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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**18 April 2008, London**
Project:	**Fair value measurement**
Subject:	**Education session by the International Valuation Standards Committee (Agenda Paper 12)**

The International Valuation Standards Committee (IVSC) has assembled the following delegation representing a spread of sector specialisms and geographical experience to present to the Board on the four valuation issues identified later in this paper.

Chris Thorne FRICS
Is currently Vice Chairman of the IVSC Standards Board, a position he has held since 2006, and also a member of the Executive Group implementing the current IVSC restructuring. He is Director of Corporate Services at Atisreal UK, a subsidiary of BNP Paribas and one of the largest real estate advisory companies in Europe, where he is currently responsible for specialised valuation services and litigation support. He is also the UK Technical Head of valuation.

Chris has more than thirty years experience in advising corporate clients on valuation issues arising from mergers and acquisitions, as well as advising lenders on the value of commercial real estate as security. For the last ten years he has been a member of the Royal Institution of Chartered Surveyors (RICS) Valuation for Financial Statements Group, including period as chairman between 1999 and 2003. He has lectured on valuation issues in more than a dozen countries, including the USA, China and Australia, and is a guest lecturer at the University of West of England and at the European Business School in Weisbaden. He currently represents IVSC on the Valuation Resource Group established by the FASB.

Ronan Stack FRICS
Ronan Stack is the director in charge of capital equipment valuation within Ernst & Young's UK business valuation and modelling group. He provides advice in respect

of plant, equipment and other fixed assets for a range of purposes, including, fair value opinions, M&A, due diligence, purchase price allocation, impairment studies, market value and disposal issues, expert witness, equipment sector appraisals, privatisation and tax.

Ronan is a Fellow and Chairman Designate of the Machinery & Business Assets Faculty of the Royal Institution of Chartered Surveyors (RICS), and a member of the RICS Valuation for Financial Statements Group.

Alexander N. Lopatnikov
Alexander Lopatnikov is a managing director of American Appraisal in Russia and the CIS. He provides valuation opinion and advisory services to the clients in various industries including metals and mining, oil & gas, utilities, telecommunications, and financial institutions. Alexander is a frequent speaker at the international conferences on emerging valuation issues in IFRS, International Valuation Standards, mergers & acquisitions, risk management, and intangible assets.

Alexander is a full member of the Russian Society of Appraisers and a Candidate Member of the American Society of Appraisers as well as a member of the Canadian Institute of Mining, Metallurgy and Petroleum. He is one of the leaders of the Extractive Industries Global Team of American Appraisal.

Jean-Florent Rérolle
Managing Director at Houlihan Lokey Howard & Zukin, co-head of Financial Advisory Services in Europe (fairness opinions, valuation, board advisory services). He was formerly a partner of Ernst & Young specializing in corporate finance, assisting international companies in their M&A operations. He created Investor Exchange, a service aimed at helping public companies to reduce their financial market risk by improving their corporate governance structure and better managing shareholders' expectations. His last position at Ernst & Young was head of corporate governance services.

He is one of the founders and member of the board of the Institut Français des Administrateurs and is the chairman of the Société Française de l'Evaluation. He was a member of the AMF (the French FSA and SEC) working group on fairness opinions. Since 1994, Jean-Florent Rérolle has lectured in two major French Business schools (HEC and ESCP-EAP) on Corporate Finance and related topics (valuation and VBM). He is also an author of many articles on new valuation techniques, valuation in the connected economy, corporate governance and value based management issues. Jean- Florent has recently agreed to join the Advisory Board appointed by IVSC to oversee its restructuring project.

The following topics will be addressed:

What is the difference between ‘price’ and ‘value’?

To the valuation profession, a value is the outcome of a valuation. Depending upon the valuation basis adopted and the required valuation premise, the value may be estimate of the price obtainable in a hypothetical transaction on a specified date or a measure of the value that will accrue from ownership by a particular party.
The IVSC delegation will give examples of where price and value differ, and where they may coincide. They will also explain why a clear definition of both the basis (definition) of value and of the assumptions that are appropriate to the particular valuation objective are essential, and how the need to establish consistency in these definitions and assumptions has driven the development of International Valuation Standards.

Is there a valuation difference between an entry and an exit price?

As will be clear from the response IVSC has made to the “Standard by Standard” review and the consultation on whether “entry price” and “exit price” are more appropriate terms than “fair value in various IFRS, the valuation profession does not consider that a distinction can be drawn where the objective is to determine the price obtainable in a hypothetical market transaction. The terms only have validity if where the valuer is undertaking an estimate of the value to a specific party, where the intentions and motivation of that party can be taken into account. Since such guidance as exists in the various IFRSs at present on the application of fair value generally makes it clear that the objective is to estimate the price obtainable in a transaction between two parties, and that transaction is deemed to be in the market place ignoring any entity specific considerations, IVSC does not agree that entry and exit price are valid alternatives for fair value.
The delegation will explain why in valuation practice and theory there can be no distinction between an entry and an exit price if the objective is to establish a price that would be obtained in a transaction between two market participants. It will also highlight the pejorative overtones that the use of either of these phrases may have, and which are already causing potentially incorrect interpretations under FAS 157.
IVSC will also explain how a more explicit definition of the appropriate valuation premise required under different IFRSs would assist in clarifying the application of fair value and bring about greater consistency.

Highest and best use

The IVSC notes that the definition of highest and best use (HABU) in FAS 157 is quite similar that in IVS. However, HABU is not a different type or basis of value. It is inherent in any basis that requires the estimate of a price obtainable in an open market between willing and informed participants. Unless there are market imperfections, such as constraints on one or other of the participants or asymmetric knowledge, the market will operate to achieve the HABU of the asset in question. However, HABU is not necessarily inherent in valuation bases that do not require the assumption of a market transaction.
The HABU concept is not therefore something that a professional valuer experienced in a particular market should have difficulty in either identifying or applying. Indeed, if instructed to prepare a fair or market value, it is inherent in the process, and the difficulties are only likely to arise if for some reason the valuer was required to disregard HABU and instead reflect the value for a less than optimal use, as this would be to disregard the evidence of the market.

The delegation will give examples of where there can be difficulties in identifying the HABU in practice, which stem from the lack of guidance on identifying the appropriate unit of account to be valued, or how complimentary assets are assumed to be aggregated for measurement purposes.

IVSC has also been asked whether the HABU concept can be extended to liabilities. The delegation will explain that it believes the real problem to address is the extent to which the value of a liability can be determined by reference to a market transaction, when in practice the most favourable way of extinguishing the liability is by settlement with the creditor.

What makes a market?

IVSC understands that there is concern among some Board members that fair value measurements can only be validly made where there is an active market. While IVSC agrees that a valuation will have greater certainty if the asset in question trades in an "active" market where there are abundant transactions of identical or similar assets, it is the fact that in most markets there will be:

- Differences in the asset being valued and other similar assets that have been recently traded. These differences may be in the specification of the asset or the volume traded.
- Fluctuations in the volume of activity from time to time
- Market imperfections causing price distortions

It is these imperfections that have given rise to the development of the valuation profession, as analytical skills and understanding of the particular market are required to provide valuations with the credibility and objectivity required by clients and the market at large. However, any valuation is an expert opinion of the most probable of a range of possible outcomes, and it is inevitable that not all valuations will carry the same degree of certainty.

IVS require the valuer to be transparent in disclosing the techniques used and the valuation rationale adopted when reporting the valuation. By this means, users of the valuation should be aware of the degree of confidence attaching to the valuation opinion and therefore the weight that can be placed upon it.

Where there is no observable market at all, it may be wholly inappropriate to provide a valuation for certain purposes, eg a valuer would not consider an asset that was totally illiquid to be a suitable security for bank lending. However, where the valuation is for use in a Financial Statement, there is a well established convention that because the statements are prepared on a going concern assumption, the assumption can be made that the owning entity at least would be in the market to acquire this asset. Valuation techniques have evolved to provide a proxy for the price that it would be reasonable to anticipate being agreed between two hypothetical market based participants.

The delegation will also explain that while a market may be described as "active" or "inactive" on any particular date, these terms are relative. Also, markets are dynamic, and also interrelated, ie reduced activity in one may cause, or effect, of increased activity in another. Accordingly IVSC believes that there can be no absolute definition of what constitutes an active market. Neither is there a direct link between value and liquidity, although IVS does encourage abnormally low liquidity to be disclosed by the valuer, see above.