IVS 3 – Valuation Reporting

International Valuation Standards Committee

Standard 3
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Valuation Reporting

1.0 Introduction

1.1 The critical importance of a Valuation Report, the final step in the valuation process, lies in communicating the value conclusion and confirming the basis of the valuation, the purpose of the valuation, and any assumptions or limiting conditions underlying the valuation. The analytical processes and empirical data used to arrive at the value conclusion may also be included in the Valuation Report to guide the reader through the procedures and evidence that the Valuer used to develop the valuation.

1.2 The Valuation Report indicates the value conclusion. It contains the name of the Valuer and the date of the valuation. It identifies the property and property rights subject to the valuation, the basis of the valuation, and the intended use of the valuation. It discloses all underlying assumptions and limiting conditions, specifies the dates of valuation and reporting, describes the extent of the inspection, refers to the applicability of these Standards and any required disclosures, and includes the Valuer's signature.

1.3 Because of the key role of the Valuation Report in communicating the conclusion of a valuation to users and third-party readers, this Standard sets forth the following as its principal objectives:

1.3.1 To discuss reporting requirements consistent with professional best practice

1.3.2 To identify essential elements to be included in Valuation Reports

2.0 Scope

2.1 The reporting requirements addressed in this Standard apply to all types of Valuation Reports.

2.2 Compliance with these reporting requirements is incumbent upon both Internal and External Valuers.

2.3 Some instructions involving valuations undertaken for specific purposes and property types, e.g., financial reporting, and lending, may differ from those given for other assignments. The reader is advised to consult those sections of the International Valuation Standards (IVS) that address these situations, i.e., International Valuation Application 1 and 2 (IVA 1 and IVA 2).

3.0 Definitions

3.1 *Valuation Report*. A document that records the instructions for the assignment, the basis and purpose of the valuation, and the results of the analysis that led to the opinion of value. A Valuation Report may also explain the analytical processes undertaken in carrying out the valuation, and present meaningful information used in the analysis. Valuation Reports can be either oral or written. The type, content and length of a report vary according to the intended user, legal requirements, the property type, and the nature and complexity of the assignment.

The terms, *Valuation Certificate* and *Valuation Report,* are sometimes used interchangeably. As used in some States (the UK), the term *Valuation Certificate* designates a document in which the Valuer certifies the amount of the valuation of the property. The *Valuation Certificate* is usually a short letter, though it may also take the form of a detailed report. It includes the valuation date; purpose of the assignment; date of the certificate; assumptions upon which the valuation is based; and the name, address and qualification of the Valuer. *Certification of Value* as used in other States (the US) is a statement in which the Valuer affirms that the facts presented are correct, the analyses are limited only by the reported assumptions, the Valuer's fee is not contingent upon any aspect of the report, and the Valuer has performed the valuation in compliance with ethical and professional standards.

3.2 *Oral Report*. The results of a valuation, verbally communicated to a client or presented before a court either as expert testimony or by means of deposition. A report communicated orally to a client must be supported by a work file and at a minimum followed up by a written summary of the valuation.

3.3 *Written Report*. The results of a valuation communicated to a client in writing, which includes electronic communication. Written reports may be detailed narrative documents containing all pertinent materials examined and analyses performed to arrive at a value conclusion or abbreviated pertinent narrative documents, including periodic updates of value, forms used by governmental and other agencies, or letters to clients.

3.4 *Specifications for the Valuation Assignment*. The first step in the Valuation Process, which establishes the context and scope/extent of the assignment and resolves any ambiguity involving the valuation issue or problem. The term is similar to *valuation brief* as used in some States. A Valuer ensures that the analyses, information and conclusions presented in the report fit the specifications for the assignment. The *specifications for the value assignment* include the following seven elements:

3.4.1 An identification of the real, personal (plant and machinery; furniture, fixtures, and equipment [FF&E]), business or other property subject to the valuation and other classes of property included in the valuation besides the primary property category

3.4.2 An identification of the property rights (sole proprietorship, partnership, or partial interest) to be valued

3.4.3 The intended use of the valuation and any related limitation; and the identification of any subcontractors or agents and their contribution

3.4.4 A definition of the basis or type of value sought

3.4.5 The date as of which the value estimate applies and the date of the intended report

3.4.6 An identification of the scope/extent of the valuation and of the report

3.4.7 An identification of any contingent and limiting conditions upon which the valuation is based

3.5 *Compliance Statement*. An affirmative statement attesting to the fact that the Valuer has followed the ethical and professional requirements of the IVS Code of Conduct in performing the assignment. In some States, a Compliance Statement is known as *Certification of Value*. For the contents of a Compliance Statement, see paragraphs 5.1.11 and 5.1.11.1 below.

3.6 *Special, unusual, or extraordinary assumptions*. Before completing the acquisition of a property, a prudent purchaser in the market typically exercises due diligence by making customary enquiries about the property. It is normal for a Valuer to make *assumptions* as to the most likely outcome of this due diligence process and to rely on actual information regarding such matters as provided by the client. *Special, unusual, or extraordinary assumptions* may be any additional assumptions relating to matters covered in the due diligence process, or may relate to other issues, such as the identity of the purchaser, the physical state of the property, the presence of environmental pollutants (e.g., ground water contamination), or the ability to redevelop the property. (See para. 5.1.7, below.)

4.0 Relationship to Accounting Standards

4.1 Where applicable, the Valuation Report shall meet or exceed the requirements of the International Accounting Standards (IAS) and International Public Sector Accounting Standards (IPSAS).

4.2 Valuation for Financial Reporting, which is the focus of IVA 1, should be read in conjunction with this Standard.

5.0 Statement of Standard

To perform valuations that comply with these Standards and Generally Accepted Valuation Principles (GAAP), it is mandatory that Valuers adhere to all sections of the IVS Code of Conduct

pertaining to Ethics, Competence, Disclosure, and Reporting (sections 4, 5, 6, and 7).

5.1 **Each Valuation Report shall**

5.1.1 **clearly and accurately set forth the conclusions of the valuation in a manner that is not misleading;**

5.1.2 **identify the client, the intended use of the valuation, and relevant dates:**

5.1.2.1 **the date as of which the value estimate applies,**

5.1.2.2 **the date of the report, and**

5.1.2.3 **the date of the inspection;**

5.1.3 **specify the basis of the valuation, including type and definition of value;**

5.1.3.1 ***Market Value* and *Non-Market Value* shall be separately reported when any property component(s) in the valuation are valued on the basis of *Depreciated Replacement Cost* (DRC).**

5.1.4 **identify and describe the**

5.1.4.1 **property rights or interests to be valued,**

5.1.4.2 **physical and legal characteristics of the property, and**

5.1.4.3 **classes of property included in the valuation other than the primary property category;**

5.1.5 **describe the scope/extent of the work used to develop the valuation;**

5.1.6 **specify all assumptions and limiting conditions upon which the value conclusion is contingent;**

5.1.7 **identify special, unusual, or extraordinary assumptions and address the probability that such conditions will occur;**

5.1.8 **include a description of the information and data examined, the market analysis performed, the valuation approaches and procedures followed, and the reasoning that supports the analyses, opinions, and conclusions in the report;**

5.1.9 **contain a statement informing the user that the report is confidential to the Valuer and intended user(s) and that no liability can be accepted by the Valuer for third-party reliance upon the report;**

5.1.10 **contain a clause specifically prohibiting the publication of the report in whole or in part, or any reference thereto, or to the valuation figures contained therein, or to the names and professional affiliation of the Valuers, without the written approval of the Valuer;**

5.1.11 **include a Compliance Statement that the valuation has been performed in accordance with IVS, disclose any departure from the specific requirements of the IVS and provide an explanation for such departure in accordance with the IVS Code of Conduct;**

5.1.11.1 **Each compliance statement shall confirm that**

- **the statements of fact presented in the report are correct to the best of Valuer's knowledge;**
- **the analyses and conclusions are limited only by the reported assumptions and conditions;**
- **the Valuer has no (or if so, a specified) interest in the subject property;**
- **the Valuer's fee is or is not contingent upon any aspect of the report;**
- **the valuation was performed in accordance with an ethical code and performance standards;**
- **the Valuer has satisfied professional education requirements;**

- **the Valuer has experience in the location and category of the property being valued;**
- **the Valuer has (or has not) made a personal inspection of the property; and**
- **no one, except those specified in the report, has provided professional assistance in preparing the report;**

5.1.12 **include the name, professional qualifications, and signature of the Valuer.**

5.2 **When Valuation Reports are transmitted electronically, a Valuer shall take reasonable steps to protect the integrity of the data/text in the report and to ensure that no errors occur in transmission. Software should provide for security of transmission.**

5.2.1 **The origin, date and time of the sending as well as the destination, date and time of receipt should be identified. Software should allow confirmation that the quantity of data/text transmitted corresponds to that received and should render the report as 'read-only' to all except the author.**

5.2.2 **The Valuer should ensure that the digital signature(s) is/are protected and fully under the Valuer's control by means of passwords (PIN numbers), hardware devices (secure cards), or other means. A signature affixed to a report electronically is considered as authentic and carries the same level of responsibility as a written signature on a paper copy report.**

5.2.3 **A true electronic and/or paper copy of an electronically transmitted report must be retained by the Valuer for the period required by law in his or her jurisdiction, in any event not less than five years. Files of the records of electronically transmitted reports may be kept on electronic, magnetic, or other media.**

5.3 **The presentation of a Valuation Report is decided by the Valuer and the client based on the instructions or specifications for the assignment.**

5.4 **The type, content, and length of a report depend on the intended user of the report, legal requirements, property type, and the nature and complexity of the valuation issue or problem. GN 5, Valuation of Personal Property (para. 5.6), deals with the required report content of personal property valuations.**

5.5 **For all Valuation Reports, sufficient documentation must be retained in the work file to support the results and conclusions of the valuation and must be held for a period of at least five years after completion.**

6.0 Discussion

6.1 The context in which a valuation figure is reported is as important as the basis and accuracy of the figure itself. The value conclusion should make reference to the market evidence, and procedures and reasoning that support that conclusion.

6.2 Communicating the answer to the valuation question in a consistent and logical manner demands a methodical approach that enables the user to understand the processes followed and their relevance to the conclusion.

6.3 The report should convey to the reader a clear understanding of the opinions being expressed by the Valuer and also be readable and intelligible to someone with no prior knowledge of the property.

6.4 The report should demonstrate clarity, transparency, and consistency of approach.

6.5 The Valuer should exercise caution before permitting the valuation to be used other than for the originally agreed purpose.

7.0 Disclosure Requirements

7.1 When valuations are made by an Internal Valuer, specific disclosure shall be made in the Valuation Report of the existence and nature of the relationship between the Valuer and entity controlling the asset.

7.2 If a Valuer is involved in a valuation assignment in a capacity other than as a Valuer, for example, as an independent or impartial agent, as a consultant or advisor to a business entity, or as a mediator, the Valuer should disclose the specific role taken in each assignment.

8.0 Departure Provisions

8.1 No departure is permissible from the requirements that each Valuation Report clearly and accurately set forth the conclusions of the valuation, and clearly disclose any assumptions and limiting conditions which affect the valuation and value conclusion.

8.2 If a Valuer is asked to perform an assignment that departs from these requirements or calls for something less than, or different from, the work normally performed in compliance with the IVS and the IVS Code of Conduct, the Valuer should accept and perform such services only when the following conditions can be met:

8.2.1 The Valuer determines that the instructions will not tend to mislead the intended users.

8.2.2 The Valuer determines that the valuation is not so limited that the results are no longer reliable and credible for the intended purpose and use of the valuation.

8.2.3 The Valuer advises the client that the instructions for the assignment involve a departure from the Standards that must be disclosed in full in the Valuation Report.

8.3 In any circumstances involving a departure from the reporting of *Market Value,* the Valuer should clearly identify that the valuation reported is other than *Market Value*.

9.0 Effective Date

9.1 This International Valuation Standard became effective 30 April 2003.