

April 18, 2011

Via Electronic Mail

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

Dear Chairman Sherman:

On behalf of the 25,000 members of the Appraisal Institute, we are writing to express our continued concern regarding the proposed International Valuation Standards (IVS) reviewed last month for final approval by the International Valuation Standards Board (IVSB).

Our previous correspondence to the IVSB highlighted several concerns with the Staff Draft that was reviewed and considered for final approval on March 4, 2011. Our letter included concerns over the proposed treatment of the cost approach and proposed certifications by firms, as opposed to individual practitioners. We appreciate the efforts made by the IVSB to make appropriate adjustments to the treatment of the cost approach. Changes made during the March 4 meeting satisfactorily allayed our concerns, for now, over potential conflicts between IVS and other valuation standards throughout the world.

However, we regret the IVSB's decision to accept firm certifications in lieu of individual certifications, because such compliance statements are critical to the valuation process. Specifically, individual certifications are the preferred way that an appraiser takes responsibility for his or her work and certifies independence. If the Staff Draft, as amended by the IVSB in March, is adopted, IVS will be largely incompatible with other valuation standards throughout the world.

The objective of the IVSB is "to contribute to the efficiency of those markets by providing a framework for the delivery of credible and consistent valuation opinions," however, allowing firm certifications may serve to seriously weaken the credibility and reliability of reports and the reputation of the profession. Specific examples of the effect of the proposed changes on credibility, reliability and reputation include:

- *Enforcement.* If standards are not enforceable, they have no effect, they have no credibility and there's no point in having them. Regulatory boards and professional associations may not have jurisdiction over firms, but they do have jurisdiction over individual licensees and/or members. As such, this proposed change has the potential to create a significant enforcement nightmare. Since the founding of appraisal as a profession, individuals have taken responsibility for value opinions.

- *Competence.* The proposed IVS provides:

Because valuation requires the exercise of skill and judgment, it is a fundamental expectation that valuations are prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market in which it trades and the purpose of the valuation.

With an individual certification the individual valuer who actually develops and reports the analyses, opinions and conclusions needs to be competent and needs to certify to that competence. With a firm-signed certification, only the firm needs to be competent, not the individuals who actually completed the assignment. This especially can create an issue when a large firm completes an assignment, as the firm may be able to claim competence over a wide range of range of valuation types that the actual valuer does not possess. Also, clients and others will have no idea as to the competence of the individuals who actually prepared the report and the reputation of the profession will suffer.

- *Professional Assistance.* The proposed IVS provides:

If the valuer has obtained assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance shall be disclosed in the report.

Under this rule, if a firm signed the report, the individuals within the firm who worked on the assignment would not need to disclose their role in the assignment. If individual certifications were required, each individual within the firm who provided professional assistance and their contribution would need to be disclosed. Requiring individual certifications would result in reports that have greater transparency and credibility.

While no rationale and explanation for such a significant change has been provided within public drafts of the proposed IVS, during deliberations on the issue at the March 4 meeting, a contention was made by IVSB board members that firm certifications are consistent with certain business valuation standards found in the United States¹. This point, which was attempted to be confirmed at the March 4 meeting, was used, in part, to sustain and garner support for the proposal. We believe that it is important for the record to be clear on this issue: upon review, the business valuation standards discussed during the March 4 meeting **do not allow firm certifications**, as contended by the IVSB. In fact, these standards require *individual* certifications by requiring adherence to the Uniform Standards of Professional Appraisal Practice². As such, the premise under which the firm certification was accepted by the IVSB was, at least in part, incorrect.

While we understand that the accounting profession allows compliance statements to be signed by a firm or individual, the appraisal compliance and accounting compliance statements are not one and the same. In

¹ ASA Business Valuation Standards, available at <http://www.appraisers.org/Files/Professional%20Standards/bvstandards.pdf>

² According to Part II, Signature and Certification: "A. An appraiser assumes responsibility for the statements made in a comprehensive written report and accepts that responsibility by signing the report. To comply with this Standard, a comprehensive written report must be signed by the appraiser. For the purpose of this Standard, the appraiser is the individual or entity undertaking the appraisal assignment under a contract with the client. B. Clearly, at least one individual is responsible for the valuation conclusion(s) expressed in a report. A report must contain a certification, as required by Standard 10 of USPAP, in which the individual(s) responsible for the valuation conclusion(s) must be identified."

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speaking about this topic with several of our members who work for accounting firms, they expressed some bewilderment over the claimed necessity of firm certifications. It is our understanding that individual certifications are widely used by accounting firms when conducting valuations. This includes valuations with several asset classes. We understand that at least one major accounting firm includes separate certification pages for real estate, business and personal property assets with individual certifications included in the report. Further, we are not aware of this being an issue for clients, as our members have reported no difficulty in satisfying the individual certification.

While we understand that the IVSB has spent considerable time working on the Staff Draft and that IVSB also has developed an aggressive timeline for completing the IVS, the decision to allow firm certifications gives us great pause. We do not believe that it is prudent to adopt a version of IVS that contains such a significant flaw, and we urge that the IVSC refrain from issuing the new IVS as proposed.

Thank you, in advance, for your consideration of this letter.

Sincerely,

A handwritten signature in black ink, reading "Joseph P. Magdziarz". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Joseph P. Magdziarz, MAI, SRA
2011 President

Cc: Members of the IVSB
Mr. Michael Prada, Chairman, IVSC
Ms. Marianne Tissier, Executive Director, IVSC
Mr. Chris Thorne, Technical Director, IVSC