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International Valuation Standards Council
20 St Dunstan's Hill
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Submission via email

28 July 2023

Dear Alexander Aronsohn

COMMENTS ON EXPOSURE DRAFT ON PROPOSED CHANGES TO INTERNATIONAL VALUATION STANDARDS

We thank you for the opportunity to provide comment on the Exposure Draft (ED) on proposed changes to the International Valuation Standards (IVS). The views in this comment letter are those of the Secretariat of the Accounting Standards Board (ASB) and not the Board.

The ASB is the national financial reporting standard setter responsible for setting accrual based Generally Recognised Accounting Practice Standards (GRAP) for the South African public sector. The ASB considers best practices locally and internationally in the development of Standards of GRAP. As such, most of the Standards of GRAP are based on the International Public Sector Accounting Standards set by the International Public Sector Accounting Standards Board.

We welcome the responsiveness of the International Valuation Standards Council (IVSC) in issuing this ED to modernise the IVS to include key components of the valuation process, future-proof the IVS for the valuation of new and different assets and liabilities and improve the understandability and relevance of the IVS for users and other stakeholders.

Our detailed responses to the questions on General Standards are outlined in Annexure A. As an overall comment, we recommend that future updates to the IVS consider developments in public sector financial reporting and whether specific guidance may be needed for valuers in the public sector.

Board Members: Ms P Moalusi (Chair), Mr C Braxton, Ms W de Jager, Mr D Dlamini,
Mr S Khan, Ms A Muller, Ms N Themba, Mr A van der Burgh
Chief Executive Officer: Ms J Poggiolini Technical Director: Ms E van der Westhuizen

Should you have any questions regarding the comments outlined in our letter, please feel free to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Elizna van der Westhuizen'.

Elizna van der Westhuizen

Technical Director

GENERAL STANDARDS

General Standards Question 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 support the enhanced structure which mirrors the valuation process. We believe it will improve users' ability to understand and apply the IVS.

General Standards Question 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 appreciate the value of a Framework that includes the principles underpinning the requirements of individual standards and ensures that they work together as a comprehensive suite of standards.

The *Conceptual Framework for General Purpose Financial Reporting* to our suite of accounting Standards does not establish authoritative requirements for financial reporting, nor does it override the requirements of any specific Standard. The Board determines the appropriate financial reporting requirements for transactions and events within specific Standards. The Board may prescribe requirements in Standards that are different to the Conceptual Framework for specific reasons, i.e. to meet the objective of financial reporting and qualitative characteristics of useful information.

Should similar circumstances exist in IVS, the IVSC may need to reconsider making the IVS Framework mandatory.

General Standards Question 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 support the inclusion of section 30 on Quality Control (QC).

Preparers of financial statements who appoint valuers often do not have the necessary expertise to perform these procedures themselves and rely on the valuer's work. Ensuring QC procedures are performed by the valuer enhances the reliability of the information for financial reporting purposes. We further support the scalability of the procedures (paragraph 30.6).

General Standards Question 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 support providing clear guidance on data and input in IVS. The accuracy and appropriateness of a valuation depends on the suitability of the data and input used.

General Standards Question 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 support the inclusion of ESG factors in IVS and the way that their impact on a valuation is described in paragraphs A10.7 and A10.8. We agree the factors may often be more qualitative than quantitative. We further support the examples of factors provided in paragraphs A10.4 to A10.6.

General Standards Question 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?

We support the inclusion of *IVS 105 Valuation Models* in the General Standards. We agree with the principle that the valuer must ensure that the selected valuation model meets the intended users' needs to ensure the model selection is suitable.

The International Public Sector Accounting Standard Board (IPSASB) recently published IPSAS 46 *Measurement* which provides guidance on how commonly used measurement bases in the public sector should be applied in practice. It introduces a new public sector specific current value measurement basis for assets that are held for operational purposes rather than to generate cash flows. This basis – current operational value - addresses IPSASB constituents' views that an alternative current value measurement basis to fair value is needed for certain public sector assets.

We recommend that the current operational value basis be considered in the development of the IVS.

Specific Matter for Question 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 support the inclusion of a section on documentation. In our experience quality financial reporting cannot exist without sufficient and appropriate supporting documentation. The lack thereof often results in disagreements between financial statement preparers and auditors.

We have heard that preparers who appoint valuation experts may not take ownership of the valuation used for financial reporting purposes. This may be due to a lack of understanding of the work of the valuer. Enhanced documentation on the valuation by the valuer may enhance the understanding of the financial statement preparer.

Specific Matter for Question 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 support that the glossary includes defined terms used within IVS and user-friendly links.

Specific Matter for Question 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?

No comment.

Specific Matter for Question 10

Do you have any other comments or observations?

Materiality

The definition of "material" in IFRS Standards and similar public sector standards state "Information is material if omitting, misstating or obscuring it could **reasonably be expected to influence** decisions that the primary users of general purpose financial statements make on the basis of those financial statements." We recommend that the recent change in the materiality threshold to **reasonably be expected to influence** be taken into consideration in the development of the IVS.

We further suggest that it may be necessary to include a definition of what is considered material information in the IVS Glossary.

With the addition of ESG considerations to IVS, we recommend that the IVSC consider developments on materiality across all types of reports.