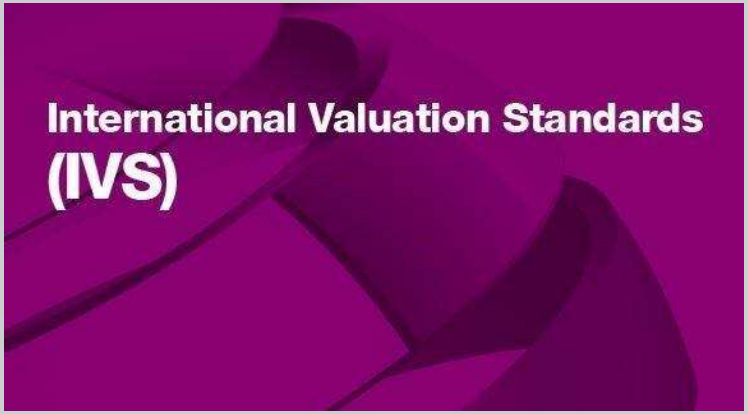
Key Updates to IVS Standards

with

Blue Hancock, Standards Board Chair

01/11/2021



IVSC

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE
The Home of Property Professionals

Agenda

- Background
- Objective of IVSC
- Introduction to Changes
- Core Principles of Standard Setting
- Core Principles of Valuation
- Glossary
- Framework
- General Standards -changes
- Questions

International Valuation Standards Effective 31 January 2022

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

Certain aspects of the standards do not direct or mandate any particular course of action but provide fundamental principles and concepts that must be considered in undertaking a valuation.

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE
The Home of Property Professionals

International Valuation Standards Council

The adoption or use of any International Valuation Standards Council standards by any entity is entirely voluntary and at the user's risk.

The International Valuation Standards Council does not control how or if any entity chooses to use the standards and does not and cannot ensure or require compliance with the standards.

The International Valuation Standards Council does not audit, monitor, review, or control in any way the manner in which users apply the standards

PINZ/NZIV have adopted IVS which is mandatory for all members

Objective of IVSC

The objective of the IVSC is to increase the confidence and trust of users of valuation services by establishing transparent and consistent valuation practices. A standard will do one or more of the following:

- identify or develop globally accepted principles and definitions,
- identify and promulgate considerations for the undertaking of valuation,
- assignments and the reporting of valuations,
- identify specific matters that require consideration and methods commonly used
- for valuing different types of assets or liabilities.

IVSC

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE
The Home of Property Professionals

Changes from previous editions of International Valuations Standards

Introduction

The introduction has been revised to incorporate new 'core principles of valuation standard setting' and the 'core principles of valuation', as set out in the IVS Additional Technical Revisions 2021 Exposure Draft.

The core principles have been agreed in conjunction with the Advisory Forum Working Group and not only demonstrate the harmonisation already in existence but also clarify vital expectations for all standard setters.

This change also reflects the IVSC's ongoing efforts to align valuation standards.

Core Principles of Valuation Standard Setting

The IVSC Standards Boards have taken into account the following core principles when drafting the International Valuation Standards

- Purpose (objective)
- Valuation Standards
- Development and revisions of Standards
- Jurisdiction

IVSC

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE
The Home of Property Professionals

Core Principles of Valuation

- Ethics
- Competency
- Compliance
- Basis (ie, Type or Standard) of Value
- Date of Value (ie, Effective Date/Date of Valuation
- Assumptions and Conditions
- Intended Use
- Intended User(s)
- Scope of Work
- Identification of Subject Valuation
- Data
- Valuation Methodology
- Communication of Valuation
- Record Keeping

IVSC

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

Changes from previous editions of International Valuations Standards

Glossary

The IVS glossary has been updated to include new terms and to provide additional clarifications. This change also reflects the IVSC's ongoing efforts to align valuation terminology and definitions.

Changes are shown in red

Glossary

10. Overview of Glossary

10.1. This glossary defines certain terms used in the International Valuation Standards.

10.2. This glossary is only applicable to the International Valuation Standards and does not attempt to define basic valuation, accounting or finance terms, as valuers are assumed to have an understanding of such terms (see definition of "valuer").

20. Defined Terms

20.1. Asset or Assets
To assist in the readability of the standards and to avoid repetition, the words "asset" and "assets" refer generally to items that might be subject to a valuation engagement. Unless otherwise specified in the standard, these terms can be considered to mean "asset, group of assets, liability, group of liabilities, or group of assets and liabilities".

20.2 Basis (bases) of Value

The fundamental premises on which the reported values are or will be based (see IVS 105 Valuation Approaches and Methods, para 10.1) (in some jurisdictions also known as standard of value).

20.3. Client

The word “client” refers to the person, persons, or entity for whom the valuation is performed. This may include external clients (ie, when a valuer is engaged by a third-party client) as well as internal clients (ie, valuations performed for an employer).

20.4 Cost(s) (noun)

The consideration or expenditure required to acquire or create an asset.

20.5 Discount Rate(s)

A rate of return used to convert a monetary sum, payable or receivable in the future, into a present value.

20.6 Equitable Value

This is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

20.7 Fair Market Value

1. The Organisation for Economic Co-operation and Development (OECD) defines “fair market value” as the price a willing buyer would pay a willing seller in a transaction on the open market.
2. For United States tax purposes, Regulation §20.2031-1 states: “The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts” 1 .

20.8 Fair Value (International Financial Reporting Standards)

IFRS 13 defines “fair value” as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

20.9. Intended Use

The use(s) of a valuer's reported valuation or valuation review results, as identified by the valuer based on communication with the client.

20.10. Intended User

The client and any other party as identified, by name or type, as users of the valuation or valuation review report by the valuer based on communication with the client.

20.11 Investment Value

The value of an asset to the owner or a prospective owner given individual investment or operational objectives (may also be known as worth).

20.12. Jurisdiction

The word “jurisdiction” refers to the legal and regulatory environment in which a valuation engagement is performed. This generally includes laws and regulations set by governments (eg, country, state and municipal) and, depending on the purpose, rules set by certain regulators (eg, banking authorities and securities regulators).

20.13 Liquidation Value

The amount that would be realised when an asset or group of assets are sold on a piecemeal basis. Liquidation value should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation value can be determined under two different premises of value (see IVS 104 Bases of Value, section 80):

(a) an orderly transaction with a typical marketing period; or

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

20.14 Market Value

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

20.15. May

The word "may" describes actions and procedures that valuers have a responsibility to consider. Matters described in this fashion require the valuer's attention and understanding. How and whether the valuer implements these matters in the valuation engagement will depend on the exercise of professional judgement in the circumstances consistent with the objectives of the standards.

20.16. Must

The word "must" indicates an unconditional responsibility. The valuer must fulfill responsibilities of this type in all cases in which the circumstances exist to which the requirement applies.

20.17. Participant

The word “participant” refers to the relevant participants pursuant to the basis (or bases) of value used in a valuation engagement (see IVS 104 Bases of Value). Different bases of value require valuers to consider different perspectives, such as those of “market participants” (eg, market value, IFRS fair value) or a particular owner or prospective buyer (eg, investment value).

20.18 Price (noun)

The monetary or other consideration asked, offered or paid for an asset, which may be different from the value.

20.19. Purpose

The word "purpose" refers to the reason(s) a valuation is performed. Common purposes include (but are not limited to) financial reporting, tax reporting, litigation support, transaction support, and to support secured lending decisions.

IVSC

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE
The Home of Property Professionals

20.20. Should

The word “should” indicates responsibilities that are presumptively mandatory. The valuer must comply with requirements of this type unless the valuer demonstrates that alternative actions which were followed under the circumstances were sufficient to achieve the objectives of the standards.

In the rare circumstances in which the valuer believes the objectives of the standard can be met by alternative means, the valuer must document why the indicated action was not deemed to be necessary and/or appropriate.

If a standard provides that the valuer “should” consider an action or procedure, consideration of the action or procedure is presumptively mandatory, while the action or procedure is not.

20.21. Significant and/or Material

Assessing significance and materiality require professional judgement. However, that judgement should be made in the following context:

•Aspects of a valuation (including inputs, assumptions, special assumptions, and methods and approaches applied) are considered to be significant/material if their application and/or impact on the valuation could reasonably be expected to influence the economic or other decisions of users of the valuation; and judgments about materiality are made in light of the overall valuation engagement and are affected by the size or nature of the subject asset.

•As used in these standards, “material/materiality” refers to materiality to the valuation engagement, which may be different from materiality considerations for other purposes, such as financial statements and their audits.

20.22. Subject or Subject Asset

These terms refer to the asset(s) valued in a particular valuation engagement.

20.23 Synergistic Value

The result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer, then synergistic value will differ from market value, as the synergistic value will reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as marriage value.

20.24 Valuation

The act or process of determining an opinion or conclusion of value of an asset on a stated basis of value at a specified date in compliance with IVS. ~~A "valuation" refers to the act or process of determining an estimate of value of an asset or liability by applying IVS~~.

20.25 Valuation Approach

In general, a way of estimating value that employs one or more specific valuation methods (see IVS 105 Valuation Approaches and Methods).

IVSC

NZIV NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE The Home of Property Professionals

20.26 Valuation Method
Within valuation approaches, a specific way to estimate a value.

20.27. Valuation Purpose or Purpose of Valuation
See "Purpose".

20.28. Valuation Reviewer
A “valuation reviewer” is a professional valuer engaged to review the work of another valuer. As part of a valuation review, that professional may perform certain valuation procedures and/or provide an opinion of value.

20.29 Value (noun)
The opinion resulting from a valuation process that is compliant with IVS. It is an estimate of either the most probable monetary consideration for an interest in an asset or the economic benefits of holding an interest in an asset on a stated basis of value. ~~The word “value” refers to the judgement of the valuer of the estimated amount consistent with one of the bases of value set out in IVS 104 Bases of Value.~~

20.30 Valuer

A "valuer" is an individual, group of individuals ~~or a firm~~ or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), ~~who possesses~~ 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.

20.31. Weight

The word "weight" refers to the amount of reliance placed on a particular indication of value in reaching a conclusion of value (eg, when a single method is used, it is afforded 100% weight).

20.32. Weighting

The word "weighting" refers to the process of analysing and reconciling differing indications of values, typically from different methods and/or approaches. This process does not include the averaging of valuations, which is not acceptable.

20.33 Worth :

See Investment Value

Changes from previous editions of International Valuations Standards

IVS Framework

The sections on ‘compliance with standards’, ‘assets and liabilities’, ‘valuer’ and 'competence' have been revised to provide additional clarifications.

IVS Framework

Contents	**Paragraphs**
Compliance with Standards	10
Assets and Liabilities	20
Valuer	30
Objectivity (no change)	40
Competence	50
Departures (no change)	60

10. **Compliance with Standards**

10.1. When a statement is made that a valuation will be, or has been, undertaken in accordance with the IVS, it is implicit that the valuation has been prepared in compliance with all relevant standards issued by the IVSC.

IVS Framework

10.2 In order for a valuation to be compliant with IVS the valuer must comply with all the requirements contained within IVS.

10.3 A valuer can only depart from International Valuation Standards (IVS) as described in section 60 of this Framework.

20. Assets and Liabilities

20.1 The standards can be applied to the valuation of both assets and liabilities and present and future claims on assets and liabilities. To assist the readability of these standards, the words asset or assets have been defined to include liability or liabilities and groups of assets, liabilities, or assets and liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded.

IVS Framework

30. Valuer

30.1 Valuer has been defined as "an individual, group of individuals, ~~or a firm~~ individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to undertake a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a valuer. Because a valuation reviewer must also be a valuer, to assist with the legibility of these standards, the term valuer includes valuation reviewers except where it is expressly stated otherwise, or is clear from the context that valuation reviewers are excluded.

40. Objectivity (no change)

50 Competence

50.1 Valuations must be prepared by 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 and having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation.

IVSC

NZIV NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE The Home of Property Professionals

Changes from previous editions of International Valuations Standards

IVS 101,102,103

Very minor wording changes

IVS 104 Bases of Value

Minor wording changes and referencing back to the Glossary of the bases.
A new section on 'allocation of value' has been included within this chapter.

220. Allocation of Value

220.1. Allocation of value is the separate apportionment of value of an asset(s) on an individual or component basis.

220.2. When apportioning value, the allocation method must be consistent with the overall valuation premise/basis and the valuer must:

(a) follow any applicable legal or regulatory requirements,
(b) set out a clear and accurate description of the purpose and intended use of the allocation,
(c) consider the facts and circumstances, such as the relevant characteristic(s) of the items(s) being apportioned,
(d) adopt appropriate methodology(ies) in the circumstances.

Changes from previous editions of International Valuations Standards

IVS 105 Valuation Approaches and Methods

The introduction has been revised to provide additional clarification that one or more valuation approaches may be used to arrive at the value reported within a basis of value.

Other minor wording changes.

10. Introduction

10.1. Consideration must be given to the relevant and appropriate valuation approaches. One or more valuation approaches may be used in order to arrive at the value in accordance with the basis of value. The three approaches described and defined below are the main approaches used in valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution.
The principal valuation approaches are:

(a) market approach,
(b) income approach, and
(c) cost approach.

Changes from previous editions of International Valuations Standards

IVS 200 Businesses and Business Interests

The introduction has been revised to provide further clarification on what constitutes a business and a business interest.

Those involved in business valuations will need to familiarise themselves with this standard

Changes from previous editions of International Valuations Standards

Asset Standard IVS 210 and 220 have minor wording changes

Asset Standard IVS 230 Inventory (New Chapter)

New Chapter Contents

Changes from previous editions of International Valuations Standards

IVS 300 Plant and Equipment

Minor wording changes.

IVSC

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE
The Home of Property Professionals

Changes from previous editions of International Valuations Standards

IVS 400 Real Property Interests

The introduction has been revised to provide additional clarification that this chapter includes the valuation of unregistered and communal land.

IVS Real Property Interests

20. Introduction

20.1. Property interests are normally defined by state or the law of individual jurisdictions and are often regulated by national or local legislation. In some instances, legitimate individual, communal/community and/or collective rights over land and buildings are held in an informal, traditional, undocumented and unregistered manner ~~outside of a modern land administration and governance system~~. Before undertaking a valuation of a real property interest, a valuer must understand the relevant legal framework that affects the interest being valued.

NZIV NEW ZEALAND INSTITUTE OF VALUERS

PROPERTY INSTITUTE
The Home of Property Professionals

IVS Real Property Interests

20. Introduction

20.2. A real property interest is a right of ownership, control, use or occupation of land and buildings. A real property interest includes informal tenure rights for communal/community and or collective or tribal land and urban/rural informal settlements or transition economies, which can take the form of possession, occupation and rights to use.

Changes from previous editions of International Valuations Standards

IVS 410 Development Property

Minor wording changes

IVS 500 Financial Instruments

Minor wording changes

Changes from previous editions of International Valuations Standards

Technical revisions

Updates included the technical revisions consulted on throughout 2020 and 2021.

Reporting IVS

- You must state in your report the version of IVS that applies to the valuation.
- State:
- IVS (effective 31 January 2022)
- Not
- IVS 2022

Questions