



## International Valuation Standards Committee

# IVSC E-News Issue 2 September 2005

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### IVSC to meet in South America

**The IVSC Standards Board and Management Board meetings and the 2005 AGM are to take place in Rio de Janeiro from 28 to 30 October.**

The meetings are to be followed by a two day conference organised jointly by the Brazilian institute - Instituto Brasileiro de Avaliaco'es e Pericias de Engenharia - and the IVSC. The conference will focus on the importance of valuation standards to the development of capital markets in the region. Speakers include Prof. Nelson Carvalho, Chairman IASB Standards Advisory Council. Members of the IVSC Standards Board will discuss the practical application of the International Valuation Standards. The conference will conclude with an overview of the real estate markets in a number of Latin American companies by a team of speakers.

The conference is to be held on Monday 31 October and Tuesday 1 November in the Hotel Sofitel, Rio de Janeiro. For full details and reservations visit [www.ibape.org.br](http://www.ibape.org.br)

### IVSC education session for IASB

As a regular part of its work, the International Accounting Standards Board from time to time invites groups to present an education session. The IVSC is present a session on valuation issues to the IASB at its meeting on 21 September 2005. The IVSC presentation will be available on the IASB website as observer notes for the meeting. [www.iasb.org](http://www.iasb.org)

### Polish translation of IVS

IVS 2005 has been translated into Polish by IVSC member The Polish Federation of Valuers Association. Information on obtaining a copy is available from [m.rymarowicz@pfva.com.pl](mailto:m.rymarowicz@pfva.com.pl)

### IVSC Business Valuation project

**Although the majority of IVSC member organisations at present are primarily involved with the valuation of tangible assets, a number are involved in business valuation and the valuation of certain intangible assets.** It is clear that, regardless of asset type, many fundamental principles and techniques apply to the process of calculating and reporting value. There is evidence of growing support from those involved in the valuation of intangible assets for the further development of International Valuation Standards, and Financial Reporting standards are probably the single most important driver for this.

IVSC has embarked on a project to identify the key market participants in the valuation of intangible assets and to invite their involvement in developing IVS further. If you want more information, contact IVSC Executive Director - [mtissier@ivsc.org](mailto:mtissier@ivsc.org)

In its response to a recent exposure draft published by AICPA *Proposed Statement on Standards for Valuation Services* (which was exclusively concerned with improving the regulation of valuations of businesses in North America), the IVSC urged active convergence with IVSC standards. Other respondents expressed a similar view.

### Proposed FASB Statement Fair Value Measurements

The most recent Project Update includes a reference to the IVS. Under the discussion on 'most advantageous reference markets' the Board has concluded that the "most advantageous reference market approach is reasonable based on the assumption that the ultimate goal of most entities is to maximize profits or net assets. It embodies both the buying and selling side of rational market behavior and is consistent with normal profit motivations. A similar approach is encompassed within the definition of market value in International Valuation Standards (IVS), which refers to the price that forms the basis for the estimate (of market value) as "the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer" (paragraph 3.2.1)." FASB expects to issue the final Statement during the fourth quarter 2005. [www.fasb.org](http://www.fasb.org)

### Electronic transfer of real estate data

PISCES and OSCRE have established an independent international non-profit organisation that has delivered an open industry Standard for real estate related e-commerce data exchanges for the past 9 years. The IVSC, a non-

profit international standard setter that has developed global valuation standards for the past 25 years, works closely and collaborates with PISCES and OSCRE on this shared area of interest.

The chairman of the IVSC, John Edge confirms "The IVSC (International Valuation Standards Committee) fully supports the PISCES and OSCRE initiatives and encourages its members to adopt their Standards and to assist PISCES and OSCRE by contributing their industry expertise to the development of their Standards." He added "developments in the electronic communication of business and financial data are set to revolutionise business reporting around the world. It is important for the international valuation profession to play an integral part in the development of this new electronic language."

Roger de Boehmler, the Director General of PISCES comments "We believe that IVSC members can play a very valuable role within PISCES and we look forward to better support the Committee's needs for international valuation and appraisal data exchanges."

PISCES (Property Information System Common Exchange Standards) is the Europe, Middle East and Africa Regional Member and co-founder with OSCRE Americas, representing the Americas Region within the OSCRE International (Open Standards Consortium for Real Estate) International consortium.

[www.oscre.org](http://www.oscre.org)  
[www.pisc.es.co.uk](http://www.pisc.es.co.uk)

## **IASB issues exposure draft Proposed Amendment to IFRS 3 Business Combinations**

The exposure draft, Proposed Amendment to IFRS 3, is an outcome of the second phase of the business combinations project, which is a joint effort with the U.S. Financial Accounting Standards Board (FASB).

The first phase of the project led to the issuance of IFRS 3 Business Combinations and FASB standard SFAS 141 Business Combinations. The second phase of the project reconsiders application of the acquisition method of accounting for business combinations.

The ED retains the basic requirements in IFRS 3 to apply the acquisition method of accounting for all business combinations, to identify the acquirer, and to determine the acquisition date for every business combination. It also retains most of the current guidance for identifying and recognising intangible assets separately from goodwill. The major changes proposed in the ED are to move from a cost-allocation approach in accounting for business combinations to a full fair value approach. The ED proposes a fair value hierarchy to be applied to all fair value measurements in a business combination, and provides related application guidance.

Specifically, it includes definitions of fair value and active markets and additional guidance about valuation techniques and market inputs used in fair value measurements. The proposed fair value measurement guidance is similar to the guidance proposed by the U.S.

FASB in the exposure draft, Fair Value Measurements, published in June 2004. The exposure draft is available on the IASB web site - [www.iasb.org](http://www.iasb.org)

## **IMF Guide on Resource Revenue Transparency**

The IMF has recognized the IVSC in its recently published Guide with the following statement: This methodology is suggested as a practical starting point, In commenting on the draft guide, however, the International Valuation Standards Committee (IVSC) noted the importance of specifying the basis for valuing asset worth and strongly recommended the use of market value or at least fair value rather than investment value. IVSC Guidance Notes 14 and 9 provides detailed instructions for the derivation and use of market inputs for such discounted cash flow estimates. (See [www.ivsc.org](http://www.ivsc.org) for further details in the context of the broad work on IVS).

## **Green Paper on Mortgage Credit in the EU**

The European Commission has published a paper looking at whether and how to develop a European market in mortgages. At the end of 2003, outstanding residential loans in the EU stood at about 44% of EU GDP. Most loans were taken out with national and local lenders. The Commission acknowledges that property valuation is central to the mortgage credit transaction and the way that it is used can directly affect the nature, the funding and the prudential rules applicable to the credit. Valuation traditions vary across Europe and to enhance valuation comparability the Commission asks whether this would be best done by the imposition of a single standard or by the mutual recognition of national valuation standards.

Following publication of the Green Paper, the Commission published a report on the costs and benefits of further integration of the EU mortgage credit market, carried out on its behalf by London Economics. The report predicts that intervention at EU level has the potential to facilitate and promote integration, leading to greater competition and increased product completeness in national mortgage markets. The report estimates the current (2005) value to the EU economy of such increased integration over the next ten years at ?94.6 billion, which amounts to 0.89% of current EU GDP.

The report found that profound differences continue to exist in national frameworks for valuation and called for a common standard for property valuation. It says that nationally defined valuation standards are historically motivated and differences between such standards bear no economic justification. Stakeholders are invited to comment by 30 November 2005 on the Green Paper, which is available at: [http://europa.eu.int/comm/internal\\_market/finservices-retail/home-loans/index\\_en.htm](http://europa.eu.int/comm/internal_market/finservices-retail/home-loans/index_en.htm)