

Primer on *International Valuation Standards* – Part 2

In my previous *International Valuation Standards (IVS)* primer article (Volume 52/Book4/2008), I summarized the structure of *IVS* and focused on the *Code of Conduct*. The *IVS Code of Conduct* also deals with Reporting Values. Its inclusion in the *Code of Conduct* would imply that knowingly ignoring minimum requirements would constitute an ethical breach of the rules.

IVS notes that the style of the valuation report must be tailored to the nature of the assignment and the needs of the client while meeting certain minimum requirements as to content.¹ These minimum requirements are then summarized as follows:

- the identity of the valuer and the date of the report;
- the identity of the client;
- the instructions, date of the value estimate, purpose and intended use of the valuation;
- the basis of the valuation, including type and definition of value;
- the identity, tenure, and location(s) of the interest(s) to be valued;
- the date and extent of the inspections;
- the scope and extent of work used to develop the valuation;
- any assumptions and limiting conditions; and any special, unusual, or extraordinary assumptions;
- a compliance statement that the valuation has been performed in accordance with *IVS* and any required disclosures; and
- the professional qualification and signature of the Valuer.

Reporting requirements also appear in greater detail in Standard 3 – Valuation Reporting. It is this section of *IVS* that parallels the Appraisal Standard Rules of *CUSPAP*.

The Introduction to *International*

Valuation Standards 1, 2 and 3 provides a comprehensive explanation of how *IVS* addresses the three fundamental aspects of valuation. Standard 1 deals with Market Value Basis of Valuation. Standard 2 deals with Bases Other Than Market Value, and Standard 3 deals with Valuation Reporting.

Central to all valuations are the concepts of market, price, cost and value. These concepts are relevant both to valuations based on *Market Value* (Standard 1) and those based on non-market criteria (Standard 2). Of equal importance is clear communication



of the results of the valuation and an understanding of how those results have been obtained. (Standard 3).² It is this later Standard that will be the focus of this article, as it is this Standard which most resembles the *CUSPAP* Appraisal Standard Rules and Comments.



Standard 3 – Valuation Reporting (Revised 2007)

The introduction of this section points out the importance of communicating the value conclusion, confirming the basis for the valuation, the purpose of the valuation and any assumptions or limiting conditions underlying the valuation. The reporting requirements apply to all types of appraisal or valuation reports.

CUSPAP does not dictate the form, format or style of an appraisal report. These are the functions and needs of the users and appraisers. It is the substantive content of a report that determines its compliance to *CUSPAP*.³ Similarly, *IVS* acknowledges that the type, content and length of a report vary according to the intended use of the report, legal requirements, the property type, and the nature and complexity of the assignment.

The reporting requirements of *IVS* are very similar to those of *CUSPAP*. For example, *IVS* reporting rule 5.1.2 requires that each valuation report shall identify the client, the intended use of the valuation and the relevant dates (effective date, inspection date and report date). This one rule covers three *CUSPAP* Appraisal Standard Rules (6.2.1, 6.2.7 and 6.2.8.) In that most of the reporting requirements of *IVS* mirror those of *CUSPAP*, a line by line comparison of every reporting requirement of *IVS* versus *CUSPAP* is not attempted in this article.

However, there are certain *IVS* requirements that differ from or exceed *CUSPAP* requirements. There are also differences in terminology between *CUSPAP* and *IVS*. For example, *IVS* Standard Rule 5.1.10 requires a signed Compliance Statement as opposed to *CUSPAP* Appraisal Rule 6.2.27 which requires a signed Certification. Each is tailored to the specific requirements of either *IVS* or *CUSPAP*. The *IVS* Compliance Statement requires disclosure

specific *IVS* requirements. *CUSPAP* has a similar requirement, but it is addressed under Extraordinary Limiting Conditions. Again, the difference lies only in the terminology.

Differences also occur in the location of a requirement. For example, the Practice Notes of *CUSPAP* suggest a standard Limiting Condition, which states that possession of a report does not permit publication.⁴ In that this appears in the Practice Notes, the application of this statement within an appraisal report is not compulsory. A similar requirement in *IVS* forms part of the Compliance Statement, wherein it states that a report must 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 permission of the valuer.⁵ The fact that this appears in the Standard 3 reporting rules of *IVS*, makes the requirement mandatory.

Of particular interest, *IVS* has a requirement to identify and describe the classes of property included in the valuation other than the primary property category.⁶ In addition to real property valuation, *IVS* covers personal property, businesses and financial interests. There is a whole section devoted to property types in *IVS*. Real property is the common class of property that we deal with under *CUSPAP*. However, at present, the Appraisal Institute of Canada mandatory errors and omissions insurance would not cover assignments dealing with the other property types regardless of a member's knowledge, experience or competence.

As for other differences, *CUSPAP* permits the use of an Extraordinary Assumption, which is defined as an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.⁷ *IVS* also permits

the use of an assumption, but goes on to require that the appraiser address the probability that such a condition will occur. If, for example, the appraisal of a house situated on 50 acres were assigned with the extraordinary assumption that the house were situated on one acre, under *IVS* the appraiser would have to deal with the probability that the house on the one-acre could be severed from the larger 50-acre parcel. In this case, the probability may be zero, but additional enquiries would have to be made to determine such probabilities.

There are some *IVS* requirements dealing with electronically transmitted reports that are not dealt with under *CUSPAP*. *IVS* requires that the origin, date and time of the sending of a report, as well as the destination, date and time of receipt should be identified. Further, software should allow confirmation that the quantity and quality of data/test transmitted corresponds to that received and should render the report as 'read-only' to all except the author.⁸ Indeed, there are additional require-

ments pertaining to digital signatures, passwords, PIN numbers, secure cards, etc., that may be of particular interest to our members today.

Several *CUSPAP* Appraisal Standard Rules do not currently appear in *IVS* Standard 3 reporting requirements. For example, the reporting requirements of *IVS* are silent on land use controls (6.2.12), and highest and best use (6.2.14). The inclusion of land use controls in an appraisal report is obvious. Both *CUSPAP* and *IVS* reporting rules require the appraiser to identify and describe legal characteristics of the property. Land use controls would fall under this requirement. Highest and best use has not been overlooked in *IVS*. Highest and best use is a disclosure requirement under Standard 1, wherein it is stated that reports shall contain a specific reference to the definition of Market Value as set forth in the Standard, together with specific reference as to how the property has been viewed in terms of its utility or its highest and best use (or most probable use) and a statement of all substan-

tive assumptions.⁹ Indeed, the concept of highest and best use is discussed in 10 different sections of *IVS*.

Similarly, in *CUSPAP*, lease fees or leasehold estates (6.2.19), assemblage (6.2.20), or public and/or private improvements (6.2.21), and their respective effects on value are not specifically stated in the *IVS* Standard 3 reporting requirements. However, these concepts would fall under the reporting requirement that the information and data examined; the market analysis performed; the valuation approaches taken and procedures followed; and the reasoning that support the analyses, opinions and conclusions must be described in the report.¹⁰

There may be additional differences in the detailed requirements of *CUSPAP* and *IVS*, but as demonstrated in this brief article, the underlying appraisal principles, methodologies and techniques remain basically the same. By undertaking a real property market value appraisal assignment strictly under the auspices of *IVS*, the results would be substantially equivalent to a similar assignment undertaken in adherence to *CUSPAP*. The real benefit of adopting *IVS* as the standards for our members is the ability to undertake valuations on basis **other** than Market Value. These additional concepts will be the focus of future articles. 🌈

End notes

- 1 *IVS*, 8th Edition – Code of Conduct
- 2 *IVS*, 8th Edition – Introduction to Standards
- 3 *CUSPAP* – Practice Note 12.11.1 – 2008
- 4 *CUSPAP* – Practice Note 12.30.1.ii – 2008
- 5 *IVS*, 8th Edition – Standard 3 – 5.1.9 – 2007
- 6 *IVS*, 8th Edition – Standard 3 – 5.1.4.3 – 2007
- 7 *CUSPAP* – Definitions – 2008
- 8 *IVS*, 8th Edition – Standard 3 – 5.2.1
- 9 *IVS*, 8th Edition – Standard 1 – 7.1
- 10 *IVS*, 8th Edition – Standard 3 – 5.1.8 – 2007

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