standards the Financial Instruments Board chose to focus on the valuer.

As indicated in the Glossary definition below:

10.39 Valuer

An individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/ external), possessing the necessary qualifications, ability and experience to execute a *valuation* in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a *valuer*.

The Financial Instruments Board noted that the definition of a valuer as envisaged within IVS is broad and captures all possible valuation scenarios, be it when the valuation is being performed by a valuer within the employ of an independent entity or as an individual, thereby ensuring that all constituents are able to apply IVS 500 when valuing financial instruments. The Financial Instruments Board also noted that the above approach does not imply a lack of accountability as the proposals in the Standard ensure that any valuer performing a valuation is responsible for the same.

The Financial Instruments Board also noted it is possible for certain parts of the valuation to be outsourced to specialists and service providers. These outsourced activities could be performed by individual valuers or by entities providing expert valuation services or the data needed for the valuations. The Financial Instruments Board noted that if the valuer does not possess the necessary technical skills, experience, data, models, or knowledge to perform all aspects of a valuation, it is acceptable for the valuer to seek the assistance of a specialist or a service organisation. In delegating aspects of a valuation, the valuer must ensure that these parties have performed their specific procedures in a manner that is consistent with the IVS or perform incremental procedures to comply with the IVS, in the event such procedures are significant.

In the instance where an external specialist or service organisation only completes an element of the valuation, for example only provides the data necessary for the valuation, the Financial Instruments Board noted that again the external specialist or service organisation cannot provide a statement of compliance with IVS Standards as such a statement of compliance requires compliance with all the requirements in IVS which covers the entire valuation and not just elements of the same. When an external specialist or service organisation is involved in only an element or elements of the valuation process, they have to provide adequate documentation to enable the valuer to ensure that work undertaken by the external specialist or service organisation is compliant with the requirements in IVS.

Scope

Based on the comments received in response to its *Agenda Consultation* on financial instruments, the Financial Instruments Board decided to include in IVS 500 a scope section with specific definitions to ensure that ambiguities regarding the application of the Standard are minimised in practice. Whilst commentators agreed with the approach, they also raised some specific concerns. First, they noted that the approach taken in IVS 500 was not consistent with other IVS Standards, which did not provide specific definitions of scope items. In addition, they noted that the definitions as provided could result in ambiguity in practice, without further detailed guidance, for example as done in IFRS.

Accordingly, the Financial Instruments Board, in conjunction with the Standards Review Board, reviewed the use of these terms within the IVS to ensure that requirements designated “must” and “should” were appropriate and that there was no contradiction between the General Standards and any of the Asset Standards. In the view of the Financial Instruments Board this enables the valuation to be tailored according to their specific intended use, intended user, characteristics of the asset and/or liability being valued and the complexity of the valuation.

In view of the above arguments and the changes to the General Standards the Financial Instruments Board decided to amend IVS 500 and remove the definitions of financial assets, liabilities, and equity instruments from the Standard.

Application Challenges

Whilst the commentators supported the complete set of proposals in IVS 500, one of the key concerns highlighted was it seemed that the proposals had been designed for large institutions, such as banks or insurance companies and did not adequately contemplate the needs of individual or smaller valuers. Constituents were of the opinion that smaller valuation firms, including corporates with small valuation teams, would find the proposals difficult and expensive to implement. They noted that, for example, corporates that issue few financial instruments would find it difficult to justify the costs of complying with requirements in the Standard. They recommended that the Standard be made flexible with the requirements being based on the significance of the financial instrument being valued guided by professional judgment of the valuer.

The Financial Instruments Board noted that aim of the Financial Instruments Board has always been to design standards that could be applied by all constituents irrespective of their size or complexity.

The Financial Instruments Board noted that one of the reasons for the above concern were the requirements in IVS 500, that imposed mandatory requirements on the valuer, irrespective of the complexity of the valuation. In order to address this concern, the Financial Instruments Board first introduced the concept of significance that is based on the professional judgment of the valuer and enables the valuer to tailor the application of the Standard according to their specific circumstances (see section on Significance).

Secondly, the Financial Instruments Board considered the mandatory requirements in IVS 500, requirements designated as a ‘must’ in the Standard. In the context of the General Standards some constituents noted that in respect of the use of “must” and “should” within IVS, there was an inconsistency in their use where in some instances the General and Asset Standards provided contradictory requirements.

Accordingly, the Financial Instruments Board in conjunction with the Standards Review Board reviewed the use of these terms within the General and Asset Standards to ensure that the correct requirement was used and that there was no contradiction between the General and Asset Standards.

The Financial Instruments Board also noted that the description of the roles in IVS 500 had raised concerns amongst constituents who would not necessarily have the prescribed number of roles in a valuation engagement. The Financial Instruments Board noted that the aim of the roles in the Standard was to outline the different functions that need to be performed in a valuation and not to require the valuer to actually have such specifically defined roles in the form of personnel in their organisations. Accordingly, the Financial Instruments Board decided to remove the section on specific roles from the Standard. The Financial Instruments Board decided to clarify that the Valuation Control framework should clarify and define the roles and responsibilities of each party in the valuation and ensure that the parties have correct and sufficient capabilities and resources to fulfil their responsibilities, including Quality Control.

Definitions

Fit for purpose

Commentators questioned the use of the term fit-for-purpose in the first Exposure Draft. They noted that the use of the term “fit for purpose valuations” in IVS 500 is unnecessary given that IVS 500 is part of overall IVS. They argued against the use of a separate term for IVS 500 compliant valuations given that valuations must comply with all IVS to be IVS compliant. The Financial Instruments Board acknowledged the above arguments and decided to remove the term ‘fit for purpose valuations’ from IVS 500.

Significant

The Financial Instruments Board noted that a number of comments had been received on the concept of proportionality as outlined in the first Exposure Draft and that there was general confusion regarding the term and the concept. The Financial Instruments Board also noted that a number of constituents preferred the term significant based on professional judgement of the valuer. Accordingly, the Financial Instruments Board decided to use the term “significant” which is defined in IVS as:

10.26 Any aspect of a *valuation* which, in the *professional judgement* of the *valuer*, greatly impacts the resultant *value*.

The Financial Instruments Board noted that the concept of significance which is based on professional judgement should enable constituents to decide the extent to which the processes, controls and checks outlined in IVS need to be applied to the valuations of financial instruments, an approach consistent with the General Standards.

Valuation Risk

In the IVS *Glossary* valuation risk is defined as:

10.37 Valuation Risk

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

Respondents, whilst agreeing with the need for the concept of valuation risk in ensuring that the application of IVS 500 can be tailored to the varied circumstances faced by the valuer, also pointed out that the concept would benefit from further consideration of potential application issues. They recommended that the Financial Instruments Board consider providing application guidance on the use of the concept of valuation risk to aid consistent implementation of the Standard.

The Financial Instruments Board considered the need for providing application guidance on valuation risk at this juncture. The Financial Instruments Board noted that for application guidance to be effective in aiding implementation, it needs to be tailored to specific application challenges being faced in practice.

The Financial Instruments Board noted that there have been significant revisions made to IVS 500 and the General Standards for which practice was yet to develop. Accordingly, whilst acknowledging the possible benefits of Application Guidance, the Financial Instruments Board decided against providing such Application Guidance at this juncture. Instead, the Financial Instruments Board agreed to monitor practice as IVS 500 is applied by constituents and evaluate the need for Application Guidance for financial instruments at a future date when specific practice challenges and issues are identified.

Data

The Financial Instruments Board noted that a critical component of any financial instrument valuation is the data that is used for such valuations. A broad range of data, assumptions, and adjustments are used in developing inputs used in valuations of financial instruments. The section in IVS 500 on Data outlines the incremental procedures and processes that the valuer must and should complete in order to perform a IVS-compliant valuation for financial instruments.

The Financial Instruments Board noted that inputs are derived from data, along with assumptions and adjustments, to develop a value. Accordingly, the Financial Instruments Board decided that the characteristics of the data, assumptions, and adjustments used in developing inputs must be understood by the valuer. The Financial Instruments Board also decided that processes and controls must be implemented to ensure that the selection of data, assumptions, and adjustments in the valuation, along with the inputs ultimately used, are relevant to the valuation and that such processes and controls need to be documented.

Given the critical importance of data in any financial instrument valuation the Financial Instruments Board outlined in the Standard the characteristics of data that would be considered appropriate for any valuation of financial instruments. The Financial Instruments Board, knowing that data that has all of these characteristics is rarely available, decided that the valuer must apply professional judgement to balance the characteristics of relevant data in order to choose inputs to the valuation.

Most commentators agreed with the proposals on Data. However, concerns were raised regarding the proposed Data taxonomy and the detailed Data types outlined in the first Exposure Draft. Regarding the proposed Data taxonomy commentators asked how the proposed taxonomy correlated with the data types presented subsequently and since the taxonomy was not mandatory whether such guidance on non-mandatory taxonomy should be included in the Standard. Commentators questioned the value of the proposed taxonomy as compliance is not required. The Financial Instruments Board was convinced by the arguments put forward by constituents and in finalising the proposals on Data decided to remove the proposed data taxonomy from IVS 500.

Regarding the proposed Data types some commentators whilst agreeing with the specific requirements for the Data types proposed, noted that the listing of the data categories was difficult to follow and, in their view, the high level of detail was inconsistent with the principle-based approach applied to other sections. They recommended that the IVSC should consider a less granular approach to categorise the data types, that aligns with the principle-based approach.

The Financial Instruments Board noted that a new General Standards chapter IVS 104 *Inputs and Data* had been developed and the section on Data in IVS 500 needed to be consistent with the structure and proposals in General Standards. Accordingly, the Financial Instruments Board decided to simplify the section on Data and remove the section on Data types in finalising the proposals on Data.

Valuation Models

In the valuation of financial instruments models play a central role as in most cases the valuer has to select and use appropriate models for the valuation. The Financial Instruments Board decided that the section on Valuation Models would accordingly focus on providing additional requirements on the appropriate selection and use of models in a valuation of financial instruments. The Financial Instruments Board noted that 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. In addition, a valuation model may rely on other valuation models to derive its inputs or adjust its outputs. As with Data, such models can be developed internally or sourced externally from a specialist or a service organization.

In developing the guidance on Valuation Models, the Financial Instruments Board noted that a new General Standards chapter, IVS 105 *Valuation Models*, had been developed and accordingly ensured that the guidance on Valuation Models in IVS 500 was consistent with the guidance in the General Standards.

As with the guidance on Data, the Financial Instruments Board outlined in IVS 500 the characteristics of Appropriate Valuation Models for financial instruments. The Financial Instruments Board noted that the appropriateness or in-appropriateness of any valuation model is determined by the assets and/or liabilities being valued, the scope of work, the intended use and the valuation method. Accordingly, the Financial Instruments Board decided that it is the valuer's responsibility to make such a determination and document the same. In addition, again as with Data, the Financial Instruments Board decided to specify the characteristics of appropriate valuation models. In addition, acknowledging the fact that perfect models are rarely available the Financial Instruments Board decided that the valuer must apply professional judgement to balance the characteristics of appropriate

valuation models in the selection of such models based on intended use, intended user, characteristics of the asset and/or liability being valued and the complexity of the valuation.

With Valuation Models, the Financial Instruments Board was convinced that the testing of such valuation models was essential not only for their selection but also for their continued usage. Accordingly, the Financial Instruments Board decided to provide guidance in the Standard on the Testing of Valuation Models. As with other areas of IVS 500, the Financial Instruments Board also decided to include documentation requirements for the development, use and testing of Valuation Models. The Financial Instruments Board noted that the aim of any documentation should be to ensure that there was sufficient information to describe the valuation conclusion such that a valuer applying professional judgement is able to understand and review the valuation.

Constituents overall supported the proposals on Valuation Models.

Quality Control

In their review of the General Standards the Standards Review Board decided to develop IVS 100 *Valuation Framework*, which addresses Valuation Process Quality Control in section 20. Accordingly, in order to be consistent with the General Standards the Financial Instruments Board developed the section on Quality Control which incorporates the proposals previously included under the section on Governance. The Quality Control section of IVS 500 supplements IVS 100 *Valuation Framework*, adding greater detail as it relates to financial instruments.

The Financial Instruments Board decided that quality controls are procedures that ensure the valuation is performed consistent with the IVS and the nature and extent of the quality control process depends on the nature and complexity of the valuation and the significance of the value. In addition, the Financial Instruments Board noted that quality controls may be automated and/or manual.

The Financial Instruments Board decided that quality controls must be appropriately designed and executed in a manner that affirms the completeness and integrity of the valuation process and the appropriateness of the value for the intended use and intended users. Quality controls should be documented such that the valuer applying professional judgement is able to understand the scope of quality control, the work performed, and the conclusions reached. The Financial Instruments Board also agreed that for recurring valuations quality controls need to be assessed periodically to ensure their integrity and completeness. As with Data and Valuation Models the Financial Instruments Board acknowledged that the valuer may delegate the performance of the process (eg, engage a service organisation or a specialist) but cannot discharge their accountability for the valuation and the value.

Given the objective of quality control and the role it plays in the valuation process, the Financial Instruments Board decided that quality controls should include a degree of review and challenge. The Financial Instruments Board decided to add requirements for review and challenge to address the range of complexity of financial instruments, significance of the intended use of the values and valuation processes used to value financial instruments.

Overall, there was support for the proposals on quality control from constituents especially in the context of financial instrument valuations. Certain constituents however requested that the Financial Instruments Board consider simplifying the requirements to ensure that all constituents and not just large organisations are able to implement the Standard.

As previously noted (see section on Application Challenges) the aim of the Financial Instruments Board has always been to design requirements that could be applied by all constituents irrespective of their size or complexity. Accordingly, the Financial Instruments Board reviewed the requirements on quality control to ensure that the requirements could be tailored to the intended use of the value, and consistent with the other sections ensured that the review and challenge process, which is an essential part of quality control, is required only when the valuation circumstance demands it.



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