



Project:	IVSC Exposure Drafts	Meeting	AASB April 2016 (M151)
		Date	19 April 2016
Topic:	Decide whether to comment on IVSC Exposure Drafts	Agenda Item:	13.1
Contact(s):	Evelyn Ling eling@aasb.gov.au (03) 9617 7631	Project Priority:	Not a Board project
		Decision-Making:	High
		Project Status:	Initial consideration

Introduction and objective of this paper

- 1 In April 2016, the International Valuation Standards Council (IVSC) issued the following Exposure Drafts for comment by 7 July 2016:
 - (a) [Introduction and Framework](#) for IVS 2017;
 - (b) [IVS 104 Bases of Value](#);
 - (c) [IVS 105 Valuation Approaches and Methods](#); and
 - (d) [IVS 210 Intangible Assets](#).
- 2 These EDs propose amendments to International Valuation Standards (IVS) 2013 (the combined suite of IVSC mandatory pronouncements).¹ The objectives and selected proposals of the EDs are set out in paragraphs 5 – 11. The final amendments are expected to be incorporated into IVS 2017.²
- 3 **Action.** The Board is asked whether it would like to make a submission to the IVSC on these EDs.
- 4 **Staff recommendation.** Staff think that developing a common understanding of the various bases of value and valuation approaches, and improving consistency in determining an appropriate valuation method, is useful for improving consistency in financial reporting. Accordingly, staff recommend that the Board make a (single) submission to the IVSC on the EDs commenting, in the main, on areas where the proposed amendments may have implications for compliance with Australian Accounting Standards.

1 <https://www.ivsc.org/files/file/view/id/631>

2 The IVSC website suggests that IVS 2017 will also be exposed for comment in June 2016.

Exposure Draft *Introduction and Framework for IVS 2017*

- 5 This ED sets out the content of the preamble and framework for IVS 2017. The content of the *Introduction and Framework* has been revised and reduced from that in IVS 2013, consequential to the proposed restructure of IVSC pronouncements, including the removal of Technical Information Papers.

Exposure Draft IVS 104 *Bases of Value*

- 6 ED IVS 104 *Bases of Value* sets out the overarching principles applicable to all valuations. Some content of the proposed IVS is new, while other content has been relocated from the existing IVS *Framework*.
- 7 This ED defines and discusses various bases of value, and notes bases of value defined by other organisations. It includes:
- (a) discussion of the common elements to many bases of value;
 - (b) discussion of IVS-defined bases of value included in IVS 2013 such as ‘market value’, ‘market rent’, ‘investment value/worth’ and ‘equitable value’ (currently identified in IVS as ‘fair value’);
 - (c) discussion of new IVS-defined bases of value ‘liquidation value’ and ‘replacement value’;
 - (d) a non-exhaustive list of other non-IVS-defined commonly used bases of value such as ‘fair value’ and ‘fair market value’; and
 - (e) valuation concepts that should be considered in conjunction with bases of value, such as premises of value, synergies, assumptions and special assumptions, and transaction costs.
- 8 The IVSC is seeking feedback on various specific matters including:
- (a) whether retitling ‘fair value’ to ‘equitable value’ is supported (note: the existing IVS definition of fair value is not the same as fair value as defined in IFRS); and
 - (b) whether ‘liquidation value’ and ‘replacement value’ should be identified as bases of value, and the terms defined as proposed in the ED.

Exposure Draft IVS 105 *Valuation Approaches and Methods*

- 9 ED IVS 105 *Valuation Approaches and Methods* specifies the overarching valuation approaches and methods applicable to all valuations. Some content of the proposed IVS is new, while other content has been relocated from the existing IVS *Framework*.
- 10 This ED proposes extending present IVS guidance on the market approach, income approach and cost approach, including:
- (a) discussion on what ‘cost’ includes, and ‘depreciation’;

- (b) describing the circumstances under which each approach should be chosen as the basis of a valuation or used in combination with other approaches; and
- (c) describing key steps and guidelines for each method. With respect to the income approach (discounted cash flow method), this includes discussion of the appropriate cash flows and discount rate.

Exposure Draft IVS 210 *Intangible Assets*

11 The IVSC proposes to revise existing IVS 210 *Intangible Assets* and supersede TIP 3 *The Valuation of Intangible Assets*. ED IVS 210 will significantly expand upon the existing requirements in the pronouncement, including incorporating TIP 3 content as considered appropriate. The proposed IVS will apply mandatorily, and includes discussion of:

- (a) the forms of intangible assets, including goodwill; and

various valuation approaches for intangible assets, and when each might be appropriate for use. This includes proposed content on various income approach methods such as the ‘excess earnings method’ and ‘relief-from-royalty method’.

Questions to Board members

- Q1 Do Board members agree with the staff recommendation in paragraph 4 for the AASB to make a submission to the IVSC on its Exposure Drafts?
- Q2 If so, does the Board want to delegate responsibility for approving the comment letter to the Chair?