



March 2, 2011

Steven J. Sherman  
Chairman  
International Valuation Standards Board  
41 Moorgate,  
London EC2R 6PP, United Kingdom

Dear Chairman Sherman:

On behalf of the 25,000 worldwide members of the Appraisal Institute, this is to express our utmost concern with the Staff Draft of the International Valuation Standards dated February 2011. We understand the Staff Draft is on the upcoming agenda of the International Valuation Standards Board (IVSB) on March 4<sup>th</sup> for review and approval. We urge the IVSB to refrain from approving the IVS without significant alteration.

Our greatest concern is that the IVSB appears intent on proceeding with an updated version of IVS without resolving or reconciling several significant inconsistencies with valuation standards found throughout the world. The Appraisal Institute raised these and other concerns during the exposure draft comment period<sup>1</sup>, and we are disappointed to see that only a few of those concerns have been addressed in the Staff Draft. We are equally concerned that the Staff Draft appears intended to carry forward practices that may be applicable in accounting but have little or no credibility in the valuation profession.

Specifically, we are seriously concerned with several ongoing issues that are not addressed satisfactorily by the Staff Draft, including:

- The IVS continues to inappropriately mix Standards and guidance. One of the stated goals of the proposed revisions is to make the Standards more accessible to not only valuation practitioners but also to their clients and any third parties who may rely on valuations. In order to develop a document that will be able to be understood by this diverse set of individuals, Standards and guidance need to be separated. Standards should be principles-based and therefore be written such that separate standards need not be created for different types of applications. Guidance can then be provided to address issues relevant to specific applications. Further, we strongly believe separating the Standards from guidance will result in a document with greater enforceability. Unfortunately, the Staff Draft fails in this regard, continuing to mix valuation Standards and guidance. We fear the current draft, if approved as is, will result in less credibility within the appraisal process and greater confusion for users of valuation services.
- The Compliance Statement should be signed by individuals, not firms. We understand the accounting profession allows compliance statements to be signed by a firm or individual. However, we do not believe this notion has benefit or place within the valuation profession. Appraisal compliance statements are critical to the valuation process because that is where

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<sup>1</sup> September 3, 2010 letter from the Appraisal Institute to Chris Thorne, Technical Director, International Valuation Standards Board. Available at [http://www.appraisalinstitute.org/newsadvocacy/downloads/ltrs\\_tstmny/2010/AI\\_Comments\\_IVSC\\_Standards\\_Exposure.pdf](http://www.appraisalinstitute.org/newsadvocacy/downloads/ltrs_tstmny/2010/AI_Comments_IVSC_Standards_Exposure.pdf)

the individual takes responsibility for his or her work and certifies independence. Without one or more individual signatures on the Compliance Statement, responsibility for the report is unclear. If approved as is, the IVS will be largely incompatible with other valuation standards throughout the world. A change of this significance requires rationale and explanation, yet none is provided by the Staff Draft. Further, the existing Compliance Statement is not proposed to be replaced with a similar statement to be signed by a firm, rather than an individual, leaving a potential gaping hole in compliance.

- The Scope of Work section requires revision. The current Staff Draft lists items that must be considered in order to determine an appropriate scope of work; however, these items do not constitute a scope of work. The updated version should first define “scope of work,” and then state the purpose of the scope of work section. As it is currently written there is no way to test the adequacy of the resulting scope of work, simply because it is not defined.
- The Cost Approach section must be consistent with its recognized application throughout the world. Our review of the Staff Draft indicates the cost approach is proposed to be applied by valuing the land based on its *current use*. This is not consistent with the long-standing, recognized view that within the cost approach, land is valued *as though vacant and available to be put to its highest and best use*. This approach recognizing highest and best use has widespread recognition throughout the judicial system in the United States and other parts of the world. In fact, the Staff Draft conflicts with the simple fact that the most stable physical aspect of real property is the land; as is evidenced daily around the world, the improvements are subject to catastrophe, accidental damage, demolition, or modification while the land remains effectively unchanged.

Ironically, an earlier draft of the IVSC included the “hierarchy” of valuation methods that historically only applied to Valuation for Financial Reporting (VFR), and which is derived largely from accounting regulations (IFRS, for example) expanded to all intended uses of valuation reports. During the exposure draft, there was great negative comment on this proposal from many sources, including the Appraisal Institute, other North American appraisal organizations and firms in various parts of Europe. The arguments against this concept were that the proposed hierarchy disallows a professional valuer from applying his or her professional judgment to the problem at hand and may actually lead to assignment results that are not credible. For instance, different property types, different geographic locations, or different segments in market cycles would have valuers using different methodologies (sales comparison, income, cost approach) as the more “primary.” The concern was that it is unwise to make a priority list and impose it on valuers for all circumstances.

As we read the Staff Draft, those arguments prevailed, and the hierarchy is again applied only where appropriate – valuation for financial reporting. We believe the concern about highest and best use in land value in the cost approach is analogous to the hierarchy proposal, amounting to a limitation on the ability of the professional valuer to apply his or her judgment to the problem at hand and apply the most appropriate methodology so as to achieve credible results.

**Steven J. Sherman**

**March 2, 2011**

We know the IVSB has spent considerable time and effort working on the Staff Draft. We also understand the IVSB developed an aggressive timeline for completing the IVS<sup>2</sup>. However, the concerns highlighted above are too significant to ignore.

We do not believe it is prudent to adopt a version of IVS that contains significant flaws. In fact, we believe this would seriously jeopardize the results of other pending projects. As such, we strongly urge the IVPB to refrain from approving IVS until these issues have been resolved and the IVS is consistent with valuation practice in large quarters of the world.

Thank you in advance for consideration of our comments. We look forward to the chance to work together achieve a positive outcome.

Sincerely,



Joe C. Magdziarz, MAI, SRA

President

Cc: Members of the International Valuation Standards Board  
Members of the International Valuation Professional Board  
Members of the Board of Trustees of the International Valuation Standards Committee

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<sup>2</sup> the IVSB reported in its November 2010 minutes that: *"The Board agreed that in view of the flaws with the current 2007 edition and the number of other IVSC projects that were dependent upon the Standards Improvement that there was need to progress to finalising the project as quickly as possible. It was agreed that the Technical Director and Technical Writer would progress alterations to reflect the Board decisions. The importance of Board members examining the final wording closely was raised, and it was agreed that staff would send through the revised texts for each section to the Board for detailed review over the next two months. In order to have a final version for formal Board approval in early March this process would need to be completed by the end of January 2011."* Available at [http://www.ivsc.org/meetings/2010/1122/minutes\\_ivsb\\_20101122.pdf](http://www.ivsc.org/meetings/2010/1122/minutes_ivsb_20101122.pdf)