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Steven J Sherman, Chairman
IVSC Standards Board
1 King Street
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By email: commentletters@ivsc.org

17 October 2014

Dear Mr Sherman

IVSC Standards Board Agenda Consultation

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Valuation Standards Council's Standards Board ('the Board's') Agenda Consultation ('the Consultation'). We have chosen to comment on issues that we see as pervasive to the Board's agenda as a whole and, as such, have not commented on individual projects specifically.

We support the Board's efforts to build confidence and trust in the valuation profession. In particular we support their efforts to provide transparency in the planning, execution and reporting of valuation assignments, including appropriate disclosures.

The IVSC as a global coordinator for valuation professionals

Although this may affect the Professional Board rather than the Standards Board, we support the efforts of the IVSC in bringing together various national bodies of valuation professionals into a global representative organisation. The experience of the International Federation of Accountants in the accounting and audit profession demonstrates that there is a place for such a body for professionals working in a particular field.

The role of the IVSC in guiding valuation practices globally

However, the ambition of the IVSC to issue valuation standards and promote convergence (undefined) globally, when the legitimacy of the organisation to speak for the valuation profession globally has not been established, concerns us. In our view, the current role of the IVSC should be as an educational and coordinating body, providing guidance on best practice and promoting consistency within the discipline, rather than as an international 'standard-setter', which suggests a significant degree of regulatory rigor and compliance.

As an example, we find the IVSC's discussion paper on the valuation of equity derivatives to be an interesting and useful discussion of valuation model selection. However, as the basis for a valuations standard, it runs the danger of being unhelpfully prescriptive; leaving practitioners unable to respond to developments in market practice because 'the rules' don't allow it.

We do, however, support the IVSC developing valuation guidance based on clear principles that can be applied across asset (and liability) types in order to facilitate a variety of valuation objectives. Such guidance should promote consistency in valuation for similar valuation objectives but should neither stifle innovation nor create a compliance mind-set. Consequently, we do not support developing more asset-specific or sector-specific guidance, which we see as contrary to guidance based on clear principles and opening the prospect of issuing contradictory guidance for similar items.

Our experience in other areas (in particular private and public sector financial reporting) is that standards are more effective when they establish clear and consistent principles related to assets, liabilities and transactions rather than attempting to address items and transactions from the point of view of a particular industry or sector. The latter inevitably leads to similar items being measured differently depending on the sector rather than the nature of the item being measured.

Developing prescriptive methodologies would also be difficult because this would lead away from defining the general principles that are applied "to specific situations [that] require the exercise of judgement", as the IVS Framework states. More prescriptive guidance is also contrary to the Board's statement in the Consultation on Structure and Scope that IVSs "cannot contain rules that prevent or limit the proper use of judgement."

The Valuation Objective

The valuation objective is critical to the application of an IVS in a particular situation. Valuations are performed for different objectives and any guidance must be able to reflect this fact. The IVSC cannot reasonably develop standards that meet all possible valuation objectives. We see a real danger in the tone of the Consultation towards promoting inappropriate consistency between valuations performed for different purposes.

In our view, for valuations not prepared for financial reporting purposes, the current IVSs provide appropriate guidance on determining a measurement approach that is consistent with the measurement objective, the available information, jurisdictional considerations, etc. Valuation professionals applying best practices are best placed to make informed judgements in the light of particular information deficiencies to determine an appropriate valuation in a given circumstance.

We think that it is important that the valuation objective is clearly understood by both the valuation professional and the client. Without a clear understanding at the outset, there is significant scope for misunderstanding. Illustrative examples could be useful in the promoting the consistent application of the IVSC Framework.

Feasibility of more prescriptive guidance

We question the feasibility of producing detailed guidance on specific assets and liabilities due to the inherent complexities or judgements used in the data underpinning a valuation, and information deficiencies. For example, in the context of oil and gas the valuation relies on the work of a totally separate discipline (geological engineers). Estimates based on geology can vary significantly (as an illustration, estimates of North Sea reserves ranging from 5bn to 24bn barrels were quoted in the debate

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on Scottish independence), the IVSC cannot realistically determine a single appropriate method to be used without expertise in that field. There are also jurisdictional variations. In forestry (amongst other things), tax arrangements are frequently a significant factor that can vary by jurisdiction. Without a full analysis of all tax regimes, it is hard to see how guidance beyond the current IVS requirement to consider tax law could be improved.

Before considering whether further guidance is required for financial instruments, the IVSC needs to determine their target audience. Generally banks and financial institutions have their own established valuation policies and procedures and hence do not have a need to refer to IVSC standards. Many of the valuation challenges and judgments for banks relate to structured financial instruments which are too difficult to cater for in general guidance/ standards, but for which the principles in IFRS 13 are appropriate.

Financial Reporting

The valuation objective for financial reporting purposes is generally defined in International Financial Reporting Standards or other recognised reporting frameworks, such as U.S. GAAP. Where fair value is the valuation objective, IFRS 13 and ASU Topic 820 provide sufficient guidance for valuation professionals to determine the appropriate valuation *methodology* to achieve the valuation *objective*. Guidance issued by the IVSC should not contradict the standards established in the recognised financial reporting frameworks, nor should it prevent valuation professionals from complying with them using the most appropriate methodology given the information available.

We also note that currently the IASB has a research project on discount rates in financial reporting that will examine the various discount rate requirements in IFRSs, and assess whether there are inconsistencies that the IASB should address. This would provide further guidance for valuations prepared for financial reporting purposes.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 20 7007 0884.

Yours sincerely

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