

13 March 2025

This bulletin is issued to provide information on the developments within the profession, its potential impact, and ways CVA Charter holders can address such developments.

BU-003: Key Updates of IVS Effective January 2025

1. Introduction

- 1.1. The International Valuation Standards (IVS) have undergone significant updates, with the latest edition being published on 31 January 2024. These updates will come into effect from 31 January 2025.
- 1.2. Early adoption of these standards is strongly encouraged to ensure that valuers are well-prepared and compliant ahead of time.
- 1.3. The objective of these changes is to align IVS with the evolving valuation process, provide enhanced clarity and relevance to stakeholders, and enable the incorporation of new asset types. It also describes the roles and responsibilities of specialists and services providers increasingly used by the valuers in the performance of valuations. Additionally, the updates aim to expand valuation applications into emerging areas such as Environmental, Social, and Governance (ESG) factors. The revised standards also aim to establish consistent requirements across all assets and liabilities, thereby promoting a standardised approach to valuation practices globally. IVS has also issued the Basis for Conclusions, which should be read in conjunction with this document.

2. Objective of the bulletin

- 2.1. IVAS issues this bulletin outlining key updates in the IVS with effect from January 2025. The purpose is to keep valuation practitioners and Chartered Valuers and Appraisers (CVAs) informed about these updates and the key consideration points to bear in mind in their valuation practice.
- 2.2. The IVS updates are essential for maintaining compliance and ensuring accuracy of valuations.

- 2.3. This bulletin discusses only certain key updates to IVS and is not an exhaustive list of all changes made to the IVS. Valuers should refer to IVS effective 31 January 2025 (red-line edition) for all the changes to the IVS to ensure compliance with the standards. The key updates are applicable to both the General Standards (refer to Section 3) and Asset Standards (refer to Section 4).

3. Key updates – General Standards

General Standards (IVS 100 to IVS 106) are applicable to all valuations and include overarching principles and guidelines that govern the valuation process. The key updates to general standards include the following:

- A new uniform valuation framework (IVS 100) applicable to all asset and liability classes to enhance the process rigour and risk mitigation. Valuation process quality controls are included in IVS 100 (refer to **3.1**);
- Clarification on key concepts (refer to **3.2**);
- Introduction of new chapter on data and inputs (IVS 104). Environmental, Social and Governance Considerations (ESG) has been incorporated in this chapter to reflect the growing global focus on ESG considerations in valuations across all assets and liabilities (refer to **3.3**);
- Introduction of new chapter on valuation models (IVS 105) (refer to **3.4**); and
- Documentation requirements have been expanded and retitled IVS 106 (documentation and reporting) (refer to **3.5**).

3.1. A new uniform valuation framework (IVS 100) and new chapters on data and inputs (IVS 104) and valuation models (IVS 105)

3.1.1. The IVS Framework, now updated to IVS 100 Valuation Framework, is a mandatory part of IVS as it provides fundamental requirements for compliance with IVS. Compliance with IVS includes adherence to General Standards, applicable Asset Standards, and the Appendices.

3.1.2. IVS 100 improves clarity on mandatory and situational valuation requirements. This Framework not only requires valuers to apply an appropriate level of professional scepticism at every stage of the valuation, but also adds new sections on Valuation

Process Quality Control (Section 20), Use of a Specialist or Service Organisation (Section 30), and Compliance (Section 40).

- 3.1.3. IVS 100 Valuation Framework incorporates Valuation Process Quality Control as an essential component, ensuring objective and transparent valuations while effectively mitigating valuation risks, which pertains to the risk that the resultant value is not appropriate for its intended use.
- 3.1.4. Greater accountability: Valuers will have increased accountability for exercising their professional judgment in their valuation methods and decisions. When a specialist or service organisation is used, IVS states that the valuer must obtain an understanding of the process and findings to establish a reasonable basis to rely their work on, based on the valuer's professional judgement.
- 3.1.5. Improve transparency: Clear disclosures and justifications for deviations from IVS (whether for legal, statutory, regulatory or other authoritative requirements) and the use of specialists (if applicable) are required to increase transparency in the valuation process.
- 3.1.6. Establishing quality controls: Valuation process quality controls (the "controls") must be established around the valuation process to ensure valuations' objectivity, transparency, and compliance with IVS. For example, the controls include requiring a second reviewer to independently verify the calculations and assumptions made during the valuation. This helps ensure accuracy and minimises the risk of errors or bias in the valuation outcome.
- 3.1.7. Risk mitigation procedures: If the valuer can address valuation risk in the valuation process, they may perform monitoring procedures. Subsequently, the valuer must determine that the level of valuation risk, under established controls, aligns with the intended use, intended user, asset characteristics, and complexity of the valuation.
- 3.1.8. Monitoring procedure components: The monitoring procedures include regular reviews, documentation checks, quality assurance, risk assessment, etc.

3.2. Clarification of key concepts

The IVS update has improved clarity on several key concepts including but not limited to:

- 3.2.1. Mandatory vs. recommended requirements: It now clearly distinguishes between requirements that are compulsory for all valuations (i.e. must) and those that are

expected to be complied with unless the valuer can demonstrate that alternative actions are sufficient (i.e. should). Valuers must comply with the compulsory requirements (i.e. must) and adhere to the requirements marked as “should”, unless they can justify alternative actions, when preparing an IVS-compliant valuation.

3.2.2. Valuations process review vs. valuation review vs. value review: It clarifies the differences between these reviews, including the scope of work and the type of reporting involved. According to IVS 101 Scope of work (Section 30.01), a valuation review is not a valuation. However, in IVS 106 Documentation and Reporting (Section 40.02), if a value is provided as part of the value review, then this is a valuation. Consequently, valuers should refer to Section 30 (Valuation Reports), instead of Section 40 (Valuation Review Reports), of IVS 106 in preparing valuation reports.

3.2.3. Addition, revision and removal of definitions: The updates to definitions in IVS enhance clarity in valuation.

- a. Addition: IVS has introduced new definitions including automated valuation model, data, ESG, input, observable data and professional scepticism.
- b. Revision: Definitions such as professional judgement, specialist and valuation risk have been revised to provide greater clarity particularly in relation to valuation process quality control.
- c. Removal: IVS has eliminated the definitions for financial instrument and financial liability or liabilities.

3.2.4. Compliance with standards: It provides clarification on compliance with IVS and other legal, statutory, regulatory, and authoritative requirement. The added paragraphs to compliance section outline how to handle conflicts between IVS and other legal, statutory, regulatory, or authoritative requirements. Deviations from IVS not justified by legal, statutory, regulatory, or authoritative requirements will result in non-compliance with IVS.

3.3. Data and Inputs (IVS 104) (new chapter)

3.3.1. IVS 104 Data and Inputs is a new chapter introduced in IVS to emphasise the importance of quality of data and inputs in valuations. The aim of the valuation is to maximise the use of relevant and observable data to the degree that it is possible.

3.3.2. The chapter provides detailed guidance on the characteristics and choice of relevant data, provides further clarification in Section 20 (Use of a Specialist or Service Organisation), Section 30 (Characteristics of Relevant Data), Section 40 (Input Selection) and Section 50 (Data and Input Documentation).

3.3.3. IVS 104 emphasises a rigorous approach to data and input selection, focusing on the quality and relevance of data and inputs. Valuers are expected to exercise greater professional judgment and ensure comprehensive documentation to support the valuation process. The standard aims to enhance the accuracy, reliability, and credibility of valuations, ensuring that they are based on the best available information and professional practices.

- a. Section 20: Valuers must ensure that any specialists or service organisations they engage have the appropriate capabilities for the intended use of the valuation and must document this verification.
- b. Section 30: This section highlights the importance of careful data selection and use of professional judgment to ensure that the relevant data used exhibits most, if not all, of the characteristics of accurate, complete, timely and transparent.
- c. Section 40: Valuers must ensure that inputs are relevant to the asset or liability, the valuation scope, and the valuation method used. Inputs must also be adequate for the models applied, with professional judgment guiding valuer's selection. Failure to justify significant inputs would lead to non-compliance with IVS.
- d. Appendix: Valuers should consider ESG factors and the ESG regulatory environment in their valuations, as long as these factors are measurable and regarded as reasonable by the valuer using professional judgment. Appendix to IVS 104 shows the various examples of ESG factors. It should be noted that the impact of ESG consideration on valuation is still in developmental stage, and further changes are anticipated.

3.4. Valuation Models (IVS 105) (new chapter)

3.4.1. IVS also introduced a new chapter, IVS 105 Valuation Models, which addresses the selection and use of valuation models in the valuation process. This standard highlights the following:

“No model without the valuer applying professional judgement, for example an automated valuation model (AVM), can produce an IVS-compliant valuation.

10.02 Automated Valuation Model (AVM): A type of model that provides an automated calculation for a specified asset at a specified date, using an algorithm or other calculation techniques without the valuer applying professional judgement over the model, including assessing, and selecting inputs or reviewing outputs.”

- 3.4.2. Professional judgment: Valuers must exercise professional judgment and scepticism when using internally developed or externally sourced valuation models. The valuer must assess and conclude that the valuation model is appropriate to value the assets and/or liabilities in accordance with the scope of work and valuation method.
- 3.4.3. Limitations of AVM: An AVM does not involve the application of professional judgment by the valuer. Therefore, relying on an AVM does not meet the compliance requirements set forth by IVS.
- 3.4.4. Ensuring models are 'fit for purpose': It is crucial that the chosen model is 'fit for purpose,' aligning with the assets or liabilities being valued, the scope of work, and the chosen valuation method. This selection process involves evaluating the model's accuracy, completeness, timeliness, and transparency to ensure that the valuation is reliable and meets the requirements specified in IVS standards.
- 3.4.5. Requirements for assessments - Whether the valuation models are internally developed or externally sourced, valuers:
- must determine the models are fit for their intended use;
 - must understand how the valuation model operates;
 - should test the valuation model for functionality; and
 - must analyse the outputs for accuracy.
- 3.4.6. Identifying and documenting model limitations: Any significant limitations on the model should be identified, and necessary adjustments should be documented. If limitations or adjustments cannot be justified, the valuation will not comply with IVS.

3.5. Documentation requirements (IVS 106)

- 3.5.1. IVS 106 Documentation and Reporting has been updated to reflect a new standard on documentation requiring valuation practitioners to maintain sufficient records of the key valuation components and conclusions to ensure consistency, professionalism, transparency, comparability and uphold the trust in valuation.
- 3.5.2. Documentation requirements: Valuers must have sufficient documentation and reporting to describe and provide transparency to the intended user on the scope of work, valuation approach(es), valuation method, valuation models, professional judgment and resultant value(s).
- 3.5.3. Minimum requirements: The documentation must fulfil the minimum requirements specified in Section 20 of IVS 106.
- 3.5.4. Written reports: Valuers must provide valuation reports and valuation review reports to client in writing, fulfilling the mandatory requirements in Section 30 (valuation reports) and Section 40 (valuation review reports).
- 3.5.5. Documentation practices: Valuers should include documentation including, but not limited to, communications with the client, alternative methods explored, additional data and inputs considered, risk and biases addressed, professional judgment used, and the valuation quality control procedures followed, in order to document what has been done through the valuation process.

4. Key updates – Asset Standards

Asset Standards (IVS 200 to IVS 500) are applicable to specific types of assets and liabilities under each of the sections covered within IVS 200 to IVS 500. The key updates to asset standards include the following:

- Changes to the Business Valuation Standards¹ to align with changes to the General Standards (refer to **4.1**);

¹ IVS 200 Businesses and Business Interests, IVS 210 Intangible Assets, IVS 220 Non-financial Liabilities, IVS 230 Inventory are collectively referred to as Business Valuation Standards.

- Alignment of IVS 300 Plant, Equipment and Infrastructure with the General Standards. Elaboration on the bases of value and valuation approaches (refer to **4.2**);
- Alignment of IVS 400 Real Property Interests with the General Standards. Scope of work has been updated to elaborate on the extent of investigation (refer to **4.3**);
- Alignment of IVS 410 Development Property with the General Standards. Bases of value has been updated to highlight certain valuation risk (refer to **4.4**); and
- Inclusion of Financial Instruments as a new chapter within IVS 500 (refer to **4.5**).

4.1. Business Valuation Standards (IVS 200, IVS210, IVS 220 and IVS 230)

- 4.1.1. Alignment with General Standards: IVS made some changes to the business valuation standards to align with the changes to the General Standards, as well as updating the references to the General Standards.
- 4.1.2. IVS 200 Businesses and Business Interests now clearly indicates that valuers must specify and define the proportion of the interest valued and its related impact on the valuation.
- 4.1.3. The detailed examples and prescriptions from the Intangible Asset Economic Lives in IVS 210 Intangible Assets were removed to enhance the key concepts for this standard.
- 4.1.4. IVS 220 Non-Financial Liabilities and IVS 230 Inventory changes pertained to simplification and clarification of some text, with minimal alteration in the substance of the standard.

4.2. Plant, Equipment and Infrastructure (“PEI”) (IVS 300)

- 4.2.1. Infrastructure is now explicitly included under IVS 300.
- 4.2.2. IVS has made consequential changes in line with the updates to the General Standards including additional sections under (i) Data and Inputs (Section 100) to ensure maximising use of relevant and observable data, and (ii) Valuation Models

(Section 110) that must be suitable for the intended use of the valuation and consistent with suitable inputs.

4.2.3. Bases of value (Section 50) - IVS elaborates that in determining any premise of liquidation value, it should be made clear as to whether the premise is required to be on an in-place (in-situ) or removed (ex-situ) basis. Typically, the premise should consider a scenario that would maximise the gross amount that would be realised, whether by selling the assets on a piecemeal basis, or as a group.

4.2.4. For plant and equipment, selling an asset on a removed (ex-situ) basis is common, whereas for infrastructure, selling an asset on a removed or piecemeal basis may or may not be possible. Further, valuers should note that certain items including but not limited to foundations, electrical and process piping, transportation costs, installation and commission costs, etc. may not be recoverable once the asset is removed (ex-situ) basis.

4.2.5. IVS further elaborates on the considerations under the following valuation approaches:

- Market Approach (Section 70)
 - a. Market approach section emphasises that highest and best use should always be a primary consideration in determining how the asset should be valued i.e. piecemeal basis, production line, whole of plant/facility or portfolio.
 - b. Valuers should also consider various factors including but not limited to technical factors, deterioration and obsolescence factors, market-related factors, as well as time or basis of value, when making adjustments from actual sale or asking prices of similar assets to the subject asset of the valuation.
 - c. Valuers may consider direct adjustments (i.e. currency or amount adjustment) and indirect adjustments (i.e. to adjust the evidence by percentage) while adjusting from actual sale or asking prices of similar assets to the subject asset of the valuation.
- Income Approach (Section 80)
 - a. While considering income approach methods for PEI, value attributable to intangible assets and other contributory assets should typically be excluded.

- b. Valuation must consider the cash flows expected to be generated over the explicit forecast period of the asset(s) as well as the value of the asset(s) at the end of the explicit forecast period.
 - c. Specific considerations and circumstances are included where the income approach may be used or afforded significant weight. Please refer to the Sections 80.05 and 80.06 of IVS 300 Plant, Equipment and Infrastructure for further details.
- Cost Approach (Section 90)
 - a. Cost approach section elaborates on the use of the trending method, which estimates an asset's reproduction cost by applying an index (trend factor) to the asset's historical cost which reflects the price inflation/deflation of the asset over time.
 - b. Historical cost is clarified to be the expenditure in acquiring the asset when it was first placed into service by its first owner, which is distinguished from original cost or the present owner.
 - c. Whilst IVS has referred to the trending method as an appropriate way of determining replacement costs, it has also listed factors that caution valuers when applying trending method under certain circumstances.

4.3. Real Property Interests (IVS 400)

4.3.1. IVS has made consequential changes in line with the updates to the General Standards, including additional sections of (i) Data and Inputs (Section 100) to ensure maximising use of relevant and observable data, (ii) Valuation Models (Section 110) that must be suitable for the intended use of the valuation and consistent with suitable inputs and (iii) Documentation and Reporting (Section 120).

4.3.2. Scope of work (Section 40) – IVS provides additional considerations for the extent of investigation to be performed by the valuer to include (i) responsibility for information on area, characteristics (e.g. soil conditions), productivity generating attributes of land (e.g. fertility of the soil, plantation area), (ii) specification and condition of the plantation, vegetation, forest or crop, (iii) environmental factors and (iv) legal permissions or restrictions on the use of property, amongst other things.

4.4. Development Property (IVS 410)

4.4.1. IVS has made consequential changes in line with the updates to the General Standards, including additional sections of Data and Inputs (Section 120) to ensure maximising use of relevant and observable data, Valuation Models (Section 130) that must be suitable for the intended use of the valuation and consistent with suitable inputs, and Documentation and Reporting (Section 140).

4.4.2. Bases of value (Section 50) – Valuers should be mindful of the intended use when valuing development property, and should give regard to, the probability that any contracts put in place may become void, or that a contractual obligation that may have a material impact on the market value. It is appropriate to highlight such risk to a lender caused by the prospective buyer of the property not having the benefit of existing building contract and / or pre-leases, and pre-sales and any associated warranties and guarantees in the event of default by the borrower.

4.4.3. Residual Method (Section 100) – IVS clarified that residual method is typically a combination of market approach, income approach and cost approach. Valuers should note that basic elements that should be considered in the application of residual method now includes statutory fee and contingency.

4.5. Financial Instruments (IVS 500) (new chapter)

4.5.1. IVS 500 Financial Instruments is a new chapter introduced in IVS. Amongst other things, it includes additional requirements and specific examples of how the General Standards may apply to the valuation of financial instruments. The chapter provides overarching principles applicable to the valuation of financial instruments, bearing in mind that these standards address the valuation requirements of firms of different sizes and types (for e.g. banks, asset managers, insurance companies, or any corporation with financial instrument on the balance sheet) throughout the world.

4.5.2. In addition to the General Standards, IVS has added greater details for Financial Instruments within Data and Inputs (Section 40), Characteristics of Data and Inputs for Financial Instruments (Section 50), Selecting Inputs (Section 60), Using Data and Inputs (Section 70) and Documentation for Data and Inputs (Section 80)

- a. Data and Inputs (Section 40): Valuers must understand the data, assumptions and adjustments used in developing input, and has the overall responsibility for

assessing that these aspects are “fit for use” in the valuation based on their professional judgment.

- b. Characteristics of Data and Inputs for Financial Instruments (Section 50): Valuers must apply professional judgment to balance the characteristics (such as accuracy, completeness, timeliness as well as transparency) of relevant data while choosing inputs used in the valuation.
- c. Selecting Inputs (Section 60): Selection of inputs must be carefully assessed by the valuer to ensure consistency across similar assets / liabilities. In the event that directly relevant data and input are unavailable as of the valuation date, valuers should apply professional judgment to consider alternative best proxy for the valuation date.
- d. Using Data and Inputs (Section 70): Valuers must ensure that quality controls over data, assumptions, adjustments and inputs exist throughout the valuation, whether these are internally sourced or acquired externally from service organisations and specialists.
- e. Documentation of Data and Inputs (Section 80): Valuers must consider adequate documentation, to allow another valuer, applying professional judgment, to understand the scope of the valuation, the work performed, and the conclusion reached.

4.5.3. IVS 500 has also supplemented IVS 105 Valuation Models, adding greater details for Financial Instruments within Valuation Models Overview (Section 90), Characteristics of Appropriate Valuation Methods (Section 100), Valuation Model Selection (Section 110), Testing a Valuation Model (Section 120) and Documentation for Valuation Models (Section 130):

- a. Characteristics of Appropriate Valuation Methods (Section 100): Valuers must apply professional judgment to balance the characteristics (such as accuracy, completeness, timeliness as well as transparency) of relevant data while choosing valuation model used in the valuation.
- b. Valuation Model Selection (Section 110): Selection of valuation model must be carefully assessed by the valuer, and testing and calibration to the market (i.e. recent transactions or quotes) should be considered to ensure that the implementation is consistent with the intended use.

- c. Testing a Valuation Model (Section 120): Valuers should test the model to assess the potential limitations of a valuation model and to evaluate its behaviour over a range of inputs. If testing indicates that a valuation model may be inaccurate or unstable, valuers should consider modifying the valuation model, have limitations placed on its use, or replace or abandon the valuation model.
- d. Documentation for Valuation Models (Section 130): Valuers should consider sufficient documentation, so that model users, can understand how the valuation model operates, its limitations, and its key assumptions.

4.5.4. IVS 500 has also supplemented IVS 100 Valuation Framework, adding greater details for Financial Instruments within Quality Control Overview (Section 140), Characteristics of Appropriate Quality Control (Section 150), Application of Quality Control (Section 160), Review and Challenge (Section 170) and Valuation Control Framework (Section 180):

- a. Quality Control Overview (Section 140): Quality control are procedures that ensure the valuation is performed consistent with IVS. Such procedures may be automated and / or manual and may include but are not limited to data reviews, valuation model validations, independent recalculations, back testing and fact checking.
- b. Characteristics of Appropriate Quality Control (Section 150): Valuers should select and implement quality controls, which ensures that the valuation is complete, effective and transparent.
- c. Application of Quality Control (Section 160): Quality controls must be designed and implemented to help ensure that valuations are performed in compliance with IVS.
- d. Review and Challenge (Section 170): IVS 500 indicates that in performing a valuation, review and challenge should be performed to assess the reasonableness of the decisions made by the valuer throughout the valuation. Further, with respect to models, an independent validation process should be performed by one or more individuals with sufficient knowledge, skills and expertise for the financial instrument being valued.
- e. Valuation Control Framework (Section 180): For complex valuations, a valuation control framework should be established, outlining roles, responsibilities, and processes for each party in the valuation. This framework should also address the types of valuation risks involved and the necessary documentation requirements.

5. Conclusion

In conclusion, the implementation of these valuation models and quality control processes is critical to maintaining the integrity and reliability of valuation outcomes. Valuers must ensure that their models are transparent and comprehensible, with clear documentation that outlines their operation, limitations, and assumptions. Quality control, tailored to the specific needs of each valuation, must be rigorously applied and periodically reassessed to uphold standards and ensure accuracy.

Valuers must maintain accountability for the valuation process, even when delegating tasks to service organisations or specialists, and must establish robust valuation control frameworks for complex valuations. These frameworks should detail roles, responsibilities, and processes, addressing inherent valuation risks and documentation requirements. By adhering to these standards, valuers can provide stakeholders with credible valuations and instil confidence in the valuation results, thereby supporting informed decision-making and fostering trust within the market.

Ultimately, the emphasis on thorough documentation, meticulous quality control, and a strong valuation control framework ensures that valuations remain accurate, reliable, and relevant, meeting the intended purposes and needs of users effectively.