



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*

A BRIDGE FROM USPAP TO IVS

A guide to producing IVS-compliant appraisals

**INTERNATIONAL VALUATION
STANDARDS COUNCIL**



A BRIDGE FROM USPAP TO IVS

A guide to producing IVS-compliant appraisals

Executive Summary

This document describes additional steps to be taken by appraisers already accustomed to providing USPAP-compliant appraisals to make valuations IVS-compliant. Importantly, the process begins at the outset of the assignment by providing a scope of work document to the client (completed valuations cannot be made IVS-compliant retroactively.) Necessary scope of work components vary based on the item being valued and the intended use of the assignment results. Some additional reporting steps are needed notably disclosure of any material uncertainty and identification of any departure from IVS. Some additional reporting requirements exist for Plant & Equipment valuation reports and for valuations for lending.

Introduction

As the use of the International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC) grows, there will be both an increasing need for appraisers to meet the requirements and increasing opportunities for those appraisers able to do so. Fortunately, for appraisers already accustomed to the *Uniform Standards of Professional Appraisal Practice* (USPAP) published by The Appraisal Foundation (TAF) the two standards are already quite similar.

More Similar than Different

Recognizing that public trust in the Valuation Profession is enhanced by having a common set of valuation standards, The Appraisal Foundation and the International Valuation Standards Council have been collaborating in the development of standards for years.

Many differences are superficial and are due to different presentation and organization. Some differences are unavoidable because the IVSs have to be applicable across the globe, whereas USPAP is designed for use within the United States and has to reflect US law and practice.

In the end, both are remarkably similar. Both address the development of a valuation opinion based on an appropriate scope of work. Both address report content and file documentation. Both address the competency and independence of the appraiser. As a result, an appraiser accustomed to providing USPAP compliant appraisal reports should not have much difficulty in also meeting the requirements of the International Valuation Standards.

Numerous, detailed, side-by-side comparisons have been created over the years by both organizations. Such detailed comparisons are academically interesting, but don't provide a clear answer for the practitioner who may ask "what do I need to do"?

What is covered in this Guide?

USPAP has some requirements that do not appear in the IVS, and vice versa. It is the preliminary view of the Standards Boards of each organization that none of the additional requirements in USPAP conflict with the IVS and therefore do not present a barrier to compliance. Therefore, by creating a USPAP compliant appraisal, you are well on your way to creating an IVS compliant appraisal. Consequently, this guide focuses on requirements in the IVS that do not appear in USPAP.

Since most US appraisers are required to comply with USPAP, ultimately they need to understand what additional steps must be taken to meet the IVS. This guide has been produced to assist appraisers familiar with USPAP to produce a valuation that is also compliant with the IVS.

What is not covered in this Guide?

This guide does not discuss issues in which IVS and USPAP have effectively the same requirements, nor does it cover issues in which USPAP has an additional requirement.

This guide does not discuss any topics that the IVS covers but are not currently addressed by USPAP. Also, this paper is not focused on the topic of valuation reviews.

Which USPAP/Which IVS?

This guide was created addressing USPAP 2016/17 and IVS 2013.

General Points

The IVS contain a Framework that does not contain any requirements but rather describes overarching valuation concepts and principles. The applicability of the IVS reflecting specific requirements depends on the type of asset or liability being valued. A copy of the IVS can be obtained at www.ivsc.org.

USPAP includes an Ethics Rule. The IVS Framework states that it is a fundamental expectation that when applying the standards there are appropriate controls in place to ensure objectivity and freedom from bias, and that the valuer is competent. The IVSC has published the *Code of Ethical Principles for Professional Valuers* (the *Code*). This *Code* is intentionally and necessarily separate from the International Valuation Standards, reflecting the fact that the IVS are designed to be adopted and used by organizations working under different ethical codes throughout the world. These necessarily differ in detail because of differences in the way the appraisal profession is regulated. An appraiser complying with the USPAP Ethics Rule will comply with the Fundamental Principles of the IVSC *Code of Ethical Principles for Professional Valuers*.

Assumptions

USPAP and IVS use different terminology for assumptions but share similar requirements.

While USPAP has Assumptions, Extraordinary Assumptions, and Hypothetical Conditions, IVS has *Special Assumptions*. A *Special Assumption* is defined in IVS as:

an assumption that either assumes facts that differ from the actual facts existing at the valuation date or that would not be made by a typical market participant in a transaction on the valuation date.

Note that the valuation date is the date on which the opinion of value applies (i.e., the date of value).

Ultimately, to meet IVS requirements:

1. Any *Special Assumption* must be labeled *Special Assumption*.
2. Assumptions and *Special Assumptions* must be disclosed in both the Scope of Work and the appraisal report.

IVS consider it desirable that the client is alerted to all the material terms and limitations of a valuation before it is finalized. This also reflects contract law in many jurisdictions. Since, most appraisers will be disclosing the common assumptions they make and any exceptions or conditions somewhere in the appraisal report, compliance with IVS should not be a significant burden.

The following table provides a summarized comparison:

	USPAP	IVS
Types	<ul style="list-style-type: none"> • Assumptions, • Extraordinary Assumptions • Hypothetical Conditions 	<ul style="list-style-type: none"> • Assumptions • Special Assumptions
Required to use the terms?	No	Yes
When acceptable to use	<ul style="list-style-type: none"> • Extraordinary Assumptions – when required to develop credible opinions and appraiser has a reasonable basis; • Hypothetical Conditions – when required to develop credible opinions, for legal purposes, for reasonable analysis, for purposes of comparison. 	<ul style="list-style-type: none"> • When they are reasonable and relevant for the intended use.
Disclosure	<ul style="list-style-type: none"> • “Clearly and conspicuously” state in appraisal report. • State that “their use might have affected the assignment results.” 	<ul style="list-style-type: none"> • Disclose in Scope of Work, and • Disclose in Report

Scope of Work

IVS Compliance Must Start at the Beginning

Both sets of standards have requirements regarding the proper initiation of the assignment with the intent to ensure appropriate awareness and understanding by both client and appraiser. Similar to USPAP, the IVS has requirements that apply from the outset and throughout the valuation process. Therefore, it is not possible to make a completed USPAP compliant appraisal report subsequently compliant with the IVS.

However, compared with USPAP, the IVS have more extensive requirements for the initiation of the assignment. These are all required to be recorded in writing in a “Scope of Work.” It is important to note that the term “Scope of Work” is used more broadly in IVS than it is in USPAP. In USPAP, the scope of work is a process encompassing what the appraiser does to conclude with an opinion that is credible to the client and intended users.

In IVS, the Scope of Work is a document that encompasses not only the work to be conducted in developing the assignment results but also in all matters that should be disclosed either at the start of the assignment or before the report is finalized in a Scope of Work document to be given to the client.

This Scope of Work document is to be written by the appraiser and provided to the client at the beginning of the valuation assignment. USPAP does not have this requirement. Consequently, a USPAP compliant appraisal report without this Scope of Work document cannot be subsequently made into an IVS compliant valuation.

It is critical to understand whether the appraisal report must be IVS compliant at the outset. IVS compliance truly starts at the beginning of the assignment.

The overriding principle in the IVS is simply that the client should be aware of what is to be provided and any limitations or conditions before the valuation is finalized and reported.

The following provides the requirements for all assignments under IVS. Additional requirements, depending upon the subject of the valuation and the nature of the assignment, are further below.

The Scope of Work for all assignments must:

- Identify the appraiser
- State that the appraiser is in a position to be objective and unbiased
- Disclose whether the appraiser has any material connection with the subject of the assignment or the client
- State that the appraiser is competent for the assignment at the outset. If the appraiser needs material assistance from others, state the nature of such assistance and the extent of the reliance on that assistance
- Identify the client and any other intended users

- Identify who cannot rely upon the valuation assignment. (i.e., anyone who is not the client or an intended user)
- State the purpose of the valuation
- Identify the asset or liability to be valued
- If the subject is used in conjunction with other assets, state whether the other assets are included, excluded but assumed to be available, or assumed not to be available
- State the basis of value. Either cite the source of the definition or define the basis of value
- State the date of value
- State any limitations or restrictions on the inspection, inquiry and analysis
- The nature and source of any relevant information that is to be relied upon and the extent of any verification to be undertaken during the valuation process
- Report format shall be recorded. If any of the report contents required by IVS 103 are to be excluded this should be disclosed. This is relevant if an abbreviated report is requested by the client
- Identification of any departure from IVS and justification for departure. Departure must not result in misleading valuation

Although the above matters will normally be discussed, and some may be agreed with the client before the Scope of Work is finalized, the client's agreement is not a prerequisite. Just like in USPAP, the appraiser is ultimately responsible to ensure that the terms of the assignment are appropriate for the intended use of the valuation assignment results.

IVS (101) acknowledges that some items may not be known at the outset (e.g. sources of information or necessary assumptions), and changes to the scope of work may become necessary as a result of issues discovered during the assignment. Accordingly, the Scope of Work under IVS can be addressed or revised as appropriate via multiple documents. Note too that the IVS does not prescribe the form of any document such as the Scope of Work, but rather only the topics to be addressed. A number of items are typically included in an appraiser's standard terms and conditions of engagement, and others will need to be addressed on a case-by-case basis.

The Scope of Work for Valuations of Businesses and Business Interests Must Also:

- State the specific interest in the business, including the legal structure, whether the interest is a whole or partial interest, whether it is limited to certain assets or liabilities or excludes certain assets or liabilities, and the class or classes of shares involved.
- State typical or special assumptions when needed, such as:
 - whether the owner(s) of the remaining interest(s) are either intending to sell or to retain their holdings, and
 - whether certain assets or liabilities owned by the business are to be disregarded when needed

The Scope of Work for Valuations of Intangible Assets Must Also:

- Identify the intangible asset by its type and the legal right or interest in the asset

- Identify any contributory assets and whether these are included in the valuation. If a contributory asset is to be excluded, state whether the subject is to be valued on the assumption that the contributory asset is or is not available to a buyer of the subject

The Scope of Work for Valuations of Plant and Equipment Must Also:

- Clearly define what is to be included and excluded from the valuation in situations when the plant and equipment is attached to or integrated with other assets, such as when the asset is permanently attached to the land and could not be removed without substantial demolition of either the asset or any surrounding structure or building or when an individual asset is part of an integrated production line where its functionality is dependent upon other assets
- State any necessary assumptions or special assumptions relating to the availability of any complementary assets
- If valuation is to include plant and equipment that normally form part of the real property interest and if the valuation requires that these be valued separately, a statement that the value of these items is normally included in the real property interest and may not be separately realizable
- Disclose necessary assumptions regarding the state and circumstances in which the assets are valued such as:
 - The plant and equipment assets are valued as whole in place and as part of the business as a going concern
 - The plant and equipment assets are valued as a whole in place but on the assumption that the business is closed
 - The plant and equipment assets are valued as individual items for removal from their current location

The Scope of Work for Valuation of Real Property Interests Must Also:

- Describe the real property interest to be valued
- Identify any superior or subordinate interests that affect the interest to be valued
- Consider the extent of any inspection
- Require evidence to verify the real property interest and any relevant related interests
- Address:
 - The responsibility for information on the site area and any building floor areas.
 - The responsibility for confirming the specification and condition of any building.
 - The extent of investigation into the nature, specification and adequacy of services.
 - The existence of any information on ground and foundation conditions.
 - The responsibility of the identification of actual or potential environmental risks.
 - Legal permissions or restrictions on the use of the property and any buildings.
 - Specify any special assumptions such as whether a defined physical change or a change in the status of the property had occurred as of the date of valuation.

The Scope of Work for Valuations of Real Property Interests for Secured Lending Must Also:

- Disclose material involvement with the property to be valued, the borrower, or prospective borrower

- The real property interest to be used as collateral for securing the loan must be identified as well as the owner of the interest
- If a valuation based on a special assumption of a restricted marketing period is required, it will only be valid on the valuation date and may not be achievable in the event of future default
- Specify any *special assumptions* that may need to be agreed upon such as:
 - The proposed building had been completed at the valuation date.
 - The proposed lease had been completed as of the valuation date.
 - That a specified occupancy level had been reached by the valuation date.
 - That the seller imposed a time limit for disposal that was inadequate for proper marketing.

Reporting

The reporting requirements under IVS and USPAP are very similar.

Restricted Appraisal Report Formats – An appraisal report meeting the minimum USPAP Restricted Appraisal Report requirements will not meet IVS requirements. IVS has flexibility to allow less detailed reports, but more would be required compared with the USPAP minimum restricted report format requirements.

Appraisal Report Formats - A USPAP compliant Appraisal Report can easily meet IVS requirements by addressing the following:

All Reports

- The client must be identified. There is no provision in IVS for the client name to remain confidential (although the report itself can be confidential to a specified party or parties).
- If the valuation is of an asset used in conjunction with other assets, clarification as to whether those other assets are included in the valuation, excluded but assumed to be available, or excluded and assumed not to be available.
- Explicit disclosure of any limitations on the extent of any investigations, as per the scope of work. USPAP requires disclosure of limiting conditions whereas IVS requires disclosure of limitations described in the scope of work.
- Disclosure of any material uncertainty (see next section).
- A statement that the assignment has been undertaken in accordance with IVS.
- Identification of any departure from IVS and the justification for the departure. A departure is not justified if the valuation is misleading.
- IVS (103) also recommends, but does not require, the report to refer to the scope of work document.

Additional Report Requirements for Plant and Equipment

- Comment on the effect on the reported value of any associated tangible or intangible assets excluded from the valuation.

Additional Report Requirements for Valuations of Real Property Interests for Secured Lending

- Comment on factors that are relevant to the lender’s assessment of the performance of security over the life of the proposed loan such as:
 - Current activity and trends in the relevant market
 - Historic, current, and anticipated future demand for the type of property and location
 - Any potential, and likely demand for, alternative uses that exist or can be anticipated at the valuation date
 - The impact of any events foreseeable at the valuation date on the probable future value of the security during the loan period
- If the market value is subject to a *special assumption*:
 - Comment on any material difference between the market value and the market value subject to the special assumption
 - Comment that the value may not be realizable at a future date unless the special assumption has occurred

Valuation Uncertainty

IVS (103) states that the report must disclose “material uncertainty.” There is no explicit requirement in USPAP to disclose uncertainty.

For example, for an assignment in which market value is estimated, material uncertainty is the possibility that the estimated value may be different from a price on the same date of value and meet all the terms of the market value definition (i.e.: willing/knowledgeable buyer/seller, reasonable exposure, etc.). It is stressed that valuation uncertainty is not the probability of values changing over time or an assessment of the risk of future market changes.

The IVS guidance accepts that a valuation is an estimate and thus there is an element of uncertainty in all valuations. Valuation uncertainty is not expected to be explicitly referred to in every valuation report. Disclosure is only required if the uncertainty is “material.” IVS guidance cautions that disclosure of immaterial uncertainty could potentially increase costs and raise unwarranted concern as to the reliability of many valuation opinions, which would not be helpful to users. The IVS includes guidance on identifying and disclosing material uncertainty and appraisers are recommended to read the IVS guidance if they are required to produce an IVS compliant report in circumstances where abnormal uncertainty is encountered.

Materiality should be considered from two aspects: first, whether the potential impact on the valuation figure is significant; and second, whether it would be relevant to an intended user. Insignificant uncertainty is very unlikely to be relevant, but even significant uncertainty may not always be relevant. A useful test for considering whether valuation uncertainty is material is to consider whether failure to disclose the uncertainty in the report would reasonably lead the intended users to take action based on the reported valuation that they may not have taken had the uncertainty been disclosed.

The IVS guidance indicates that where material uncertainty exists, a qualitative description should be included in the report to explain the source of the uncertainty, the effect it has on the market, and/or the valuation process. The guidance also indicates that in some circumstances, a quantitative disclosure may also be appropriate in addition to the qualitative explanation. However, it cautions of the difficulties in making a numeric estimate of uncertainty. Most significantly is that if there is sufficient data to produce a reliable quantitative estimate of uncertainty, then that data can be used to produce a valuation that is not subject to material uncertainty in the first place. It also cautions against the use of a valuation range as a satisfactory means of expressing uncertainty.

Conclusion

In conclusion, since the objective of both USPAP and IVS are to maintain *public trust* in the valuation process, the two standards are more similar than different.

Appraisers who are accustomed to providing USPAP compliant appraisals should have little trouble meeting IVS.

This paper summarizes the additional IVS requirements above and beyond USPAP. Two principle differences are the upfront Scope of Work document provided to the client and the disclosure of material uncertainty when appropriate.



About the International Valuation Standards Council (IVSC)

The International Valuation Standards Council (IVSC) is an independent, not-for-profit, private sector organisation. As the established international standard setter for valuation, the IVSC develops and maintains standards for the reporting and disclosure of valuations, especially those that will be relied upon by investors and other third party stakeholders in financial statements or other published documents.

It is developing a framework of guidance on best practice for valuations of the various classes of assets and liabilities. To promote the consistent delivery of the standards by properly trained professionals around the globe, the IVSC is also establishing international benchmarks for the conduct and competency of professional valuers.

The governance structure of the IVSC includes two independent technical Boards – the International Valuation Standards Board and the International Valuation Professional Board – and a global Board of Trustees responsible for the overall strategic direction and funding of the IVSC.

For more information please visit: www.ivsc.org.



THE APPRAISAL FOUNDATION

Authorized by Congress as the Source of Appraisal Standards and Appraiser Qualifications

About The Appraisal Foundation

The Appraisal Foundation is the nation's foremost authority on the valuation profession. The organization sets the Congressionally-authorized standards and qualifications for real estate appraisers, and provides voluntary guidance on recognized valuation methods and techniques for all valuation professionals. This work advances the profession by ensuring appraisals are independent, consistent, and objective.

More information on The Appraisal Foundation is available at www.appraisalfoundation.org.





THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*