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Mr Alexander Aronsohn
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Our ref RD/288

28 July 2023

Dear Mr Aronsohn

Comment letter on IVS Exposure Draft for Consultation (2023)

We appreciate the opportunity to comment on the proposed changes to International Valuation Standards ('IVS' or the 'Exposure Draft'). We have consulted with, and this letter represents the views of, the KPMG network.

Overall, we support the IVSC's Standards Review Board and Technical Boards ('the Boards') ambition to establish principles that will enable entities to derive IVSC compliant, fit-for-purpose valuations of all assets, including financial instruments in all market conditions and circumstances. We support the continued evolution of a set of international standards which will enhance the consistency, credibility and reliability of valuations, particularly if adopted by large corporate institutions.

Whilst we welcome the ambitions of the Boards and the structural changes made to support the Boards' objectives, nevertheless we have some observations regarding the content of the Exposure Draft. Our main observations, as you might expect from a firm of accountants and auditors, focus on the areas where valuation and accounting standards overlap.

Below we have set out responses to the questions raised in the Exposure Draft, as well as other comments related to specific elements of the Exposure Draft in Appendices 1 and 2.

General Standards

1. ***The IVSC Technical Standards Boards (the Boards) have enhanced the structure of the General Standards to mirror the valuation process to improve users' ability to understand and apply International Valuation Standards (IVS). Do you believe that this has been accomplished? If not, why not, and what specific changes would you make?***

   We believe that the proposed changes better mirror the valuation process and will improve users' ability to understand and apply International Valuation Standards.

2. ***In the edition of IVS (effective 31 January 2022), the IVS Framework was included as a preamble and there was a lack of clarity as to whether it was mandatory or not. In the General Standards as proposed in the Exposure Draft, the IVS Framework, now chapter IVS 100 Framework, forms a mandatory part of IVS. Do you agree that this should be mandatory? If not, why not, and what specific changes would you make?***

   We believe that the movement of the IVS Framework from the introduction in the IVS 2022 edition to IVS 100 of the proposed General Standards clarifies the role of the framework. We agree that this should be mandatory for a valuation to comply with IVS. We do not have further specific changes for this section.

3. ***IVS 100 Framework now includes section 30 Quality Control. Do you agree that the new requirements for quality control are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

   We believe that the proposed Quality Control section sets out reasonable measures to apply to a valuation.

4. ***IVS 104 Data and Inputs has been added to the General Standards. Do you agree that the requirements for data and inputs are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

   We believe that the addition of IVS 104 is useful in highlighting the role, characteristics and importance of inputs and data.

   We believe that it may be useful to refer to financial reporting standards that set out a hierarchy of inputs into a fair value measurement. While the IVS are intended to be generally applicable, rather than for valuations prepared for a specific purpose such as financial reporting, this may alert valuers and users to commonly encountered issues. To maintain the general applicability nature of the IVS, this might be referenced in a separate document, – e.g. similar to the Basis for Conclusions or Illustrative Examples sections in financial reporting standards.

   Guidance would be useful on the understanding a valuer should seek on the source of data and pricing information from service organisations – e.g. whether they are based on price quotes at which market participants would be willing to trade, or the results of pricing models applied by the service organisation etc. In addition to informing the valuers' view of the reliability of the data, such information may be necessary for other purposes – e.g. to determine the level in the fair value hierarchy of a fair value measurement for financial reporting purposes.

   IVS 104.30.1 provides that data be selected in a process that maximises certain characteristics. In practice, weighting the individual characteristics listed may be complex and further guidance would be useful. For example, observable data is the fourth characteristic noted. However, IVS 103.10.2 and IVS 103.10.8 (as well as IFRS 13 *Fair Value Measurement)* provides that a valuation should maximise the use of observable inputs, which would require significant weight on this characteristic. Moreover, certain characteristic listed would appear to be mandatory rather than subject to maximisation – e.g. data should be appropriate/relevant.

5. ***The General Standards now include specific requirements for consideration of ESG factors within IVS 101 Scope of Work, IVS 103 Valuation Approaches and IVS 106 Documentation and Reporting. In addition, an ESG Appendix has been included in IVS 104 Data and Inputs. Do you agree that the requirements and framework for ESG considerations are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

   We believe that it is useful to include specific references to ESG factors in the IVS. While the proposed references are somewhat general, this is consistent with the uncertain influence of ESG factors on businesses and other assets and evolving practices with regard to incorporating such factors into a valuation. Given how ESG factors are incorporated into valuations is evolving, we recommend that the IVSC monitor this closely with a view to providing further guidance over time that will reduce diversity of practice.

   The Appendix to IVS 104 on Data and Inputs Related to Environmental, Social and Governance factors lists a very large number of ESG factors that we do not believe are currently considered in detail in most valuations. We are concerned that inclusion of these lists without appropriate caveats might give a false impression to users that such factors have been considered in detail in a valuation, especially given the requirements to include all known or readily available ESG information. As such, it would be useful to amend the existing provisions and/or include additional language to clarify that the incorporation of ESG factors in valuations is evolving and the link between many of the factors cited and the value of a business or asset is uncertain. As such, a number of the factors noted may not be relevant for a specific valuation.

6. ***IVS 105 Valuation Models has been added to the IVS General Standards. Do you agree that the requirements for valuation models are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

   It is useful for IVS to give guidance on valuation models.

   IVS 105.30.1 provides characteristics of a valuations model, which includes completeness – i.e. it "addresses all the features of the asset and/or liability to determine value". A valuer may conclude that some of the aspects of the assets/liability may not be material to its value and do not need to be directly modelled. As such, we suggest clarifying that a valuation model addresses all material features.

   We note that IVS 105.50.2 provides that a valuer must calibrate a valuation model. In our experience, calibration is frequently undertaken – e.g. when the implied internal rate of return on an acquisition is calculated in a purchase price allocation by reference to the acquisition pricing, or where an investment valuation model is calibrated to the investment/acquisition amount. However, where a valuation does not coincide with a transaction, it is not clear how this requirement would always be met. As such, what is intended should be clarified, or the requirement to calibrate the model limited to circumstances where such pricing is available.

7. ***IVS 106 Documentation and Reporting now includes section 20 Documentation. Do you agree that the requirements for documentation and reporting are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

   We believe these requirements are appropriate and clear.

8. ***The IVS Glossary is intended to include only defined terms used within IVS. The Glossary now includes additional definitions and others have been revised or deleted. Do you think these changes are appropriate? If not, why not, and what specific changes would you make?***

   We believe that explicit references to fair value should be included (they have been removed).

9. ***Stakeholders requested that the Board provide additional standards regarding valuation reviews. The Board has developed standards related to two types of valuation review (Valuation Process Review and Value Conclusion Review). Do you think these additions are appropriate? If not, why not, and what specific changes would you make?***

   We believe that these additions are appropriate.

10. ***Do you have any other comments or observations?***

    No.

Asset Standards

Business Valuation

11. ***The current Exposure Draft includes only minimal changes to IVS 200 Businesses and Business Interests through to IVS 230 Inventory. Most changes pertain to cross-referencing. The Boards found that IVS 200 to IVS 230 inclusive:***

    — ***effectively represent current international best practice; and***

    — ***are congruent with the proposed changes in other sections of IVS.***

    Furthermore, since the adoption and implementation of these standards are at critical junctures in several key jurisdictions, the Boards have chosen to not make any substantial changes to these chapters. Do you agree that IVS 200 to IVS 230 should remain substantially unchanged to maintain

consistency with IVS General Standards as outlined in the Exposure Draft? If you disagree, please explain your reasoning and provide specific suggestions for changes that you believe would enhance these standards?

In general, we believe that the proposed approach of leaving IVS 200 to IVS 230 largely unchanged is reasonable for the reasons set out. However, we note that there are certain emerging areas where further guidance would be especially useful, including cryptocurrencies and carbon credits – e.g. see IVS 201.50.6.

We further note that the guidance in IVS 220.110.2 is not consistent with the guidance in IFRS 13.45-46, which generally prevents adjusting the price for any restrictions on the transfer of a liability (even if it is a characteristic of the liability).

Financial Instruments

12. ***IVS 500 Financial Instruments has been restructured to follow the enhanced structure of the General Standards which are now mandatory. The restructured IVS 500 mirrors the valuation process in order to not only improve users' ability to understand and apply IVS but also to ensure that users can apply IVS 500 in conjunction with IVS General Standards. Do you believe that this has been accomplished? If not, why not, and what specific changes would you make?***

    We partially agree that the restructured IVS 500 assists users in applying it in conjunction with the IVS General Standards. However, we believe that some inaccuracies and misuse of terms could create confusion in practice. One of these inaccuracies is the lack of a clear definition of financial assets and liabilities in the Glossary section. In paragraphs 10.8 and 10.10, the definition of financial assets (or financial liabilities) indicates that a financial asset is a contractual right to receive cash or other asset (or liabilities for financial liabilities) from another entity, or to exchange assets or liabilities with a third party under conditions that are potentially favourable (or unfavourable for financial liabilities) to the entity. The references to "other asset" or "liabilities", without restriction, make the definition wider than IFRS® definitions, thus allowing items that are not IFRS financial assets/liabilities to be included in the definition. For example, an executory contract to buy inventory would be a financial instrument in all cases using this definition. We note that when using IAS 32 *Financial Instruments: Presentation* as the basis for the definitions, care should be taken that vital details contained in the IFRS body of work as a whole are not omitted or modified.

    Please refer to Appendix 1 for other comments.

13. ***The revised proposals on IVS 500 Financial Instruments include requirements on governance of the valuation process which need to be applied in conjunction with the requirements in IVS General Standards. Do you agree that the requirements for governance are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

We agree with the majority of the guidance to provide assistance on processes that entities should follow to ensure proper governance around financial instrument valuations. However, we make a number of detailed observations in respect of the governance section of the Exposure Draft, where we believe further clarity is required.

In particular, we note that the statement at paragraph 20.1 that the Asset Standard must be applied in all valuations of financial instruments used for financial, tax or regulatory reporting does not clarify how the Asset Standard applies to amortised cost measurement models which use cash flow data and other inputs in a similar way to fair value models. Please refer to Appendix 1 for our detailed comments.

14. ***The revised proposals on IVS 500 Financial Instruments include requirements on data and inputs which need to be applied in conjunction with the requirements in the General Standards. Do you agree that the requirements for data and inputs are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

We agree that some requirements as documented in the Exposure Draft are clear, complete and provide adequate clarity to ensure compliance with IVS. However, the presence of some inaccuracies and misuse of terms in other areas could hinder the overall objective of the requirements. Please refer to Appendix 1 for our detailed comments and recommendations.

15. ***In line with the Board's publication plan, the revised proposals to IVS 500 now include requirements on methods and models which must be applied in conjunction with the General Standards. Do you agree that the requirements for methods and models are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

We agree that some requirements as documented in the Exposure Draft are clear, complete and provide adequate clarity to ensure compliance with IVS. However, there are other requirements lacking clarity that could create confusion in practice. Please refer to Appendix 1 for our detailed comments and recommendations.

16. ***In line with the Board's publication plan the revised proposals to IVS 500 now include requirements on quality control which must be applied in conjunction with the General Standards. Do you agree that the requirements for quality control are clear, complete and provide adequate clarity to ensure compliance with IVS? If not, why not, and what specific changes would you make?***

We agree that some proposed requirements ensure compliance with IVS. However, other requirements need to be clarified in order to ensure the overall compliance with IVS. Please refer to Appendix 1 for our detailed comments and recommendations.

17. ***Do you have any other comments or observations in relation to IVS 500 Financial Instruments? Is IVS 500 sufficiently detailed and if not, why not and what specific changes would you make?***

    We note that some requirements of the Exposure Draft need to be clarified in order to make IVS 500 fit for purpose. Please refer to Appendix 1 for our detailed comments and recommendations.

    Overall, we believe the standard to be overly prescriptive for general use. We are concerned that compliance with the standard is overly onerous, likely cost prohibitive and impractical to implement for all but very large financial institutions. For example, corporates that issue few (but significant) financial instruments would find it difficult to justify the costs of complying with the testing, design, validation, maintenance, documentation and quality control requirements of the standards. For this standard to be more widely accepted/used for anything other than regulatory compliance of large financial institutions, we think that it needs to be simplified and less prescriptive – i.e. more principles-based, relying on valuations that should be performed by qualified people in a controlled environment including peer review, model testing/validation and documentation. The extent of time/effort will vary based on the significance of the financial instrument and subject to the professional judgment of the valuation specialist.

18. ***Are there any elements within IVS 500 that should be included within IVS General Standards? If so, please advise which elements.***

    We believe that the concepts of "significance", as expressed in paragraph 30.4 and its relation to "valuation risk" are subjects that should form part of the IVS General Standards. Requirements for all asset valuations should equally depend upon the assessment of their significance and valuation risk.

Tangible Assets

IVS 300 Plant, Equipment and Infrastructure

19. ***IVS 300 Plant, Equipment and Infrastructure now includes infrastructure. Is this sufficiently covered and if not, why not and what specific changes would you make?***

    In general, we believe that this is sufficiently covered but we note certain comments below and in Appendix 2.

    It would be useful to define more clearly what is intended by "infrastructure" as the areas covered by this term appear to have expanded in recent years – e.g. when considering the wider range of assets invested in by infrastructure focussed investment funds. Historically, infrastructure was often considered to be real estate rather than part of plant and equipment.

20. ***Additional content has been added to IVS 300 in relation to the income approach. Is this sufficiently covered and if not why not and what specific changes would you make?***

We believe that the additional content is sufficiently covered. Paragraph 80.5 (e), however, is unclear. As written, it seems to be applicable when the income approach is afforded significant weight, not as a reason in and of itself for significantly weighting the income approach.

21. Additional content has been added to IVS 300 in relation to the market approach. Is this sufficiently covered? If not why not and what specific changes would you make?

We believe that this is sufficiently covered and we have no further comments.

22. Do you have any other comments or observations in relation to IVS 300? Is IVS 300 sufficiently detailed? If not, why not and what specific changes would you make?

IVS 300.100.2 provides that "In addition to the requirements contained within IVS 104 Data and Inputs there is the following hierarchy of comparable evidence, which should be followed for PEI valuations:

— direct comparable evidence;

— indirect comparable evidence;

— general market data;

— other sources."

It is unclear how this hierarchy interacts with IVS 103 and 104 – e.g. IVS 103.10.8 "Valuers should maximise the use of relevant observable market information in all three approaches" and IVS 104.30.1.

Please see the response in Question 24 related to valuation models, which should also apply to IVS 300, section 110.3.

23. Are there any elements within IVS 300 that should be contained within IVS General Standards? If so, please advise which elements?

No.

IVS 400 Real Property Interests

24. IVS 400 Real Property Interests has been restructured to align with IVS General Standards and as part of this process additional sections have been added to provide additional context on data and inputs and valuation models. Does IVS 400 provide sufficient content and clarity on these topics relative to the content added in the General Standards? If not, why not, and what specific changes would you make?

We believe that the proposed changes provide sufficient content and clarity in this asset standard, which will improve users' ability to understand and apply both the general standards and those specific to Real Property Interests, particularly as it relates to data and inputs.

It is unclear, however, whether Paragraph 110.3 refers to limitations on valuation models or the models themselves. For example, it appears to refer to IVS 105, section 40.3, which states that "any such limitations must be explained, justified, and documented." If this is not the case, then are real property valuers required to provide an explanation of key calculations in the model, explain any model limitations, or explain the reasoning for the model's use? Furthermore, the justification requirement seems to apply only when the model's suitability is in question or when limitations exist, while the testing requirement presumably refers to the valuer's need to ensure accuracy and suitability.

Note that a similar requirement for data and inputs is more clearly stated, as it mirrors the requirement in IVS 104, paragraph 50.1 (Input Documentation), which states that "The selection and source and use of the data and inputs must be explained, justified, and documented." If the intention for Paragraph 110.3 is to include additional requirements for real property valuation models that are not already stated in IVS 105, then more clarity and context is needed. If not, then Paragraph 110.3 is not necessary, as these requirements are covered in IVS 105.

25. Do the General Standards provide sufficient additional content in relation to the consideration of ESG or should IVS 400 Real Property Interests provide additional content? If so, what additional changes would you make?

We believe that ESG factors, as they relate to real property valuation, are still evolving among market participants internationally, so additional content applicable to real property would be somewhat premature. To the extent that regional markets are applying ESG factors in real property valuations, the general standards appendix covering ESG factors provide sufficient content.

26. Do you have any other comments or observations in relation to IVS 400? Is IVS 400 sufficiently detailed and if not, why not and what specific changes would you make?

Several paragraphs include references to the general standards (e.g. IVS 400, section 100.4 includes a reference "(see IVS 104 Data and Inputs, section 40)"), while other paragraphs do not. It might be helpful to consistently apply references to general standards. For example, IVS 400, section 100.5 might include "(see IVS 104 Data and Inputs, section 50)".

Within the Scope of Work section (IVS 400, section 40), either paragraph 40.6 is missing or the paragraph numbering should be corrected.

It would be helpful if IVS 400 also provided guidance on how the fair value of a lease interest should be determined when the related lease contract includes a renewal option.

27. Are there any elements within IVS 400 that should be included within IVS General Standards? If so, please advise which elements.

No.

IVS 410 Development Property

28. IVS 410 Development Property has been restructured to align with IVS General Standards and as part of this process additional sections have been added to provide additional context on data and inputs and valuation models. Does IVS 410 provide sufficient content and clarity on these topics relative to the content added in the General Standards? If not, why not, and what specific changes would you make?

We believe that the proposed changes provide sufficient content and clarity in this asset standard, which will improve users' ability to understand and apply both the general standards and those specific to Development Property, particularly as it relates to data and inputs.

However, paragraph 130.3 could benefit from some rephrasing or context. Please see the response in Question 24 related to valuation models, which should also apply to IVS 410, section 130.3.

29. Do the General Standards provide sufficient additional content in relation to the consideration of ESG or should IVS 410 provide additional content? If so, what additional changes would you make?

We believe that ESG factors, as they relate to development property valuation, are still evolving among market participants internationally, so additional content applicable to development property would be somewhat premature. To the extent that regional markets are applying ESG factors in development property valuations, the general standards appendix covering ESG factors provide sufficient content.

30. Do you have any other comments or observations in relation to IVS 410? Is IVS 410 sufficiently detailed and if not, why not and what specific changes would you make?

We believe that IVS 410 is sufficiently detailed.

31. ***Are there any elements of IVS 410 which should be included within IVS General Standards? If so, please advise which elements?***

No.

Please contact Reinhard Dotzlaw at reinhard.dotzlaw@kpmgifrg.com or Colin Martin at colin.martin@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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APPENDIX 1

Question	Page	Paragraph	Comment
12	6	10.8 and 10.10	The references to "other asset" and "assets” or “liabilities", without restriction, make the definition much wider than IFRS or US GAAP. An executory contract to buy inventory would be covered in all cases using this definition. We suggest enhancing the definitions if the basis is to be the definition of financial assets and liabilities in IAS 32 *Financial Instruments: Presentation.*
12	36	30.5	The paragraph indicates that *"*Generally, investors can only expect to be compensated for systematic risk*".* The use of the word *"*Generally*"* is not appropriate given the fact that, in practice, investors are not only compensated for market risk. We suggest removing *"*Generally*"*.
12	56	A.10.1	The paragraph seems to suggest that ESG factors are limited to the impact of governance processes. We suggest modifying the paragraph into *"*Environmental, Social and Governance (ESG) factors may impact the valuation process*"*
12 and 18	148	30.4	The paragraph indicates that *"*in applying this standard, the valuer must have regard to significance. Significance determines the nature and extent of effort that an entity needs to expend in applying this chapter*". "*Significance*"* is not clarified in the general section. We believe significance is a concept that applies to all valuations and should be incorporated in the General standards chapters.

Question	Page	Paragraph	Comment
3	148 and 149	40.1, 40.2, 40.3 and 40.4	Paragraph 40.1 states that "The valuer is an individual, group of individuals or individual within an entity" and then "the valuer must design, implement and execute processes applicable to each part of the valuation, including quality controls.". If the valuer uses third party software, then the valuer did not design it. The organisation of the valuer should have validated it and checked the implementation, but this should be done by specialists who are not under the same chain of reporting. This is acknowledged in paragraph 40.4. The valuer cannot be the control operator either. This is also acknowledged in paragraph 40.3. For this reason, the concept of the "valuer" in paragraph 40.1 is flawed and needs revision. We further note that replacing this with "community" with separate roles listed for validators, IT and control operators could be problematic/impractical/ cost prohibitive for a sole proprietorship valuation firm. Finally, paragraph 40.2 acknowledges that some functions can be outsourced to parties, but with limited vision of what procedures.
13	148	20.1	Paragraph 20.1 of IVS 500 highlights that "the Asset Standard must be applied in all valuations of financial instruments used for, but not limited to, financial, tax or regulatory reporting". We believe that the scope of the term "valuation" in this context should be clarified. Many financial reporting and regulatory values rely on models that utilise expectations of future cash flows, with similar data and input needs to fair

Question	Page	Paragraph	Comment
			values. The single most common one would be an amortised cost measurement in financial reporting. It is not clear whether the scope of this standard would include amortised cost measurement and therefore whether an entity can be compliant with IVS 500 if it does not apply this standard to all measurements (including amortised cost amounts) in its financial reporting. The standards should also clarify whether IVS 500 would be applied to the calculations required for impairment of financial instruments (other than equity) that are held at fair value through other comprehensive income.
14	151	80.1.(a)	The two sentences, forming the paragraph, are inconsistent. The first indicates that the static data is unchanged for the life of the instrument, while the second indicates that the static data is unchanged, but it might change. We suggest the first sentence is deleted.
14	151	80.2, 80.3(a), 80.3 (b)	Paragraph 80.2 mandates consistent valuation processes. This is usually appropriate, but not always. For example, as instruments approach maturity, different data or approaches may be more relevant. Paragraph 80.3 (a) defines indicative data, but then states that "it should be contemporaneous with the valuation date". We suggest replacement of the sentence above with "If it is not contemporaneous with the valuation date, it may need to be adjusted for market movements." Paragraph 80.3 (b) broadly defines judgmental data to include interpolations which involve very little judgment

Question	Page	Paragraph	Comment
			alongside data modified by assumptions. We believe that it is better practice to list and support all assumptions (which could include the interpolation method) and leave the benchmark data from which the interpolation is made as 'normal' data, as those inputs are not judgmental.
14	151	80.1 (b) and 80.1 (c)	The definitions in paragraphs (b) and (c) refer to the data being "observed". However, relevant data inputs may be 'unobservable' in GAAP and hence apparently inconsistent with these definitions. Paragraph 80.1(b) states "dynamic data is observed on a regular basis…" Regularity is irrelevant because dynamic data changes in response to changes in the market. Paragraph 80.1(c) states "performance data is observed in a regular cadence…". Whether the cadence is regular or irregular is irrelevant, because the relevant consideration to take into account is whether it reflects changes in economic circumstances.
14	151	80.3(b)	Typo in the paragraph: "...the valuer must <u>be</u> document the basis…" "be" to be removed.
14	152	90.3	It is unclear what the point of the paragraph is. The value should simply reflect the unusual circumstances at the valuation date. We believe that this is an attempt to link the requirements to a fair value 'Base of Value', but it is not clear (i.e. an attempt to determine whether it is an 'orderly' transaction).

Question	Page	Paragraph	Comment
14	152	90.4	It would be helpful to define/explain the term "proxy" and when it is appropriate to use proxy data.
14	152	90.4(a)	The paragraph is unclear. What are "features with the original instrument"? What is meant to have those features? We suggest a clarification is made in the sentence.
14	152	90.4(b)	The paragraph is unclear. What are "valuations over time"? Valuations are performed as at the valuation date and not over time.
14	152	90.5	The paragraph states "...and reviewing information rights of instrument owners". What is the point of this in the context of the valuation process? In addition, the paragraph states "…In addition, any relationship between the **entity** and the source of the data or any bias of the parties involved in the **transaction** must be identified and assessed for its impact on the valuation...". It is unclear what is intended by "entity" and "transaction". We suggest that terms such as "valuer" and "instrument to be valued" are used instead.
14	153	90.6	The paragraph states "...the valuer may consider that data can **be** reasonably be believed to approximate...". The underlined word is redundant. We suggest removing it. The paragraph states "...during a market's closing time, either the stale price of the previous session or closing time or any available price before closing on the current trading session". The phrase

Question	Page	Paragraph	Comment
			"closing time" seems to be used inconsistently. In the first instance, it appears to indicate the time during which the market is closed (i.e. not open). In the second instance, it appears to indicate the time at which the market closed (i.e. became closed). Please provide consistency throughout the sentence.
14	153	90.7	We think that the paragraph could be enhanced, as all valuation methodologies require data/inputs. If there is insufficient data to apply a particular valuation technique, the valuer must still determine whether there is sufficient data to apply an alternative technique.
14	153	100.1	"Internal consistency" (included in the paragraph) is not an action related to set procedures as defined by the paragraph. But the way the paragraph is grammatically structured, indicates "internal consistency" is some kind of action. The sentence does not lose meaning without those words. It is unclear why there is a colon at the end given how the paragraph is grammatically constructed.
14	153	100.1(a).2	The paragraph states that "any proxy data that is used should be selected after evaluating a range of potential proxies to ensure that the selected data represent the most reliable proxy possible". Shouldn't the objective be to use the most relevant (not reliable) proxy? Or both?
14	154	100.1(c).1	The paragraph states "...either the stale price of the previous session...". But if the "stale price" were used, this would contradict paragraph 100.1(c) where it is indicated that "the valuer must design and

Question	Page	Paragraph	Comment
			implement quality controls to assess the timeliness of data and eliminate stale data". We think that this guidance needs to be restructured with the use of current data first (if available) rather than stale data. If current data is not available, the valuer must consider whether most recent data available prior to valuation date can be used and what adjustments might be required.
14	154	100.2	The paragraph states: "...if a valuer wishes to use a data set that is altered, the original data set must remain available for comparison.". We think that it is not appropriate to use the words "if a valuer wishes". The paragraph should focus on when it might be appropriate to use altered data.
14	154	100.3	The use of the word "while" at the beginning of the paragraph could create confusion, because the first part and second part of the sentence are not in conflict. We suggest deletion of “While” and “and” used instead of a comma in the sentence. In addition, we think that the notion "significant valuations" is inappropriate. The glossary indicates that there may be significant aspects of a valuation. We think that what is meant is that (i) the valuer must perform quality controls and (ii) additional review and challenge should be performed for complex valuations. It might also be the case that it is intended that "review and challenge" is required for significant aspects of valuations, but this would seem to bring all valuations to some extent into the "review and challenge"

Question	Page	Paragraph	Comment
			scope. The Exposure Draft is unclear in this regard.
14	154	100.3(a)	The paragraph states "the assumptions made by the valuer regarding data and the judgemental components in it, if any, and assess the valuer's data sources as well as disregarded sources. The challenger may suggest these measures to add valuation adjustments and mitigate data risk". It is unclear what measures the paragraph is referring to.
14	154	100.3(b)	We think that it is unclear what the paragraph is getting at or what action might follow from it.
14	154	100.4	The paragraph states "...the review and challenge processes should be performed by a technical function or challenger, such as a product control group or a model validation team, <u>and an operational function or assessor, such as internal audit.</u> Assessment function reviews the procedures and documentation produced of the valuer and challenger to determine whether they complied with policies and procedures. Such reviews should be documented". The underlined part seems to imply that each and every valuation should have two reviewers/challengers, including internal audit. This seems costly for organisations and this does not seem possible for external valuations. Furthermore, it is not clear what is intended by an "Assessment function”. In addition, the paragraph needs a clarification on "policies and procedures" indicated at the end of the paragraph and how this is a necessary part of an IVS compliant valuation process.

Question	Page	Paragraph	Comment
14	55	30.1	The paragraph indicates "...accurate: data and inputs are free from error and bias and...". The paragraph seems to imply that every error, even if irrelevant, could create issues in valuation. This could be tackled by editing the paragraph into "...are free from material error..."
14	155	110.1	Mistake in the paragraph: "Tthe valuer must document..." "t" to be removed.
15	155	120.2	The paragraph states "The objective of this chapter [..]" whereas in paragraph 120.1, it is indicated "This section [..]". In 120.2, is it chapter or section?
15	155	130.2	The paragraph states that "a fundamentally sound valuation model producing accurate values consistent with the design objective may exhibit valuation risk if it is misapplied or misused". If the valuation model is misused or misapplied, then presumably it would no longer be "producing accurate values". Alternatively, if the paragraph meant that values may be accurate but otherwise not appropriate in cases of misuse, then it should be more clearly articulated.
15	156	140.3	The second part of the paragraph is not clear. We think that it should be more clearly articulated.
15	157	150.1 (b)	The paragraph states that "when a valuer cannot perform these processes compensating processes must be performed to (i) assess their appropriateness and accuracy; (ii) understand their limitation...". The paragraph needs rewording. "Their" refers, by implication, to "compensating

Question	Page	Paragraph	Comment
			processes", whereas the intention is presumably to refer to the "valuation models".
15	163	210.10	The paragraph states that "...Rather, if a valuation model and benchmark match well, that is evident in favour of the model". We think that "rather" should be deleted as it suggests that difference can be ignored.
16	164	240.1(c)	The paragraph is unclear. What does "consistently following a valuation" mean? How does a value apply to people and systems?
16	165	260.5	The bullet point states that "identification of responsible parties, including quality control and review and challenge, and confirmation that responsible parties have correct and sufficient capabilities and resources to fulfil their responsibilities". How are capabilities and resources determined to be "correct"?
16	166	260.7	Please see comment for paragraph 100.3 above and the comment below in paragraph 260.8. There is a lack of consistency.
16	166	260.8	The paragraph states that "Such reviews are a critical component of the valuation process...". But if such reviews are "critical" as indicated, this would mean they would be necessary for all valuations, whereas this only seems to be necessary for large organisations/complex cases, as indicated in paragraph 260.7
16	166	260.9	The paragraph states that "In instances where the valuation is not approved, the valuation should...". Not approved by whom?

Question	Page	Paragraph	Comment
16	166	260.9	The paragraph states "...(ii) modify the valuation as deemed appropriate...". It may be that no modification is required – merely the provision of explanations or more information to the reviewer.
16	166	260.9	The paragraph states "A critical component of the valuation process...". Please provide clarification on what is the definition of a "critical component".
17	148	20.1	The paragraph begins "This Asset Standard must be applied in all valuations of financial instruments..." Valuations of financial instruments include valuation of liabilities and of derivatives that can be assets or liabilities at different times in their life. it is noted that the revisions to the General Standards have removed the references to the word "Asset" referring to both asset and liability throughout the text.
17	166	270.1	The paragraph states that "Documentation must be sufficient to describe and provide transparency to the intended user on the quality controls, including any professional judgements made.". We do not understand why documentation should provide transparency to the intended user. The latter might not actually have access to the documentation.
17	167	270.2	The paragraph states "Quality control processes should include, to the extent required, review and challenge.". This sentence does not contain requirements in respect of documentation.
17	167	270.4	The paragraph states that "Documentation must be reviewed and updated at regular intervals to help ensure that they continue to meet their objectives.". It would be

Question	Page	Paragraph	Comment
			helpful to make clear that the sentence above applies to recurring valuations/processes.

Appendix 2

Editorial and other Comments

Ref	Issue
Glossary	The definition of 'significant' refers to an aspect of the valuation which "greatly impacts" the resultant value. Users may be more familiar with terms such as "materially" rather than "greatly" in assessing the magnitude of the impact of a factor.
IVS 100.10.5	Amend to include emboldened text "Valuers must keep a copy ***of*** any report…".
IVS 100.20.2	This states that "Valuations must disclose or report a clear and accurate description of the intended user(s) of a valuation.". What distinction is intended between "disclose" and "report"? These terms are also used in later paragraphs – e.g. 20.4, 20.6, etc.
IVS 100.60.3.3	We understand this paragraph to mean that where, for example, International Financial Reporting Standards ("IFRS") including IFRS 13 *Fair Value Measurement*, have specific requirements for a fair value measurement, these would need to be followed by a valuer for a valuation prepared for IFRS financial reporting purposes to comply with IVS. For example, the proposed IVS includes several references to peers, whereas the perspective required for fair value measurements under IFRS is that of a market participant, and a similar principle would apply to follow other IFRS requirements where applicable given the purpose of the valuation.
IVS 101.20.3	The statement that "If, during the course of a valuation engagement, it becomes clear that the scope of work will not result in an IVS compliant value, the valuation will not comply with IVS." appears redundant.
IVS 101.30.2	It would be useful to align the scope of work requirements for a valuation review with the reporting requirements for the review, including for a valuation process review the version of IVS that is being reviewed.
IVS 102.A10.5	This states that "To indicate market value, the income approach should be applied, using inputs and assumptions that would be adopted by participants.". The reference to

	"participants" is unclear. The terminology used in US GAAP and IFRS, "*m*arket participant*"*, is clearer and is also defined. This may be clarified by including the term in the glossary. As drafted, this implies that the income approach should be used rather than if it is used, inputs and assumptions that would be adopted by participants should be used, which may be what was intended.
IVS 102.A20.5	Amend to "on **the** terms of an existing lease".
IVS 102.A70	It may be useful to provide examples of differences between market value and fair value so that users do not assume they are largely the same (unless the IVSC believes this to be the case).
IVS102.A90.2	Highest and best use ("HABU") is generally understood to apply only to non-financial assets. This paragraph suggests there may be circumstances where HABU would apply to financial assets. Provide an example when HABU might apply to a financial asset.
IVS 103.10.9	It may be useful to provide a reference to the fair value hierarchy in financial reporting – e.g. in a basis for conclusions.
IVS 103.20	This section would benefit from a discussion of how PFI and risk impacts multiple selection.
IVS 103.20.3	Amend to reflect the emboldened text "corroborate the value indication from **the** market approach".
IVS 103.40	The discussion of the cost approach here (or elsewhere, as appropriate) should address the concepts of opportunity costs and entrepreneurial incentive, as applied in the cost approach.
IVS 103.A10.9	Delete "the same or" as identical comparable public companies will not be available.
IVS 103.A10	This does not mention synergies as an issue in the comparable transaction method. We suggest this is addressed.
IVS 103.30.2.(b)	The use of "few" comparables here does not address the quality of the comparable asset set. Even a small number of comparables may be sufficient, where they are very similar to the subject asset and the information is reliable.

IVS 103.40.2	Rather than stating that these are circumstances where a cost approach should be applied and afforded significant weight, we believe it would be more appropriate to state that “circumstances where a cost approach is likely to be more relevant and afforded significant weight included the following” or more straightforwardly, “should **generally** be applied”.
IVS 103.40.3	The paragraph ends with “and/or” but nothing comes after it.
IVS 103.A10.17	In discussing discounts for lack of control and marketability, it would be useful to reference the approach in IPEV, where such factors may be incorporated in a calibration process through other factors. The section does not address several factors included in the Appraisal Foundation Valuations in Financial Reporting (VFR) Valuation Advisory #3: *The Measurement and Application of Market Participant Acquisition Premiums* – e.g. that where a controlling interest is value, discounts for lack of marketability are likely to the limited.
IVS 103.A10.17	The discussion of control premiums/DLOCs does not address synergies that may be present in comparable transactions but not in ownership of the subject asset.
IVS 103.A20.5	Amend to include the emboldened text “for the nature of ***the*** asset or valuation”.
IVS 103.A20.5(c)	This does not address circumstances where the price change of the cash flows may differ to economy wide inflation that applies to the discount rate.
IVS 103.A20.7	Use of the term “functional currency” here may confuse users, as this has a defined meaning for financial reporting. This covers cash flows in a given currency or cash flows translated at a forward rate. Companies sometimes incorrectly use spot foreign exchange rates to translate cash flows, in which case an adjustment such as an inflation differential would be needed.
IVS 103.A20.17	There is no mention of certainty equivalents, as described in IFRS (and are broadly what is assumed in option models).

IVS 103.A20.17	Realistically, expected cash flow approaches do not reflect all possible outcomes as described.
IVS103. A20.20	This states that the same discount rate is normally used to discount the terminal value as the explicit cash flow. In practice, different discount rates may be used – e.g. as a project is assumed to have de-risked over its life.
IVS 103.A20.38	This addresses when risks included in the cash flows have not been captured in the discount rate and states that an adjustment must be made to the cash flows or the discount rate. This is not clear – e.g. whether such an adjustment might double count the incorporation of the risk in the valuation.
IVS 103.A30.11	Address if there is any diversity in practice on the inclusion of finance costs in the cost approach.
IVS 104.40.3	It is unclear what is intended by sufficient evidence must be "assembled".
IVS 104.50.1	The requirements in this paragraph on explaining, justifying and documenting the selection, sourcing and use of data and inputs go beyond the requirement of other valuation standards.
IVS 105.10.1	Amend to "Valuation models apply…" rather than "Valuation models applies…"
IVS 105.50.2	The discussion of calibration is very limited – e.g. how one calibrates an intangible asset valuation model or if calibration is possible in the absence of a transaction.
IVS 200.60.6	In addressing real versus nominal cash flow analysis, no distinction is drawn between differences in price changes in entity cash flows and market inflation.
IVS 200.120.2	The value of non-operating liabilities are not added to the operating value of the business but subtracted.
IVS 200.130.12	Amend to "without **a** rationale".
IVS 210.60.5	Consider adding the cost savings method to the list of income approaches.

IVS 210.60.7	References contributory assets. It would be useful to address whether a routine returns approach, more common in transfer pricing adjusted cash flows, is an acceptable alternative.
IVS 210.60.11	Tax is not discussed in this description of the MPEEM (discussed in 60.14). We suggest including a note that double counting needs to be avoided for the cost of developing new technology (even when valuing customer relationships) as the asset charge for the technology often already covers this. If the technology asset charge covers current and future technology (as it often does) the expenses of developing the new technology need to be excluded from the MPEEM, otherwise this results in double counting of the expenses.
IVS 210.60.26(d)	This should refer to the “without” scenario (the “with” scenario is addressed in (a) and (b)).
IVS 210.60.19(e)	It says tax should be ignored in RfR calculations in TP valuations. It is not explained why a purchaser would not be interested in the tax payable, or whether a different discount rate might be required?
IVS 210.60.26	In valuing non-competes, the period over which the benefit is forecast is often restricted to the term of the non-compete. It would be useful to address whether the benefit of such a term might extend beyond the legally restricted period.
IVS 210.60.29	Clarify that the greenfield method may not apply if the time to recreate is material.
IVS 201.90.4	Another factor that should be considered in the period of the cash flows. Amend “confirm **the** reasonableness”.
IVS 210.100.5(b)	Amend to “dependent on **the** age”.
IVS 210.100.6	Amend to “with **the** term of measurement”.
IVS 210.100.6(a)	Amend to “versus **the** end of period”.

IVS 210.110.4.(b)	An argument in favour of using the intangible discount rate for the tax amortisation benefit is that the TAB effectively “corrects” the overestimation of the cash taxes in the pre-TAB value. As such, the same discount rate should be used.
IVS 220.20.7	Replace “reasons include” with “for reasons including”
IVS 220.60.5	This refers to CACs on top of costs. It would be useful for the Boards to clarify if they believe that routine returns could not be applied.
IVS 220.100.2	This refers to the use of option pricing techniques to value non-financial liabilities. The use of option pricing models in such circumstances is not well understood or applied outside the US and further guidance from the IVSC would be useful.
IVS 230.60.5(e)	It would be useful to explain why holding costs would be deducted, rather than a rate of return.
IVS 230.90.9	This refers to inventory that carries symbolic IP where the right to sell the branded product is not held. It is unclear that this is a realistic assumption.
IVS 300.20.4	This discussion on the influence of intangible assets on the value of PEI assets could be clarified to more clearly distinguish circumstances where such intangible value should be reflected in the PEI assets and valued in accordance with IVS 300, as opposed to being measured separately in accordance with IVS 210. In particular, if the IVS has a concern about how this is currently approached in practice, this should be clarified – e.g. though the inclusion of examples.
IVS 300.20.5	The inclusion of “should inspect” does not explicitly allow a sampling approach to inspection or a focus on more material assets. This may limit efficient completion of the valuation – e.g. if there are a large number of assets at a range of locations.
IVS 300.20.5.(a) 6	The discussion of the lease renewal option does not clarify whether this is intended to apply to the lessor, lessee or both. This should be clarified, especially if it is intended to apply to one party only.

IVS 300.20.5.(b) 3	In our experience, appraisers typically do not make judgments on radioactive substances and rarely consider or are asked to consider the disposal of radioactive substances in M&E valuations.
IVS 300.20.5.(b) 4	It should be clarified how toxic waste affects the value of PEI, rather than relating to a separate asset retirement obligation or environmental liability.
IVS 300.20.5.(b) 5	This references licenses to operate PEI in a particular location or jurisdiction. We would expect that such licenses would be an intangible asset.
IVS 300.80.4	The term “afforded weight” is unclear.
IVS 400.40.9	In our experience, a valuer may rely on management representations in relation to a number of the listed items.