INTERNATIONAL VALUATION STANDARDS COUNCIL

IVS Agenda Consultation 2020

Invitation to Comment

Issued: **16 October 2020**
Comments Due: **15 January 2021**

IVSC Agenda Consultation 2020 Feedback form

I: IVS Gap Analysis - Questions for Respondents	
Question 1.1: Do you agree with the current categorisation and timings of the topics contained in the IVS Gap Analysis and if not why?	AVMs: For this topic a Perspective Paper instead of a Standard should be intended, because the issue is still in its early stage. Uncertainty and risk: For this topic no Standard should be intended, please see our answer to question Q. 6.1. Governance: Please see our answer to question Q. 3.1.
Question 1.2: Are there any other topics which you believe should be included or deleted from the IVS Gap Analysis and if so why? (Please state the relevant specialism, categorisation and timing for any proposed additional topics).	n./a.

II : Automated Valuation Models (AVMs) - Questions for Respondents	
Question 2.1: Do you consider AVMs to be a growing area and therefore something IVS needs to address? Please provide your reasoning for your answer as this will help the Board with their deliberations.	Please see our answer to Q.1.1.
Question 2.2: Should AVMs be included/addressed within IVS? If you think AVMs should be outside IVS how should they be considered and what clarity will valuers require?	
Question 2.3: Do you agree with the definition of AVM shown below. If no, please provide a suggested alternative definition together with a source for this definition. **Automated Valuation Model (AVM)** *A system that provides an indication of value of a specified Asset at a specified date, using calculation techniques in an automated manner. An AVM may not be a Model as defined in this glossary.*	
Question 2.4: Do you agree with the definition of Model shown below. If no, please provide a suggested alternative definition together with a source for this definition. **Model** *A Model is a formalised system relating several variables, assumptions, judgements and equations to calculate the Value of an Asset under a given Basis of Value.*	
Question 2.5: Should IVS consider Hybrid Valuations as illustrated in the diagram Key Categories of Valuation Methods. Please provide your reasoning together with any examples of Hybrid Valuations currently used in your market.	

III: Environmental, Social and Governance - Questions for Respondents	
Question 3.1: What role do you see IVS having in measuring the value of ESG? Please provide details and reasoning with your response.	We do not see IVS to value ESG separately from the underlying business model. ESG stands for factors that have the ability to - depending on the respective factor - massively impact the value of the business, which is to be valued. Hence, we see the necessity to incorporate ESG factors as an integral part of the "normal" business enterprise valuation since these factors are increasingly becoming relevant value drivers.
Question 3.2: How do you consider ESG within your valuation process? Please provide details of your country, specialism and as detailed an example as possible together with any data sources used, if applicable.	Currently, we do not systematically consider ESG in our valuation processes. Furthermore, neither specific guidance nor regulation exists to incorporate ESG in business enterprise valuation in Germany.
Question 3.3: What definitions and or framework do you currently use when considering ESG in your valuation work? Please provide the definition, framework and source.	None. For a definition for valuation purposes, reference could be made to the definition of ESG for non-financial reporting purposes.
Question 3.4: What are the demands from valuation stakeholders when considering ESG? Please provide details.	• Common understanding of an agreed definition. • Transparent, commonly agreed approaches to assess the financial impact of non-financial key performance indicators. • Transparent, commonly agreed methodology to consider financial impact of ESG factors in business enterprise valuation models (DCF & multiples).
Question 3.5: As outlined above ESG can be subdivided into a number of issues. Can you separately account for any of these issues within the valuation process and if so please provide further details?	Due to the very different nature of each ESG factor, even if grouped, we currently do not see a reliable approach to consider these individually in business enterprise valuation.

IV: Long-term Value - Questions for Respondents	
Question 4.1: Have you faced pressure from banks or other institutions to provide a prudential valuation? If so, in which market and in which specialism do you operate?	n./a. Please see our answer to Q. 4.2.
Question 4.2: Do you agree that Market Value already incorporates the concept of a prudential valuation within its definition? If not, please provide your reasons.	We do not agree that market value already incorporates the concept of a prudential valuation within its definition. The differentiation between value and price is of fundamental importance for all valuation purposes, not only for a long-term value in the context of Basel III. The value of a business in terms of value for decision-making is determined by the subjective benefit that its owners can derive from it. For valuations required by law, a decision-making value from the perspective of a typical market participant is needed that is intersubjectively comprehensible, this means “objectified” – in the German context this leads to the so called objectified business value. This value is based on a decision calculation, but at the same time the value-determining parameters are derived objectively i.e. from a market perspective as far as possible. The discount rate is generally derived on the basis of a capital market pricing model. Accordingly, the objectified business value is a hypothetical equilibrium price of an idealized capital market model. In free capital markets the price of businesses and shares (Market Value) is based on supply and demand. Although it is determined largely by utility estimates (marginal utility) of the respective buyers and sellers it can deviate – depending on the quantitative ratio between supply and demand, and the degree to which business owners can influence business policy (sole ownership, qualified or simple majority, blocking minority or free float) – more or less from the value of the entire business or the proportional share of the business’ total value. The transaction price actually realized by just one supplier and one buyer will contain to a large extent purely subjective marginal price elements of the two parties compared to a transaction price that results from the participation of a large number of suppliers and buyers. Due to the existing capital markets with continuous and organized trading between high numbers of suppliers and buyers, subjective marginal price components in observable transaction prices have a rather minor influence. Real transaction prices fluctuate depending on the respective economic cycle and economic fluctuations as well as system-related temporary overstatements or understatements around the hypothetical equilibrium prices of idealized capital market models.

	Prices actually paid for businesses or shares in businesses, may, provided they are sufficiently comparable to the business to be valued and sufficiently recent, serve in an assessment of the plausibility of business and share values, however, they are no substitute for business valuations. For the above-mentioned reasons, a prudential valuation must be an intersubjectively comprehensible value, not a transaction price depending on volatility of markets.
Question 4.3: Do you feel that the research in relation to a European Long-Term Value Index would be helpful or not? Please provide the reasoning for our response.	n./a.
Question 4.4: Should Long-Term Value be a separate basis of value or a concept to be included in a basis of value?	Please see our answer to question Q. 4.2.
Question 4.5: The current research for a Long-Term Value Index is currently restricted to European Markets. Do you feel that this research should be extended to your market, and if so, in which market do you operate?	n./a.

V: Social Value - Questions for Respondents	
Question 5.1: Do you agree with the proposed definition for Social Value outlined below? If not please provide your reasoning and proposed revisions to the above definition or an alternative definition, together with the source, if applicable. **Social Value** *Social Value includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial impacts including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users.*	According to the description in the agenda consultation, the scope of Social Value is restricted to not-for-profit and public sector entities. Otherwise, as far as this would generally mean the contribution of an entity under the aspect of its social contribution, please see our answer to Q. 3.1.
Question 5.2: Are you currently required to address Social Value within your valuations, and if so, what is your specialism and in which country are you located?	Please see our answer to Q. 5.1.
Question 5.3: How do you address Social Value within your valuation process? Please provide as detailed an example as possible together with any data sources used, if applicable.	Please see our answer to Q. 5.1.

VI: Uncertainty and Risk - Questions for Respondents	
Question 6.1: Do you feel that IVS should include a section on Uncertainty and Risk? Please provide the reasoning for your response.	In our opinion, uncertainty and risk are synonymous. We understand risk/uncertainty as the deviation (upwards or downwards) of the cash flows from the expected value. It makes no difference whether the deviation in the returns is due to market disruption, information restrictions or choice of method or model on the one hand or other causes on the other hand. Nor does it matter whether the deviation is due to empirically assessable fluctuations or singular changes without empirical knowledge.
Question 6.2: Do you feel that it would be possible to provide an overarching section on Uncertainty and Risk which applies to all specialisms? If not, please indicate where you think it does not apply and provide your rationale .	We do not agree; please see our answer to question Q. 6.1.
Question 6.3: Do you feel that the text provided above in relation to the difference between valuation Uncertainty and Risk is sufficiently detailed for inclusion within IVS? If not, please provide details of the other elements you would like to be included and your rationale for including these elements.	We do not agree; please see our answer to question Q. 6.1.

VII: Data Management - Questions for Respondents	
Question 7.1: Do you feel that IVS should include an overarching standard in relation to data management within IVS 105 *Valuation Approaches and Methods*? If no, please provide your reasoning.	
Question 7.2: How detailed should IVS be in relation to data management, and are there any elements that you feel should be included or excluded from this standard?	
Question 7.3: How should market uncertainty and risk impact the exercise of professional judgement when market data is not observable?	

PLEASE PROVIDE THE FOLLOWING INFORMATION:

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