

## Release of ninth edition of International Valuation Standards



On 19 July 2011 the International Valuation Standards Council (IVSC), a global body that develops valuation standards, published the ninth edition of the International Valuation Standards (IVS). They replace existing IVS with significant changes in appearance, layout and structure. The standards are intended to apply to valuations performed for a number of purposes, including financial reporting. While the IVS are not endorsed by the IASB<sup>1</sup> or otherwise authoritative, they include references to valuations performed for financial reporting under IFRSs.

The IVS cover:

- general valuation concepts and principles, valuation approaches, bases of value, scope of work, performance of valuations and valuation reporting;
- specific issues for certain valuations, including fair value under IFRSs, and characteristics affecting the value of different asset types; and
- valuations for most types of assets, including financial instruments.

Valuation reports currently are not required to be prepared in accordance with the IVS. However, valuers may be subject to other valuation standards imposed by certain professional accreditations, national standard setters, regulatory bodies or legal precedents, which govern the conduct of valuations and the reporting of valuation conclusions.

The IVSC is actively promoting the IVS as a source of authority and consistency in valuations. As a result, the IVS may become increasingly important in valuation.

### Overview of the revised IVS

Set out below is a high level overview of the revised IVS.

- The revised IVS are split into four broad sections.
  - **Framework:** This section covers general concepts and principles, valuation approaches and bases of value.

#### Key points to note:

- Significantly revised IVS issued on 19 July 2011
- Cover valuations for most types of assets
- Refer to valuations performed for financial reporting under IFRSs
- Effective from 1 January 2012 with earlier application encouraged

- **General Standards:** This section covers scope of work, performance of valuations and valuation reporting.
- **Asset Standards:** This section consists of standards and commentary. There are separate asset standards for valuations of: businesses and business interests, intangible assets, plant and equipment, real property interests, investment property under construction and financial instruments. Each asset standard expands or amends material in the general standards for application to a specific asset type. The commentary discusses the characteristics of the asset type that affect value and common valuation approaches and methods.
- **Valuation Applications:** This section consists of standards and commentary. Each valuation application standard expands or amends material in the general standards for valuations performed for a specific purpose, including valuations for financial reporting and valuations of real property interests for secured lending.
- The IVS identify several bases of value, including fair value, market value and investment value. The value of an asset depends on the basis of value used, which includes inherent assumptions about the nature of the transaction and the parties to a hypothetical exchange, if applicable.
- The IVSC highlights differences between its definition of fair value and the definition of fair value under IFRSs: the IVS definition of fair value reflects a price that is fair to two identified parties. On the other hand, the definition of market value under IVS is noted generally as being consistent with fair value under IFRSs, i.e. market value generally reflects the value to market participants. This difference in terminology may be confusing to users of valuations performed for financial reporting purposes.
- A valuation intended to reflect a market price would take into consideration conditions in the market at the valuation date, rather than some adjusted or smoothed price that is intended to reflect a return to an assumed equilibrium. However, a forced sale is not consistent with market value under the IVS if an entity is compelled to sell and a normal marketing period is not available.
- The IVS include references to some of the material in IFRS 13 *Fair Value Measurement*. However, much of the guidance in IFRS 13 is not included in the IVS and IFRS 13 remains the source of authoritative guidance on fair value measurement for the purpose of financial reporting under IFRSs.
- The IVS are at a high level and do not provide detailed descriptions of valuation techniques or other application guidance. However, application guidance in the form of Technical Information Papers are planned to be published separately. The first two exposure drafts of these on the discounted cash flow method and the depreciated replacement cost method have been published in January and February 2011, respectively.

## Effective date

The ninth edition of the IVS is effective from 1 January 2012. Earlier application is encouraged.

### Abbreviations

1 IASB: International Accounting Standard Board

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