International Valuation Standards
&
Interface Between National Standards and Global Valuations Practices

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What is the IVSC?

The International Valuation Standards Council (IVSC) is an independent, not-for-profit organisation that is responsible for developing and issuing the International Valuation Standards (IVS). These standards provide a global framework for the practice of valuation and are used by valuers in more than 100 countries today.

IVSC was established to promote transparency, consistency and reliability in valuation worldwide. It is headquartered in London, UK with an Asia office in Singapore and has a global membership base consisting of organisations across various sectors such as valuation professional bodies, valuation firms, accounting, legal, regulatory, academic, and others.

IVSC Mission

Our mission is to raise standards of valuation practice by:

- Developing high-quality, principles-based International Valuation Standards (IVS) which ensure consistency, transparency and comparability across markets.
- Encouraging the adoption of the International Valuation Standards (IVS) by preparers, regulators and users in order to build transparency and confidence in valuations.
- Advancing valuation quality and professionalism amongst practitioners by supporting Valuation Professional Organisations and the structures required to elevate the valuation profession.

IVSC Structure

- The IVSC is governed by an independent Board of Trustees, which is made up of individuals with a wide range of expertise and experience. The board is responsible for setting the strategic direction of the IVSC, and for overseeing the development and issuance of the IVS.

- The IVSC draws on leading technical experts, businesses, political and finance leaders to support its mission, with more than 120 volunteers from 40+ countries active across its standard-setting boards.

- IVSC is financed through a combination of grants, sponsorships and membership dues. The IVSC is sponsored by the likes of the World Bank and by the Big 4 accounting firms as well as leading VPOs.

Valuation Matters

Valuation is important to the global financial system and to business, investment, and public interest because it provides a framework for determining the value of assets and liabilities. Reliable valuations are essential for making informed decisions about buying, selling, financing, and managing all assets and liabilities.

Valuations are needed for a variety of purposes, including: financial reporting; taxation; mergers and acquisitions; to inform investment decisions; to evaluate the performance of companies; and to assess the creditworthiness of borrowers.

Valuation Matters

The practice of valuation is critical to the smooth functioning of the global financial system and to the efficient allocation of resources in the economy.

Reliable and accurate valuations are also important for protecting the public interest as they ensure that transactions are conducted on an informed and fair basis, and that investors and stakeholders have access to the information they need to make informed decisions.

What are the International Valuation Standards ("IVS")?

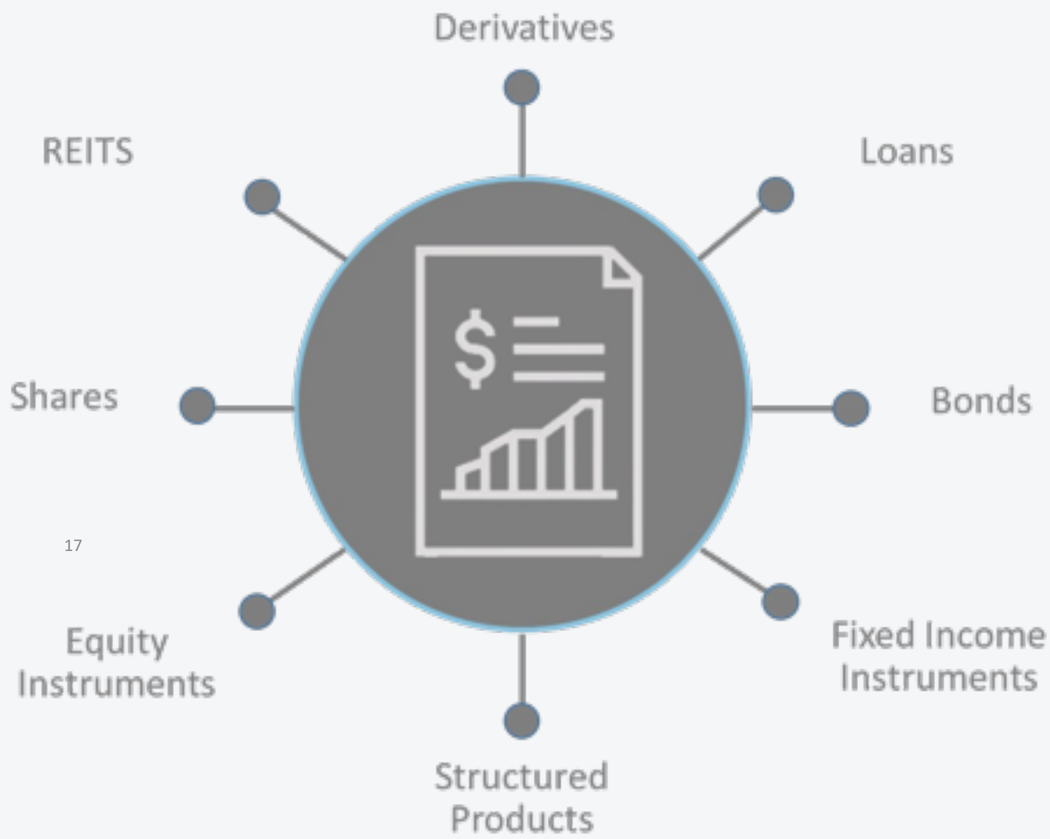
IVS are a set of high-level, principles-based standards for the practice of valuation, covering the valuation of all assets and liabilities. IVS provide an internationally-agreed 'best practice' framework and are widely recognised as the global standard for valuation today.

The IVS are designed to promote transparency, consistency, and reliability in valuation, and to help ensure that valuations are based on sound principles and practices. They are used by valuation professionals, regulators, financial institutions, and other stakeholders around the world and are regularly reviewed and updated to take account of changes in the business environment and advances in the practice of valuation.

Structure of IVS

Business Valuation & Intangible Assets

Financial Instruments



Tangible Assets

IVS

- Concise at 135 pages long
- All IVS mandatory
- Comprises General Standards and Asset Standards
- Effective Date 31st January 2022
- Available to access in digital format from IVS Online www.ivsoline.ivsc.org

International Valuation Standards - Updated

- Published in July and effective from 31 January 2022.
- Introduction has been revised to incorporate the core principles of valuation standard setting and the core principles of valuation.
- IVS Glossary has been updated to include new terms and to provide additional clarifications.
- IVS Framework has been slightly revised to include new sections on ‘compliance with standards’, ‘assets and liabilities’, ‘valuer’ and ‘competence’ to provide additional clarifications
- IVS 104 includes a new section on ‘allocation of value’.
- IVS 105 introduction has been revised to provide additional clarification that one or valuation approach may be used to arrive at the value reported within a basis of value
- IVS 200 introduction has been revised to provide further clarification on what constitutes a business and a business interest
- New chapter ‘IVS 230’ which covers valuation of inventories.
- IVS 400 introduction has been revised to provide additional clarification that this chapter includes the valuation of agriculture and land and to incorporate the valuation of unregistered and communal land.

IVS Introduction - Part 1

Core Principles of Valuation Standard Setting

- Purpose (Objective)
- Valuation Standards
- Development and Revisions of Standards.
- Jurisdiction

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IVS Introduction Part 2 - Core Principles of Valuation

Core Principles of Valuation

1. Ethics
2. Competency
3. Compliance
4. Basis (ie, Type or Standard) of Value
5. Date of Value (ie, Effective Date/Date of Valuation)
6. Assumptions and Conditions
7. Intended Use
8. Intended User(s)
9. Scope of Work.
10. Identification of Subject of Valuation11. Data
12. Valuation Methodology
13. Communication of Valuation
14. Record Keeping

IVS Glossary

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

- 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”).

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IVS Glossary

New Definitions:

- Basis (bases) of Value
- Cost(s) (noun)
- Discount Rate(s)
- Equitable Value
- Fair Market Value
- Fair Value (IFRS)
- Investment Value
- Liquidation Value
- Market Value
- Price (noun)
- Synergistic Value
- Valuation
- Valuation Approach
- Valuation Method
- Value (noun)
- Valuer

IVS Framework – Compliance with Standards

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.

10.2. In order for a valuation to be compliant with[25] 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.

IVS Framework – Competence

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.

IVS General Standards

The IVS General Standards apply to all valuation specialisms (tangible assets, including personal property, real property and plant and machinery, business valuation and intangible assets and financial instruments)

- IVS 101 Scope of Work
- IVS 102 Investigation and Compliance
- IVS 103 Reporting
- IVS 104 Bases of Value
- IVS 105 Valuation Approaches and Methods

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Provides everything the valuer needs to do from the initial instruction to issue of the final report.

IVS General Standards -
IVS 101: Scope of work: Introduction

10. Introduction

10.1. A scope of work (sometimes referred to as terms of engagement) describes the fundamental terms of a valuation, such as the asset(s) being valued, the purpose of the valuation and the responsibilities of parties involved in the valuation.

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10.2. This standard is intended to apply to a wide spectrum of valuation assignments, including:

(a) valuations performed by valuers for their own employers (employed),
(b) valuations performed by valuers for clients other than their employers (engaged),
(c) valuation reviews where the valuation reviewer may not be required to provide their own opinion of value.

IVS General Standards - IVS 102: Investigations and Compliance

General Principle: To be compliant with IVS, valuation assignments, including valuation reviews, must be conducted in accordance with all of the principles set out in IVS that are appropriate for the purpose and the terms and conditions set out in the scope of work.

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- 10. General Principle
- 20. Investigations
- 30. Valuation Record
- 40. Compliance with Other Standards

IVS General Standards - IVS 103: Reporting

Introduction: It is essential that the valuation report communicates the information necessary for proper understanding of the valuation or valuation review. A report must provide the intended users with a clear understanding of the valuation. For certain asset classes there may be variations from these standards or additional requirements to be reported upon. These are found in the relevant IVS Asset Standards.

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- 10. Introduction
- 20. General Requirements
- 30. Valuation Reports
- 40. Valuation Review Reports

IVS General Standards - IVS 104: Bases of Value - Introduction

Compliance with this mandatory standard requires a valuer to select the appropriate basis (or bases) of value and follow all applicable requirements associated with that basis of value, whether those requirements are included as part of this standard (for IVS-defined bases of value) or not (for non-IVS-defined bases of value).

Introduction: Bases of value (sometimes called [31] standards of value) describe the fundamental premises on which the reported values will be based. It is critical that the basis (or bases) of value be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer’s selection of methods, inputs and assumptions, and the ultimate opinion of value. A valuer may be required to use bases of value that are defined by statute, regulation, private contract or other document. Such bases have to be interpreted and applied accordingly

IVS General Standards - IVS 104: Bases of Value - IVS Defined and Non Defined Bases of Value

a) IVS-defined bases of value:

- Market Value,
- Market Rent,
- Equitable Value,
- Investment Value/Worth,
- Synergistic Value, and
- Liquidation Value.

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b) Other bases of value (non-exhaustive list):

- Fair Value (IFRS),
- Fair Market Value (Organisation for Economic Co-Operation and Development),
- Fair Market Value (United States Internal Revenue Service), and
- Fair Value (Legal/Statutory). (Model Business Corporation Act, and Canadian Case Law)

IVS General Standards - IVS 104: Bases of Value - Allocation of Value

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[33]:

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

IVS General Standards - IVS 105: Valuation Approaches and Methods - Key Concept

Key Concept; Valuers are not required to use more than one method for the valuation of an asset, particularly when the valuer has a high degree of confidence in the accuracy and reliability of a single method given the facts and circumstances of the valuation engagement. However, valuers should consider the use of multiple approaches and methods and more than one valuation approach or method may be used to arrive at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion.

Where more than one approach and method is used, or even multiple methods within a single approach, the conclusion of value based on those multiple approaches and/or methods should be reasonable and the process of analysing and reconciling the differing values into a single conclusion, without averaging, should be described by the valuer in the report.

IVS General Standards - IVS 105: Valuation Approaches and Methods Introduction

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[35] valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution.

The principal valuation approaches are:

- market approach,
- income approach, and
- cost approach.

IVS Asset Standards

The IVS Asset Standards apply to particular valuation specialisms.

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

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Provides additional detail in relation to specific asset standards and must be followed in conjunction with IVS 101 to IVS 105.

IVS Asset Standards - IVS 200: Businesses and Business Interests

20. Introduction

20.1. The definition of what constitutes a business may differ depending on the purpose of a valuation, but generally involves an organisation or integrated collection of assets engaged in commercial, industrial, service or investment activity. Generally, a business would include more than one asset (or a single asset in which the value is dependent on employing additional assets) working together to generate economic activity that differs from the outputs that would be generated by the individual assets on their own. A collection of Plant and Equipment (IVS 300 Reporting) and/or Real Property Interests (IVS 400 Real Property Interests) without the presence of other assets, or intangible components such as a workforce, would typically not be a business.

20.2 Individual intangible assets, or a group of intangible assets might not constitute a business but would nonetheless be within the scope of this standard if such assets generate economic activity that differs from the outputs that would be generated by the individual assets on their own. If the assets do not meet these criteria, a valuer should defer to IVS 210 Intangible Assets and IVS 220 Non-Financial Liabilities.

20.3 The commercial, industrial, service or investment activity of the business may result in greater economic activity (ie, value), than those assets would generate separately. The 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 absence of excess value does not automatically mean that the asset or group of assets does not constitute a business. In addition, economically, substantially all of the value of assets within a business may reside in a single asset.

IVS Asset Standards - IVS 200: Businesses and Business Interests

20.4 Businesses can take many legal forms, such as corporations, partnerships, joint ventures and sole proprietorships. However, businesses could take other forms such as a division, branch, line of business, segment, cash generating unit, and asset group that can consist of parts of one or more legal entities.

20.5 Interests in a business (eg, securities) can also take many forms. To determine the value of a business interest, a valuer should first determine the value of the underlying business by applying these standards. In such instances, business interests should be within the scope of this standard but depending on the nature of the interest certain other standards may be applicable.

IVS Asset Standards - IVS 200: Businesses and Business Interests

20.6. Valuers must establish whether the valuation is of the entire entity, shares or a shareholding in the entity (whether a controlling or non-controlling interest), or a specific business activity of the entity. The type of value being provided must be appropriate to the purpose of the valuation and communicated as part of the scope of the engagement (see IVS 101 Scope of Work). It is especially critical to clearly define the business or business interest being valued as, even when a valuation is performed on an entire entity, there may be different levels at which that value could be expressed. For example:

(a) Enterprise value: Often described as the total value of the equity in a business plus the value of its debt or debt-related liabilities, minus any cash or cash equivalents available to meet those liabilities.

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(b) Total invested capital value: The total amount of money currently invested in a business, regardless of the source, often reflected as the value of total assets less current liabilities and cash.

(c) Operating Value: The total value of the operations of the business, excluding the value of any non-operating assets and liabilities.

(d) Equity value: The value of a business to all of its equity shareholders.

20.7. Valuations of businesses are required for different purposes including acquisitions, mergers and sales of businesses, taxation, litigation, insolvency proceedings and financial reporting. Business valuations may also be needed as an input or step in other valuations.

IVS Asset Standards - IVS 210: Intangible Assets

Introduction: An intangible asset is a non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner. Specific intangible assets are defined and described by characteristics such as their ownership, function, market position and image. These characteristics differentiate intangible assets from one another.

There are many types of intangible assets, but they are[40] often considered to fall into one or more of the following categories (or goodwill):

a) Marketing related,
b) Customer related,
c) Artistic related,
d) Contact related,
e) Technology-based.

IVS Asset Standards - IVS 220: Non-Financial Liabilities

Introduction: For purposes of IVS 220 Non-Financial Liabilities, non-financial liabilities are defined as those liabilities requiring a non-cash performance obligation to provide goods or services. A non-exhaustive list of liabilities that may in part or in full require a noncash fulfilment and be subject to IVS 220 Non-Financial Liabilities includes: deferred revenue or contract liabilities, warranties, environmental liabilities, asset retirement obligations, certain contingent consideration obligations, loyalty programmes, power purchase agreements, certain litigation reserves and contingencies, and certain indemnifications and guarantees.

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IVS Asset Standards - IVS 230: Inventories

Scope

The most common context for the valuation of inventory is financial reporting related to a business combination. In this context, the definition of inventory includes raw materials, work-in-process (WIP) and finished goods. Although SFAS 141 has been superseded, in many ways current practice remains consistent with its guidance. Specifically, two primary methods may be used to determine the value of inventory[42]: the Replacement Cost Method (the “Bottom-Up Method”) and the Comparative Sales Method (the “Top-Down Method”).

International Valuation Standards Council

IVS Asset Standards - IVS 300: Plant and Equipment

Introduction: Items of plant and equipment are tangible assets that are usually held by an entity for use in the manufacturing/production or supply of goods or services, for rental by others or for administrative purposes and that are expected to be used over a period of time. The right to use an item of plant and equipment (such as a right arising from a lease) would also follow the requirements of this standard. It must also be noted that the "right to use" an asset could have a different life span than the life of the underlying plant and equipment itself and in such circumstances the useful, economic or effective life span must be stated.

IVS Asset Standards - IVS 400 Real Property Interests

10. Overview

10.1. The principles contained in the General Standards apply to valuations of real property interests. This standard contains additional requirements for valuations of real property interests.

20. Introduction

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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. Before undertaking a valuation of a real property interest, a valuer must understand the relevant legal framework that affects the interest being valued.

IVS Asset Standards - IVS 400 Real Property Interests

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.

There are three main types of interest:

(a) the superior interest in any defined area of land. The owner of this interest has an absolute right of possession and control of the land and any buildings upon it in perpetuity, subject only to any subordinate interests and any statutory or other legally enforceable constraints,

(b) a subordinate interest that normally gives the holder rights of exclusive possession and control of a defined area of land or buildings for a defined period, eg, under the terms of a lease contract, and/or

(c) a right to use land or buildings but without a right of exclusive possession or control, eg, a right to pass over land or to use it only for a specified activity.

IVS Asset Standards - IVS 410 Development Property

Introduction; In the context of this standard, development properties are defined as interests where redevelopment is required to achieve the highest and best use, or where improvements are either being contemplated or are in progress at the valuation date and include:

(a) the construction of buildings,

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(b) previously undeveloped land which is being provided with infrastructure,

(c) the redevelopment of previously developed land,

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

(e) land allocated for development in a statutory plan, and

(f) land allocated for a higher value uses or higher density in a statutory plan.

IVS Asset Standards - IVS 410 Development Property

120.2. To demonstrate an appreciation of the risks involved in valuing development property for secured lending or other *purposes*, the *valuer should* apply a minimum of two appropriate and recognised methods to valuing development property for each valuation project, as this is an area where there is often “insufficient factual or observable inputs for a single method to produce a reliable conclusion” (see IVS 105 *Valuation Approaches and Methods*, para 10.4).

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120.3. The *valuer must* be able to justify the selection of the valuation approach(es) reported and *should* provide an “As Is” (existing stage of development) and an “As Proposed” (completed development) value for the development property and record the process undertaken and a rationale for the reported value (see IVS 103 *Reporting*, paras 30.1-30.2).

IVS Asset Standards - IVS 500 Financial Instruments

Introduction; A financial instrument is a contract that creates rights or obligations between specified parties to receive or pay cash or other financial consideration. Such instruments include but are not limited to, derivatives or other contingent instruments, hybrid instruments, fixed income, structured products and equity instruments. A financial instrument can also be created through the combination of other financial instruments in a portfolio to achieve a specific net financial outcome. Valuations of financial instruments conducted under IVS 500 Financial Instruments can be performed for many different purposes including, but not limited to:

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(a) acquisitions, mergers and sales of businesses or parts of businesses,

(b) purchase and sale,

(c) financial reporting,

(d) legal or regulatory requirements (subject to any specific requirements set by the relevant authority),

(e) internal risk and compliance procedures,

(f) tax, and

(g) litigation.

IVS General Standards Update Project

- This is one of the major initiatives of the IVSC.

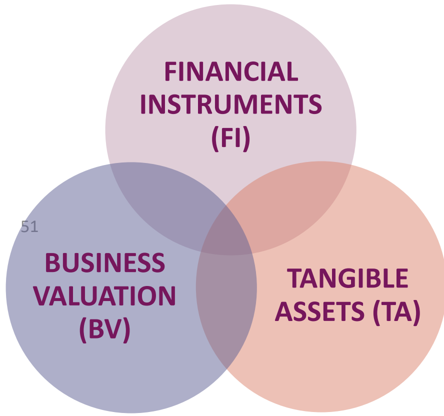
- The improvements to the General Standards are to provide clarity to users and other stakeholders (e.g., valuers, clients, regulators, and investors) as to the interrelationship of the General Standards and the Asset Standards.

IVS General Standards Update Project

- Ensure General Standards apply to all asset classes

- Provide clarity to users and other stakeholders (e.g., valuers, clients, regulators, and investors)

- Describe the interrelationship of the IVS General Standards to the Asset Standards



IVS Valuation Process

- Applies to all asset classes
- Describes key processes to which we believe we need to have standards
- Clarifies the connection between the IVS General Standards and Asset Standards
- Provides flexibility for inclusion of additional Asset Standards

IVS 100 VALUATION FRAMEWORK
▼
IVS 101 SCOPE OF WORK
▼
IVS 102 BASIS OF VALUE
▼
IVS 103 VALUATION APPROACHES
▼
IVS 104 DATA AND INPUTS
▼
IVS 105 MODELS
▼
IVS 106 DOCUMENTATION AND REPORTING
▼
IVS ASSET STANDARDS
▼
IVS COMPLIANT

IVS General Standards Update Project

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- Applies to all asset classes
- Describes key processes to which we believe we need to have standards
- Clarifies the connection between the IVS General Standards and Asset Standards
- Provides flexibility for inclusion of additional Asset Standards
- Ensures IVS is more relevant to all those involved in the valuation process

IVS (Effective 31 July 2024) Key dates

- IVS Exposure Draft April 2023
- IVS Summary of Exposure Draft Changes & Consultation Questions April 2023
- IVS (Effective 31 July 2024) January 2024
- IVS Basis of Conclusion (Effective 31 July 2024) January 2024

Emerging topics

ESG

ESG (Environmental, Social and Governance) has increased in importance for the valuation profession because these factors can have a significant impact on a company's long-term financial performance and risk profile. Environmental factors, such as climate change and sustainability, can affect a company's cost structure and revenue potential, while social factors, such as labor practices and community relations, can affect a company's reputation and brand value. Governance factors, such as management quality and board composition, can affect a company's ability to create value for shareholders.

Emerging topics

Intangibles

Intangible assets are becoming increasingly prevalent in today's economy. Many companies now rely on intangible assets such as intellectual property, brand value, and customer relationships to create value and generate revenue. These assets are often difficult to quantify, but they can be very valuable, and therefore play a critical role in determining a company's overall worth. With the rise of digitalisation and technology, intangible assets are becoming increasingly important for the valuation profession as it helps to understand the value of companies that have little or no tangible assets but generate significant revenue through digital means.

Emerging topics

Future Perspectives Papers 2023

- Intangible Assets Series: Technology – Q2/Q3 2023
- Nature of Valuation Risk – Q2/Q3 2023
- Valuation Review – Q2/Q3 2023
- ESG and Tangible Assets Valuation – Q3 2023
- Prudential Value – Q3 2023


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