



International Valuation Standards Board
1 King Street
London EC2V 8AU, United Kingdom

Via E-mail Only: CommentLetters@ivsc.org

RE: *Framework for International Professional Standards* Exposure draft

30 June 2016

Dear Sir/Madam:

We appreciate the opportunity to provide comments to the International Valuation Standards Board (Board) in response to the Proposed Exposure Draft entitled "Framework for International Professional Standards" published on March 31, 2016 by the International Valuation Standards Board on behalf of the International Valuation Standards Council (IVSC). We support the Board's goal of providing continuous improvement to the existing valuation standards and process globally. We understand that the area of valuation is an evolving one that must be met by continued oversight and monitoring in order to maintain credibility by those that require valuations. Valuations are a critical component in our conduct of business, being relied upon for allocation of capital, making investment decisions, and for asset and performance reporting to investors.

Within the US, our valuers rely upon the Uniform Standards of Professional Appraisal Practice (USPAP) published by the Appraisal Foundation. Our review of this Exposure Draft focused principally on areas where we determined that the standards proposed within it were more stringent than those established within USPAP. We understand that through the International Professional Standards (IPS), the IVSC proposes to be the umbrella under which local country valuation standards such as USPAP are globally governed. We therefore ask that the IVSC consider ways to minimize or eliminate those differences.

Respondent

The NCREIF PREA Reporting Standards (Reporting Standards)¹ initiative is sponsored by NCREIF and PREA to develop, refine and integrate each of the standards within the Foundational Standards² and provides interpretive guidance concerning their application within the private institutional real estate investment industry. NCREIF is an association of institutional real estate professionals which includes investment managers, plan sponsors (i.e. pension funds and endowments), academicians, consultants, real estate appraisers, public accountants and other service providers who share a

¹ Formerly known as the Real Estate Information Standards (REIS).

² Within the Reporting Standards, Foundational Standards include U.S. Generally Accepted Accounting Principles, the Global Investment Performance Standards and the Uniform Standards of Professional Appraisal Practice.

common interest in the industry of private institutional real estate investment. NCREIF serves the institutional real estate community as an unbiased collector and disseminator of real estate performance information. NCREIF produces several quarterly indices that show real estate performance returns using data submitted by its members, most notably the NCREIF property index (NPI) and the NCREIF open end diversified core equity index (ODCE). PREA is a nonprofit organization whose members are engaged in the investment of tax-exempt pension and endowment funds into real estate assets. PREA's mission is to serve its members engaged in institutional real estate investments through the sponsorship of objective forums for education, research initiatives, membership interaction, and information exchange. Collectively the organizations represent the institutional real estate community consisting of over 7,000 investment properties with a fair value of approximately \$491 billion³.

Please note that the sponsors of the Reporting Standards, NCREIF and PREA executed a memorandum of understanding with the European Association for Investors in Non-Listed Real Estate Vehicles (INREV) for the purpose of collaboration on the development of global reporting standards for our industry. In the spirit of our ongoing collaboration efforts, we have reviewed each other's response to you on this exposure draft to ensure that our responses are not inconsistent, thereby challenging our ongoing efforts.

Response to Proposed IPS

Except as noted herein, we think the proposed IPS, *Framework for International Professional Standards* (Framework) and IPS 101, *Initial Professional Development-Entry Requirements for Professional Valuer Accreditation Programmes*, IPS 102, *Initial Professional Development-Professional Skills and Ethics*; IPS 103, *Initial Professional Development-Technical Knowledge*; IPS 104, *Initial Professional Development-Practical Experience*; IPS 105: *Initial Professional Development-Assessment of Professional Competence*; and IPS 201: *Continuing Professional Development* neither contradict nor are more stringent than those provided for within USPAP and we are therefore supportive of their release.

Framework

General

Please consider numbering this document in a manner consistent with the schematic developed in the other IPS documents.

1. Does the *Framework* provide sufficient detail on the educational concepts to support the requirements of the IPS 100 series?

Line 268 to 270 indicates "Each VPO that is a member of the IVSC will define the appropriate relationship between the end of IPD and the point of qualification for its members." Further, the language about continuing education and measurement on lines

³ NCREIF Real Estate Performance Report, First Quarter 2016.

283 to 321 lays out general guidelines and measurements that appear to be reasonable for the requirements contained in the IPS 100 series. Please note however, that this language may be in conflict with IPS 201 which appears to be overly prescriptive on what continuing education should entail. (See comments below.)

5. Should professional valuers always be independent or does it depend upon the kind of service they are providing?"

The Framework section of this document does not seem to address this question and the issue of independence is an important one. For example, which services would prevent or preclude a valuer from being independent? For example, are internal opinions independent? Does it need to be specified that valuers need to be independent when providing an external opinion? We contend that valuers need to be independent and unbiased when providing an opinion of value. Biased opinions of value are a great threat to all stakeholders and the framework should therefore be clear on how valuers can remain independent and unbiased.

IPS 102

General

Overall, we view this IPS 102 as more applicable to countries with a developing profession and/or those without a VPO. Accordingly, mandating adoption by members of the IVSC that already have their own guidance/qualifications/ethics seems less necessary. We would like to propose changing IPS 102 to a principles based document which establishes an ethical framework. More prescriptive (generally those which include items which are "required") and detailed discussions could be more appropriate for an IVS, rather than the IPS. The answers to the questions provided below should be considered within this context.

In addition to answers to the specific questions noted below, please also note that paragraph 19, lines 79-80 contains the phrase "interact effectively with others". We think this is an unnecessary statement.

1. Do you agree that IPS 102 captures the professional skills to be acquired by the end of Initial Professional Development (IPD) (para 9 of IPS 102)?

In our opinion, the "interpersonal and communication and personal" skills referenced herein cannot and should not be legislated.

4. Do the learning outcomes described in IPS 102 capture the behavioral characteristics expected of a professional valuer at the end of IPD (para 15 of IPS 102)?

We consider the following items identified in the table to be very prescriptive and the market, not a Standards organization, should determine the success of an individual's professional skills. These include: "cultural and language differences", "listening", "time management", "prescribed deadlines" and "planning, project organization and project management".

The Ethics section of the chart states: "...determines when ethical principles apply", is not appropriate as ethics should always apply.

IPS 103

General

Please note that our review of this IPS 103 was focused specifically on the real estate area.

Pages 14-15 – The Valuation Approaches & Methods Competence Areas include Learning Outcomes for the market approach, the cost approach, and the income approach on page 14. Then four specific additional competence areas specific to the income approach are detailed on page 15, but no additional competence areas are included for the other two approaches. Could this presentation and level of detail specific to the income approach be misinterpreted as the income approach being considered the most reliable approach?

We noted the following apparent typographical errors:

- Page 12 – Valuations for Specialty Areas or Specialty Purposes – In the Learning Outcomes description, the term "specialty areas" is stated twice in the sentence. We suggest the second reference should be "specialty purposes".
- Page 14 – Income Approach – Investment Method – Under footnote (a) should the term "property sales" be "property rentals"?
- Page 19-25 – Should the section be titled "Business and Business Interests" since Intangible Assets has its own section which follows on pages 26-34?

2. Do you agree with the level of detail in the learning outcomes of IPS 103? If so why, and if not, why not?

In our view, providing an appropriate level of detail within a principles based standard can prove challenging. The level of detail must strike a strong balance between enough detail to be informative but not too lengthy that it becomes too prescriptive or onerous to read. When too prescriptive, there is an increased chance of unintended contradictions to standards established within the VPOs.

3. In some learning outcomes examples are provided. Do you find these examples helpful in providing further explanation and clarification?

Yes, examples are helpful in providing further clarification to the learning outcomes. The more examples that can be provided the better.

4. In addition to the current focus on asset classes, should the competence areas in IPS 103 also address industry (sector) specialty areas, and different valuation approaches?

Yes, having competence areas that address sector/valuation purpose would be beneficial and would increase the effectiveness of IPS 103. Each specific sector/valuation purpose has its own nuances that are important for valuation professionals to understand if they are going to practice in those areas.

6. Do you agree that all professional valuers, no matter what their specialty, need to undertake some form of accounting/finance/economics education? If not, why not? If so, why so?

Yes, it is important for professional valuers to have at least some base level of knowledge in accounting, finance, and economics. There are principles within these disciplines which are critical to understand to be able to prepare reliable and credible valuations.

IPS 104

1. Do you agree with the concept and role of the practical experience supervisor?

Yes, a supervisor is a necessary part of training. A supervisor provides the necessary quality check of the candidate's work experience. Work experience demonstrates the candidate's ability to apply knowledge and skills to select, organize, interpret, and present data and analyses over a diverse range of product as well as use independent judgment. Further, the Supervisor should be in good standing.

2. Do you agree with the threshold period of 1,500 hours in a supervised work environment should normally be a prerequisite for accreditation as a professional valuer?

We agree that a minimum threshold prerequisite for accreditation should be established, however, we contend that minimum thresholds should be established based on relevant proven experience rather than a quantity of hours, years, etc. The VPO's would then be allowed to assess what is most appropriate under their company specific standards.

IPS 201

General

We noted the following apparent typographical error [highlighted]:

243 · use of a competent source that is able to confirm that the outcome nor competence

1. Do you agree with the threshold level for continuing professional development of at least 120 hours of relevant professional development in each rolling three year period, of which 60 hours must be verifiable?

The requirement provided for is more stringent than that required in USPAP and the RICS standards. As noted in our comments to IPS 104, we contend that the IPS principles should be based upon relevant proven experience rather than prescribing minimum thresholds. These minimum thresholds should be established by the VPO's (e.g., currently included in USPAP). If this requirement stands, please clarify whether VPO's need to enforce the higher number of hours for their members. In addition, we would like to understand how the IVSC intends to monitor or enforce the standards for continuing professional development. The IVSC required hours is more stringent than AI & AQB.

2. Do you agree that the professional valuer should complete at least 20 hours of relevant professional development annually?

Yes. This is consistent with other VPO's standards such as USPAP and RICS.

3. Should relevant professional development be expanded upon? Please explain what you would consider to be relevant professional development.

In our opinion, this topic was adequately covered in the IPS.

Closing

Should you wish to discuss the contents of this letter with us, please feel free to contact Marybeth Kronenwetter by e-mail (marybeth@reportingstandards.info) or telephone at 630-469-4088.

Very truly yours,



Marybeth Kronenwetter
Director, Reporting Standards