

Primer on International Valuation Standards

The introduction of our *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)* states that the *Standards* meet the sponsor criteria of the Appraisal Foundation in their international membership category, and endorse the *International Valuation Standards (IVS)* as an authority promoting world-wide acceptance of standards for property valuation.¹ The purpose of this article is to introduce the most recent edition of the *International Valuation Standards* and compare it to our *Standards*.

The eighth edition of *IVS* (2007) is a document that contains 462 pages. Almost 65% of the *IVS* book is dedicated to Guidance Notes, which are designed to amplify the fundamentals of valuation so that they may be better understood.² By comparison, the current 2008-2009 edition of *Uniform Standards of Professional Appraisal Practice (USPAP)* has 95 pages plus Advisory Opinions and FAQs. Our *Standards* contain only 62 pages, including Practice Notes and definitions. However, note that *USPAP* has 39 individual appraisal reporting rules,³ plus an additional 24 appraisal development rules,⁴ whereas our *Standards* have 27 appraisal standards rules. The real property valuation reporting standards of *IVS* contain only 17 reporting rules.⁵

The *IVS* document is broken down into nine areas (plus an index) briefly summarized as follows:

Introduction (Pages 1-18)

Here, the objective and scope of *IVS* state that the development of the standards have been guided by the objectives of facilitating cross-border transactions and to contribute to the viability of international property markets by promoting the reliability of valuations performed to secure loans and mortgages, for transfer of ownership and for settlement in

litigation or tax matters. These concepts are familiar to our members in their day to day activities. In addition, however, the *IVS* looks to provide rules and guidelines for appraising as it relates to the emergence of new financial reporting rules, something that our *Standards* currently do not address.

Concepts fundamental to Generally Accepted Valuation Principles (GAVP) (Pages 19-34)

The concepts referred to are universal and are the basis for the *Standards*, Applications and Guidance Notes. This section addresses these various concepts including land, property, real estate, assets, price, costs, value, highest and best use, utility, etc. The section also provides overviews of the various valuation approaches.

Code of Conduct (Pages 35-45)

As with our own *Ethical Standard Rules*, the *IVS* recognizes that valuations should be provided by honest and competent people, the *Code of Conduct* deals specifically with ethics (integrity, conflicts of interest, confidentiality and impartiality) competence, and disclosure.

Property types (Pages 46-64)

Recognizing that appraisers often encounter assignments involving various property types, *IVS* provides the distinguishing characteristics of real property as well as other categories of property, namely personal property, businesses and financial interests.



Introduction to the Standards (Pages 65-72)

This section discusses differences between market value basis and bases other than market value. The concepts of utility, scarcity, desire, purchasing power, supply, demand, price, cost and value are briefly discussed.

Standards (Pages 73-104)

This section contains the rules divided into market value (*Standard 1*), bases other than market value (*Standard 2*) and reporting requirements (*Standard 3*). These three *Standards* serve as the foundation for international valuation applications, which deal with the application of valuation for financial reporting and lending.

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Applications (Pages 105-162)

The application of both private and public sector asset valuation to financial statements or related accounts and to decisions involving loan or mortgage security is described.

Guidance Notes (Pages 163-328)

There are 15 topics covered in this section that deal with subjects such as the valuation of lease interests, plant and equipment, intangible assets, personal property, businesses, agricultural properties, mines, trade related properties and historic properties; consideration of hazardous and toxic substances; the cost approach; discounted cash flow; reviewing valuations; and mass appraisal for property taxation.

Glossary (Pages 329-424)

The glossary provides a summary of all terms defined in the *Standards*, *Applications* and *Guidance Notes*

Index (Pages 427-462)

The three principle elements of *IVS* are the *Standards*, *Applications* and *Guidance Notes*. All are given equal weight and all valuations prepared in compliance with *IVS* must conform to the principles and procedures elaborated throughout the entire document.⁶

Ethics Standards Rules/ Code of Conduct

The preamble to our *Ethics Standards Rules* states that members of the Institute pledge to conduct themselves in a manner that is not detrimental to the public, the Institute, or real property appraisal profession. Members' relationships with other members and the Institute shall portray courtesy and good faith and show


respect for the Institute and its procedures.⁷ The introduction to the *IVS Code of Conduct* states that it is fundamental to the operations of *IVS* that valuations performed in compliance therewith should be provided by honest and competent professional valuers, free of bias or self-interest, whose reports are clear, will not mislead, and will disclose all matters essential to the proper understanding of the report. Valuers should always promote and preserve public trust in the valuation profession.⁸

Our current *Ethics Standard Rules* are more AIC specific than the *Code of Conduct* of *IVS* in that ours deal with issues such as adherence to the Institute *Bylaws*, *Regulations*, Professional Liability Insurance Program, AIC cooperation and the Continuing Professional Development program. Certain concepts are common to both sets of rules, such as acting in a misleading or fraudulent way, failing to reveal a conflict of interest and contingent reporting, however, the *IVS Code of Conduct* adds certain rules not covered in our *Standards*. For example, *IVS* rules require that a valuer shall ensure that any staff person or subordinate assisting with the assignment adhere to the *Code of Conduct*.⁹ However, arguably this situation could be covered under our Comments regarding both assistance and responsibility.

The *IVS* rules also are somewhat more specific than ours when it comes to the use of hypothetical conditions wherein *IVS* requires that such hypothetical conditions must be a 'reasonable possibility' and that there must be some discussion both of the prospect of realizing the hypothesis and a consideration of value that reflects the true situation prevailing.¹⁰ Again, arguably this situation could be resolved through our 'reasonable appraiser' concept.

One of the more interesting conduct rules of *IVS* states that a valuer should act promptly and efficiently in carrying out the client's instructions and should keep the client informed of the valuer's progress.¹¹ This may create concern for our busy members.

At the end of the day, the *Conduct Rules* of *IVS* are not all that unfamiliar. As professionals and members of society, all we really need is one ethical rule that simply states "be ethical," however, the guidance provided by both our rules and the *IVS* rules do indeed assist in clarifying those grey areas and delicate situations that often present themselves.

In the next edition, I will continue with the *IVS* primer and attempt to briefly compare the *Appraisal Standard Rules* with those of *IVS*. 

End notes

- 1 CUSPAP – April 2008 (Page i)
- 2 *IVS*, 8th Edition – 2007 (Page 165)
- 3 *USPAP* – 2008-2009 Edition – Standard 2
- 4 *USPAP* – 2008-2009 Edition – Standard 1
- 5 *IVS*, 8th Edition – 2007 (Pages 97-104)
- 6 *IBID* (Page 12)
- 7 CUSPAP – April 2008 (Page 3)
- 8 *IVS*, 8th Edition – 2007 (Page 37)
- 9 *IVS*, 8th Edition – 2007 (4.1.7 - Page 40)
- 10 *IVS*, 8th Edition – 2007 (4.4.7 - Page 41)
- 11 *IVS*, 8th Edition – 2007 (5.3.1 - Page 42)

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