THE NIGERIAN INSTITUTION OF ESTATE SURVEYORS AND VALUERS

(FACULTY OF VALUATION AND COMPENSATION)

DRAFT OF

THE NIGERIAN VALUATION STANDARDS
'THE GREEN BOOK'

INTRODUCTION

CONTENTS

1.0 INTRODUCTION

Overall purpose

1 Valuation is fundamental and critical to decision making in the global economic and social landscape. In order to enlist the confidence and trust of members of the general public, business institutions and government in valuation, it is necessary for valuers to be consistent, objective and transparent in handling valuation assignments. Adequate knowledge, training, exposure, experience, skills and upholding ethical standards are equally of primary importance to giving unbiased opinion of value, which is as important as chronological, concise and unambiguous valuation reporting for final the user(s).

2 Globally recognised high level valuation principles and definitions are now embodied in the **International Valuation Standards** (IVS) published by the International Valuation Standards Council (IVSC). ESVARBON and NIESV are ardent supporters and adopters of the universally recognized standards in Valuation, who also supports the global adoption of same.

3 But acceptance of global standards alone is not enough. Effective implementation is also necessary. If confidence and public trust in the valuation process is to be achieved, standards must not only be uniformly interpreted and consistently applied but also actively monitored and enforced.

4 The foregoing is the rationale for the introduction of this Nigerian Valuation Standards, to be known and referred to as the 'Green Book'. The Green Book formally recognises and adopts the IVS by requiring members to follow them. It also complements the IVS by providing detailed guidance and specific requirements concerning their practical implementation.

5 This approach is reinforced by the Nigerian Professional Standards (NPS) regarding ethics, skills and conduct; and is assured by a well-established system of regulation and by progressive introduction of a system of practising valuer registration.

6 The aim is simply stated – it is to engender confidence in, and to provide assurance to, clients and recognised users alike, that a valuation provided by an ESVARBON registered valuer anywhere in the the Federal Republic of Nigeria will be undertaken to the highest professional standards overall.

Coverage

From the valuation provider's perspective

7 For *members*, these professional standards and valuation practice statements set out procedural rules and guidance which:

(a) include the principles set out in the IVSC *Code of Ethical Principles for Professional Valuers* and expressly comply with the ESVARBON *Code of Professional Conduct for Estate Surveyors and Valuers and Explanatory Notes 2015.*
(b) impose on individual valuers or firms registered by the Board certain mandatory obligations regarding competence, objectivity and transparency
(c) establish a framework for uniformity and best practice in the execution and delivery of valuations.

8 They do not:

(a) instruct members on how to value in individual cases
(b) prescribe a particular format for reports: provided the mandatory requirements in these standards are met, reports should always be appropriate and proportionate to the task
(c) override standards specific to individual jurisdictions – see PS 1 paragraph 4, Compliance with other standards, and PS 1 paragraph 5.

From the valuation user's perspective

9 For clients and other valuation users these professional standards and valuation practice statements ensure:

(a) consistency in approach, aiding understanding of the valuation process and hence of the value reported
(b) credible and consistent valuation opinions by suitably trained valuers with appropriate qualification and adequate experience for the task
(c) independence, objectivity and transparency in the valuer's approach
(d) clarity regarding *terms of engagement*, including matters to be addressed and disclosures to be made
(e) clarity regarding the *basis of value*, including any *assumptions* or material considerations to be taken into account
(f) clarity in reporting, including proper and adequate disclosure of relevant matters where valuations may be relied on by a third party.

Arrangement of the Green Book

10 The 'Green Book' has been grouped under three distinct headings, the first two covering matters relevant to valuation assignments generally, the third covering matters relating to particular applications. The intention is to make clear to members what is mandatory and what is advisory – thus collected together under the first two headings is the mandatory material and under the third the advisory material.

11 This signals a new approach to identifying and classifying valuation practice guidance. This will be issued either in the form of Guidance Applications, covering specific asset types or situations that are closely linked to one or more practice statements, or in the form of Guidance Notes, in all other cases. Guidance Applications and Guidance Notes are of equal status – they contain advisory and not mandatory material. But for the convenience of users, the Guidance

Applications are reproduced in full in this edition, whereas appropriate cross-references are included in relation to Guidance Notes.

ESVARBON Professional Standards (PS) – mandatory

12 ESVARBON Professional Standards as they apply to valuers are denoted by the use of a PS reference number and are **mandatory** (unless otherwise stated) for all members providing written valuations. They define the parameters for compliance with the Green Book, including adoption of the *International Valuation Standards*. They comprise:

PS 1 – Compliance with standards and practice statements where a written valuation is provided **PS 2** – Ethics, competency, objectivity and disclosures **ESAVRBON Valuation Practice Statements (VPS) – mandatory**

13 Nigerian Valuation Practice Statements are denoted by the use of a NVPS reference number and contain specific, **mandatory** requirements and related implementation guidance, in relation to the process of providing a valuation that is IVS-compliant.

They comprise:

NVPS 1 – Minimum terms of engagement
NVPS 2 – Inspections and investigations
NVPS 3 – Valuation reports
NVPS 4 – Bases of value, assumptions and special assumptions

14 **ESVARBON Valuation Practice Guidance – Applications (VPGA) – advisory**

ESVARBON Valuation Practice Guidance – Applications are denoted by the use of a VPGA reference number and provide further implementation guidance in the specific instances listed. While not mandatory, they embody 'best practice' – that is procedures that in the opinion of RICS meet a high standard of professional competence. They comprise:
NVPGA 1 – Valuation for inclusion in financial statements
NVPGA 2 – Valuation for secured lending
NVPGA 3 – Valuation of businesses and business interests
NVPGA 4 – Valuation of individual trade related properties
NVPGA 5 – Valuation of plant and equipment
NVPGA 6 – Valuation of intangible assets
NVPGA 7 – Valuation of personal property, including arts and antiques

NVPGA 8 – Valuation of portfolios, collections and groups of properties
NVPGA 9 – Valuation in markets susceptible to change: certainty and uncertainty
NVPGA 10 – Valuation for Compensation

Publication

15 The primary resource for accessing these standards is the Green Book. The document is also available in the Green Book section of the ESAVRBON website. In addition it provides information on the guidance notes, exposure drafts, valuation alerts and other valuation material. It also includes all amendments and newly published material issued after the date from which this edition takes effect.

Amendments and exposure drafts

16 The content of these standards is under regular review, and amendments and additions will be issued from time to time, when required. These will be made to the web-based publication as required, but for the printed version they will be included only in the subsequent editions.

17 Where amendments may have a substantial effect, for instance the rewriting of a *Nigerian valuation practice statement* (NVPS) or *Nigerian valuation practice guidance application* (NVPGA), they may be published as an exposure draft. An exposure draft will contain the text authorised for public comment by the Board.

18 The purpose of an exposure draft is to enable members to comment on the approved text, and possibly identify flaws, before incorporation into the Green Book.

The text of an exposure draft will, after consideration of any comments made and final approval by the Board, become mandatory on the effective date of the next Green Book update following its publication.

19 The Board would also be pleased to receive suggestions for inclusion of additional material or requests for clarification of the text.

Effective date ….

International Valuation Standards

20 The International Valuation Standards reproduced with kind permission from IVSC in this Green Book edition are those approved by the IVSC Standards Board on 1 July 2013 with an effective date of 1 January 2014 (although IVSC encouraged earlier adoption).

21 *Members* are reminded that IVSC reserves the right to make further amendments to IVS at any time. Any consequential amendments to this Green Book edition will be accessible on ESVARBON website (see under the heading Publication above), but will not be incorporated in hard copy versions until the next edition.

ESVARBON material

22 The ESVARBON material included in this edition takes effect from **…………** and applies to all valuations where the *valuation date* is on or after that day. Again, any amendments to this Green Book edition will be accessible on ESVARBON website (see under the heading Publication above), but will not be incorporated in hard copy versions until the next edition.

23 Copies of the Green Book text current at any given date may be obtained through the Board's library.

GLOSSARY OF TERMS

2.0 GLOSSARY OF TERMS

This glossary defines various terms used in these ESVARBON standards that have a special or restricted meaning. Terms not appearing in the glossary follow their common dictionary meaning. Where a term is used as defined below, it is identified in the text with *italic* font. Where the glossary includes terms that are defined in the IVS, the IVS wording has been adopted. A full list of IVS definitions is included in the IVS annex of this publication.

assumption A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, do not need to be verified by the valuer as part of the valuation process. Typically, an *assumption* is made where specific investigation by the valuer is not required in order to prove that something is true. **See IVS Framework paragraphs 48–51.**

basis of value A statement of the fundamental measurement *assumptions* of a valuation.

cost approach An approach that provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or construction.

date of inspection: the final date in which the physical inspection and survey of the property is done.

date of the report The date on which the valuer signs the report.

date of valuation See *valuation date*.

departure Special circumstances where the mandatory application of the *valuation practice statements* may be inappropriate or impractical or the valuer may be required to comply with standards other than those of the Board.

depreciated replacement cost (DRC). The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

external valuer A valuer who, together with any associates, has no material links with the client, an agent acting on behalf of the client or the subject of the assignment.

fair value There are two distinct definitions, and great care must be exercised in selecting and specifying the correct definition according to the valuation context.

> 1 The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. (IFRS 13)

2 The estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. (IVS 2013). This does not apply to valuations for financial reporting – see **IVS 300**. (For more detailed explanation of these definitions see VPS 4 paragraph 1.5, Fair value, and VPGA 1, Valuation for inclusion in financial statements.)

final report This is a complete valuation report submitted to a client after the completion of a valuation exercise.

financial statements Written statements of the financial position of a person or a corporate entity, and formal financial records of prescribed content and form. These are published to provide information to a wide variety of unspecified *third party* users. *Financial statements* carry a measure of public accountability that is developed within a regulatory framework of accounting standards and the law.

firm The *firm* or organisation for which the *member* works, or through which the *member* trades.

goodwill Any future economic benefit arising from a business, an interest in a business or from the use of a group of assets that is not separable.

guidance note (GN) Further material and information on good practice appropriate for particular types of circumstances. Where procedures are recommended for specific professional tasks they are intended to embody 'best practice' and are procedures which, in the opinion of ESVABRON/NIESV, *members* should normally adopt in order to demonstrate the required level of professional competence.

income approach An approach that provides an indication of value by converting future cash flows to a single current capital value.

inspection A visit to a property or *inspection* of an asset, to examine it and obtain relevant information, in order to express a professional opinion of its value. However, physical examination of a non-real estate asset, e.g. a work of art or an antique, would not be described as 'inspection' as such.

intangible asset A non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and economic benefits to its owner.

interim report This is usually a preliminary advice or draft report or valuation in advance of its completion.

internal valuer A valuer who is in the employ of either the enterprise that owns the assets, or the accounting *firm* responsible for preparing the enterprise's financial records and/or reports. An *internal valuer* is generally capable of meeting all the requirements of independence and professional objectivity required under PS 2 paragraph 4, Independence, objectivity and conflict of interest, but, for reasons of public presentation and regulation, may not always be able to satisfy any additional criteria for independence under PS 2 paragraph 8, Disclosures, in certain types of assignment.

International Public Sector Accounting Standards (IPSAS)

International Financial Reporting Standards (IFRS) Standards set by the International Accounting Standards Board (IASB) with the objective of achieving uniformity in accounting principles. The standards are developed within a conceptual framework so that elements of *financial statements* are identified and treated in a manner that is universally applicable. These standards were previously known as International Accounting Standards (IAS).

investment property. Property that is land or a building, or part of a building, or both, held by the owner to earn rentals or for capital appreciation, or both, rather than for:
(a) use in the production or supply of goods or services, or for administrative purposes, or
(b) sale in the ordinary course of business.

investment value, or worth The value of an asset to the owner or a prospective owner for individual investment or operational objectives. (May also be known as *worth*.)

market approach An approach that provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.

market rent (MR) The estimated amount for which an interest in *real property* should be leased on the *valuation date* between a willing lessor and willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

market value (MV) The estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

marriage value See *synergistic value*.

member A fellow, associate, honorary *fellow*, probationer/Graduate and student members of the Nigerian Institution of Estate Surveyors and Valuers (NIESV).

NIESV Professional Member A fellow or associate member that is duly elected into the membership of the Nigerian Institution of Estate Surveyors and Valuers (NIESV) and registered by the Board.

real estate Land and all things that are a natural part of the land (e.g. trees, minerals) and things that have been attached to the land (e.g. buildings and site improvements) and all permanent building attachments (e.g. mechanical and electrical plant providing services to a building), that are both below and above the ground.

real property All rights, interests and benefits related to the ownership of *real estate*, including any negative rights, interests or benefits (i.e. obligations, encumbrances or liabilities) relating to the interest being valued.

special assumption 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*.

special purchaser A particular buyer for whom a particular asset has a *special value* because of advantages arising from its ownership that would not be available to other buyers in a market.

special value An amount that reflects particular attributes of an asset that are only of value to a *special purchaser*.

specialised property A property that is rarely, if ever, sold in the market, except by way of a sale of the business or entity of which it is part, due to the uniqueness arising from its specialised nature and design, its configuration, size, location or otherwise.

synergistic value, or marriage value An additional element of value created by the combination of two or more assets or interests where the combined value is more than the sum of the separate values. (May also be known as *marriage value*.)

terms of engagement Written confirmation of the conditions that either the *member* proposes or that the *member* and client have agreed shall apply to the undertaking and reporting of the valuation. **See IVS 101 Scope of Work.**

the Institution the Nigerian Institution of Estate Surveyors and Valuers (NIESV)

the Board the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON)

the Green Book the Nigerian Valuation signatory book of Valuation Standards

third party Any party, other than the client, who may have an interest in the valuation or its outcome.

trade related property Any type of *real property* designed for a specific type of business where the property value reflects the trading potential for that business.

trading stock Stock held for sale in the ordinary course of business, for example, in relation to property, land and buildings held for sale by builders and development companies.

valuation date The date on which the opinion of value applies. The *valuation date* shall also include the time at which it applies if the value of the type of asset can change materially in the course of a single day.

valuation practice guidance – application (VPGA) Applications support the implementation of the professional standards and the valuation practice statements in specific contexts, whether for a particular purpose or in relation to a particular asset type. VPGAs set out the key issues that need to be taken into account and, where appropriate, direct *members*' attention to other sources of guidance and information that are or may be relevant.

valuation practice guidance (Application and Note) RICS Valuation Practice Guidance – Applications and Guidance Notes are of equal status. They provide implementation guidance and recommendations for specific professional tasks. While not mandatory, they embody 'best practice' – that is procedures that in the opinion of RICS meet a high standard of professional competence.

valuation practice statement Contains specific, mandatory requirements and related implementation guidance, in relation to the process of providing a valuation that complies with the International Valuation Standards (IVS).

valuation review – The act or process of considering and reporting on a valuation undertaken by another party, which may or may not require the reviewer to provide their own valuation opinion.

valuation standard A statement of the highest professional standards that apply mandatorily to members when providing written valuations.

worth See *investment value*.

NIGERIAN PROFESSIONAL STANDARDS

3.0 NIGERIAN PROFESSIONAL STANDARDS (NPS)

3.10 NPS 1: COMPLIANCE WITH STANDARDS AND PRACTICE STATEMENTS WHERE A WRITTEN VALUATION IS PROVIDED

The following professional standards (PS) and valuation practice statements (VPS) have been approved by the Board as a comprehensive set of professional standards for the practice and delivery of valuation services by registered members.

3.1.1 MANDATORY APPLICATION

a All registered *members* and *firms* must comply with the professional standards (PS) and valuation practice statements (VPS) as contained in the **Green Book**. The professional standards and valuation practice statements are therefore of mandatory application to any *member* or *firm* involved in undertaking or supervising valuation services by the provision of written valuation advice.

b The phrase 'undertaking or supervising valuation services' includes any person who is responsible for, or accepts responsibility for, analyzing and communicating a written opinion of value.

This may include individuals who produce but do not sign valuation reports within their organisation, and conversely individuals who sign by way of supervision or assurance but do not produce valuation reports within their organisation.

c These professional standards and valuation practice statements have been written as they apply to all registered *members and firms*; it is to be interpreted accordingly.

3.1.2 COMPLIANCE WITHIN FIRMS

a The firm and all registered members within the firm must ensure that all processes and valuations are fully compliant with these standards.

b There may be circumstances where the *firm's* processes expressly prevent compliance with a particular aspect of a professional standard or valuation practice statement. In such cases the *member* is entitled to depart from the specific standard or statement, but must:

• be satisfied that the non-compliance does not lead to clients being misled or to unethical behaviour

• identify in the report the specific areas where compliance with any standard or practice statement has been precluded, together with the reason for this non-compliance and

• comply with all other aspects of these standards and practice statements.

c Where the *member* contributes to a valuation, it is expected that the contribution will comply with these professional standards and valuation practice statements.

3.1.3 COMPLIANCE WITH INTERNATIONAL VALUATION STANDARDS (IVS)

a The Board recognizes the International Valuation Standards Council (IVSC) as the setter of International Valuation Standards (IVS), which comprise internationally accepted high level valuation principles and definitions.

This implies that members should adopt and comply with the IVS and set out specific requirements for, together with additional guidance on, their practical implementation. The International Valuation Standards (IVS) 2013 are set out in full as an annex to this edition and take effect from 1 January 2014.

b Where there is a requirement that a valuation complies with IVS, a statement should be made that in complying with the Green Book the valuation will also be compliant with IVS. (See VPS 1 paragraph 9(k), Confirmation that the valuation will be undertaken in accordance with the IVS, and VPS 3 paragraph 7(k), Confirmation that the valuation will be undertaken in accordance with the IVS.)

c Where a statement is made that a valuation will be or has been undertaken in accordance with IVS it is implicit that all relevant individual IVS standards are complied with. Where a departure from IVS is necessary, this should be clearly explained. (See VPS 1 paragraph 9(k), Confirmation that the valuation will be undertaken in accordance with the IVS, and VPS 3 paragraph 7(k), Confirmation that the valuation will be undertaken in accordance with the IVS.)

3.1.4 COMPLIANCE WITH OTHER VALUATION STANDARDS

a The Board recognizes that a *member* may be requested to provide a report that complies with standards other than these professional standards and valuation practice statements. This will normally arise in relation to the particular requirements that apply within individual jurisdictions.

b In these cases a statement must be included in the *terms of engagement* and the report (VPS 1 paragraph 9(k), Confirmation that the valuation will be undertaken in accordance with the IVS, and VPS 3 paragraph 7(k), Confirmation that the valuation will be undertaken in accordance with the IVS) that:

- the named standards have been complied with
- the valuation will also comply with the Green Book and, if appropriate,
- the valuation will also comply with IVS.

3.1.5 ESVARBON AND OTHER NATIONAL VALUATION STANDARDS

a Where the valuation involves assets in two or more countries or states with different valuation standards, the *member* must agree with the client which standards will apply to the instruction.

3.1.6 EXCEPTIONS

a It is recognized that for some purposes the mandatory application of VPS 1 to VPS 4 would not be appropriate – these instances are specified below. Although not mandatory in such circumstances, the adoption of the relevant standards is nevertheless encouraged where not precluded by the specific requirement or context.

b The areas of exception are where:

- the *member* is performing a statutory function, whether by virtue of the office held or otherwise – this exception does not extend to the provision of a valuation for inclusion in a statutory return to a tax authority
- the valuation advice is provided expressly in preparation for, or during the course of, negotiations or litigation
- the valuation advice is provided purely for internal purposes, without liability, and is not communicated to any third party
- the valuation advice is provided as part of agency or brokerage work in anticipation of receiving instructions to dispose of, or acquire, an asset.

c For the avoidance of doubt, a replacement cost figure for assets other than personal property that is provided, either within a report or separately, for the purpose of insurance is not a 'written opinion of value' for the purpose of 'undertaking valuation services' as defined in PS 1 paragraph 1.2, Mandatory application, above.

3.1.7 Departures

a No departure is permitted from PS 1, Compliance with standards and practice statements where a written valuation is provided, or PS 2, Ethics, competency, objectivity and disclosures, in these standards, which are mandatory in all circumstances.

b If there are special circumstances where it is considered inappropriate to comply, in whole or in part, with VPS 1, Minimum terms of engagement, VPS 2, Inspections and investigations, and VPS 3, Valuation reports under those circumstances that do not fall within the exceptions in paragraph 6, Exceptions, above, then these must be confirmed and agreed with the client as a *departure* and a clear statement to that effect included in the *terms of engagement*, report, and any published reference to it.

c For most valuation purposes, one of the *bases of value* recognised by IVS and defined in VPS 4, Bases of value, assumptions and special assumptions, will be appropriate. Where another basis is used, this must be clearly defined and stated in the report. If adoption of that basis is mandatory in the particular context or jurisdiction, then adoption does not by itself constitute a *departure*, though the mandatory requirement to do so must be made clear. The Board does not encourage the voluntary use of a *basis of value* not defined in VPS 4, and will always regard such voluntary use as involving a *departure*.

d Similarly, if the valuation falls to be provided in compliance with prescribed statutory or legal procedures not falling within paragraphs 4, Compliance with other valuation standards, and 5, ESVARBON and Other national standards, above, (such as a prescribed *basis of value* that differs from those in IVS and VPS 4, Bases of value, assumptions and special assumptions) then again, provided those requirements are mandatory in the particular context or jurisdiction, compliance does not by itself constitute a *departure* – though the requirement to do so must be made clear.

e A *member* who makes a *departure* may be required to justify the reasons for this to the Board.

3.1.8 REGULATION: MONITORING COMPLIANCE WITH THESE PROFESSIONAL STANDARDS AND VALUATION PRACTICE STATEMENTS

a *Members* undertaking valuations, to which VPS 1, Minimum terms of engagement, VPS 2, Inspections and investigations, and VPS 3, Valuation reports, apply, must comply with the Boards requirements. Full details of the registration requirements can be found at the Board's website.

b As a regulatory body, the Board has a responsibility to monitor and seek assurance of compliance by registered *members* and *firms* with these professional standards and valuation practice statements. It has the right under the enabling Acts to seek information from *members* or *firms*. The procedures under which such powers will be exercised in relation to valuations are set out at the Board's website.

3.20 NPS 2 ETHICS, COMPETENCY, OBJECTIVITY AND DISCLOSURES

NPS 2 deals with the need for the valuer to have appropriate experience, skill and judgment for the valuation task in question and act in a professional manner free from any undue influence, bias or conflict of interest. This is fundamental to the integrity of the valuation process.

IMPLEMENTATION

1 Responsibility for the valuation
2 Professional and ethical standards
3 Member qualification
4 Independence, objectivity and conflict of interest
5 Maintaining strict separation between advisers
6 Duty of care to third parties
7 Terms of engagement
8 Disclosures where the public has an interest or upon which third parties may rely
8.1 Disclosure requirements
8.2 The relationship with the client and previous involvement
8.3 Rotation policy
8.4 Time as signatory
8.5 Previous involvement
8.6 Proportion of fees
8.7 Other disclosures
9 Reviewing another valuer's valuation

3.2.1 RESPONSIBILITY FOR THE VALUATION

a Each valuation to which these professional standards and valuation practice statements apply must be prepared by, or under the supervision of, an appropriately qualified, and named, valuer who accepts responsibility for it.

b Where the valuation has been prepared with input from other *members* or valuers, or a separate valuation report on some specific aspect is incorporated, the resultant valuation remains the responsibility of the named valuer under paragraph 1.1 above, but the others involved may be acknowledged (together with the statements required under VPS 3, Valuation reports, paragraph 7(k)).

c The Board does **not** allow a valuation to be prepared by a 'firm' (as stated in IVS 103 Reporting (a) Identification and status of the valuer). However, the use of 'for and on behalf of' under the responsible valuer's signature is an acceptable substitution.

c The *member* is discouraged from referring to any valuation or report as either 'formal' or 'informal', as these terms may give rise to misunderstanding, particularly regarding *assumptions* that the *member* may or may not have made.

d The *member* must exercise great caution before permitting valuations to be used for purposes other than those originally agreed. It is possible that a recipient or reader will not fully appreciate the restricted character of the valuation and of any qualifications in the report, and that it may be misquoted out of context. It is essential therefore that the terms of reporting appropriately address this risk. See also paragraph 5, Maintaining strict separation between advisers, below.

3.2.2 CODE OF ETHICS

Adoption of ESVARBON CODE OF PROFESSIONAL CONDUCT FOR ESTATE SURVEYORS AND VALUERS AND EXPLANATORY NOTES 2015

a Introduction

All registered members are bound by the ESVARBON code of professional conduct for Estate Surveyors and Valuers, 2015. To assist registered members in their observance of the code, the Board has published the Code with Explanatory Notes. The framework contains 19 codes as follows:

- Good character and reputation
-

More details are available in the appended *ESVARBON Code of Professional Conduct for Registered Estate Surveyors and Valuers 2015* and on ESVARBON's website.

b The IVSC has published both a *Code of Ethical Principles for Professional Valuers* and *A Competency Framework for Professional Valuers*. These are reflected in this section, the content of which fully meets the IVSC criteria.

3.2.3 MEMBER QUALIFICATION:

a The test of whether an individual is appropriately qualified to accept responsibility for or supervise the inputs into a valuation, involves satisfying the criteria specified in the appended **ESVARBON Competency Framework 2015** and **Code 8** of the ESVARBON Code of Professional Conduct for Registered Estate Surveyors and Valuers 2015.

More details are available in the appended *ESVARBON Code of Professional Conduct for Registered Estate Surveyors and Valuers 2015* and on ESVARBON's website.

b Valuers have to achieve and maintain defined standards of training and competence that meet or exceed the criteria set out in the IVSC publication *A Competency Framework for Professional Valuers*. However, as *members* are active across a wide range of specialisms and markets, registration as a valuer does not of itself imply that an individual necessarily has the practical experience of valuation in a particular sector or market: this must always be verified by appropriate confirmation.

c If the *valuer* does not have the required level of expertise to deal with some aspect of the commission properly then he or she should decide what assistance is needed. The *member* should then assemble and interpret relevant information from other professionals, such as specialist valuers, environmental surveyors, accountants, engineers, quantity surveyors and lawyers.

d The personal knowledge and skill requirements may be met in aggregate by more than one *member* within a *firm*, provided that each meets all the other requirements of this *valuation standard*.

e The client's approval must be obtained if the *member* proposes to employ another *firm* to provide some or all of the valuations that are the subject of the instruction (see also VPS 3, Valuation reports, paragraph 7(a), Identification and status of valuer).

f Where more than one valuer has undertaken or contributed to the valuation, a list of those valuers must be retained with the working papers, together with a confirmation that each named valuer has complied with the requirements of PS 1, Compliance with standards and practice statements where a written valuation is provided.

3.2.4 INDEPENDENCE, OBJECTIVITY AND CONFLICT OF INTEREST

a *Valuers* are required to exercise independence and objectivity in all instructions. For some purposes, statutes, regulations, or client's special requirements may set out specific criteria that the *membe*r must also meet in order to achieve a defined state of independence and objectivity. As contained in the ESVARBON Code of Professional Conduct for Registered Estate Surveyors and Valuers 2015.

Frequently such additional criteria provide a definition of the acceptable level of independence and may use terms such as 'independent expert', 'expert valuer', 'independent valuer', 'standing independent valuer' or 'appropriate valuer'. It is important that the *member* confirms compliance with these criteria both when confirming acceptance of the instruction and in the report, so that the client and any *third party* relying on the report can be assured that the additional criteria have been satisfied.

b There is a general duty to treat information relating to a client as confidential where that information becomes known as a result of the professional relationship and is not in the public domain. The risk of disclosure of confidential information is a material factor that the valuer should consider in assessing whether or not there is a potential conflict of interest. A factor to be borne in mind is that it may be necessary to disclose some details of the valuer's involvement in the subject of the valuation. If an adequate disclosure cannot be made without breaching the duty of confidentiality, then the instruction should be declined. The duty of confidentiality is continuous and ongoing, and includes current, past and even potential clients.

c Although the *valuer* may meet the stipulated criteria for the particular appointment, the Board's ethical requirements referred to in this section will still apply. It is therefore necessary for the *member* to identify any threats to their independence and objectivity, and take the appropriate action before accepting the instruction.

d *Valuer* shall at all times act with integrity and avoid any actions or situations that are inconsistent with their professional obligation. Where a conflict, or potential conflict, is identified, consideration has to be given as to whether the instruction should be accepted or declined. To provide an audit trail, a note of all conflict of interest checks and their resolution must be retained with the working papers.

e It is not possible to provide a definitive list of situations where a threat to a *valuer's* independence or objectivity may arise. However, the following are examples of where it will usually be necessary for the *valuer* either to make an appropriate disclosure and propose a way to satisfactorily manage the conflict (see also paragraph 5, Maintaining strict separation between advisers) or, where it is considered that any conflict that might arise cannot be resolved or managed in a satisfactory way in accordance with these professional standards, to decline to act:

- acting for the buyer and the seller of a property or asset in the same transaction
- acting for two or more parties competing for an opportunity
- valuing for a lender where advice is also being provided to the borrower
- valuing a property or asset previously valued for another client
- undertaking a valuation for *third-party* consumption where the valuer's *firm* has other fee-earning relationships with the client and
- valuing both parties' interests in a leasehold transaction.

f Additional guidance on conflicts of interest is available to valuers at www.esvarbon.gov.ng. Although the latter is written specifically to assist valuers of any discipline who are appointed to resolve disputes, it is of relevance to valuation assignments more generally as it contains in its appendices detailed examples of conflicts of interest in a hierarchical format.

g The extent to which any potential conflict of interest will compromise the *valuer's* overriding obligation to act with independence and objectivity will depend on the circumstances of each case. Material factors may include the particular context and purpose of the valuation, the client's motivation and objectives and the practicality of managing conflicts in accordance with the guidance specified in paragraph 3.5, Member qualifications, above. The interest of any *third parties* in the valuation, and the reliance they may place on it, will also be a relevant consideration.

If the *member* doubts his or her ability to avoid or manage any threat to independence, the instruction should be declined.

h In choosing to explain and seek agreement to the proposals for managing the conflict, the *valuer* must consider the standing and nature of the client, or prospective client. A large corporate client will find it easier to give an informed consent than a small business or an individual who rarely employs professionals. The *valuer* may have reason to believe that a prospective client does not have sufficient awareness of the issues to make an informed decision on the implications of any potential conflict, or the proposals for its management. In such case, the *valuer* should either decline the instruction, or advise the prospective client to take advice from another professional (for example, a lawyer or accountant) about the situation.

i A v*aluer* may be asked to act for both parties to a proposed transaction. Careful consideration must be given as to whether it is desirable to accept such an instruction, such as weighing the possibility of a conflict of interest arising in the future because of divergence of the clients' respective interests. If the *valuer* concludes that it is not inappropriate or unwise, the written consent of both parties should be obtained before accepting the commission and reference to that consent must be included in the report.

j A threat to the *valuers* objectivity can arise where the outcome of a valuation is discussed before its completion with either the client or another party with an interest in the valuation. While such discussions are not improper, and indeed may be beneficial to both the *valuer* and the client, the *valuer* must be alert to the potential influence that such discussions may have on his or her fundamental duty to provide an objective opinion. Where such conversations take place, the *valuer* must make a written record of any meetings or discussions, and whenever the *valuer* decides to alter a provisional valuation as a result, the grounds for doing so must be carefully noted.

K The *valuer* may need to discuss various matters, such as the verification of facts and other relevant information (for example, confirming the outcome of rent reviews or clarifying the boundaries of a property), before forming a preliminary opinion of value. At any stage in the valuation process such discussions give the client an opportunity to understand the *valuer's* viewpoint and evidence. It is expected that the client would disclose facts or information, including information about transactions in the property, asset or liability, relevant to the valuation task.

l In providing a client with preliminary advice, or a draft report or valuation in advance of its completion, the *valuer* must state that:

- the opinion is provisional and subject to completion of the final report
- the advice is provided for the client's internal purposes only and
- any draft is on no account to be published or disclosed.

The definition of what constitutes preliminary advice, or a draft report or valuation in advance of its completion, should be agreed in advance with the client.

If any matters of fundamental importance are not reflected, their omission must be declared.

m Where discussions with a client occur after the provision of preliminary material or opinions, it is important that such discussions do not, and can be shown not to, lead to any perception that the *valuer's* opinion has been influenced by those discussions, other than to correct inaccuracies or incorporate any further information provided.

n To demonstrate that the discussions have not compromised the *valuer's* independence the file notes of discussions with the client on draft reports or valuations should include:

- the information provided, or the suggestions made, in relation to the valuation
- how that information was used to consider a change in material matters or opinions and
- the reasons why the valuation has or has not been changed.

o If requested, this record should be made available to auditors or any other party with a legitimate and material interest in the valuation.

3.2.5 MAINTAINING STRICT SEPARATION BETWEEN ADVISERS

a The Board has strict guidelines on the minimum standards that must be adopted by organisations when separating the advisers acting for 'conflicting' clients. Any arrangement that is established must be robust enough to offer no chance of information or data passing from one set of advisers to another. This is a strict test; taking 'reasonable steps' to operate an effective separation is not sufficient. Accordingly, any arrangement set up and agreed to by affected clients must ensure that:

- the individual(s) acting for conflicting clients must be different – note that this extends to secretarial and other support staff

- such individuals or teams must be physically separated, at least to the extent of being in different parts of a building, if not in different buildings altogether • any information or data, however held, must not be accessible to 'the other side' at any time and, if in a written form, must be kept secure in separate, locked accommodation to the satisfaction of the compliance officer, or another senior independent person, within the firm

- the compliance officer or other senior independent person:

  – should oversee the setting up and maintenance of the arrangement while it is in operation, adopting appropriate measures and checks to ensure it is effective

  – must have no involvement in either of the instructions and

  – should be of sufficient status within the organisation to be able to operate without hindrance and

- there should be appropriate education and training within the *firm* on the principles and practices relating to the management of conflicts of interest.

b Effective arrangements are unlikely to work without considerable planning, as their management needs to be an established part of a firm's culture. It will therefore be more difficult, and often impossible, for smaller firms or offices to operate them.

3.2.6 DUTY OF CARE TO THIRD PARTIES:

a Where a duty of care is owed to a *third party* who is identifiable from the outset, the disclosures in accordance with paragraph 8, Disclosures where the public has an interest or upon which third parties may rely, must be made promptly to that party before the valuation is undertaken. In addition to the disclosures required under paragraph 8 there must also be disclosure of any circumstances where the valuer or the *firm* will gain from the appointment beyond a normal fee or commission. This gives *third parties* the opportunity to object to the appointment if they feel that the *valuer's* independence and objectivity may be compromised.

b However, in many cases the *third parties* will be a class of individuals, for example, the shareholders of a company, where disclosure at the outset to all interested *third parties* would clearly be impractical. In such cases the earliest practical opportunity for disclosure will be in the report or any published reference to it. A greater onus thus lies on the *valuer* to consider, before accepting the instruction, whether those *third parties* relying on the valuation will accept that any involvement requiring disclosure does not unduly compromise the *member's* objectivity and independence. See paragraph 8, Disclosures where the public has an interest or upon which third parties may rely, for further detail about disclosures in relation to specific categories of valuation.

c Valuations in the public domain, or which will be relied on by *third parties,* are frequently subject to statute or regulation. There are often specific stipulations that the *member* must meet in order to be deemed suitable to provide a truly objective and independent view. For certain purposes the Board's professional standards may also impose specific restrictions or conditions on the *valuer* providing valuation advice where there was previous involvement with the asset or a party with an interest in it.

However, there are no specific criteria for most valuations, and the onus is on the *member* to ensure that there is an awareness of potential conflicts and other threats to independence and objectivity.

3.2.7 TERMS OF ENGAGEMENT

a It is fundamental that by the time the valuation is concluded, but prior to the issue of the report, all the matters material to the report have been fully brought to the client's attention and appropriately documented. This is to ensure that the report does not contain any revision of the initial *terms of engagement* of which the client is unaware.

b Valuers should take care that they understand their clients' needs and requirements fully, and appreciate that there will be occasions when they may need to guide clients to choose the most appropriate advice for the given circumstances.

c The standards for minimum *terms of engagement* are set out in VPS 1, Minimum terms of engagement. Where NVPS 1 is not mandatory the minimum *terms of engagement* may nevertheless provide a guide to the drafting of terms to suit the specific case.

d As disputes may arise many years after the completion of a valuation, it is essential that the agreement of the *terms of engagement* is contained in, or evidenced by, comprehensive documentation maintained in a recognised and acceptable business format.

e Without prejudice to Codes 7.1, 7.2, 7.3 and 7.4 above, Registered Valuers should also comply with the provisions of Code 11 of the ESVARBON Code of Professional Conduct for Estate Surveyors and Valuers 2015.

3.2.8 DISCLOSURES WHERE THE PUBLIC HAS AN INTEREST OR UPON WHICH THIRD PARTIES MAY RELY

a DISCLOSURE REQUIREMENTS

i) Certain types of valuation may be relied on by parties other than the client that either commissioned the report or to whom it is addressed.
Examples of this type of valuation would include those for:

• a published *financial statement*

• a stock exchange, or similar body

• publication, prospectus or circular

• investment schemes or

• takeovers or mergers.

ii) Where the valuation is of an asset that has previously been valued by the valuer, or the valuer's *firm* for any purpose, the following disclosures must be made in the *terms of engagement*, in the report, and in any published reference to the valuation:

• the relationship with the client and previous involvement

• rotation policy

• time as signatory

• proportion of fees.

b THE RELATIONSHIP WITH THE CLIENT AND PREVIOUS INVOLVEMENT

i) To expose any potential conflict of interest where the *valuer*, or the *registered firm*, has been involved with the purchase of one or more properties for the client within the period of 12 months preceding the date of instruction or date of agreement of the *terms of engagement* (whichever is earlier) or a specific longer period prescribed, the *valuer* shall disclose in relation to those properties:

• receipt of an introductory fee or

• negotiation of that purchase on behalf of the client.

ii) In considering the disclosures required by this *professional standard,* it is necessary to identify the 'client' and '*firm*'.

iii) There are many different relationships that may be considered to fall within the identification of the client and *firm*. To be consistent with the minimum *terms of engagement* (see VPS 1, Minimum terms of engagement) and reporting (see VPS 3, Valuation reports), the client is the entity that agrees the *terms of engagement* and to which the report is addressed. The *firm* is the entity that is identified in the confirmation of the *terms of engagement* and the report.

iv) Closely connected companies within a group should properly be regarded as a single client or *firm*. However, due to the often complex nature of modern business it is frequently the case that the other entities have only a remote legal or commercial connection with the client for which the registered *firm* also acts. There may also be practical difficulties in identifying such relationships, for example, between the associates of the *registered firm* in other countries or states and the client. Sometimes it is the *valuer's* commercial relationship with a party other than the client that could create a perceived threat to independence.

v) The *valuer* is expected to make reasonable enquiries proportionate to the circumstances: it is not necessary to establish every potential relationship that there may be, provided the *valuer* adheres to the principles of this standard.

vi) The following are examples of where the disclosure requirements will relate to and include parties other than the entity giving the valuation instruction:

- subsidiaries of an instructing holding company
- where instructions are from a subsidiary company, those other companies connected by the same holding company or
- *a third party* issuing valuation instructions as agent for different legal entities, for example, the managers of a property fund.

vii) Similar considerations apply in identifying the extent of the *registered firm* for disclosure purposes, where there may be separate legal entities in different locations and/or undertaking different types of work. It may not be relevant to include all organisations connected with the *firm* undertaking the valuation where the activities are remote or immaterial – for example, they do not involve the provision of asset valuation or similar advice.

However, if there is a series of closely connected entities trading under a common style, the extent of the client's relationship with all those entities should be disclosed – for example, a *firm* where one arm is undertaking valuations and another undertaking all other property advice and management.

c. ROTATION POLICY

i) The obligation to disclose the *firm's* rotation policy will arise only where the *valuer* has provided a series of valuations over a period of time. Where it is a first or one-off instruction, it is clear that it would be inappropriate to comment on any general rotation policy.

ii) Where the *valuer* responsible for the valuation in accordance with this standard holds that responsibility for many years, familiarity with either the client or the asset valued could lead to the perception that the *valuer's* independence and objectivity has been compromised. This may be addressed by an arrangement, which provides for a ten year rotation of the *valuer* who accepts responsibility for the valuation.

Rotation Policy Disclosure

iii) The purpose of this requirement is to provide any *third party* with information on the length of time that a *valuer* has continuously been the signatory to valuations for the same purpose. It also requires a similar disclosure as to the length of time the *registered firm* has been carrying out valuations of that asset for the same client, and the extent and duration of their relationship.

iv) In relation to the *valuer,* the disclosure should relate to the continuous period of responsibility for the valuation up to the *date of the report*. It is possible that the *valuer* was the signatory to previous reports for the same purpose, but due to the *firm's* rotation policy (as set out earlier) there was a period of time when the *valuer* did not have that responsibility. There is no requirement to include that earlier period in the disclosure.

v) The *valuer* is not required to provide a comprehensive account of all work ever undertaken by the *registered firm* for the client. A simple, concise statement that discloses the nature of other work done and the duration of the relationship is all that is required.

vi) If there is no relationship other than the valuation instruction in question, a statement to that effect should be made.

d TIME AS SIGNATORY

e PREVIOUS INVOLVEMENT

i) The purpose of this requirement is to expose any potential conflict of interest where the *valuer*, or the *registered firm*, has valued the asset for the same purpose, or has been involved with the purchase of the same asset for the client within the period of 12 months preceding the date of instruction or date of agreement of the *terms of engagement* (whichever is earlier), or a specific longer period prescribed or adopted.

ii) Where the valuation is provided for inclusion in a published document in which the public has an interest, or upon which *third parties* may rely, the *valuer* shall make the following disclosures:

(a) where a valuation is of an asset that has previously been valued by the *valuer* or the *registered firm*, for the same purpose:

(i) in the *terms of engagement*, a statement about the *firm's* policy on the rotation of the valuer responsible for the valuation and

(ii) in the report, and published reference to it, a statement of the length of time the valuer has continuously been the signatory to valuations provided to the client for the same purpose as the report and, in addition, the length of time the valuer's *firm* has continuously been carrying out the valuation instruction for the client;

(b) the extent and duration of the relationship of the valuer's *firm* with the client for any purpose;

(c) where the report, and any published reference to it, includes one or more assets acquired by the client within the 12 months preceding the valuation date, and the *valuer* or *registered firm*, has in relation to those properties:

(i) received an introductory fee or

(ii) negotiated that purchase on behalf of the client.

The report should be endorsed in accordance with PS 2 paragraph 8.6, Proportion of fees, below.

f PROPORTION OF FEES

i) A statement should be made that the proportion of the total fees payable by the client during the preceding year relative to the total fee income of the *registered firm* during the preceding year are minimal, significant or substantial.

ii) A proportion of fees less than 10% may be considered to be 'minimal'. Between 10% and 30% may be considered to be significant, and above 30% is substantial.

iii) Other disclosures

Care should be taken to make sure that, in addition to the various disclosures required under NVPS 1 to NVPS 3, all other disclosures required for a particular valuation or purpose are made. Disclosure requirements that may require more specific information related to the purpose of the valuation include:

- material involvement
- the status of the *member*
- specific requirements as to independence
- knowledge and skills of the *member*
- extent of investigations
- management of any conflicts of interest
- the valuation approach
- disclosures required by any regulatory body governing the purpose of the valuation.

3.2.9 REVIEWING ANOTHER VALUER'S VALUATION

a A valuer may quite properly be requested to review all or part of a valuation prepared by another valuer in circumstances that include the following, though the list is not exhaustive:

- assisting the consideration of risk assessment
- providing comment on a published valuation, for instance in a takeover situation, without providing a separate independent valuation
- commenting on valuations produced for use in arbitration and legal proceedings
- assisting an audit enquiry.

b It is important to make a clear distinction between a critical review of a valuation and an audit of a valuation or an independent valuation of a property, asset or liability included in another valuer's report.

c In carrying out any review the *valuer* is expected, by reference to the *valuation date* and to the facts and circumstances relevant to the asset at the time, to:

- form opinions as to whether the analysis in the work under review is appropriate

- consider whether the opinions and conclusions are credible and

- consider whether the report is appropriate and not misleading.

d The review must be undertaken in the context of the requirements applicable to the work under review, and the *valuer* must develop and report opinions and conclusions together with the reasons for any disagreement.

e A *member* must not undertake a critical review of a valuation prepared by another valuer that is intended for disclosure or publication, unless the *member* is in possession of all the facts and information upon which the first valuer relied.

NIGERIAN VALUATION PRACTICE STATEMENTS (NVPS)

4.0 NIGERIAN VALUATION PRACTICE STATEMENTS (NVPS)

NVPS 1 MINIMUM TERMS OF ENGAGEMENT

1 The *terms of engagement* provided in accordance with PS 2, paragraph 7, Terms of Engagement, must be in writing and must also comply with this valuation practice statement. The terms in **IVS 101, Scope of Work**, have been included in this valuation practice statement.

2 The **IVS 101 Scope of Work** terms are:

(a) Identification and status of the valuer
(b) Identification of the client and any other intended users
(c) Purpose of the valuation
(d) Identification of the asset or liability to be valued
(e) Basis of value
(f) Valuation date
(g) Extent of investigation
(h) Nature and source of the information to be relied upon
(i) Assumptions and special assumptions
(j) Restrictions on use, distribution or publication
(k) Confirmation that the valuation will be undertaken in accordance with the IVS
(l) Description of report

3 The ESVARBON additional requirements include:

(m) the basis on which the fee will be calculated
(n) where the *firm* is *registered by the Board*, reference to the *firm's* complaints handling procedure (CHP), with confirmation that a copy is available on request and
(o) a statement that compliance with these standards may be subject to monitoring under *ESVARBON Code of Professional conduct for Registered Estate Surveyors and Valuers 2015*.

4 Normally the *terms of engagement* will be settled between the client and the valuer when instructions are first received and accepted (the initial confirmation of instructions). However, it is recognized that a valuation commission may range from a single asset to a substantial portfolio, thus the extent to which all the minimum *terms of engagement* can be confirmed in the initial confirmation could also vary.

5 Valuers should take care to ensure that they understand their clients' needs and requirements fully, and appreciate that there will be occasions when they may need to guide clients to choose the most appropriate advice for the given circumstances.

6 It is fundamental that by the time the valuation is concluded, but prior to the issue of the report, all the matters listed under a) to o) above have been fully brought to the client's attention and appropriately documented. This is to ensure that the report does not contain any revision of the initial *terms of engagement* of which the client is unaware.

7 Firms may have a standard form of *terms of engagement*, or standing *terms of engagement* in place that may include several of the minimum terms required by this statement. The valuer may need to amend such a form to refer to those matters that will be clarified at a later date.

8 Whenever the valuer or client identifies that a valuation may need to reflect an actual or anticipated marketing constraint, details of that constraint must be agreed and set out in the *terms of engagement.* The term 'forced sale value' must not be used (see VPS 4 paragraph 4, Valuations reflecting an actual or anticipated market constraint, and forced sales).

9 The **IVS 101 content** follows in bold together with additional ESVARBON implementation guidance.

a) Identification and status of the valuer

A statement confirming:

(i) **the identity of the valuer. The valuer may be an individual or firm;**

(ii) **that the valuer is in a position to provide an objective and unbiased valuation;**

(iii) **whether the valuer has any material connection or involvement with the subject of the valuation assignment or the party commissioning the assignment;**

(iv) **that the valuer is competent to undertake the valuation assignment. If the valuer needs to seek material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance shall be agreed and recorded.**

1 With regard to **(i)**, a valuation is the responsibility of an individual valuer. The Board does not allow a valuation to be prepared by a '*firm*' as stated. The use of 'for and on behalf of' is an acceptable substitution by an identified signatory when issuing a report. If the valuation has been undertaken by a *member* under the supervision of an appropriately qualified valuer, the valuer fulfilling the supervisory function must ensure, and be satisfied, that the work undertaken meets the same minimum standards as if he or she had been solely responsible for the task.

2 With regard to **(ii)**, for some purposes the valuer may be required to state if he or she is acting as an *internal* or *external valuer*. Where the valuer is obliged to comply with additional requirements regarding independence, PS 2 paragraph 4, Independence, objectivity and conflict of interest, will apply.

3 With regard to **(iii)**, in considering the extent of any material involvement, whether past, current or possible future, the valuer must state such involvement in the terms of engagement. Where there has not been any previous material involvement, a statement to that effect must be made in the *terms of engagement* and valuation report (see VPS 3 paragraph 7(a)(3), Identification and status of valuer.)

4 With regard to **(iv)**, this statement may be limited to a confirmation that the valuer has sufficient current local, national and international (as appropriate) knowledge of the particular market, and the skills and understanding to undertake the valuation competently. It is not necessary to provide any details. Where the provisos in PS 2 paragraph 4, Independence, objectivity and conflict of interest, apply, an appropriate disclosure is to be made.

b) Identification of the client and any other intended users

Confirmation of those for whom the valuation assignment is being produced is important when determining the form and content of the valuation report to ensure that it contains information relevant to their needs.

Any restriction on those who may rely upon the valuation assignment shall be agreed and recorded.

1 Requests for valuations will frequently be received from representatives of the client, and the valuer should ensure that the client is correctly identified. This is particularly relevant where:

• the request is made by the directors of a company, but the client is the company and the directors have a separate legal standing or

• the valuation is required for loan purposes and, although commissioned by the borrower, the report may be for the lender, the true client.

c) Purpose of the valuation

The purpose for which the valuation assignment is being prepared shall be clearly stated, e.g. the valuation is required for loan security, to support a share transfer or to support an issue of shares. The purpose of a valuation will determine the *basis of value*.

It is important that valuation advice is not used out of context or for purposes for which it is not intended.

1 If the client declines to reveal the purpose of the valuation, valuers should be aware that it may be difficult to comply with all aspects of the *RICS Valuation – Professional Standards 2014*. If the valuer is willing to proceed with the valuation, the client must be advised in writing that this omission will be referred to in the report. In this case the report must not be published or disclosed to *third parties*.

2 If an unusually qualified valuation is to be provided, the *terms of engagement* must state that it is not to be used for any other purpose than that originally agreed with the client.

d) Identification of the asset or liability to be valued

Clarification may be needed to distinguish between an asset and an interest in or right of use of that asset. If the valuation is of an asset that is utilised in conjunction with other assets, it will be necessary to clarify whether those assets are included in the valuation assignment, excluded but assumed to be available or excluded and assumed not to be available (see IVS Framework paragraphs 23 and 24).

1 When valuing a *real property* interest that is subject to a tenancy, it may be necessary to identify any improvements undertaken by tenants and to clarify whether or not these improvements are to be disregarded on renewal, or review, of the lease, or even if they may give rise to a compensation claim by the tenant when vacating the property.

e) Basis of value

The valuation basis must be appropriate for the purpose. The source of the definition of any *basis of value* used shall be cited or the basis explained. This requirement is not applicable to a valuation review where no opinion of value is to be provided or no comment is required on the *basis of value* used. The valuation bases recognised by IVS are defined and discussed in the IVS Framework, but other bases may be used. It may also be necessary to clarify the currency in which the valuation will be reported.

1 Where a valuation basis is expressly defined in these practice statements, that definition must be reproduced in full. Where these statements supplement the definition with conceptual framework or explanatory material, it is not necessary to reproduce that framework or explanation. However, there is discretion to reproduce it should the valuer consider that it assists the client to understand the reasoning behind the *basis of value* adopted.

2 For certain purposes or classes of asset these practice statements, or external regulations governing the purpose for which the valuation is provided, stipulate

that a specific *basis of value* is used. In other cases the appropriate basis or bases is a matter for the valuer's professional judgment.

3 Where the *basis of value* is *market value*, this basis will reflect the highest and best use of the asset (see **IVS Framework paragraphs 32–34** and VPS 4 paragraph 1.2, Market value).

4 Where the *basis of value* is *fair value*, care must be taken to select the correct definition, in the light of the specific purpose or context of the valuation (see VPS 4 paragraph 1.5, Fair value.)

5 It is recognised that for some purposes a projected value may be required in addition to a current valuation. Any such projection should comply with the applicable jurisdictional and/or national association standards.

6 If a valuation has to be translated into a currency other than that of the country in which the asset is located, the basis of the exchange rate is to be agreed.

f) Valuation date

The *valuation date* may be different from the date on which the valuation report is to be issued or the date on which investigations are to be undertaken or completed. Where appropriate these dates should be clearly distinguished.

1 The specific *valuation date* will need to be agreed with the client – an *assumption* that the *valuation date* is the date of the report is not acceptable.

See also **IVS 103 paragraph 5(f), Valuation date, and IVS Framework paragraph 30(c), Valuation date**.

2 Where, exceptionally, the advice being provided relates to a future date, see VPS 3, Valuation reports, paragraph 7(f) and VPS 4 paragraph 5, Special assumptions related to projected values, regarding the reporting requirements.

g) Extent of investigation

Any limitations or restrictions on the inspection, inquiry and analysis for the purpose of the valuation assignment shall be set out in the scope of work.

If relevant information is not available because the conditions of the assignment restrict the investigation, if the assignment is accepted, then these restrictions and any necessary assumptions or *special assumptions* made as a result of the restriction shall be recorded in the scope of work.

1 A client may require a restricted service; for example, a short timescale for reporting may make it impossible to establish facts that would normally be verified by *inspection*, or by making normal enquiries; or the request may be for a valuation based on the output of an automated valuation model (AVM).
Note that the provision of an AVM-derived output would be regarded as the provision of a written valuation for the purpose of these standards. Accordingly valuers should be alert to, and aware of, the implications of either accepting or manually modifying an AVM output. A restricted service will also include any limitations on *assumptions* made in accordance with VPS 2, Inspections and investigations.

2 It is accepted that a client may sometimes require this level of service, but it is the duty of the valuer to discuss the requirements and needs of the client prior to reporting. Such instructions, when related to *real property*, are often referred to as 'drive-by', 'desk-top' or 'pavement' valuations.

3 The valuer should consider if the restriction is reasonable, with regard to the purpose for which the valuation is required. The valuer may consider accepting the instruction subject to certain conditions, for example that the valuation is not to be published or disclosed to third parties.

4 If the valuer considers that it is not possible to provide a valuation, even on a restricted basis, the instruction should be declined.

5 The valuer must make it clear when confirming acceptance of such instructions that the nature of the restrictions and any resulting *assumptions*, and the impact on the accuracy of the valuation, will be referred to in the *report*. (See also NVPS 3, Valuation reports.)

6 VPS 2, Inspections and investigations, contains general requirements with regard to inspections.

h) Nature and source of the information to be relied upon

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 shall be agreed and recorded.

1 Where the client will provide information that is to be relied on, the valuer has a responsibility to state that information clearly in the *terms of engagement* and, where appropriate, its source.

In each case the valuer must judge the extent to which the information to be provided is likely to be reliable.

2 Information that is accepted as reliable should be referred to as an *assumption*.

3 The client may expect the valuer to express an opinion (and, in turn, the valuer will wish to express an opinion) on legal issues that affect the valuation. The valuer must therefore make clear in the report any information that must be verified by the client's or other interested parties' legal advisers before the valuation can be relied on or published.

i) Assumptions and special assumptions

All assumptions and any *special assumptions* that are to be made in the conduct and reporting of the valuation assignment shall be recorded.

Assumptions are matters that are reasonable to accept as fact in the context of the valuation assignment without specific investigation or verification. They are matters that, once stated, are to be accepted in understanding the valuation or other advice provided.

A *special assumption* is 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*.
***Special assumptions* are often used to illustrate the effect of changed circumstances on value. Examples of *special assumptions* include:**

• that a proposed building had actually been completed on the *valuation date*;

• that a specific contract was in existence on the *valuation date* which had not actually been completed;

• that a financial instrument is valued using a yield curve that is different from that which would be used by a market participant.

Only assumptions and *special assumptions* that are reasonable and relevant having regard to the purpose for which the valuation assignment is required shall be made.

1 Further guidance on *assumptions* and *special assumptions*, including the case of projected values (i.e. future state of the asset or of any factors relevant to its valuation) can be found in VPS 4, Bases of value, assumptions and special assumptions.

j) Restrictions on use, distribution or publication

Where it is necessary or desirable to restrict the use of the valuation advice or those relying upon it, this shall be recorded. If matters are identified that are likely to cause the valuation advice to be qualified, this shall also be recorded.

1 Limitations are only effective if notified to the client in advance.

2 The valuer should keep in mind that any insurance that protects against claims for negligence under professional indemnity insurance (PII) policies may require the valuer to have particular qualifications, and to include certain limiting clauses in every report and valuation. If this is the case the relevant words should be repeated, unless the insurers agree to either a modification or a complete waiver. If in doubt, valuers should refer to their insurance policy before accepting instructions.

3 Some valuations will be for purposes where the exclusion of *third party* liability is either forbidden by law or by an external regulator. In other cases, it will be a matter for clarification or agreement with the client, having regard also to the judgment of the valuer.

4 Where the client is a lender, it may be part of a syndicate or, having lent on an asset, may sell on tranches of the loan to other lenders. Although the *third party* limitation clause may provide some protection, the valuer may thus become exposed to the risk of a duty of care to unknown *third parties*. It may therefore be wise, particularly in the case of valuations for lending on commercial property, for the valuer to add to the usual limitation clause a statement to the following effect:

‘in the event of a proposal to place the loan on the subject asset in a syndicate, the client must notify the valuer, with a view to agreeing responsibility to the further named parties.’

k) Confirmation that the valuation assignment will be undertaken in accordance with the IVS

While confirmation of conformity with IVS is required, there may be occasions where the purpose of the valuation assignment requires a departure from IVS.
Any such departure shall be identified together with justification for that departure. A departure would not be justified if it results in a valuation that is misleading.

1 This requirement is modified for the Nigerian Valuation Standards to read ‘Confirmation that the valuation will be undertaken in accordance with ***the Nigerian Valuation Standards 2017, the GREEN BOOK***.’

2 Where the valuation is expressly required to comply with either the IVS or other standards (see PS 1, Compliance with standards and practice statements where a written valuation is provided) a statement should be made, where appropriate, either that:

• compliance with the Nigerian Valuation Standards gives assurance also of compliance with the IVS or

• the other specified standards will be complied with.

3 All permitted and agreed *departures* from the IVS, or national professional standards and/or the global or national valuation practice statements, should be referred to within this confirmation of compliance. (See PS 1 paragraph 7.1, Departures).

l) Description of report

Confirmation of the format of the report to be provided shall be agreed and recorded. Reference shall be made to any of the report contents specified in IVS 103 Reporting that are to be excluded.

1 VPS 3, Valuation reports, sets out the mandatory minimum terms of reporting.

Where it is agreed that any of the minimum reporting contents are to be excluded they shall be treated as *departures*, be agreed in the *terms of engagement* and be referred to in the valuation report.

2 A report prepared in accordance with these professional standards and valuation practice statements must not itself be described as a certificate or statement, the use of such language implying either a guarantee or a level of certainty that is often inappropriate. However, a valuer may use the term 'certified', or similar words, within the body of a report where it is known that the valuation is to be submitted for a purpose that requires formal certification of a valuation opinion.

3 Valuers should be aware that the terms 'certificate of value', 'valuation certificate' and 'statement of value' have specific meanings in certain countries or states in designating statutory documents. One common factor is that these documents require a simple confirmation of price or value, without any requirement to understand the context, fundamental *assumptions* or analytical processes behind the figure provided.

A valuer who has previously provided a valuation or advised on a transaction involving the asset may prepare such a document where the client is required to provide it by statute.

m) The basis on which the fee will be calculated

The fee shall be charged in accordance with the scale of professional charges approved by the Board.

n) Where the *firm* is *registered by the Board,* reference to the *firm's* complaints handling procedure, with a copy available on request

1 This requirement is included to emphasise the need for *firms registered by the Board* to comply with the Board's Code of Professional Conduct.

o) A statement that compliance with these standards may be subject to monitoring under the Board's conduct and disciplinary regulations.

1 The purpose of this statement is to draw the attention of the client to the possibility that the valuation may be investigated for compliance with these standards.

2 Guidance on the operation of the monitoring regime, including matters relating to confidentiality, is available at ESVARBON's website.

3 Clients should be aware that this statement cannot validly be made by any valuer who is not a *registered member* or practising within a firm registered by the Board.

NVPS 2 INSPECTIONS AND INVESTIGATIONS

1 Inspections and investigations must always be carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose. The valuer must take reasonable steps to verify the information relied on in the preparation of the valuation and, if not already agreed, clarify with the client any necessary *assumptions* that will be relied on. The principles in **IVS 101 Scope of Work** and **IVS 102 Implementation** should be followed and have been included in this valuation practice statement.

2 The following requirements and guidance relate primarily to inspections and investigations when valuing *real property*. With regard to other types of asset the extent of investigation and enquiry will depend on the nature of the asset but it should be appropriate and adequate having regard to the purpose of the valuation.

3 In settling the *terms of engagement* the valuer must agree the extent to which the subject asset is to be inspected and any investigation is to be made. Where a property is inspected the degree of on-site investigation that is appropriate will vary, depending on the nature of the property and the purpose of the valuation.

4 A valuer meeting the criteria in PS 2 paragraph 3, Member qualification, will be familiar with, if not expert on, many of the matters affecting either the type of property or the locality. Where an issue, or potential issue, that could affect value is within the valuer's knowledge or evident from an *inspection* of the property or the immediate locality, or from routine enquiries, it should be drawn to the client's attention no later than when the report is issued, and ideally in advance of the report where the impact is significant.

5 While a client may request, or consent to, an *assumption* being made, nevertheless if – following an *inspection* – the valuer considers that such an *assumption* would not realistically be made by a prospective purchaser, then its continued adoption becomes a *special assumption* (see VPS 4 paragraph 3, Special assumptions).

6 If relevant information is not available because the conditions of the instruction prevent *inspection*, or where it is agreed that *inspections* and investigations may be limited, if the instruction is accepted, the valuation will be on the basis of restricted information and VPS 1 paragraph 9(g), Extent of investigations, will apply. Any restriction on *inspection* or lack of relevant information should be set out in the *terms of engagement* and valuation report. If the valuer considers that it is not possible to provide a valuation even on a restricted basis, the instruction should be declined.

7 Many matters which become apparent during the *inspection* of *real property* may have an impact on the market's perception of the value of the relevant interest in the property. When valuing *real property* these can include:

(a) characteristics of the surrounding area, and the availability of communications and facilities that affect value

(b) characteristics of the property

(c) dimensions and areas of the land and buildings

(d) construction of any buildings and their approximate age

(e) uses of the land and buildings

(f) nature of the accommodation

(g) nature of the installations, amenities and services

(h) fixtures, fittings and improvements
(i) any plant and equipment that would normally form an integral part of the building (see also VPGA 5, Valuation of plant and equipment)

(j) the apparent state of repair and condition

(k) natural hazards such as ground instability, mining or mineral extraction, radon gas, risk of flooding from all mechanisms, including pluvial and fluvial sources

(l) non-natural hazards such as contamination where substances are in, on or under the ground resulting from current or historic uses

(m) other hazardous materials present in or kept on the property, such as (but not limited to) regulated hazards, including chemicals, radioactive substances, explosive materials, waste management activities, asbestos, ozone depleting substances, oils and deleterious materials, such as building materials that degrade with age, causing structural problems, for example, high alumina cement, calcium chloride or woodwool shuttering and finally

(n) any physical restrictions on further development, if appropriate.

8 Other relevant information when valuing an interest in *real property* may include:
(a) improvements to leasehold properties: when valuing leases and reversions, where the property included in the original letting may subsequently have been altered or improved, care needs to be taken to ascertain what is to be valued that may not exactly equate with what is seen and measured on the ground.

If the valuer is unable to inspect the lease, or due to the absence of documented licences the extent of alterations or improvements cannot be confirmed, the valuer should proceed on the basis of stated *assumptions*

(b) planning (zoning) controls: controls and the need for licences or permissions for increased or altered use, including development, will vary between countries or states and the extent of the particular enquiries that are appropriate and need to be made in individual cases will be informed by the valuer's knowledge of the relevant market, by the nature and extent of the property, and by the purpose of the valuation

(c) the incidence of local or state property taxes

(d) information on any substantial outgoings and running costs, and the level of recovery from the occupier

(e) information on any quotas imposed or other trading restrictions that may be made by the country or state in which the property is located and

(f) information revealed during the normal legal enquiry processes before a sale takes place.

9 While the valuer should take reasonable care to verify any information provided or obtained, any limitations on this requirement must be clearly stated. (See NVPS 1, Minimum terms of engagement). When preparing a valuation for *financial statements* the valuer should be prepared to discuss the appropriateness of any assumptions that were made with the client's auditor, other professional adviser or regulator.

10 To be in a position to respond effectively to a future enquiry, legible notes (which may include photographs) of the findings and, particularly, the limits of *inspection* and the circumstances in which it was carried out must be made and retained in an appropriate business format. The notes should also include a record of the key inputs and all calculations, investigations and analyses considered when arriving at the valuation.

Revaluation without inspection

11 A revaluation without a re-*inspection* of *real property* previously valued by the valuer or *firm* must not be undertaken unless the valuer is satisfied that there have been no material changes to the physical attributes of the property, or the nature of its location, since the last *inspection*.

12 It is recognised that the client may need the valuation of its property updated at regular intervals and that re-*inspection* on every occasion may be unnecessary.

Provided that the valuer has previously inspected the property, and the client has confirmed that no material changes to the physical attributes of the property and the area in which it is situated have occurred, a revaluation may be undertaken. The *terms of engagement* must state that this *assumption* has been made.

13 The valuer must obtain from the client information of current or anticipated changes in rental income from investment properties and any material changes to the non-physical attributes of each property, such as other lease terms, planning consents, statutory notices and so on.

14 Where the client advises that there have been material changes, or if the valuer is otherwise aware or has good reason to believe that such changes have taken place, the valuer must inspect the property. In all other cases, the interval between *inspections* is a matter for the professional judgment of the valuer who will, among other considerations, have regard to its type and location.

15 If the valuer believes that it is inappropriate to undertake a revaluation without re-*inspection* because of material changes, the passage of time or other reasons, the valuer may nevertheless accept an instruction to proceed without *inspection* providing the client confirms in writing, prior to the delivery of the report, that it is required solely for internal management purposes, that no publication or disclosure will be made to *third parties* and that the client accepts responsibility for the associated risk. A statement declaring this position and that the report must not be published must be set out unequivocally in the report.

NVPS 3 VALUATION REPORTS

1 The terms in **IVS 103 Reporting** should be followed and have been adopted in this valuation practice statement.

General principles

2 The report must clearly and accurately set out the conclusions of the valuation in a manner that is not ambiguous or misleading, and does not create a false impression. If appropriate, the valuer should draw attention to, and comment on, any issues affecting the degree of certainty, or uncertainty, of the valuation. See Valuation Practice Guidance – Application 9, Valuation in markets susceptible to change: certainty and uncertainty (VPGA 9), which provides more detail.

3 The report must also deal with all the matters agreed between the client and the valuer in the *terms of engagement* (VPS 1, Minimum terms of engagement) and include the minimum information referred to in PS 2 paragraph 7, Terms of engagement. The report should convey a clear understanding of the opinions being expressed by the valuer and should be couched in terms that can be read and understood by someone with no prior knowledge of the subject asset.

4 The format and detail of the report is a matter to be agreed between the valuer and the client in the terms of engagement. See VPS 1 paragraph 9(l), Description of report, with regard to the description of a report. Where the report is to be provided on a form supplied by the client and the terms of the report do not accord with VPS 3 paragraph 7, Report content, below, then either the initial service agreement or the *terms of engagement* – or an appropriate combination of the two – must clearly address these matters and so confirm that the valuation has been undertaken in accordance with the Nigerian valuation standards and Nigerian valuation practice statements.

Where multiple reports are to be made to a single client over a period of time, with identical *terms of engagement,* it must be made clear to the client and to any others who may rely on the valuation advice provided, that the *terms of engagement* and form of report must always be read together.

5 A valuer may provide the client with preliminary valuation advice, or a draft report or valuation in advance of the completion of the final report – see PS 2 paragraphs 4.12–4.15, Independence, objectivity and conflict of interest.

6 Notwithstanding the provisions of these professional standards and valuation practice statements, the valuer is reminded that any valuation advice provided, in whatever format, creates a potential liability to the client, or under certain circumstances a *third party*. The terms 'certificate of value', 'valuation certificate', and 'statement of value' should not be used in connection with the provision of valuation advice. However a valuer may use the term 'certified', or

similar words in the body of the report where it is known that the valuation is to be submitted for a purpose that requires formal certification of a valuation opinion.

REPORT CONTENT

7 **IVS 103 Reporting** sets out a list of IVS requirements. References to valuer include a valuation reviewer and references to a valuation assignment include a valuation review. The requirements are:

(a) **Identification and status of the valuer**

(b) **Identification of the client and any other intended users**

(c) **Purpose of the valuation**

(d) **Identification of the asset or liability to be valued**

(e) **Basis of value**

(f) **Valuation date**

(g) **Extent of investigation**

(h) **Nature and source of the information relied upon**

(i) **Assumptions and special assumptions**

(j) **Restrictions on use, distribution or publication**

(k) **Confirmation that the assignment has been undertaken in accordance with the IVS**

(l) **Valuation approach and reasoning**

(m) **Amount of the valuation or valuations**

(n) **Date of the valuation report**

The **IVS 103 Report** contents are listed in **bold** below together with additional Board's implementation guidance. IVS references to a valuer include a valuation reviewer and references to valuation assignment include a valuation review.

a) Identification and status of the valuer

The valuer can be an individual or a firm. A statement confirming that the valuer is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation assignment shall be included.

The report shall include the signature of the individual or firm responsible for the valuation assignment.

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

1 A valuation is the responsibility of an individual *valuer*. ESVARBON does not allow a valuation to be prepared by a 'firm' as stated in **IVS 103(a), Reporting**, although the use of 'for and on behalf of' under the responsible valuer's signature is an acceptable substitution.

2 In all cases the signatory's Institution and ESVARBON designation (e.g. ANIVS, RSV) or other relevant professional qualification, must be made clear.

3 Where it is a requirement to do so, the valuer will state if he or she is acting as an *internal* or *external valuer*. Where other criteria have been adopted they must be confirmed, together with a statement that the valuer meets them.

4 In considering the extent of any material previous involvement, whether past, current or possible future, the valuer must have regard to the requirements of PS 2 paragraph 8, Disclosures. Any disclosures or statements made in accordance with VPS 1, Minimum terms of engagement, paragraph 9(a)(3), Identification and status of valuer, must be repeated in the valuation report.

Where there has not been any previous material involvement, a statement to that effect must be made in the valuation report. See also PS 2 paragraph 4, Independence, objectivity and conflict of interest, relating to the resolution of conflicts of interest.

5 A statement should be made that the valuer has sufficient current local, national and international (as appropriate) knowledge of the particular market, and the skills and understanding to undertake the valuation competently. Where more than one valuer within a *firm* has contributed, confirmation that PS 2 paragraph 1.2, Responsibility for valuation, has been satisfied is needed, though it is not necessary to provide any details.

6 Where the valuer incorporates into the report a valuation prepared by another valuer or *firm* see paragraph (k) subparagraphs 4–5 below, Confirmation that the assignment has been undertaken in accordance with the IVS.

7 In some countries or states the national association *valuation standards* may require additional disclosures to be made with regard to the status of the valuer.

b) Identification of the client and any other intended users

The party commissioning the valuation assignment shall be identified together with any other parties whom it is intended may rely on the results of the assignment (see also (j), Restrictions on use, distribution or publication, below).

1 The report must be addressed to the client or its representatives. The source of the instructions and the identity of the client must be stated, if different from the addressee. Other known users of the report are to be named.

2 For some purposes valuers may be unable to exclude liability to *third parties* (see PS 2 paragraph 6, Duty of care to third parties). Any limitation on disclosure of a valuation based on restricted information or instruction should be included (see VPS 1 paragraph 9(g), Extent of investigation).

c) Purpose of the valuation

The purpose of the valuation assignment shall be clearly stated.

1 The report must be unambiguous. Where the purpose of the valuation is not disclosed by the client, the valuer should seek clarification why this is so. The valuation report must include an appropriate statement to clarify the circumstances.

d) Identification of the asset or liability to be valued

Clarification may be needed to distinguish between an asset and an interest in or right of use of that asset.

If the valuation is of an asset that is utilised in conjunction with other assets, it will be necessary to clarify whether those assets are included in the valuation assignment, excluded but assumed to be available, or excluded and assumed not to be available (see IVS Framework paragraphs 23 and 24).

1 The legal interest in each asset or liability should be stated. Clarification is essential to distinguish between the characteristics of the asset in its entirety and the particular right or interest that is being valued. Where the asset is a property, the extent to which vacant possession is, or may be available (if required), should also be noted.

2 Where the properties are located in more than one country or state, the report must list the properties within each country or state separately and should be arranged so that all the properties in one country or state are grouped together.

The valuation must be reported in the currency (or currencies) that have been agreed with the client. The legal interest in each asset or liability should be stated.

3 An entity will usually require asset values to be expressed in the currency of the country in which it is based. For *financial statement* purposes, this is known as the 'reporting currency'. Irrespective of the location of the client, valuations are to be made in the currency of the country in which the property, asset or liability is located.

4 Where the client requires the valuation to be translated into a different currency (for example, into the reporting currency), unless agreed otherwise the exchange rate to be adopted is the closing rate (also known as the 'spot rate') on the *valuation date*.

5 The report must also declare in respect of each country or state within which the property, asset or liability is situated, whether the valuer has made allowance for existing or proposed local legislation relating to taxation on the realisation of the property or asset.

6 Where the *terms of engagement* have required separate identification of assets by their use, category or class, the report should be structured accordingly.

7 The *terms of engagement* should state the format in which the valuation of portfolios or collections should be presented and this should be referred to in the valuation report. VPGA 8, Valuation of portfolios, collections and groups of properties, provides guidance on this aspect. Where formal agreement is not required it is recommended that the report contain a brief description of these matters.

e) Basis of value

This shall be appropriate for the purpose. The source of the definition of any *basis of value* used shall be cited or the basis explained. Some common valuation bases are defined and discussed in the IVS *Framework*.

This requirement is not applicable to a valuation review where no opinion of value is to be provided or no comment is required on the *basis of value* used.

1 The *basis of value*, together with its definition (but not supporting explanatory material), must be stated in full in the report. Where the *basis of value* is not a market-based figure and the valuation is materially different from *market value*, a statement to that effect must be made.

2 It is recognised that although m*arket value* is the most appropriate *basis of value* for a wide range of applications, it may be appropriate to adopt alternative *bases of value* in specific circumstances (see VPS 4, Bases of value, assumptions and special assumptions).

3 Where the *basis of value* is *market value*, this basis will reflect the highest and best use of the asset (see **IVS Framework paragraphs 32–34** and VPS 4 paragraph 1.2, Market value).

4 Where, exceptionally, a valuation is also provided relating to a future date this must be made explicit (see VPS 3 paragraph 7(f), Valuation date, below and VPS 4 paragraph 5, Special assumptions related to projected values). It should always be separately reported with confirmation that it complies as appropriate with any applicable jurisdictional and/or national association standards. A projection may take one of a number of forms and does not constitute a distinct *basis of value* in itself. But, as it rests entirely on *special assumptions*, which may or may not be borne out by actual events, it is of a different character from advice relating to a current or past date and must not be represented as if it were on an equal footing. In particular it must never be described or represented simply as '*market value*'.

5 Where the *basis of value* is not market-based, the user of the valuation is alerted to the possibility that, although relevant for the specified purpose, the valuation may not bear any relation to the price that could be obtained if the property, asset or liability were placed on the market. Unless agreed otherwise in the *terms of engagement* the valuer is not required to provide a valuation on any alternative *basis of value*.

6 Where the *basis of value* is *fair value*, care must be taken to set out the correct definition from the two available. The two recognised definitions of *fair value* are:

(a) the definition adopted by the International Accounting Standards Board (IASB) in IFRS 13 for financial reporting purposes and

(b) the definition adopted by IVSC in **IVS Framework paragraph 38** where IFRS 13 does not apply. See VPS 4 paragraph 1.5, Fair value, for more detail.

f) Valuation date

The *valuation date* may be different from the date on which the valuation report is issued or the date on which investigations are to be undertaken or completed. Where appropriate, these dates shall be clearly distinguished in the report.

This requirement does not apply to a valuation review unless the reviewer is required to comment on the valuation date used in the valuation under review.

1 The *valuation date* must be stated (see VPS 1 paragraph 2(f), Valuation date, and **IVS Framework paragraph 30(c) Valuation date**).

2 If there has been a material change in market conditions, or in the circumstances of a property, asset or portfolio, between the *valuation date* (where this is earlier than the date of the report) and the date of report, the valuer should draw attention to this. It may also be prudent in appropriate instances for the valuer to draw the client's attention to the fact that values change over time and a valuation given on a particular date may not be valid on an earlier or later date.

3 Additional care is needed when providing a projection of value, in order to ensure that the client understands that the actual value at the future date, on whatever basis is adopted, may diverge from that being reported and almost certainly will if the then state of the asset or conditions of the market differ from the *special assumptions* statements made at the time of the projection.

g) Extent of investigation

The extent of the investigations undertaken, including the limitations on those investigations set out in the scope of work, shall be disclosed in the report.

1 Where the asset is real property, the report must record the date and extent of any *inspection*, including reference to any part of the property to which access was not possible (see VPS 2, Inspections and investigations). Equivalent steps, appropriate to the class of asset concerned, should be taken in relation to tangible personal property.

2 The valuer must make it clear if the valuation has been made without an opportunity to carry out an adequate *inspection* (see VPS 2 paragraphs 2 and 5, Inspections and investigations) or equivalent check.

3 In the case of a revaluation, the report should also refer to any agreement in respect of the requirement for, or frequency of, an *inspection* of the property (see VPS 2 paragraph 12, Inspections and investigations).

4 Where a substantial number of properties are being valued, a generalized statement of these aspects (i.e. regarding *inspection*) is acceptable, provided that it is not misleading.

5 Where the asset is not real or tangible personal property, the report should note the extent to which investigations were possible.

h) Nature and source of the information relied upon

The nature and source of any relevant information relied upon in the valuation process and the extent of any steps taken to verify that information shall be disclosed. To the extent that information provided by the commissioning party or another party has not been verified by the valuer, this should be clearly stated with reference, as appropriate, to any representation from that party.

1 Where the client has provided information that is to be relied on, the valuer has a responsibility to state clearly that the information is covered by, or in, the *terms of engagement* (see VPS 1, Minimum terms of engagement) and, where appropriate, to specify its source. In each case the valuer must judge the extent to which the information to be provided is likely to be reliable and whether any further, reasonable steps are required to verify it.

2 Information that is accepted as reliable should be referred to as an *assumption*.

The valuer must make it clear if the valuation has been carried out without information that would normally be, or be made, available. The valuer must also indicate in the report if verification (where practicable) is needed of any information or *assumptions* on which the valuation is based, or if any information considered material has not been provided.

3 If any such information or *assumption* requiring verification is material to the amount of the valuation, the valuer must make clear that the valuation should not be relied on without that verification (see VPS 1 paragraph 9(h), Nature and source of information to be relied on). In the case of a revaluation, a statement of any material changes advised by the client or a stated *assumption* that there have been no material changes, should be included.

4 The client may expect the valuer to express an opinion, and in turn the valuer may wish to express an opinion, on legal issues that affect the valuation. In these circumstances the valuer must therefore make clear in the report any information that must be verified by the client's or other interested parties' legal advisers before the valuation can be relied on or published.

5 The report should state any additional information that has been available to, or established by, the valuer, and is believed to be crucial to the client's ability to understand and benefit from the valuation, with regard to the purpose for which it has been prepared.

i) Assumptions and special assumptions

All assumptions and any *special assumptions* made shall be clearly stated.

1 All *assumptions* made must be stated, together with any reservations that may be required. Where the *assumptions* vary in different countries or states the report must make this clear.

(a) Where a report includes a valuation made on the basis of *special assumptions*, they must be set out in full, together with a statement that they have been agreed with the client. Both the valuation conclusion (and the executive summary if provided) should explicitly set out all *special assumptions* that have been made to arrive at the reported figure.

(b) Where the valuation is undertaken on the basis of restricted information, or is a revaluation without an inspection, the report must include full particulars of the restriction (see VPS 1 paragraph 9(g), Extent of investigation). Any departures from the standards must be stated and explained (see PS 1 paragraph 7, Departures).

2 A statement must be made as to whether or not any express allowance has been made for liability for taxation, whether actual or notional, that may arise on disposal and whether or not the valuation that would appear in a hypothetical contract of sale or equivalent legal document (see VPS 4 paragraph 1.2.2, Market value) has been altered to reflect costs of acquisition or realisation. In some countries or states value added tax (or similar taxes) and acquisition- or sale-related costs can be substantial.

3 Where statements rely on the prospect of future growth in rental and/or capital values, a statement must be made to the effect that such growth may not occur, and that values can fall as well as rise.

4 Where appropriate the valuer should consider (following discussion with the client, and agreement and confirmation in writing) including in the report *special assumptions* to reflect any issues affecting the certainty of the valuation and give a full and clear account as to why these *assumptions* are being included (see VPS 1 paragraph 9(l), Valuation approach and reasoning). However *special assumptions* should only be used if they are realistic, relevant and valid in connection with the circumstances of the valuation (see VPS 4 paragraph 3, Special assumptions). Further guidance on valuation certainty can be found in VPGA 9, Valuation in markets susceptible to change: certainty and uncertainty.

j) Restrictions on use, distribution or publication

Where it is necessary or desirable to restrict the use of the valuation or those relying upon it, this shall be stated.

1 Where the purpose of the report requires a published reference to it, the valuer must provide a draft statement for inclusion in the publication. This should be provided as a separate document, which may be annexed to the report.

2 A report may be published in full, for instance in the annual accounts of a company, but it is more common for only a reference to be made to it. In this case it is essential that the valuer has a close involvement in the publication statement to ensure that all the references are accurate and that the reader is not misled.

3 If the whole report is not to be published, the draft statement should be prepared as a separate document and provided to the client at the same time as the report. The content of the statement may be governed by rules issued by local regulatory bodies, but it should contain the following minimum information:

• the name and qualification of the valuer, or the valuer's *firm*
• an indication of whether the valuer is an *internal* or *external valuer*, and where required, that the specific criteria relating to this status has been met
• the *valuation date* and *basis (or bases) of value*, together with any *special assumptions*
• comment on the extent to which the values were determined directly by reference to market evidence or were estimated using other valuation techniques
• confirmation that the valuation has been made in accordance with these standards, or the extent of and reason(s) for *departure* from them and
• a statement indicating any parts of the report prepared by another valuer or specialist.

4 For valuations in which the public has an interest or which may be relied on by parties other than the client commissioning the report or to which it is addressed, the valuer shall make additional disclosures in the valuation report and any published reference to it. These are set out in PS 2 paragraph 8, Disclosures.

5 'Publication' does not include making the report or the valuation figure available to a mortgage applicant or borrower.

6 The valuer should check the accuracy of any other relevant material referring to the properties or to the valuation that is to be published.

7 The valuer is also advised to read the whole document in which the report or reference is to be published to ensure that there is no misstatement of any other matter or opinion of which the valuer may have knowledge.

8 The valuer should insist that a copy of the final proof of the document or the reference is supplied before issue, and attach that proof to the letter of consent.

Any pressure by other parties or persuasion to delegate power to sign should be resisted.

9 The valuer is permitted to exclude information of a commercially sensitive nature from a report that is published in full, subject to any legal requirements that may apply in a particular country or state.

10 An opinion may be expressed which, if included in a public document, might have some effect on a matter that is in dispute, under negotiation or subject to certain rights between the owner and a *third party* (for example, an opinion of the rental or capital value of a property with an imminent rent review). The report may also include information about a company's trading that would not usually be in the public domain. Such information is commercially sensitive and the client must decide, subject to the approval of the auditors and any regulatory body, whether it should be included in the publication.

11 In the published reference the valuer must refer to the omission(s) and state that this has been done on the express instructions of the client and with the approval of the regulatory body and/or auditors. Without this note the valuer may be inadvertently placed in a situation where there is unjustifiable criticism.

12 Where the full report is not published, the publication statement must refer to any *special assumption* made and any additional valuation provided. Similarly, sufficient reference to any *departures* should be made in any published document.

13 In each case the onus is on the valuer to determine what constitutes a 'sufficient reference'. A reference would not be regarded as 'sufficient' if it failed to alert the reader to matters of fundamental importance as to the basis or amount of the valuation, or if there was any risk that the reader might be misled.

14 It is expected that a valuer would not normally consent to the publication of a projected value. Where, in exceptional cases, consent is given, great care should be taken to ensure that any associated provisos or disclaimers are accurately reproduced.

k) Confirmation that the assignment has been undertaken in accordance with the IVS

While confirmation of conformity with the IVS is required, there may be occasions where the purpose of the valuation assignment requires a departure from the IVS. Any such departure shall be identified, together with justification for that departure. A departure would not be justified if it results in a valuation that is misleading.

1 This requirement is modified for the Board's registered members to read 'Confirmation that the valuation will be undertaken in accordance with **the *Nigerian Valuation Standards 2017, the GREEN BOOK***.'

2 Nigerian valuation standards and Nigerian valuation practice statements are consistent with the principles and definitions of the IVS (as at 1 January 2014). The Board considers that a valuation that complies with these standards and statements will also comply with the IVS and a statement to that effect may be made in the report when relevant.

3 Confirmation that the valuation accords with the Nigerian valuation standards and Nigerian valuation practice statements must be unequivocal, but may include a cross-reference to any agreed departures. This confirmation will include any statement required under PS 1 paragraph 4, Compliance with other valuation standards. All permitted and agreed departures from the IVS, or national professional standards and/or the global or national valuation practice statements, should be referred to within this confirmation of compliance. (See PS 1 paragraph 7.1, Departures).

4 Where the valuer incorporates into the report a valuation prepared by another valuer or *firm*, it must be confirmed that such valuations have been prepared in accordance with these standards, or other standards that may apply in the particular circumstances.

5 Circumstances may arise where the valuer wishes to obtain a valuation from another valuer or *firm* (for example, a plant and equipment valuation, or a valuation of an asset in another country or state where local expertise is required). When this situation occurs, the client must agree to the employment of valuers or *firms* not connected with the valuer, and reference to this should be included in the *terms of engagement*.

6 The valuer may be requested to incorporate a valuation commissioned directly by the client. In such cases the valuer must be satisfied that any such report has been prepared in accordance with these standards.

l) Valuation approach and reasoning

To understand the valuation figure in context, the report shall make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusions reached.

Where the report is of the results of a valuation review it should state the reviewer’s conclusions about the work under review, including supporting reasons.

This requirement does not apply if it has been specifically agreed and recorded in the scope of work that a report shall be provided without reasons or other supporting information.

1 Where different valuation approaches and *assumptions* are required for different assets it is important that they are separately identified and reported.

m) Amount of the valuation or valuations

This shall be expressed in the applicable currency.

This requirement does not apply to a valuation review if the valuer is not required to provide their own valuation opinion.

1 In the main body of the report the opinion of value is required in words, as well as in figures.

2 Where the valuation instruction includes a number of properties falling into different use categories or geographic location, it would normally be inappropriate to produce an aggregate valuation of the whole, although this will depend on the purpose for which the valuation is required. Where a portfolio includes freehold and leasehold assets, the value of the tenure groups may be sub-totalled, together with a statement of the overall value.

3 Where the valuation instruction requires the opinion of value to be reported in more than one currency (such as with cross border portfolio valuations), the opinion of value should indicate the currencies adopted and the amount should be shown in words and figures in the main body of the report. In addition the exchange rate adopted should be as at the *valuation date* and this should be stated in the valuation report.

4 If the identification of individual properties and their values is consigned to a schedule(s) appended to the report, a summary of values must be included within the body of the report. If there has been a material change in market conditions, or in the circumstances of a property asset or portfolio, between the *valuation date* (where this is earlier than the date of the report) and the date of report, the valuer should draw attention to this. It may also be prudent in appropriate instances for the valuer to draw the client's attention to the fact that values change over time and a valuation given on a particular date may not be valid on an earlier or later date.

5 'Negative values' and liabilities may arise and must always be stated separately.

They should not be offset.

6 There will be occasions where it would be correct to indicate a nil value for a property or asset, for example, where the expense of meeting a liability outweighs the positive value but there is no legal liability on the owner to incur this expense.

n) Date of the valuation report

The date on which the report is issued shall be included.
This may be different from the *valuation date* (see (f) above).

NVPS 4 BASES OF VALUE, ASSUMPTIONS AND SPECIAL ASSUMPTIONS

The valuer must determine the *basis of value,* together with any *assumptions,* or *special assumptions* that are appropriate for every valuation reported.

1 Bases of value

1.1 Recognised bases of value

1.1.1 In accordance with the IVS definition (see **IVS Framework paragraph 25 Basis of Value**), a *basis of value* is a statement of the fundamental measurement *assumptions* of a valuation, and for many common valuation purposes these standards stipulate the *basis* (or *bases*) *of value* that is appropriate. **IVS Framework paragraphs 26–28 Basis of Value** contains further commentary on the definition.

1.1.2 For most valuation purposes it will be appropriate to use one of the bases defined in these standards. The Board does not encourage the use of a basis that is not recognised by these standards. However, if no recognised *basis of value* is suitable for a particular assignment, the valuer must define clearly the basis adopted and explain in the report why use of a basis recognised by these standards is considered inappropriate (see PS 1 paragraph 7, Departures). Valuers are cautioned that the use of an unrecognised or bespoke *basis of value* without good reason could result in breach of the requirement that the valuation report should not be ambiguous or misleading (see VPS 3, Valuation reports, paragraph 2).

1.1.3 The following *bases of value* are recognised in these standards:

- *market value*
- *market rent*
- *investment value* (*worth*)
- *fair value* – IFRS definition
- *fair value* – IVS definition.

1.1.4 It is important to note that these *bases of value* are not necessarily mutually exclusive. The *worth* of a property or asset to a specific party, or the *fair value* of a property or asset in exchange between two specific parties (using the IVS definition and not the IFRS one – see VPS 4 paragraph 1.5, Fair value), may match the *market value* even though different assessment criteria are used.

1.1.5 Because bases other than *market value* may produce a value that could not be obtained on an actual sale, whether or not in the general market, the valuer must clearly distinguish the *assumptions, or special assumptions that* are different from, or additional to, those that would be appropriate in an estimate of *market value*. Typical examples of such *assumptions* and *special assumptions* are discussed under the appropriate heading.

1.2 Market value

1.2.1 The definition of *market value* as defined in **IVS Framework paragraph 29** is: **the estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.**

1.2.2 *Market value* is the *basis of value* that is most commonly required, being an internationally recognised definition. It describes an exchange between parties that are unconnected and are operating freely in the marketplace and represents the figure that would appear in a hypothetical contract of sale, or equivalent legal document, at the *valuation date*, reflecting all those factors that would be taken into account in framing their bids by market participants at large and reflecting the highest and best use of the asset. The highest and best use of an asset is the use of an asset that maximises its productivity and that is possible, legally permissible and financially feasible – see **IVS Framework paragraphs 32–34 Market Value**.

1.2.3 It ignores any price distortions caused by *special value* or *synergistic value*. It represents the price that would most likely be achievable for an asset across a wide range of circumstances. *Market rent* applies similar criteria for estimating a recurring payment rather than a capital sum.

1.2.4 In applying *market value*, regard must also be had to the conceptual framework set out in **IVS Framework paragraphs 30–34 Market Value**, which includes the requirement that the valuation amount reflects the actual market state and circumstances as of the effective *valuation date*

.

1.2.5 Valuers must ensure in all cases that the basis is reproduced or clearly identified in both the instructions and the report. There is no mandatory requirement to refer to the IVS conceptual framework (**IVS Framework paragraphs 30–34**) in the valuer's report but, in appropriate cases, it may be useful to do so if it is considered likely to assist the client.

1.2.6 However, a valuer may be legitimately instructed to provide valuation advice based on other criteria, and therefore other *bases of value* may be appropriate. In such cases the definition adopted must be set out in full and explained. Where such a basis differs significantly from *market value* it is recommended that a brief comment is made indicating the differences.

1.2.7 Notwithstanding the disregard of *special value* (see definition in **IVS Framework paragraphs 43–46 Special Value**), where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the asset in the future, the impact of that expectation is reflected in *market value*. Examples of where the expectation of additional value being created or obtained in the future may have an impact on the *market value* include:

• the prospect of development where there is no current permission for that development and

• the prospect of *synergistic value* (see definition in **IVS Framework paragraph 47**) arising from merger with another property or asset, or interests within the same property or asset, at a future date.

1.2.8 The impact on value arising by use of an *assumption* or *special assumption* should not be confused with the additional value that might be attributed to an asset by a *special purchaser*.

1.3 Market rent

1.3.1 *Market rent* as defined in **IVS 230 Real Property Interests paragraph C9** is: **the estimated amount for which an interest in real property should be leased on the *valuation date* between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.**

1.3.2 The definition of *market rent* is a modified definition of *market value*; **IVS 230 Real Property Interests paragraphs C8–C11** provide additional commentary.

1.3.3 *Market rent* will vary significantly according to the terms of the assumed lease contract. The appropriate lease terms will normally reflect current practice in the market in which the property is situated, although for certain purposes unusual terms may need to be stipulated. Matters such as the duration of the lease, the frequency of rent reviews and the responsibilities of the parties for maintenance and outgoings will all impact the *market rent*. In certain countries or states, statutory factors may either restrict the terms that may be agreed, or influence the impact of terms in the contract. These need to be taken into account where appropriate.

1.3.4 *Market rent* will normally be used to indicate the amount for which a vacant property may be let, or for which a let property may re-let when the existing lease terminates. *Market rent* is not a suitable basis for settling the amount of rent payable under a rent review provision in a lease, where the actual definitions and *assumptions* have to be used.

1.3.5 Valuers must therefore take care to set out clearly the principal lease terms that are assumed when providing an opinion of *market rent*. If it is the market norm for lettings to include a payment or concession by one party to the other as an incentive to enter into a lease, and this is reflected in the general level of rents agreed, the *market rent* should also be expressed on this basis. The nature of the incentive assumed must be stated by the valuer, along with the assumed lease terms.

1.4 Investment value (or worth)

1.4.1 *Investment value* as defined in **IVS Framework paragraph 36** is: **the value of an asset to the owner or a prospective owner for individual investment or operational objectives.**

1.4.2 *Investment value* may also be known as *worth*. **IVS Framework paragraph 37** provides further commentary on this definition.

1.5 Fair value

1.5.1 There are two recognised definitions of *fair value* – it is essential that the valuer makes explicit which definition is being adopted in any given case. The two definitions are:

(a) the definition adopted by the International Accounting Standards Board (IASB) in IFRS 13: **The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.** and

(b) the definition adopted by the IVSC in **IVS Framework paragraph 38**: **The estimated price for the transfer of an asset or liability between identified**

knowledgeable and willing parties that reflects the respective interests of those parties.

1.5.2 It is important to recognise that the two definitions of *fair value* are not the same. When adopting the basis of *fair value* it is essential that the valuer establishes the correct definition for the purpose and sets it out in full in the *terms of engagement* and the report.

1.5.3 The guidance in IFRS 13 includes:

Overview of fair value measurement approach

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all of the following:

• the particular asset or liability that is the subject of the measurement (consistently with its unit of account)

• for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use)

• the principal (or most advantageous) market for the asset or liability

• the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

The references in IFRS 13 to market participants and a sale make it clear that for most practical purposes the concept of *fair value* is consistent with that of *market value,* and so there would be no difference between them in terms of the valuation figure reported.

1.5.4 In applying the IVS definition, valuers should refer to **IVS Framework paragraphs 38–42**.

1.5.5 For more detailed guidance on the application of *fair value* for *financial statements* see VPGA 1, Valuations for inclusion in financial statements.

2 Assumptions

2.1 An *assumption* – as defined in the IVS – is made where it is reasonable for the valuer to accept that something is true without the need for specific investigation or verification.

2.2 It will almost always be necessary to couple a *basis of value* with appropriate *assumptions* or *special assumptions* that describe the assumed status or condition of the property or asset at the *valuation date*. A typical *assumption* might concern occupation, for example, 'the *market value* subject to a lease' or might concern the status of the asset, for example, an *assumption* that it is 'of good legal title'. A typical *special assumption* might be that a property or asset has been altered in some defined way, for example, 'the *market value* on the *special assumption* that the works had been completed'.

2.3 An *assumption* is often linked to a limitation on the extent of the investigations or enquiries that could be undertaken by the valuer. Therefore all *assumptions* that are likely to be included in the report must be agreed with the client and included in the *terms of engagement*. Where it is not possible to include *assumptions* in the *terms of engagement,* they should be agreed in writing with the client before the valuation report is issued.

2.4 If, after *inspection* or investigation, the valuer considers that an *assumption* agreed in advance with the client is likely to be inappropriate, or should become a *special assumption*, the revised *assumptions* and approach must be discussed with the client prior to the conclusion of the valuation assignment and delivery of the report.

2.5 Information and guidance is given on the following *assumptions* in relation to *real property* assets:
(a) title
(b) condition of buildings
(c) services
(d) planning (zoning)
(e) contamination and hazardous substances
(f) environmental matters and
(g) sustainability.

This list is not exclusive and care should be taken to identify any *assumptions* that may have to be made in order to fulfil a particular instruction. There are no 'standard' *assumptions* that do not need to be stated.

(a) Title

1 The valuer must have information on the essential details of the interest being valued. This may take the form of a synopsis obtained from the client or a *third*

party or copies of the relevant documents. However, unless provided with a current detailed report on title by the client's lawyers, the valuer must state what information has been relied on and what *assumptions* have been made. For example, the valuer would state that apart from anything revealed in the information provided, it is assumed that there are no encumbrances on title.

2 In order to assist the client in the particular circumstances giving rise to the valuation or appraisal, the valuer may have to make *assumptions* about the interpretation of legal documents. However, it must be appreciated that this is ultimately a matter for lawyers. Therefore the valuer must state that the *assumptions* made must be checked by the client's legal advisers and that no responsibility or liability will be accepted for the true interpretation of the client's legal title in the property or asset. Otherwise, the valuer will assume no less a burden than the law imposes on a competent lawyer if legal advice is given expressly or by implication.

(b) Condition of buildings

1 Even if competent to do so, a valuer would not normally undertake a building survey to establish the details of any building defects or disrepair.

However, it would also be wrong for the valuer to ignore obvious defects that would have an impact on the value, unless a *special assumption* to that effect has been agreed. The valuer must therefore clearly state that the *inspection* will not amount to a full building survey. In addition the limits that will apply to the valuer's responsibility to investigate and comment on the structure or any defects must be defined. It should also be stated that an *assumption* will be made that the building(s) is in good repair, except for any defects specifically noted.

(c) Services

1 The presence and efficiency of building services and any associated plant and equipment will often have a significant impact on value: however, detailed investigation will normally be outside the scope of the valuation.

The valuer will need to establish what sources of information are available, and the extent to which these can be relied on, in undertaking the valuation.

It is usual to agree on an *assumption* that the services and any associated controls or software are in working order or free from defect.

(d) Planning (zoning)

1 The valuer needs to establish whether the property has the necessary statutory consents for the current buildings and use, and whether there are any policies or proposals by statutory authorities that could impact the value positively or

adversely. This information will often be readily available, but delays or expenses may be incurred in obtaining definitive information. The valuer should state what investigations are proposed, or what *assumptions* will be made, where verification of the information is impractical within the context of the valuation.

(e) Contamination and hazardous substances (whether from historic or current use of the land or buildings)

1 A valuer will not normally be competent to advise on the nature or risks of contamination or hazardous substances, or on any costs involved with their removal. However, where a valuer has prior knowledge of the locality and experience of the type of property being valued, the valuer can reasonably be expected to comment on the potential that may exist for contamination, and the impact that this could have on value and marketability. Therefore the valuer should state the limits on the investigations that will be undertaken and any sources of information or *assumptions* that will be relied on.

(f) Environmental matters

1 Some property will be affected by environmental factors that are an inherent feature of either the property itself, or the surrounding area, and could have an impact on the value of the property interest. Examples include ground instability issues (such as swelling and shrinking clay, historic and current mineral extraction) and the risk of flooding from any mechanism. Although detailed commentary on their effects will normally be outside the realm of the valuer's expertise, their presence, or potential presence, is something that can often be established in the course of a valuation *inspection* through normal enquiries or by local knowledge. The valuer should state the limits that will apply to the extent of the investigations and the *assumptions* that will be made in relation to environmental matters.

(g) Sustainability

1 While not a defined term, sustainability encompasses a wide range of physical, social, environmental and economic factors that can impact on value and of which valuers should be aware. The range of issues includes, but is not limited to, key environmental risks, such as flooding, energy efficiency and climate, as well as matters of design, configuration, accessibility, legislation, management and fiscal considerations. As commercial markets become more sensitised to sustainability matters, so they may begin to complement traditional value drivers, both in terms of occupier preferences and in terms of purchaser behaviour.

2 The pace at which sustainability may feed into value will vary depending on the property type and the geographic market/submarket in which the asset is situated. In order to respond appropriately as markets change, valuers should continuously

seek to enhance their knowledge of sustainability. The role of valuers is to assess value in the light of evidence normally obtained through analysis of comparable transactions. While valuers should reflect markets, not lead them, they should be aware of sustainability features and the implications these could have on property values in the short, medium and longer term.

3 In summary:

• Valuers are advised to collect appropriate and sufficient sustainability data, as and when it becomes available, for future comparability, even if it does not currently impact on value.

• Only where market evidence would support this, should sustainability characteristics be built into a report on value.

• Valuers are often asked to provide additional comment and strategic advice. In these cases valuers will need to consult with the client as to the use and applicability of sustainability metrics and benchmarks that are applicable in each case. For example, when preparing investment values (commonly known as 'worth'), sustainability factors that could influence investment decision-making may properly be incorporated, even though they are not directly evidenced through transactions.

4 Where appropriate, in order to comply with best practice in reporting, valuers are recommended to:

• assess the extent to which the subject property currently meets sustainability criteria and arrive at an informed view on the likelihood of these impacting on value, i.e. how a well-informed purchaser would take account of them in making a decision as to offer price

• provide a clear description of the sustainability-related property characteristics and attributes that have been collected, which may, where appropriate, include items not directly reflected in the final advice as to value

• provide a statement of their opinion on the relationship between sustainability factors and the resultant valuation, including a comment on the current benefits/risks that are associated with these sustainability characteristics, or the lack of risks and

• provide a statement of the valuer's opinion on the potential impact of these benefits and/or risks to relative property values over time.

3 Special assumptions

3.1 A *special assumption* – as defined in the IVS – is made where an assumption assumes facts that differ from those existing at the *valuation date*. It includes circumstances where assumptions about a future state or event are being made.

3.2 Where *special assumptions* are necessary in order to adequately provide the client with the valuation required, these must be expressly agreed and confirmed in writing to the client before the report is issued.

3.3 *Special assumptions* may only be made if they can reasonably be regarded as realistic, relevant and valid for the particular circumstances of the valuation.

3.4 The valuer may include in the report some comment or assessment of the likelihood of the *special assumption* being fulfilled. For example, a *special assumption* that permission had been granted to develop land may have to reflect the impact on value of any conditions that might be imposed.

3.5 If a client requests a valuation on the basis of a *special assumption* that the valuer considers to be unrealistic, the instruction should be declined.

3.6 Circumstances where it may be appropriate to make *special assumptions* include, for example:

• a situation where a bid from a *special purchaser* has been made, or can be reasonably anticipated

• a situation where the interest being valued cannot be offered freely and openly in the market

• a past change in the physical aspects of the property or asset where the valuer has to assume those changes have not taken place

• an impending change in the physical aspects of the property, such as a new building to be constructed or an existing building to be refurbished or demolished

• an anticipated change in the mode of occupation or trade at the property

• the treatment of alterations and improvements carried out under the terms of a lease.

3.7 Some illustrations of *special assumptions* are that:

• planning consent has been, or will be, granted for development (including a change of use) at the property

• a building or other proposed development has been completed in accordance with a defined plan and specification

• the property has been changed in a defined way (for example, removal of process equipment)

• the property is vacant when, in reality, at the *valuation date* it is occupied

• the property is let on defined terms when, in reality, at the *valuation date* it is vacant or

• the exchange takes place between parties where one or more has a special interest and that additional value, or *synergistic value*, is created as a result of the merger of the interests.

Where a property has been damaged the *special assumptions* may include:
• treating the property as having been reinstated (reflecting any insurance claims)

• valuing as a cleared site with development permission assumed for the existing use

• refurbishment or redevelopment for a different use reflecting the prospects of obtaining the necessary development permissions.

3.8 The adoption of some of these *special assumptions* may qualify the application of *market value*. They are often particularly appropriate where the client is a lender and *special assumptions* are used to illustrate the potential effect of changed circumstances on the value of a property as a security.

3.9 Where valuations are prepared for *financial statements* the normal *basis of value* will exclude any additional value attributable to *special assumptions*. However, if (exceptionally) a *special assumption* is made, this must be referred to in any published reference. See VPS 3 paragraph 7(j)(14), Restrictions on use, distribution and publication.

4 Valuations reflecting an actual or anticipated market constraint, and forced sales

4.1 The valuer may be instructed to undertake a valuation reflecting an actual or anticipated market constraint. Wherever the valuer, or client, identifies that a valuation may need to reflect an actual or anticipated marketing constraint, details of that constraint must be agreed and set out in the *terms of engagement*.

4.2 If a property or asset cannot be freely or adequately presented to the market, the price is likely to be adversely affected. Before accepting instructions to advise on the likely effect of a constraint, the valuer should ascertain whether this arises from an inherent feature of the asset or interest being valued, or from the particular circumstances of the client.

4.3 If an inherent constraint exists at the *valuation date*, it is normally possible to assess its impact on value. The constraint should be identified in the *terms of engagement*, and it should be made clear that the valuation will be provided on this basis. It may also be appropriate to provide an alternative valuation on the *special assumption* that the constraint did not exist at the *valuation date* in order to demonstrate its impact.

4.4 Greater care is needed if an inherent constraint does not exist at the *valuation date*, but is a foreseeable consequence of a particular event or sequence of events.

Alternatively, the client may request a valuation to be on the basis of a specified marketing restriction. In either case the valuation would be provided on the *special assumption* that the constraint had arisen at the *valuation date*. The precise nature of the constraint must be included in the *terms of engagement*.

It may also be appropriate to provide a valuation without the *special assumption* in order to demonstrate the impact that the constraint would have if it arose.

4.5 A *special assumption* that simply refers to a time limit for disposal without stating the reasons for that limit would not be a reasonable *assumption* to make.

Without a clear understanding of the reasons for the constraint, the valuer would be unable to determine the impact that it may have on marketability, sale negotiations and the price achievable, or to provide meaningful advice.

4.6 A marketing constraint should not be confused with a forced sale. A constraint may result in a forced sale, but it can also exist without compelling the owner to sell.

4.7 The term ‘forced sale value’ must not be used. A ‘forced sale’ is a description of the situation under which the exchange takes place, not a distinct *basis of value*.

Forced sales arise where there is pressure on a particular vendor to sell at a specific time – for example, because of the need to raise money or to extinguish a liability by a given date. The fact that a sale is ‘forced’ means that the vendor is subject to external legal or personal commercial factors, and therefore the time constraint is not merely a preference of the vendor.

The nature of these external factors and the consequences of failing to conclude a sale are just as important in determining the price that can be achieved within the length of time available.

4.8 While a valuer can assist a vendor in determining a price that should be accepted in forced sale circumstances, this is a commercial judgment and a reflection of the *investment value* or *worth* to that particular vendor. Any relationship between the price achievable by a forced sale and the *market value* is coincidental; it is not a valuation that can be determined in advance. Consequently, although advice may be given on the likely realisation in forced sale circumstances, the term is a description of the situation under which the sale takes place, and so it must not be used as a *basis of value*.

4.9 It is a common misconception that in a poor or falling market there are automatically few 'willing sellers' and that, as a consequence, most transactions in the market are the result of 'forced sales'. Accordingly, the valuer may be asked to provide forced sale advice on this basis. This argument has little merit because it suggests that the valuer should ignore the evidence of what is happening in the market. The commentary for *market value* in VPS 4 paragraph 1.2, Market value, makes clear that a willing seller is motivated to sell at the best terms available in the market after proper marketing, whatever that price may be. The valuer should be careful not to accept instructions on the basis of a misconception and should explain to clients that, in absence of a defined constraint affecting either the asset or the vendor, the appropriate basis is *market value*. In a depressed market, a significant proportion of sales may be made by vendors that are obliged to sell, such as liquidators and receivers. However, such vendors are normally under a duty to obtain the best price in the current circumstances and cannot impose unreasonable marketing conditions or constraints of their own volition. These sales will normally comply with the definition of *market value*.

4.10 For further guidance on forced sales see **IVS Framework paragraphs 52–54**.

NIGERIAN VALUATION PRACTICE GUIDANCE APPLICATIONS (NVPGA)

5.0 Valuation practice guidance applications (VPGA)

These provide additional implementation guidance in specific variation instances. They set out 'best practice' and should be followed wherever possible to ensure the highest standards of professional competence. Although they are advisory, they do represent what is regarded as best practice. In any litigation a valuer would be at a disadvantage if it could be shown that he or she had not followed best practice as indicated in the guidance application.

For the avoidance of doubt, where there is an **IVS Valuation Standard** covering the relevant subject area or asset type, **this should be followed** – for convenience these are cross referred to in the material below.

NVPGA 1 - Valuation for inclusion in financial statements

NVPGA 2 - Valuation for secured lending

NVPGA 3 - Valuation of businesses and business interests

NVPGA 4 - Valuation of individual trade related properties

NVPGA 5 – Valuation of plant and equipment
NVPGA 6 – Valuation of intangible assets
NVPGA 7 – Valuation of personal property, including arts and antiques
NVPGA 8 – Valuation of portfolios, collections and groups of properties
NVPGA 9 – Valuation in markets susceptible to change: certainty and uncertainty
NVPGA 10 – Valuation for Compensation

5.1 VPGA 1 Valuation for inclusion in financial statements

5.1.1 Coverage

5.1.1.1 The material in this Valuation Practice Guidance - Application (VPGA) provides additional commentary on the practical implementation of **IVS 310, Valuations for Financial Reporting**, in relation to property, assets and liabilities. Any mandatory requirements are highlighted.

5.1.1.2 Valuations for inclusion in financial statements require particular care as they must comply strictly with the applicable financial reporting standards adopted by the entity. In Nigeria the standard adopted by the FRCN is IFRS. Accordingly, the materials in **IVS 300 Valuations for Financial Reporting** give background information on common valuation requirements under them.

5.1.1.3 In all cases, valuers should be reminded that both IFRS and non-IFRS financial reporting standards continue to evolve - they should always refer to the standards current at the date to which the financial statements relate.

5.1.1.4 The basis of value will be fair value and IFRS 13 Fair Value Measurement will apply. It is essential that the valuer is familiar with IFRS 13 requirements, especially the disclosure requirements. Further information on IFRS 13 may be obtained from www.ifrs.org

5.1.2 Valuations of public sector assets under International Public Sector Accounting Standards (IPSAS)

5.1.2.1 Where public sector assets fall to be included in financial statements complying with IPSAS, care must be taken to refer to the version of the standards applicable at the financial reporting date, which can be accessed at www.ifac.org/public-sector

5.1.3 Other Cases

5.1.3.1 Legislative, regulatory, accounting or jurisdictional requirements may require the modification of this application. Any departure due to such circumstances must be referred to and clearly explained in the valuation report.

Section 29 of The FRC Act 2011, establishes the Directorate of Valuation and provides guidance on valuation framework and reporting structure including: standards setting, development and adoption of standards, updating and modification of set standard, valuation advice reporting and collaboration with International Valuation Standards (IVS).

The FRC by virtue of Section 7 (2) (a) of the Act is empowered to enforce and approve enforcement of compliance with accounting, auditing, corporate governance and financial reporting standards in Nigeria. The Act also requires the Council, to among other functions, "promote compliance with the adopted standards issued by the International Federation of Accountants, (IFA) and International Accounting Standards Board (IASB)" (See Section 8 (i) (h). In doing so Section 8 (1) (o) expressly requires the Council to adopt and keep up-to-date accounting and financial reporting standards, and ensure consistency between Standards so issued and the International Financial Reporting Standards (IFRS).

It is clear from the forgoing that even though the Act empowers the FRC to set, publish and enforce Accounting and Financial Reporting Standards to be observed in the preparation of financial statement of public entities in Nigeria, such standards must comply with and be consistent with the IFRS among others.

Accordingly, valuations for inclusion in financial statements must not only be prepared in accordance with the FRC's approved industry standards like the IVSC but they must also be in accordance with additional guidance provided by the IFRS and Statements of Accounting Standards (SAS) among others.

5.2.0 VPGA 2 Valuation for secured lending

5.2.1 Coverage

5.2.1.1 The material in this Valuation Practice Guidance - Application (VPGA) provides additional commentary on the practical implementation of **IVS 310, Valuations of Real Property Interests for Secured Lending.** Any mandatory requirements are highlighted.

5.2.1.2 This application embraces the valuation or real property interests and other types of tangible assets, e.g. plant and equipment, trade fixtures and equipment etc.

5.2.2 Background

5.2.2.1 The following are the most common examples of security where a valuer's advice is likely to be sought:

a. property that is, or will be, owner-occupied

b. property that is, or will be, held as an investment

c. property that is fully equipped as a trading entity and valued with regards to trading potential and

d. property that is, or is intended to be, the subject of development or refurbishment

Each of the above examples is discussed further in paragraph 6.2 of this application.

5.2.2.2 This application deals with the following matters that are specific to valuations for secured lending:

a. taking instructions and disclosures
b. objectivity and conflicts of interest
c. basis of value and special assumptions and
d. reporting and disclosures

5.2.2.3 There is a wide variety of assets offered as security and a range of lending products available, and so each case will require a slightly different approach. It is therefore open to the valuer and lender to agree variations, subject to **PS** provisions on **Compliance with other valuation standards**. The overriding objective is that the valuer should understand the lender's needs and objectives, including the terms of the loan being contemplated, and the lender should understand the advice that is given.

5.2.2.4 Where a financial institution has a valuation department that provides valuation advice as an internal valuer, **PS** provisions on **Exemption** may recognises that it may be regarded as an exception for valuing and reporting purposes. However, it should be considered good practice to adopt the principles contained in the PS and VPS of the standards and to follow the guidance in **Part 6** of this applications where appropriate. If such valuation advice is intended to be provided to a third party then it ceases to be within an exception.

5.2.3 Objectivity and conflicts of interest

5.2.3.1 Members shall at all times act with integrity, independence and objectivity, and avoid conflicts of interest and any actions or situations that are inconsistent with their professional obligations. Members should also declare any potential conflicts of interest - personal or professional - to all relevant parties (see **PS provisions on Independence, objectivity and conflict of interest)**.

5.2.3.2 Valuers who comply with the provisions for independence and objectivity under **PS** provisions on **Independence, objectivity and conflict of interest**, may confirm that they are acting as 'independent valuers'

5.2.3.3 The lender may specify additional criteria for independence for a valuation for secured lending. In the absence of any specification, the additional criteria shall be deemed to include a stipulation that the valuer has had no previous, current or anticipated involvement with the borrower, or prospective borrower, the asset to be valued or any other party connected with a transaction for which the lending is required. 'Previous Involvement' would normally be anything within the period of 24 months preceding the date of instruction or date of agreement of the terms of engagement (whichever is earlier), but a specific longer period may be prescribed or adopted in individual jurisdictions.

5.2.3.4 In accordance with **IVS 310 Paragraph 2 Scope of Work (IVS 101)**, any previous or current involvement with the borrower or the property or asset to be valued must be disclosed to the lender. Disclosure should also extend to any anticipated future involvement. (References to 'borrower' include a prospective borrower or any other party connected with the transaction for which the lending is required.) Examples of such involvement that may result in a conflict of interest include situations where the valuer or firm:

a. has a long-standing professional relationship with the borrower or the owner of the property or asset
b. is introducing the transaction to the lender or the borrower, for which a fee is payable to the valuer or firm
c. has a financial interest in the asset or in the borrower
d. is acting for the owner of the property or asset in a related transaction
e. is acting (or has acted) for the borrower on the purchase of the property or asset
f. is retained to act in the disposal or letting of a completed development on the subject property or asset
g. has recently acted in a market transaction involving the property or asset

h. has provided fee earning professional advice on the property or asset to current or previous owners or their lenders and/or
i. is providing development consultancy for the current or previous owners

5.2.3.5 The valuer must consider whether any previous, current or anticipated involvement with either the property or asset or related parties is sufficient to create a conflict with the valuer's duty to be independent and objective. Matters such as the quantum of any financial interest in a connected party, the scope for the valuer or firm to benefit materially from a particular valuation outcome and the level of fees earned from any connected party as a proportion of total fee income may all be material.

5.2.3.6 If the valuer considers that any involvement creates an unavoidable conflict with his or her duty to the potential client, the instruction should be declined.

5.2.3.7 If the client considers that any disclosed involvement does create a conflict, the valuer should decline the instruction. If the valuer and the client agree that any potential conflict can be avoided by introducing arrangements for managing the instruction, those arrangements must be recorded in writing, included in the *terms of engagement* and referred to in the report.

5.2.3.8 Although a valuer may take into account the views of the prospective client in deciding whether a recent, current or anticipated involvement creates a conflict, it remains the valuer's professional responsibility to decide whether or not to accept the instruction having regard to the principles of the *ESVARBON Code of Professional Conduct for Registered Estate Surveyors and Valuers 2015.* If the instruction is accepted where material involvement has been disclosed, the valuer may be required to justify this decision to the Board. If a satisfactory justification is not provided, the Board may take disciplinary measures.

5.2.3.9 General guidance on conflicts of interest can be found in **PS** provisions on **Independence, objectivity and conflict of interest.**

5.2.4 Taking instructions and disclosures

5.2.4.1 IVS 310 paragraphs 2-5 cover the scope of work as defined in IVS 101 Scope of Work. Valuers are reminded that the terms of engagement must incorporate the minimum requirements of NVPS 1 paragraph 2, Minimum terms of engagement. Where the lender has additional or alternative requirements, they will need to be confirmed and particular care must be taken to agree and record any special assumptions that have to be made.

5.2.4.2 In some circumstances a valuation for secured lending may be commissioned by a party that is not the intended lender, for example, a prospective borrower or broker. If the party does not know, or is unwilling to disclose, the identity of the intended lender, it must be stated in the terms of engagement that the valuation may not be acceptable to a lender. This may be because some lenders do not accept that a valuation procured by a borrower or an agent is sufficiently independent, or because that particular lender has specific reporting requirements.

5.2.4.3 The valuer should enquire if there has been a recent transaction or a provisionally agreed price on any of the properties to be valued. If such information is revealed, further enquiries should be made, for example, the extent to which the property was marketed, the effect of any incentives, the price realised or agreed and whether it was the best price obtainable.

5.2.4.4 The valuer should request details of the terms of the lending facilities being contemplated by the lender.

5.2.4.5 The valuer must ensure that all the relevant disclosures required by the instructions, in compliance with NVPS 1 paragraph 2, Minimum terms of engagement, and paragraph 6 below, are made.

5.2.5 Basis of value and special assumptions

5.2.5.1 Market value is the appropriate basis of value that should be used for all valuations or appraisals undertaken for secured lending

5.2.5.2 Any special assumptions (see NVPS provisions on **Special assumptions) made in arriving at the market value must be agreed in writing with the lender in advance and referred to in the report.**

5.2.5.3 Circumstances that often arise in valuations for secured lending where special assumptions may be appropriate include, for example:

a. planning consent has been granted for development at the property
b. there has been a physical change to the property, such as new construction or refurbishment
c. a new letting on given terms, or the settlement of a rent review at a specific rent, has been completed
d. there is a special purchaser, which may include the borrower
e. a constraint that could prevent the property being either brought or adequately exposed to the market is to be ignored.
f. a new economic or environmental designation has taken effect

g. any unusual volatility in the market at the valuation date is to be discounted and
h. any lease or leases between connected parties has been disregarded

5.2.5.4 As some special assumptions may qualify the application of market value, any valuation for secured lending purposes arrived at by making a special assumption must be accompanied by a comment on any material difference between the market value with and without that special assumption. The valuer should refer to IVS 310 paragraph 7 (e) Reporting (IVS 103 Reporting) for additional requirements.

5.2.6 Reporting and disclosures

5.2.6.1 In addition to the matters set out in **VPS** provisions on **Report content,** the report must include the following:

a. disclosure of any involvements (see paragraph 4 of this application, *Taking instructions and disclosures)* identified in the original or subsequent amendment to, the terms of engagement, or any arrangements agreed for avoiding a conflict of interest. If the valuer has had no involvement, a statement to that effect is to be made
b. the valuation methodology adopted, supported (where appropriate or requested) with the calculation used
c. where a recent transaction on the property has occurred or a provisionally agreed price has been disclosed, the extent to which that information has been accepted as evidence of market value. Where the enquiry does not reveal any information, the valuer will make a statement to that effect in the report, accompanied by a request that if such information comes to light before the loan is finalised, the matter must be referred back to the valuer for further consideration.
d. comment on the suitability of the property as security for mortgage purposes, bearing in mind the length and terms of the loan being contemplated. Where the terms are not known, the comment should be restricted to the general marketability of the property accompanied by a statement to the effect that the valuer reserves the right to review the comment when the terms of the loan are known.
e. any circumstances of which the valuer is aware that could affect the price. These must also be drawn to the attention of the lender, and an indication of their effect must be provided.

f. any other factor that potentially conflicts with the definition of market value or its underlying assumptions, as may be set out in the supporting commentary in **NVPS** provisions on **Assumptions**, must be noted and its effect explained.

5.2.6.2 The following paragraphs indicate matters that it may be appropriate to include when valuing different categories of property, as listed in paragraph 2.1, Background, of this application.

a) Property that is, or will be, owner-occupied

1. Typical special assumptions that may arise when valuing this category of property include:

   i. planning consent has been, or will be, granted for development, including a change of use of the property

   ii. a building or other proposed development has been completed in accordance with a defined plan and specification

   iii. all necessary licences are in place

   iv. the property has been changed in a defined way (for example, removal of equipment or fixtures) and

   v. the property is vacant when, in reality, at the valuation date it is occupied.

b) Property that is, or will be, held as an investment

1. Additional report contents include:

   i. a summary of occupational leases, indicating whether the leases have been read or not, and the source of any information relied on

   ii. a statement of, and commentary on, current rental income, and comparison with current market rental value. Where the property comprises a number of different units that can be let individually, separate information should be provided on each

   iii. an assumption as to covenant strength where there is no information readily available, or comment on the market's view of the quality, suitability and strength of the tenant's covenant

   iv. comment on sustainability of income over the life of the loan, with particular reference to lease breaks or determinations and anticipated market trends and

   v. comment on any potential for redevelopment or refurbishment at the end of the occupational lease(s).

2. Typical special assumptions that may arise in valuing this category of property include whether:
    i. a different rent has been agreed or determined, for example, after a rent review
    ii. any existing leases have been determined, and the property is vacant and to let or
    iii. a proposed lease on specified terms has been completed

c) Property that is fully equipped as a trading entity and valued with regard to trading potential

1. The closure of the business could have a significant impact on the market value. The valuer should therefore report on this impact, either individually or as a combination of one or more of the following special assumptions:
    i. the business has been closed and the property is vacant
    ii. the trade inventory has been depleted or removed
    iii. the licences, consents, certificates and/or permits have been lost or are in jeopardy and/or
    iv. accounts and records of trade are not available to a prospective purchaser

6 Typical special assumptions that may arise in valuing this category of property include:
    i. assumptions made on the trading performance and
    ii. projections of trading performance that materially differ from current market expectations

d) Property that is, or is intended to be, the subject of development or refurbishment

1. Additional report contents include:
    i. comment on costs and contract procurement
    ii. comment on the viability of the proposed project
    iii. if the valuation is based on a residual method, an illustration of the sensitivity of the valuation to any assumptions made
    iv. the implications on value of any cost overruns or contract delays and
    v. comment on the anticipated length of time the redevelopment or refurbishment will take, as this may affect the current value due to inconvenience and/or temporary lack of utility.

2. Typical special assumptions that may arise in valuing this category of property include whether:
    i. the works described had been completed in a good and workmanlike manner, in accordance with all appropriate statutory requirements
    ii. the completed development had been let, or sold, on defined terms or
    iii. a prior agreed sale or letting has failed to complete

3. Where a valuation is required on the special assumption that the work had been completed as of a current valuation date, the value reported should be based on current market conditions. If a valuation is required on the special assumption that the work has been completed as of a future date and the valuation date is as of that future date, the valuer is required to develop and report the value opinion in accordance with the **VPS** provisions on **Valuation date, and Special assumptions related to projected values.**

5.2.6.3 It is good practice to attach any instruction letter and the terms of engagement to the report and refer to these documents in the body of the report.

NVPGA 3 Valuation of businesses and business interests

5.3.1 Coverage

5.3.1.1 The material in this Valuation Practice Guidance - Application (NVPGA) provides additional commentary on the practical implementation of **IVS 200, Businesses and Business Interests**. Any mandatory requirements are highlighted.

5.3.2 Introduction

5.3.2.1 For the purposes of this application, a *'partial interest'* means ownership of a right or rights that represent less than all of the rights in a tangible or intangible asset, such as the right to use but not sell an asset or property. '*Fractional interest'* means ownership of a percentage of the right or rights in a tangible or intangible asset, whether such rights are in the entirety of the asset, or a partial interest in the asset, such as the ownership of an asset shared by more than one party.

5.3.2.2 IVS 200 Businesses and Business Interests, paragraph C2 defines a business as 'a commercial, industrial, service or investment activity'. This application is concerned with the valuation of entire businesses - whether companies, sole traders or partnerships (including limited liability partnerships) - together with interests therein, such as company stocks and shares or partnership interests.

5.3.2.3 This NVPGA does not deal with intangible assets, the valuation of land, plant and machinery, or other tangible assets that may sometimes constitute part of a business. However, a business valuer may often be required to rely on the valuation of such assets provided by other specialist valuers, for example, of real estate, and mineral rights.

5.3.2.4 Valuation of loan capital, debentures, options, warrants, convertibles and fixed interest securities may form part of a business valuation assignment.

5.3.2.5 The definitions of many of the terms used in this VPGA are from the International Glossary of Valuation Terms, produced by the International Valuation Standards Council (IVSC), and can be found at www.ivsc.org/glossary

5.3.2.6 To satisfy **PS** provisions on **Member qualification**, it is important that the valuer is regularly involved in business valuation, as practical knowledge of the factors affecting any particular property, asset, business or share, is essential.

5.3.3 Scope of work and terms of engagement

5.3.3.1 The valuation knowledge of clients will vary widely. Some will have a thorough understanding of business valuation, while others will be unfamiliar with the terms and concepts used by business valuers.

5.3.3.2 It is imperative that both the scope of the work to be undertaken and the terms of engagement are understood and agreed between the valuer and the client prior to commencement of the assignment. The asset or liability, or the specific interest in the asset or liability that is to be valued, or the right (or rights to) that are to be appraised should be recorded. Such record should specify:

a. The legal structure of the business entity
b. Whether the asset to be valued is the interest in its entirety or a fractional interest
c. If the asset to be valued is confined to, or excludes, certain assets or liabilities, and
d. The class (or classes) of shares concerned

5.3.3.3 Any assumptions that are made must be clearly stated in compliance with **NVPS** provisions on **Assumptions**, and **NVPS** provisions on **Special assumptions**. For example, the valuer should state whether he or she assumes that the owners of shares or partial interests are intending to sell or retain such interests, or whether certain assets or liabilities owned by the business are to be disregarded.

5.3.3.4 Valuers may wish to develop standard letters of engagement that can be used for any type of valuation instruction. Where a valuation has to comply with the Nigerian Valuation Standards the valuer must produce terms of engagement that comply with the minimum terms set out in **NPS** provisions on **Terms of engagement**, and **NVPS** provisions on **Minimum terms of engagement**, adapted as necessary to refer to business valuation.

There may be situations where the interest in the asset to be value is shared with others, and in such cases, it should be clearly specified.

5.3.4 Businesses and business interests

5.3.4.1 A business valuation may either comprise the whole of the activity of an entity or a part of the activity. The valuer must distinguish between the entirety value, the value of a partial interest (such as shares or a specific business activity carried on by the entity), the values of specific assets or liabilities of the entity, and the intended use of the valuation (for example, for tax planning, or management's internal purposes), prior to commencing the valuation.

5.3.4.2 It is essential to be clear about the 'purpose' of the valuation, and its 'intended use'. Purpose may refer to the provision of an opinion in accordance with a specific basis of value, for example, market value or fair value. Intended use may refer to a type of transaction or activity, for example, financial reporting.

5.3.4.3 Where individual assets, divisions and liabilities are to be valued, and are capable of being independently transferred, they should, where possible, be valued at their respective market values rather than by apportionment of the entirety value of the business.

5.3.4.4 When valuing a business or interest in a business the valuer should consider whether a higher value could be arrived a on a liquidation basis and, if so, consider the prospect of realising such value, having regard to the ownership interest.

5.3.4.5 Whatever the ownership interest - whether a proprietorship, a partnership, or in corporate form - the rights, privileges and conditions attaching to that interest have to be considered in the valuation. Ownership interests may be the entire business, or part or shares therein, and it may be important to distinguish between legal and beneficial ownership, rights and obligations inherent to the interest and those rights that may be contained in any agreement between current shareholders. Ownership rights will usually be set out in legally binding documents such as articles of association, articles of incorporation, business memoranda, bye-laws, partnership articles or other agreements, and shareholder agreements.

5.3.4.6 The documents referred to in paragraph 4.5 may contain transfer restrictions and may state the basis of value (defined by IVS as ‘a statement of the fundamental measurement assumptions of a valuation’) that has to be used on a transfer of the business interest. It is important to distinguish between rights and obligations inherent in the interest to be valued. For example, the ownership documentation may require the valuation to be done on a pro-rata proportion of the entity value, regardless of size of interest. The valuer will then have to comply with such requirements and the rights attaching to any other class of interest. **IVS 200 Businesses and Business Interests paragraph C5, Ownership Rights**, may be relevant in this connection.

5.3.4.7 A non-controlling interest may have a lower value than a controlling one, although a majority interest does not necessarily control the entity. Voting control and other rights will be set out by the legal frameworks mentioned in paragraph 4.5 and may give control or veto even to minority interests in certain circumstances. There are often different equity classes in a business, each with different rights.

5.3.4.8 The reason why the valuer has been instructed to perform a business valuation is important to understand, as the valuation may be required for a wide variety of purposes. Examples include financial reporting, taxation, public sector assignments, transactions and flotations, fairness opinions, banking arrangements, insolvency and administration, knowledge management, or portfolio review. The purpose will introduce various bases of value, some governed by statute and case law, and others by international and national standards of professional valuation practice.

5.3.4.9 Bases of value typically encountered for these valuations are fair value, fair market value, market value, open market value, investment value, owner value and net realisable value. Valuers should be mindful of the requirements of **PS** provisions on **Compliance with IVS, PS** provisions on **Compliance with other valuation standards, and PS provisions on Departures**, relating to the use of a basis of value not recognised in the Nigerian Valuation Standards.

5.3.4.10 Depending on the rules and practice followed in respect of the basis of value, valuations of the same asset may be different. For example, because of the rules concerning tax valuations, a tax authority might view a valuation differently to a litigant, merger partner or special purchaser.

5.3.4.11 While the valuer should consider future returns likely to be received from the business, as well as the often theoretical aspects of valuation (particularly fiscal factors), ultimately the business that is to be valued is the one that actually exists, or the one that could exist on a commercial basis as at the valuation date. The valuer therefore needs to account for the future expectations of operation of the business. These expectations may be based partly on actual historic performance and partly on a notional unachieved one. They will be those of the market participants as identified by the valuer, following appropriate research as to the business and outlook for the industry, and discussions with the operators of the business as to their expectations.

5.3.4.12 As the underlying concept revolves around the profits that the purchaser might expect to accrue from ownership, these are generally measured after deducting the commercial costs of managing the business entity. Therefore, where a business entity does not bear actual management costs, the valuer will need to consider the deduction of notional management costs at a market rate in arriving at profitability for business valuation purposes.

5.3.4.13 In many cases it may be necessary to apply more than one valuation method, particularly where there is insufficient information or evidence to enable the valuer to rely on just one. In such cases, the valuer may use additional methods, adjusted perhaps on a weighted basis, to arrive at the final valuation. The valuer should consider all valuation approaches, giving reasons why any particular approach has not been completed.

5.3.5 Information

5.3.5.1 Business valuation often depends on information received from the proprietors and their advisers or representatives. The valuer should specify what reliance has been placed on what information, as well as stating the rationale for accepting and using, without verification, information provided by the client or that person's representative. Some information may have to be verified in whole or in part, and this will need to be stated in the valuation report. Although the value may largely depend on future expectations, the history may assist in determining what these expectations might reasonably be. See **IVS 101 Scope of Work paragraph (g) Extent of investigation**

5.3.5.2 The valuer needs to be aware of any relevant economic developments, industry trends and the context in which the valuation is being prepared, for example, political outlook, government policies, inflation and interest rates, and market activity. Such factors may affect businesses in different sectors in distinct ways.

5.3.5.3 The interest being valued will reflect the financial standing of the business at the valuation date. The nature of the assets and liabilities needs to be understood, and the valuer is expected to know which ones are employed for income generation and which ones are redundant to such activities at the valuation date. The valuer should also take account of off-balance sheet assets or liabilities where necessary.

5.3.6 **Valuation investigation**

5.3.6.1 As a minimum requirement, valuers should not contemplate carrying out a valuation in the absence of a detailed knowledge and understanding of the history of, and activities associated with, the business and or asset(s). They will also need a comprehensive understanding of, as appropriate, management structures and personnel, state of the subject industry, the general economic outlook and political factors. In addition, a thorough grasp of such issues as the rights of minority shareholders and, in the UK, unfair prejudice, is also a prerequisite. For these reasons, valuers should have appropriate competency in business valuation.

5.3.6.2 Typical information requirements to assist the valuer in understanding the subject company and/or asset(s) could include:

a. Most recent financial statements, and details of current and prior projections or forecasts
b. description and history of the business or asset, including legal protections
c. information about the business or asset and supporting intellectual property and intangibles (e.g. marketing and technical know-how, research and development, documentation, design graphics and manuals)
d. articles of association, company memorandum (for Nigeria, Companies and Allied Matters Act 2004 entities), shareholders' agreements, subscription agreements, other collateral agreements
e. precise activities of the business, and its associated companies or subsidiaries
f. class rights of all share and debenture classes (security over assets)
g. previous valuation reports
h. product(s) dealt in, supported or extended by the business and intangibles
i. company's market(s) and competition, barriers to entry in such markets, business and marketing plans, due diligence
j. strategic alliances and joint venture details
k. whether contractual arrangements can be assigned or transferred in any intangible asset or royalty agreement
l. major customers and suppliers
m. objectives, developments or trends expected in the industry and how these are likely to affect the company or asset
n. accounting policies
o. strengths, weaknesses, opportunities and threats (SWOT) analysis
p. key market factors (e.g. monopoly or dominant market position, market share)
q. major capital expenditure in prospect
r. competitor positions

s. seasonal or cyclical trends
t. technological changes affecting business or asset
u. vulnerability or any source of raw materials or supplier arrangement
v. whether there have been any recent acquisitions or mergers in the sector around the valuation date, and the criteria that were applied
w. whether there have been any significant developments or changes to the business since the latest accounting date (e.g. management information, budgets, forecasts)
x. offers to acquire the business, or discussions with banks and other sponsors to go public
y. management of research and development (e.g. non-disclosure agreements, subcontractors, training and incentives)

5.3.6.3 Much of the information relied on will be derived from the client(s) and it may not be possible to verify it. In such cases, the valuation report should make this clear. It may, however, extend to information obtained from other specialist valuers or other comment or informed sources, as set out at paragraph 5.1 Information above, and it should be made clear if reliance has been placed on such information.

5.3.7 Valuation methodology

5.3.7.1 In broad terms, valuation theory recognises four distinct approaches in the valuation of shares and businesses. These are the *market approach* (sometimes known as the direct market comparison approach), the *income approach*, the *cost approach*, and the asset based approach.

5.3.7.2 While the market and income approaches can be used for the valuation of any business or business interest, the cost approach will not normally apply except where profits and cash flows cannot reliably be determined, for example, in start-up businesses and early stage companies

5.3.7.3 The other method that may apply to the valuation of businesses and interests in the asset-based approach, which is based on the underlying assets being revalued, if necessary. This would include, for example, property holding and investment companies, and investment businesses holding listed company shares

5.3.7.4 Involvement of market participants, who are able to provide insights to transactions and market conditions that are critical to proper use of the data in analysis, is advisable wherever possible

5.3.8 Market approach

5.3.8.1 The market approach measures the value of an asset by comparing recent sales or offerings or similar or substitute property and related market data to the business being valued

5.3.8.2 The two primary market approaches are the 'market multiple method' and the 'similar transactions method'. These approaches are based on data derived from three principal sources:

i. Public stock markets
ii. The acquisition market where entire businesses are traded and
iii. poor transactions in the shares of the entity being valued, or offers for that subject business

5.3.8.3 The market multiple method focuses on comparing the subject asset to guideline similar, publicly traded, companies and assets. In applying this method, valuation multiples are derived from historic, though sometimes from forecast, operating data of comparables. These are selected, where possible, from the same industry, or one affected by the same economic factors as that of the subject business, and are evaluated on both a qualitative and quantitative basis. The data is then adjusted having regard to the strengths and weaknesses of the subject asset relative to the selected companies, and applied to the appropriate operating data of the subject asset to arrive at an indication of value. Appropriate adjustments (as supported by market-derived information presented in the report) to reflect different properties or characteristics, are usually made to the derived data. Examples of such matters are differences in perceived risk and future expectations, and differences in ownership interest, including level of control, marketability and size of holding.

5.3.8.4 The similar transactions method uses valuation multiples based on historical change of control transactions that have occurred in the subject company's and/or asset's direct or related industries. These derived multiples are then adjusted and applied to the appropriate operating data of the subject asset to arrive at an indication of value.

5.3.8.5 In certain industries, businesses are bought and sold on the basis of established market practices or rules of thumb, often (though not exclusively) derived from multiples or percentages of turnover, and not linked to profitability. Where such rules of thumb exist, and there is evidence that buyers and sellers in the actual market rely on them, they may need to be considered by the business valuer. However, it would be sensible to cross check the results arising from such market practices against one or more other methods.

5.3.9 Income approach

5.3.9.1 The income approach has a number of variants, but essentially this approach is based on the income that an asset is likely to generate over its remaining useful life or a specified period. This estimation is determined by reference to both historic performance and forecasts. Where these are not available, the single period capitalisation method may be appropriate instead.

5.3.9.2 The single period capitalisation method approach commonly estimates the value by capitalising that that income. A thorough understanding of accounting and economic profits, their historical record based usually on historic financial statements, and forecasting is necessary in each case. Maintainable or normalised profits after tax are determined and, if necessary, adjusted to reflect differences between actual historic cash flows and those that could be expected to be received by a purchaser of the business at the valuation date.

5.3.9.3 Further adjustments may include restating non-arm's length transactions and costs incurred with related parties to commercial terms, and reflecting the effect of non-recurring events whether of income or cost. Examples of this include one-off redundancies, exceptional profits or losses. Comparison of depreciation, taxation and inventory accounting should be on a like-for-like basis.

5.3.9.4 Profits are then capitalised by the price to earnings (P/E) ratio. A similar exercise can be carried out by applying a suitable capitalisation multiple to maintainable or normalised profits before tax. A suitable capitalisation multiple will often be applied to earnings before interest and tax (EBIT), or earnings before interest, tax, depreciation and amortisation (EBITDA). Care must be taken in these cases to distinguish between enterprise value (which also considers the debt of the business and any liquid assets owned by the entity that might mitigate the acquirer's purchase price) and equity value (i.e the value of the shares).

5.3.9.5 Business value is often derived by capitalising profits or cash flows before costs of servicing debt, using a capitalisation or discount rate that is the weighted average cost of capital (WACC) of a comparable mix of debt and equity. The equity value is the enterprise value less the market value of the net debt, but can be established by measuring the equity cash flow itself.

5.3.9.6 Present value techniques measure the value of an asset by the present value of its future economic cash flow, which is cash that is generated over a period of time by an asset, group of assets, or business enterprise. These can include earnings, cost savings, tax deductions, and proceeds from its disposition. When applied to business valuation, value indications are developed by discounting expected cash flows, estimated, where appropriate, to include growth and price inflation, to their net present value at a rate of return. The rate of return incorporates the risk-free rate for the use of funds, the expected rate of inflation and risks associated with the particular investment and the market. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as at the valuation date. Expressions such as 'rate of return' may mean different meanings to different individuals so valuers should consider defining what is meant by such terms.

5.3.9.7 The values of redundant or surplus assets, namely those owned but not used in the business operations, need to be taken into account in enterprise or equity values.

5.3.9.8 The income approach, as applied using the dividend basis of value, is common in company valuation, principally in relation to minority shareholdings. For business valuations, value indicators are developed by determining a share's future dividends and prospect of dividends, and a rate of return, using dividend discount and initial yield models.

5.3.10 Cost approach

5.3.10.1 The cost approach (see IVS 210 Intangible Assets paragraphs C36-38 Cost Approach) indicates the value of an asset by the cost to create or replace the asset with another similar one, on the premise that a purchaser would not pay more for an asset than the cost to obtain one of equal usefulness. This method is frequently used in valuing investment companies or capital intensive firms. However, it would normally not be used except when the other two approaches have been considered but deemed not applicable, and the report would contain an explanation as to why this was so.

5.3.10.2 When applied to business valuation, obsolescence, maintenance and the time value of money are considerations. If the asset being valued is less attractive than a modern equivalent, by reason of age or obsolescence, it may be necessary to adjust the cost of the perceived modern equivalent, thus arriving at the depreciated replacement cost.

5.3.11 Asset-based approach

5.3.11.1 The asset-based approach measures the value of a business and asset by reference to the value of individual assets and liabilities. This approach is commonly adopted in the area of property investment and share investment portfolio situations (investment trusts). This approach is not normally the preferred one for trading businesses, except where they are failing to achieve an adequate return on the tangible assets used in the business, or where a trading business also has substantial investment activity or surplus cash. The net asset value per share can be discounted or enhanced by the addition or a premium.

5.3.11.2 The valuation assumptions and inputs may be based either on actual data or on assumed information. The market approach is likely to be based on actual inputs, such as prices achieved on sales of similar assets or businesses and actual income or profits generated. Assumed inputs might include cash flow forecasts or projections. For valuations adopting the cost approach, actual inputs might include the actual cost of an asset, whereas assumed inputs may have regard to an estimated cost of an asset and other factors, such as the perceived attitude to risk of other players in the market.

5.3.11.3 As a general rule, valuation by summation, sometimes known as valuation by assembly, should be avoided. Accordingly, when valuing the totality of various assets or component parts of an entity, the valuer must avoid arriving at the value of the whole merely by adding together the values indicated for the various separate assets or component parts.

5.3.12 Reports

5.3.12.1 Where the valuation has to comply with the Nigerian Valuation Standard, the valuer must produce a report that complies with the minimum terms set out in **NVPS** provisions on **Valuation reports**. Generally the report has a brief introductory section or executive summary that defines the assignment, summarises the conclusion and sets the stage for the details of the report. The structure should move from the general to the specific, providing a logical flow of data and analysis within which all the necessary considerations can be incorporated, leading to the valuation conclusions.

5.3.12.2 Most reports will have the following major sections, although not necessarily in this order:

a. Introduction
b. Purpose and basis of value
c. Subject of valuation
d. description and history of the business
e. management and personnel
f. accounting and accounting policies
g. financial statement analysis
h. business and marketing plan analysis and prospects
i. search results for comparables and comparative transactions
j. industry in which the business operates, economic environment, yields and risk assessment
k. valuation methods and conclusion
l. caveats, disclaimers and limitations

5.3.12.3 Some reports will have a separate section containing a general discussion of valuation methodology, which will often follow the introduction. If national, regional and economic data are important to the company and asset, each may have its own section.

5.3.12.4 Where appropriate, factual information, or sources thereof, should be identified either in the body of the report or in the appendices. Where the opinion of an expert is required for litigation purposes, the report must adhere to the requirements imposed by the local jurisdiction (for example, the appropriate provisions of the Civil Procedure Rules (CPR) and must therefore contain all relevant disclosures including the statement of the expert's qualifications and the statement of truth.

5.3.13 Confidentiality

5.3.13.1 Information in respect of many business assets will be confidential. Valuers should use their best endeavours to preserve such confidentiality, particularly in relation to information obtained in respect of comparable assets. Where required by the client, business valuers will comply with any requests to enter into non-disclosure or similar agreements.

5.4. NVPGA 4 Valuation of individual trade related properties

5.4.1 Coverage

5.4.1.1 Certain trade related properties are valued using the profits method (also known as the income approach) of valuation. This Nigerian Valuation Practice Guidance-Application (NVPGA) sets out the principles of this method of valuation but does not concern itself with the detailed approach to a valuation, which may vary according to the property to be valued.

5.4.1.2 This NVPGA relates only to the valuation of an individual property that is valued on the basis of trading potential.

5.4.2 Background

5.4.2.1 Certain properties are normally bought and sold on the basis of their trading potential. Examples include hotels, pubs and bars, restaurants, nightclubs, casinos, cinemas and theatres, and various other forms of leisure property. The essential characteristics of this type of property is that it has been designed or adapted for a specific use, and the resulting lack of flexibility usually means that the value of the property interest is intrinsically linked to the returns that an owner can generate from that use. The value therefore reflects the trading potential of the property. It can be contrasted with generic property that can be occupied by a range of different business types, such as standard office, industrial or retail property.

5.4.2.2 Valuers who prepare valuations of trade related property usually specialise in this particular market, as knowledge of the operational aspects of the property valuation, and of the industry as a whole, is fundamental to the understanding of market transactions and the analysis required.

5.4.2.3 The use of comparable information may be derived from a wide variety of sources, not just transactional evidence. Also, information may be drawn from different operational entities with regard to the component parts of the profits valuation. The valuer should emphasise within the report that the valuation is assessed having regard to trading potential and should refer to the actual profits achieved. If the trading potential and/or the actual profits vary, there could be a change in the reported value (see **NVPS** provisions on **Assumptions and special assumptions**, and NVPGA provisions on Valuation in markets susceptible to change: certainty and uncertainty)

5.4.2.4 This NVPGA assumes that the current trade related use of the property will continue. However, where it is clear that the property may have an alternative use that may have a higher value, an appropriate comment should be made in the report. Where such an alternative use value is provided, it should be accompanied by a statement that the valuation takes no account of the costs of business closure, disruption or any other costs associated with realizing this value.

5.4.3 Terms used in this application

The terms used in this application may have different meanings when used by other professional disciplines.

5.4.3.1 Adjusted net profit

This is the valuer's assessment of the actual net profit of a currently trading operational entity. It is the net profit that is shown from the accounts once adjustments for abnormal and non-recurring expenditure, finance costs and depreciation relating to the property itself, as well as rent where appropriate, have been made. It relates to the existing operational entity and gives the valuer guidance when assessing the fair maintainable operating profit (FMOP)

5.4.3.2 Earnings before interest, taxes, depreciation and amortization (EBITDA)

This term relates to the actual operating entity and may be different from the valuer's estimated FMOP.

5.4.3.3 Fair maintainable operating profit (FMOP)

This is the level of profit, stated prior to depreciation and finance costs relating to the asset itself (and rent if leasehold), that the reasonably efficient operator (REO) would expect to derive from the fair maintainable turnover (FMT) based on an assessment of the market's perception of the potential earnings of the property. It should reflect all costs and outgoings of the REO, as well as an appropriate annual allowance for periodic expenditure, such as decoration, refurbishment and renewal of the trade inventory.

5.4.3.4 Fair maintainable operating profit (FMT)

This is the level of trade that an REO would expect to achieve on the assumption that the property is properly equipped, repaired, maintained and decorated.

5.4.3.5 Market rent

This is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Whenever market rent is provided the 'appropriate lease terms' that it reflects should also be stated.

5.4.3.6 Market value

This is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

5.4.3.7 Operational entity

An operational entity usually includes:

a. the legal interest in the land and buildings
b. the trade inventory, usually comprising all trade fixtures, fittings, furnishings and equipment, and
c. the market's perception of the trading potential, together with an assumed ability to obtain/renew existing licences, consents, certificates and permits.

Consumables and stock in trade are normally excluded.

5.4.3.8 Personal goodwill (of the current operator)

This is the value of profit generated over and above market expectations that would be extinguished upon sale of the trade related property, together with financial factors related specifically to the current operator of the business, such as taxation, depreciation policy, borrowing costs and the capital invested in the business.

5.4.3.9 Reasonably efficient operator (REO)

This is a concept where the valuer assumes that the market participants are competent operators, acting in an efficient manner, of a business conducted on the premises. It involves estimating the trading potential rather than adopting the actual level of trade under the existing ownership, and it excludes personal goodwill.

5.4.3.10 Tenant's capital

This may include, for example, all consumables, purchase of the inventory, stock, and working capital.

5.4.3.11 Trade related property

This is any type of real property designed for a specific type of business where the property value reflects the trading potential for that business.

5.4.3.12 Trading potential

This is the future profit, in the context of a valuation of the property, that an REO would expect to be able to realise from occupation of the property. This could be above or below the recent trading history of the property. It reflects a range of factors (such as the location, design and character, level of adaptation and trading history of the property within the market conditions prevailing) that are inherent to the property asset.

5.4.4 Profits method of valuation

5.4.4.1 The profits method of valuation involves the following steps:

Step 1: An assessment is made of the FMT that could be generated at the property by an REO.

Step 2: Where appropriate, an assessment is made of the potential gross profit, resulting from the FMT.

Step 3: An assessment is made of the FMOP. The costs and allowances to be shown in the assessment should reflect those to be expected of the REO - which will be the most likely purchaser or operator of the property if offered in the market.

Step 4:

a. To assess the market value of the property the FMOP is capitalised at an appropriate rate of return reflecting the risk and rewards of the property and its trading potential. Evidence of relevant comparable market transactions should be analysed and applied.

b. In assessing market value the valuer may decide that an incoming new operator would expect to improve the trading potential by undertaking alterations or improvements. This will be implicit within the valuer's estimate of FMT at step 1. In such instances, an appropriate allowance should be made from the figure resulting from step 4 to reflect the costs of completing the alterations or improvements and the delay in achieving FMT. Similarly, if the property is in need of repair and/or decoration to enable the REO to achieve the FMT, then an appropriate allowance should be made from the figure resulting from step 4(a) to reflect the cost of such repairs and decorations.

c. To assess the market rent for a new letting, the rent payable on a rent review or the reasonableness of the actual rent passing (particularly when preparing an investment valuation), an allowance should be made from the FMOP to reflect a return on the tenant's capital invested in the operational entity - for example, the cost of trade inventory, stock and working capital. The resultant sum is referred to as the divisible balance. This is apportioned between the landlord and tenant having regard to the respective risks and rewards, with the landlord's proportion representing the annual rent.

5.4.4.2 Certain extended or more detailed approaches to a profits method of valuation may be appropriate, particularly for some larger or more complex trade related properties. Consideration of discounted cash flow assessments and different income streams may be adopted. Such knowledge will aid in the analysis and review of historic and current trading performance, as well as with forecasts that may show increases or decreases on actual trade. This can assist in forming an opinion of the FMT and FMOP considered achievable by a likely purchaser or REO.

5.4.4.3 It is important that the valuer is regularly involved in the relevant market for the class of property, as practical knowledge of the factors affecting the particular market is required.

5.4.4.4 When preparing a trade related property valuation it is essential that the valuer reviews the cumulative result of the different steps of the valuation process. The valuation should be considered having regard to the valuer's general experience and knowledge of the market.

5.4.5 Valuation special assumptions

5.4.5.1 A trade related property will usually be valued to market value or market rent, but valuers are commonly asked for a valuation subject to special assumptions.

Typical special assumptions are:

a. On the basis that trade has ceased and no trading records are available to prospective purchasers or tenants
b. On the same basis as (a) but also assuming the trade inventory has been removed
c. As a fully equipped operational entity that has yet to trade (also known as 'day one' valuation) and
d. Subject to stated trade projections, assuming they are proven. This is appropriate when considering development of the property.

5.4.6 Valuation approach for a fully equipped operational entity

5.4.6.1 The valuation of a trade related property as a fully equipped operational entity necessarily assumes that the transaction will be either the letting or the sale of the property, together with the trade inventory, licences, etc., required to continue trading.

5.4.6.2 However, care must be taken because this assumption does not necessarily mean that the entire trade inventory is to be included in the valuation of the property.

For example, some equipment may be owned by third parties and therefore would not form part of the interest being valued. Any assumption made about the trade inventory included in the valuation should be clearly set out in the report.

5.4.6.3 There may be tangible assets that are essential to the running of the operational entity but are either owned separately from the land and buildings, or are subject to separate finance leases or charges. In such cases, an assumption may need to be made that the owners or beneficiaries of any charge would consent to the transfer of the assets as part of a sale of the operational entity. If it is not certain that such an assumption can be made, the valuer must consider carefully the potential impact on the valuation that the lack of availability of those assets would have to anyone purchasing or leasing the operational entity and comment accordingly in the report.

5.4.6.4 When trade related properties are sold or let as fully equipped operational entities, the purchaser or operator normally needs to renew licences or other statutory consents and take over the benefit of existing certificates and permits. If the valuer is making any different assumption, it should be clearly stated as a special assumption.

5.4.6.5 Where it is not possible to inspect the licences, consents, certificates and permits relating to the property, or other information cannot be verified, the assumptions made should be identified in the report, together with a recommendation that their existence should be verified by the client's legal advisers.

5.4.7 Assessing the trading potential

5.4.7.1 There is a distinction between the market value of a trade related property and the investment value - or its worth- to the particular operator. The operator will derive worth from the current and potential net profits from the operational entity operating in the chosen format. While the present operator may be one potential bidder in the market, the valuer will need to understand the requirements and achievable profits of other potential bidders, along with the dynamics of the open market, to come to an opinion of value for that particular property.

5.4.7.2 A trade related property is considered to be an individual trading entity and is typically valued on the assumption that there will be a continuation of trading.

5.4.7.3 When assessing future trading potential, the valuer should exclude any turnover and costs that are attributable solely to the personal circumstances, or skill, expertise, reputation and/or brand name of the existing operator. However, the valuer should reflect additional trading potential that might be realised by an REO taking over the property at the valuation date.

5.4.7.4 The actual trading performance should be compared with similar types of trade related property and styles of operation. Therefore a proper understanding of the profit potential of those property types and how they compare with one another is essential. A trade related property valuer should test, by reference to market transactions and similar trade related properties, whether the present trade represents the FMT in current market conditions. When available, the actual trading accounts of the subject property and similar properties may need adjusting to reflect the circumstances of the REO.

5.4.7.5 For many trading entities, the vehicle for a transfer of the business will be the sale of a freehold or leasehold interest in the property. Such transactional evidence can be used as comparable evidence in the valuation of trade related properties, so long as the valuer is in a position to exclude the value of the component parts of the transaction that are not relevant. Examples include stock, consumables, cash, liabilities and intangible assets (such as brand names or contracts, to the extent they would not be available to the REO)

5.4.7.6 Changes in competition can have a dramatic effect on profitability, and hence value,. The valuer should be aware of the impact of current and expected future levels of competition. If a significant change from existing levels is anticipated, the valuer should clearly identify this in the report and comment on the general impact it might have on profitability and value.

5.4.7.7 Outside influences, such as the construction of a new road or changes in relevant legislation, can also affect the trading potential and hence the value of the trade related property.

5.4.7.8 Where it is intended to reflect purchaser's costs in the valuation (usually in the case of investment valuations), the normal market approach is to be adopted and an appropriate comment should be made in the report.

5.4.7.9 Where the property is trading and the trade is expected to continue, the valuation will be reported as follows:

> Market values (or market rent) as a fully equipped operational entity having regard to trading potential subject to any agreed or special assumptions…. (which must be clearly set out).

5.4.8 Valuation approach for a non-trading property

5.4.8.1 The valuation process for a non-trading property is the same as outlined in paragraph 5, Valuation approach for a fully equipped operational entity, but where the property is empty either through cessation or trade, or because it is a new property with no established trading history, different assumptions are to be made. For example, an empty property may have been stripped of all or much of its trade inventory or a new property may not have the trade inventory installed, but either could still be valued having regard to its trading potential.

5.4.8.2 The cessation of an operational entity and the removal of some or all the trade inventory are likely to have an effect on the property. It would therefore be appropriate to express the value on both the basis of one or more special assumptions, and a basis reflecting the status quo. This is often a requirement when advising a lender on the values of trade related property for loan security purposes. For example, the differences could reflect the cost and time involved in purchasing and installing the trade inventory, obtaining new licences, appointing staff and achieving FMT.

5.4.8.3 Where the property is empty, the valuation will be reported as follows:

Market value (or market rent) of the empty property having regard to trading potential subject to the following special assumptions… (which must be clearly set out).

5.4.9 Apportionment

5.4.9.1 The valuer may need, or may be requested, to provide an individual apportionment of a valuation or a transaction price for:

a. analysis as a comparable
b. inclusion in financial statements to comply with the applicable accounting standards
c. secured lending or
d. tax purposes.

5.4.9.2 Any such apportionment of market value would usually relate to:

a. the land and buildings reflecting the trading potential and
b. the trade inventory

5.4.9.3 When considering the apportionment of a transaction price, particularly where the sale is through share transfer in a limited company, the valuer should proceed with caution as the transaction may, in addition to that listed in paragraph 8.2, reflect the following:

a. the trading stock consumables and cash
b. intangible assets and
c. liabilities, such as salaries, taxes, debts, etc.

5.4.9.4 Apportionments for tax purposes have to be in accordance with specific legislation and are outside the scope of this application.

5.4.10 Valuation for investment purposes

5.4.10.1 The basic approach to an investment valuation of trade related property is the same as for any other category of property. Where the investment is a portfolio or group of properties **N**VPGA provisions on Valuation of portfolios collections and groups of properties, will be relevant.

5.4.10.2 When valuing a trade related property investment, the valuer will need to carry out the FMT and FMOP as set out in paragraph 3.1. It is also necessary to assess the market rent of the property so as to determine the security of the income stream and growth potential. The rent payable and the rent review will be determined by the terms of the subsisting or proposed lease.

5.4.10.3 The capitalization rate adopted for investment valuations differs from that for vacant possession valuations. The investment rate of return will generally be determined by market transactions of similar trade related property investments. Clearly, due to the differing characteristics of trade related property and the wide variety of lease terms, careful analysis of comparable transactions is essential.

5.4.10.4 The valuer will include the landlord’s fixtures and fittings with the land and buildings, but probably not the trade inventory, which will usually be owned by the occupational tenant. However, the valuer should highlight the importance of the trade inventory to the trading potential and value of the property.

NVPGA 5 Valuation of plant and equipment

1 Scope

1.1 The material in this Valuation Practice Guidance – Application (VPGA) provides additional commentary on the practical implementation of **IVS 220 Plant and Equipment**. Any mandatory requirements are highlighted in **bold type**.

2 Background

2.1 Plant and equipment forms a significant part of the global asset class known as tangible fixed assets, but with particular characteristics that distinguish them from most types of *real property*. This fact influences the approach to the classification, measurement and reporting of value in respect of plant and equipment. Plant and equipment may also be physically affixed to *real property* in whole or in part, and also capable of being moved or relocated. Some plant and equipment asset classes may also depreciate at a quicker or less linear rate than *real property* due to rapid technological change in particular market sectors. Frequently, the value will differ notably depending on whether an item of plant or equipment is valued in combination with other assets within an operational unit, or as an individual item for exchange. In addition, whether plant or equipment may be considered as either in situ (in its working place) or for removal will also affect value.

2.2 Plant and equipment may be broadly divided into the following categories:

- **Plant**: assets that are combined with others and that may include items that form part of industrial infrastructure, utilities, building services installations, specialised buildings, and machinery and equipment forming a dedicated assemblage
- **Machinery**: individual, or a collection or a fleet of machines that may be employed, installed or remotely operated in connection with a user's industrial or commercial processes, trade or business sector (a machine is an apparatus used for a specific process) or
- **Equipment**: an all encompassing term for other assets such as sundry machinery, tooling, fixtures, furniture and furnishings, trade fixtures and fittings, vehicles and loose tools that are used to assist the operation of the enterprise or entity.

2.3 The boundaries between these categories are not always easy to define, and the criteria used may vary according to the particular market sector the assets serve, the purpose of the valuation and relevant national and international accounting conventions.

2.4 The general principle is that assets installed primarily to provide services to the buildings or personnel should be valued as part of the property interest if they would normally be included in the sale of the property and or balance sheet classification. However, exceptions to this general principle will almost certainly occur where the valuation is required for inclusion in a balance sheet or for tax purposes. In these cases the client may require a separate valuation for certain items of building service plant or allied equipment.

2.5 In a valuation for *financial statements* the treatment of fixed assets in the accounts of the entity will normally provide some guidance regarding the particular items of plant and equipment that may be separately valued. However, in many cases, the valuer will need to clarify with the client and advisers the items that should be included in a valuation of the plant and equipment.

2.6 When different valuers are employed to carry out property and plant valuations, careful liaison will be needed to avoid either omissions or double counting.

3 Plant and equipment usually included in valuations of the property interest

3.1 This will include:

- items associated with the provision of services (gas, electricity, water, drainage, fire protection and security) to the property
- equipment for space heating, hot water and air conditioning not integral to any process and
- structures and fixtures that are not an integral part of process equipment, for instance, chimneys, plant housings and railway tracks.

3.2 Occasionally, items normally valued with the land and buildings will be subject to a *third-party* interest, for example, a finance arrangement or finance lease (see paragraph 5, Encumbered assets). The valuer should be particularly cautious in such cases and seek advice from the client and its advisers regarding the treatment of such assets, which may vary according to statute and jurisdiction. The valuation and report in such instances may require *special assumptions*, which should be agreed, in writing, at the time of engagement.

4 Plant and equipment separately valued

4.1 Plant and equipment valued separately from the property interest can be divided into broad categories of assets. ‘Fixed assets’ are often defined by the accounting standards applicable in the relevant country or state. The different categories may need to be identified and valued separately, depending on the purpose of the valuation.

4.2 Examples of ‘fixed assets’ include:

- process and production plant and machinery
- fixtures and fittings
- office equipment, including computers
- office furniture
- vehicles and transport infrastructure and
- mobile plant.

4.3 Borderline items that may not always be regarded as ‘fixed assets’ include:

- product-dedicated items (e.g. moulds, jigs and dies)
- spare parts
- operating software, licences and consents
- stocks (inventory)
- materials-in-trade
- stores and

- work in progress.

4.4 Although *intangible assets* fall outside the definition of plant and equipment, the two asset classes often operate in concert, which may have an impact on their discrete and or composite values. In such cases the valuer should establish appropriate *assumptions* in this regard (preferably at the engagement stage) and prior to reporting a valuation. Valuers should also be aware of the fact that the definition of *intangible assets* may vary relative to statute, local practices and accounting convention. Examples of *intangible assets* include:

- commercial and administration records, drawings, designs and technical data
- licences and consents
- software
- licences, operating systems, *goodwill*, know how, patents, trademarks, brand names and other intellectual property.

5 Encumbered assets

5.1 It is common for plant and equipment to be subject to lease or financing arrangements. Such asset backed or based arrangements vary from a simple hire/ lease purchase agreement through to complex, cross-border financing agreements. Hence valuers will need to establish the reporting basis and any *special assumptions* at the time of engagement, or agree and document the *assumptions* as the engagement progresses. In particular, the lease/finance agreement terms, stakeholders and wider commercial circumstances will need to be taken into account and the valuer may need to liaise with other advisers in this regard.

5.2 National and International Financial Reporting Standards and lending regulators' rules regarding the treatment of leased/financed assets are subject to regular review and change. Valuers should clearly set out the basis and extent of their proposed work relative to such rules and standards, to ensure that the resulting valuation advice is appropriate to the particular reporting circumstances.

6 Material considerations

6.1 When valuing plant and equipment on the basis of *market value*, **VPS 4 paragraph 1.2, Market value**, requires an indication of whether the valuation assumes that the assets will remain in their working place, or are valued for removal (as a whole or as individual items). Further *assumptions* may also be required, depending on the purpose of the valuation.

Examples include:

- how the property is to be offered for sale (e.g. as a whole or as individual items)
- the assumed method of sale
- environmental issues
- any restriction on sale method (e.g. lease conditions preclude sale by auction)
- whether the purchaser or vendor is to bear the costs of decommissioning or removal and
- whether allowance is made for any cost of reinstatement following removal and, if so, who will bear the cost.

6.2 If a valuation is being undertaken with a view to disposing of plant and equipment separately from the property in which it is situated, there may be constraints on the time available for marketing and disposal – for example, if a lease on the property is due to expire, or determined by an earlier event (such as insolvency). If the valuer considers that this time limit is inadequate for proper marketing, as defined in the conceptual framework for *market value*, it may require the use of a *special assumption* in the reporting framework. However the valuer should always report the benchmark *market value* in the first instance, followed by the commercial advice (which will fall outside the Red Book) regarding the likely sale price and wider circumstances. The valuer should not describe this as a 'forced sale' value (see **VPS 4 paragraphs 4.6 to 4.10, Valuations reflecting an actual or anticipated market constraint, and forced sales**).

6.3 If, in the opinion of the valuer, no constraint exists at the *valuation date*, but a client requires advice on the impact that such a constraint on the marketing period may have, a *market value* can be provided subject to a *special assumption* in the report that clarifies the time limit assumed and the reasons for it, provided that the report also advises the unrestricted *market value* in the first instance. This is especially important in respect of asset-based lending, foreclosure or insolvency-related instructions.

6.4 Many of the *inspection* requirements set out in **VPS 2, Inspections and investigations**, can be readily adapted to plant and equipment assets. In order to prepare a valuation, the valuer first needs to establish matters such as the type, specification, capacity and purpose of the items, then consider matters such as age, efficiency, condition, functional and economic obsolescence, and estimated total and remaining useful economic working life.

6.5 As when valuing other asset classes and taking into account the often very wide and complex range of plant and equipment (and the corresponding market sectors it serves), it will normally be impractical (and sometimes impossible) for the valuer to establish each and every material fact that could have an impact on the valuation.

Therefore the extent of the valuer's investigations, and any *assumptions* reflected in the valuation, will have to be agreed with the client at the time of engagement (in so far as can be reasonably be foreseen) and included in the later report.

6.6 Similarly, there will be occasions when factors affecting other asset classes (such as land and buildings) will impact the valuation of plant and equipment.

Examples include where the property is held on a short lease, if there are proposals for redevelopment or if there is contamination of the land and plant that would require plant to be decontaminated prior to removal.

7 Regulatory measures

7.1 Industrial activities are frequently subject to specific legislation and regulations. Non-compliance with these legal requirements may result in the suspension of the right to use the plant and equipment in question. Many of these are specific to the plant and process being considered and wider national and local statute and regulations. Therefore, from a valuation perspective, the valuer must investigate the nature of the plant and activity, as well as the purpose of the valuation and its extent, in determining how far the regulatory measure can, or might, affect the valuation.

7.2 Where there is doubt about compliance with any regulations affecting the value of plant and equipment, the valuer should discuss the matter with the client and any related advisers and refer to the outcome in the report. This should be done either by agreeing to make *assumptions* in the report, or to compliance undertakings as advised by the client and any related advisers.

NVPGA 6 Valuation of Intangible Assets

1 Scope

1.1 The international valuation standard and associated guidance for reporting valuations of *intangible assets* is **IVS 210, Intangible Assets, which valuers are required to follow**. It covers the valuation of *intangible assets* in respect of acquisitions, mergers and sale of businesses or parts of businesses and purchases and sales of *intangible assets*. The material in this Valuation Practice Guidance – Application (NVPGA) provides additional commentary on the practical implementation of **IVS 210 Intangible Assets**. Any mandatory requirements are highlighted in **bold type**.

2 Introduction

2.1 **IVS 210 Intangible Assets paragraph C1** defines an *intangible asset* as 'a non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and economic benefits to its owner.' It is therefore an asset that is capable of being separated or divided from a business entity and sold, transferred, licensed, rented or exchanged individually or with a related asset, liability or contract. Non-identifiable *intangible assets* arising from contractual or legal rights that may or may not be separable from the entity, or other rights and obligations, are generally termed '*goodwill* '.

2.2 Identified *intangible assets* include:

- marketing related assets typically associated with, and primarily used in, the marketing or promotion of a company's products or services (trademarks, brands, trade names, trade dress, internet domain names, newspaper mastheads, non-compete agreements)

- customer or supplier related assets arise from relationships with, or knowledge of, customers and suppliers, and are used in the development, procurement, management and maintenance of a company's customers (customer lists, order or production backlog, customer contracts and related relationships, non-contractual customer relationships)
- artistic related assets arise from artistic products or services that are protected by a contractual or legal right (copyright and design), and giving rise to benefits including royalties from artistic works (plays, operas, ballet, books, magazines, newspapers, musical works, pictures, photographs, videos, films, television programmes)
- technology related assets represent the value of technological innovation or advancements, and can arise from non-contractual rights to use technology, or be protected through legal or contractual rights (patented technology, computer software, unpatented technology, databases, trade secrets, in-process research and development, manufacturing processes and know-how).

2.3 *Intangible assets* may be either contractual or non-contractual. Contract-based assets represent the value of rights that arise from contractual arrangements (licensing, royalty, and standstill agreements; contracts for advertising, construction, management, service or supply lease agreements; construction permits; franchise agreements; operating and broadcasting rights; contractual use rights other than those expressly classified or properly regarded as tangible assets; servicing contracts; and employment contracts).

2.4 A major *intangible asset* is *goodwill*. **IVS 210 Intangible Assets paragraph C11** defines *goodwill* as 'any future economic benefit arising from a business, an interest in a business or from the use of a group of assets which is not separable'. The benefits that may form part of *goodwill* include synergies that follow a business combination and are company specific. Examples of this include economies of scale not otherwise reflected in the values of other assets; growth opportunities, such as expansion into other markets; and organisational capital, for instance the benefits obtained from an assembled network. *Goodwill* is often perceived to be the amount remaining after the values of other identifiable tangible and *intangible assets* have been deducted from the overall value of the business.

2.5 *Intangible assets* are differentiated from one another by characteristics such as ownership, function, market position and image. For example, ladies' fashion shoe brands may be characterised by use of particular colours and styles, as well as price. In addition, while *intangible assets* within the same class will inevitably have similar characteristics, there will also be aspects that differentiate them from other similar ones.

2.6 It is important that the valuer is regularly involved in *intangible asset* valuation, as practical knowledge of the factors affecting any particular asset is essential (see **NPS 2 paragraph 3, Member qualification**).

3 Terms of engagement

3.1 The valuation knowledge of clients will vary widely. Some will have a thorough understanding of intangible property rights and *intangible asset* valuation, while others will be unfamiliar with the terms and concepts used by valuers of *intangible assets*.

3.2 It is imperative that the *terms of engagement* are understood and agreed between the valuer and the client prior to commencement of the assignment. Any supplementary or contributory assets should be identified and agreement reached on whether they are to be included or not. Contributory assets are those used in conjunction with the subject asset to generate cash flows. Where contributory assets are not to be valued, it is important to clarify whether the intention is therefore for the principle asset to be valued on a stand-alone basis.

3.3 Valuers may wish to develop standard letters of engagement that can be used for any type of valuation instruction. Where a valuation has to comply with the ESVARBON Green Book, the valuer must produce *terms of engagement* that comply with the minimum terms set out in **NPS 2 paragraph 7, Terms of engagement**, and **NVPS 1 paragraph 1, Minimum terms of engagement**.

There may be situations where the interest in the asset to be valued is shared with others, and in such cases, it should be clearly specified.

4 Valuation concepts

4.1 The reason why the valuer has been instructed to perform a valuation is important to understand, as the *intangible asset* valuation may be required for a wide variety of purposes. Examples include financial reporting, tax, public sector assignments, transactions and flotations, fairness opinions, banking arrangements, insolvency and administration, knowledge management, or portfolio review. The answer will introduce various concepts of value, some governed by statute and case law, and others by international and national standards of professional valuation practice.

4.2 Valuation bases typically encountered for these types of valuations (not all of which are recognised by the IVS or the Green Book) are *fair value*, fair market value, *market value*, and open market value. Valuers should be mindful of the requirements of **NPS 1 paragraph 1, Mandatory application**, where a written valuation is provided.

4.3 Depending on the rules and practice followed in respect of the concept, the valuation conclusion in respect of the same asset may be different. For example, because of the rules concerning tax valuations, a tax authority could view valuation differently to how a litigant, merger partner or *special purchaser* would.

4.4 Except in the case where there are strong indications to the contrary, the presumption is that of a ‘going concern’ and that the asset will continue to have a useful life for the foreseeable future. In some cases, this period will be based on what is specified either by law, or under the terms of any relevant agreements or protocols that govern the asset. However, for financial reporting purposes the value of an *intangible asset* that is to be disposed of, or abandoned, might have to be considered.

4.5 In many cases it may be appropriate to apply more than one valuation method, particularly where there is insufficient information or evidence. In such cases, the valuer may instead use additional methods, adjusted, perhaps on a weighted basis, to arrive at the final valuation.

5 Valuation due diligence

5.1 In line with **NPS 2 paragraph 3, Member qualification**, valuers should have appropriate competency in *intangible asset* valuation. As a minimum requirement, a valuer should not contemplate carrying out a valuation in the absence of a detailed knowledge and understanding of such issues as:

\• the rights of the owners of the asset(s)
• the history of, and activities associated, with the asset(s)
• as appropriate, the state of the subject industry, the general economic outlook and political factors.

5.2 Typical information requirements to assist the valuer in understanding the subject asset(s) could include:

- most recent income statements associated with the subject asset, and details of current and prior projections or forecasts
- description and history of the subject asset, including legal protections and rights associated with it (the extent to which such legal rights have been assessed should be disclosed)
- information about the asset and supporting documentation (e.g. registrations, territorial applications, marketing, technical research and development, documentation, design graphics and manuals)
- other collateral agreements
- details of the precise activities exploiting the *intangible asset*
- previous valuation reports
- product(s) dealt in, supported or extended by the business and intangibles
- whether anyone else is permitted to use the *intangible asset*(s), and whether there are plans to do so
- the company's market(s) and competition, barriers to entry in such markets, business and marketing plans, due diligence
- licensing, strategic alliances and joint venture detail
- whether contractual arrangements can be assigned or transferred in any *intangible asset* or royalty agreement
- major customers and suppliers
- objectives, developments or trends expected in the industry and how these are likely to affect the company or asset
- accounting policies
- strengths, weaknesses, opportunities and threats (SWOT) analysis
- key market factors (e.g. monopoly or dominant market position, market share)
- major capital expenditure in prospect
- competitor positions
- seasonable or cyclical trends
- technological changes affecting the asset
- vulnerability of any source of raw materials or supplier arrangement
- whether there have been any recent acquisition or mergers in this sector around the *valuation date*, and the criteria that was applied
- management of research and development (non-disclosure agreements, subcontractors, training and incentives)
- whether there is an intellectual property asset schedule setting out the extent of intellectual property right (IPR) ownership, and the interests of third parties (if any)
- examination of comparable licensing of similar assets.

5.3 It will be necessary, as far as it is possible, to verify facts and information used in arriving at the valuation, and to benchmark company practices and performance against sector best practice.

5.4 Much of the information relied on by the valuer will be provided by the client(s), and it may not be possible to verify it. In such cases, the valuation report should make this clear.

6 Valuation methodology

6.1 In broad terms, valuation theory recognises three distinct methodologies (or approaches) in valuation, including intangibles. These are the *market approach* (sometimes known as the direct market comparison approach), the *income approach*, and the *cost approach*.

6.2 Each approach requires the valuer to adopt an estimate of the asset's remaining useful life. This could be a finite period set by the length of a contract or normal life expectancy in the sector, or it could be indefinite. A number of factors will have to be considered in determining life expectancy, including legal, technical, economic and functional aspects. The presumed life expectancy of an asset that has been licensed for a particular period may be shorter if a superior competitor product is likely to reach the market before the licence expiration. In such case, the valuer would need to take a view on this.

Market approach

6.3 The *market approach* measures the value of an asset by comparing recent sales or offerings of similar or substitute property and related market data. However, it is rarely possible to find such evidence relating to identical assets.

6.4 The two primary *market approaches* are the 'market multiple method' and the 'similar transactions method'.

6.5 The market multiple method focuses on comparing the subject asset with guideline data such as industry royalty rates. In applying this method, matters such as royalty rates are evaluated and adjusted based on the strengths and weaknesses of the subject asset relative to similar assets. They are then applied to the appropriate operating data of the subject asset to arrive at an indication of value.

Appropriate adjustments to reflect different properties or characteristics are usually made to the derived data.

6.6 The similar transactions method uses valuation data based on historical transactions that have occurred in the subject asset's direct or related industries. The derived data are then adjusted and applied to the appropriate operating data of the subject asset to arrive at an indication of value.

6.7 In certain industries, assets are bought and sold on the basis of established market practices or rules of thumb, often (though not exclusively) derived from data or percentages of turnover, and not linked to profit generation. Where such rules of thumb exist, they may need to be considered by the valuer.

Income approach

6.8 The *income approach* has a number of variants. When applied (using, for example, the discounted cash flow (DCF) method), it measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions, and proceeds from its disposal.

6.9 When applied to an *intangible asset* valuation, value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as at the *valuation date*.

6.10 The *income approach* also embraces methods such as the relief-from-royalty method, defined in **IVS 210 Intangible Assets paragraph C24** as one that estimates 'the value of an *intangible asset* is determined by reference to the value of the hypothetical royalty payments that would be saved through owning the asset, as compared with licensing the *intangible asset* from a third party'.

6.11 There is also the 'multi period excess earnings' method. This is a method of estimating the economic benefits of an *intangible asset* over multiple time periods by identifying the cash flows associated with the use of the asset and deducting a periodic charge reflecting a fair return for the use of contributory assets.

6.12 The *income approach*, as applied using the capitalised earnings *basis of value*, is common in *intangible asset* valuation. A thorough understanding of accounting and economic profits, their historical record and forecasting is necessary in each case.

6.13 Appraisal of *intangible assets* and IPR includes techniques to identify the earnings specifically associated with the subject asset, such as gross profit differential, excess profits and relief from royalty. Following identification of the profit attributable to the subject asset, capitalisation of earnings and discounted cash flow techniques are adopted.

Cost approach

6.14 The *cost approach* indicates the value of an asset by the cost to create or replace it with another similar asset. When applied to *intangible asset* valuation, obsolescence, maintenance and the time value of money are considerations. When the *basis of value* in the valuation is *market value*, the indications of obsolescence must be supported by market data.

7 Present value techniques

7.1 Present value techniques (PVT) measure the value of an asset by the present value of its future economic cash flow, which is cash that is generated over a period of time by an asset, group of assets, or business enterprise.

7.2 Issues to consider in relation to this technique include:

- the number of years over which the cash flow is applied
- the capitalisation rate or discount rate applied at the end of the term
- the discount rate(s) adopted
- whether inflation is built into the cash flow
- what other variables need to be considered in respect of the cash flow in the future
- the trading profile of the asset
- initial and running yields, internal rate of return (IRR) and the terminal value.

7.3 Where a PVT approach is applied, it is important that market transactions (i.e. comparables) reflecting the same approach to valuation are taken into consideration.

The details of market transactions may be more difficult to obtain where a PVT approach is adopted. However, such transactions will assist in assessing the discount rate to be adopted, the IRR sought and the general approach taken by the market.

7.4 If the valuation is for a specific *intangible asset*, before undertaking the detailed cash flow modelling, the valuer is required to quantify the remaining useful life and deterioration rate associated specifically with the use of the asset. Typically this remaining useful life analysis will quantify the shortest of the following:

- physical life (e.g. of an underlying tangible asset)
- functional life (e.g. of an underlying tangible asset)
- technological life
- economic life
- legal life.

7.5 PVT valuation will thus involve these key components: a financial forecast identifying specific intellectual capital and associated earnings, and the discount rate (cost of capital). Unsystematic and systematic risk will be considered, and the discount rate determination in its basic application will require identification and application of the cost of capital to known and projected cash flows.

7.6 Discounting appropriately for weighted asset cost of capital and more basic discount rate for construction will be adopted. The two basic elements of the cost of capital are the cost of debt and the cost of equity. To assist in the calculation of an appropriate rate of return and discount rates, the valuer uses a number of different methodologies, including capital asset pricing model (CAPM), arbitrage pricing theory, and hybrids depending on the particular circumstances.

7.7 Valuers may be required to consider *intangible assets* in a licensing context, for example, the licensing in or out of technology or patents. Much of what has been covered in this application is relevant in the calculation of an appropriate rate of return in royalty rate calculations. In practice the rate is estimated by reference to some or all of the following:

- existing licences for the intangibles (the comparables approach)
- industry norms for licences for similar assets (the *market approach*)
- allocation of economic benefits derived from the use of, for example, the patented invention (sometimes referred to as the available profits or analytical approach)
- licensing practice (rule of thumb approaches).

7.8 Licensing appraisal examines specifics such as:

- how other relevant licences were negotiated
- *intangible asset* and support
- length of the licence agreement
- exclusivity
- special terms for special deals
- geography
- sector in which the *intangible asset* is licensed
- any special relationships.

Even if previous licensing practice is comparable, it can only provide a benchmark.
Intangibles, by their nature, are unique and involve carrying out numerous required adjustments to make a fair comparison.

7.9 PVT models the approaches such as the relief-from-royalty method (see paragraph 6.10 Income approach).

8 Reports

8.1 Where the valuation has to comply with the Red Book, the valuer must produce a report that complies with the minimum terms set out in **NVPS 3, Valuation reports**.

Generally the report has a brief introductory section or executive summary that defines the assignment, summarises the conclusion and sets the stage for the details of the report. The structure should move from the general to the specific, providing a logical flow of data and analysis within which all the necessary considerations can be incorporated, leading to the valuation conclusions.

8.2 Most situations will easily form into major sections as follows, although not necessarily in this order:

- introduction
- purpose and *basis of value*
- subject of valuation
- description and history of the asset(s), and the business entity in which it has (they have) been used
- accounting and accounting polices
- *financial statement* analysis, if appropriate
- business and marketing plan analysis, and prospects
- search results for comparative transactions
- industry in which the asset is used
- economic environment, yields and risk assessment
- valuation methods and conclusion
- caveats, disclaimer, and limitations.

8.3 Some reports will have a separate section containing a general discussion of valuation methodology, which will often follow the introduction. If national, regional and economic data are important to the company and asset, each may have its own section.

8.4 Where appropriate, factual information, or sources thereof, should be identified either in the body of the report or in the appendices.

9 Confidentiality

9.1 Information in respect of many *intangible assets* will be confidential. Valuers should use their best endeavours to preserve such confidentiality, including information obtained in respect of comparable assets. Where required by the client, valuers of *intangible assets* will comply with any requests to enter into non-disclosure or similar agreements.

NVPGA 7 Valuation of Personal Property, Including Arts and Antiques

1 Introduction and scope

1.1 This Valuation Practice Guidance – Application (NVPGA) provides additional commentary on the application of Green Book **NVPS 1–4** to 'personal property', being those assets (or liabilities) specified in 1.2 below.

1.2 For the purpose of this NVPGA, 'personal property' means assets (or liabilities) not permanently attached to land or buildings:

- **including**, but not limited to, fine and decorative arts, antiques, paintings, gems and jewellery, collectables, fixtures and furnishings, and other general contents
- **excluding** trade fixtures and fittings, plant and equipment, businesses or business interests, or *intangible assets*.

Valuations of personal property may arise in many different contexts and for a variety of purposes which may include, but are not restricted to, the following:

- insurance coverage
- damage or loss
- taxation (charitable contribution, gift tax, estate tax, casualty loss)
- financial reporting
- business transactions
- litigation, including claims of fraud
- estate planning, equitable distribution, and probate
- pre-nuptial agreements
- dissolution of marriage
- dissolution of business
- advice on the acquisition or disposition of property
- loan collateral
- bankruptcy
- inventory valuation.

1.3 This list is not definitive, as national or regional variations may exist, and in any given jurisdiction the statutory requirements will take precedence, for example, where valuations are prepared for the calculation of tax liabilities, including probate.

1.4 It is essential to be clear about the purpose of the valuation, which will often determine the particular *basis of value* to be used. See **NVPS 1 paragraph 2(c), Minimum terms of engagement**.

2 Terms of engagement

2.1 To properly define the valuation assignment and to understand the valuer's responsibilities, the valuer should identify the client and any others who might rely on the valuation (intended users) to ensure that the valuation is meaningful and not misleading.

2.2 The *terms of engagement*, including the minimum terms set out in **NVPS 1, Minimum terms of engagement**, will generally be agreed on by the valuer and the client prior to the commencement of the valuation engagement. When it is necessary to commence work prior to the *terms of engagement* being fully documented, all matters concerning those terms must be brought to the client's attention and documented before the report is issued (see **NVPS 1 paragraphs 4, 5 and 6, Minimum terms of engagement**).

2.3 When agreeing the *terms of engagement*, the valuer should advise the client of the possible effect on value of any other relevant matters, such as the provenance of the object, or the impact of groups of objects being valued as a collection, rather than individually. Not to do so could be misleading, and create a false impression – in breach of **NVPS 3, Valuation reports**.

3 Identifying the market

3.1 Valuations are based on an understanding of the market in which the valuation takes place. Valuers should assess the nature and state of the market that provides the context for their investigations and value conclusions. **IVS Framework paragraphs 10–14 The Market** sets out considerations that the valuer should take into account, including the level of activity, confidence and market trends.

3.2 Personal property valuers should recognise that there are different markets within which a particular asset may be traded and that each may generate its own sales data. In particular, an asset may have a different value at the wholesale level of trade, the retail level of trade, or where trading is by auction. The valuer should identify and analyse the relevant market consistent with the property being valued and the purpose of the valuation undertaken. It should be recognised that valuations undertaken for the purpose of advising on a sale between businesses that trade in a particular form of asset may differ from that between a business and an individual collector.

3.3 In identifying the market, personal property valuers should be aware that the method of sale could affect the resultant sale price. For example, online auctions and other forms of e-transactions can open up the market for some types of property to potential purchasers who otherwise might not purchase or bid based on constraints of location or time.

3.4 In personal property, groups of assets are often held as collections which, if divided, may be worth significantly more or less per item than when held collectively.

The valuer will need to assess whether holding assets collectively has any impact on their valuation, and advise accordingly.

4 Inspection, research and analysis

4.1 Valuers of personal property should collect, verify and analyse pertinent sales data, economic and market conditions, and related information that leads to realistic value conclusions. **NVPS 2, Inspections and investigations**, and **IVS 102, Implementation**, set out the requirements for conducting investigations.

4.2 The personal property valuer should always be aware that the degree of reliability of previous sales data may be limited. Valuers should always assess the reliability of data used to support the analysis. The sources of information used in the analysis should be documented.

4.3 Any limitations or conditions that impede the inspection, research, and/or analysis should be taken into account by the valuer. If there are such limitations the valuer may need to make assumptions/special assumptions. **NVPS 4, Bases of value, assumptions and special assumptions**, sets out the requirements relating to assumptions and special assumptions. Any assumptions must be discussed and agreed with the client prior to the conclusion of the valuation, and clearly documented in both the *terms of engagement* and the report.

4.4 The valuer should consider economic and market data, such as supply and demand in the marketplace and market movements. When there is a degree of uncertainty with respect to the information used, or the state of the market, the valuer should refer to NVPGA 9, Valuation in markets susceptible to change: certainty and uncertainty.

4.5 When the valuer uses the services of other specialist consultants and/or professionals, the valuer should, to the extent necessary for the purpose of the valuation, ensure that the specialist is qualified, and that the services are carried out competently.

5 Valuation

Valuation approaches and applications

5.1 The three approaches to arriving at *market value* (as defined in the IVS) for personal property are:

5.1.1 The sales comparison approach

This provides an indication of value by comparing sales information of the subject asset with identical or similar assets for which sales data is available. This approach is the most commonly used in the valuation of personal property. When applying this approach, the valuer should be careful in the analysis of the appropriate comparable sales data.

5.1.2 The cost approach

This provides an indication of value based on the estimated current costs to reproduce or create a property of equal quality, utility, and marketability. This approach includes replacement with a replica and replacement with a facsimile. A replica is a copy of the original item, as near as possible to the original in terms of nature, quality and age of materials, but created by means of modern construction or fabrication methods. A facsimile is an exact copy of the original item, created with materials of a closely similar nature, quality and age, using construction or fabrication methods of the original period. Both of these approaches (i.e. replica or facsimile) are usually only adopted for insurance purposes. When applying the *cost approach*, the valuer should analyse pertinent and appropriate cost data to estimate the cost of replacement.

5.1.3 The income approach

This provides an indication of value by calculating the anticipated monetary benefits (such as a stream of income) for the subject asset. When applying this approach, the valuer should analyse pertinent and appropriate data to reliably estimate the income in the relevant marketplace of the property. Valuers should base projections of future incomes and expenses on historical information, evidence and trends, current supply, demand, and competitive factors.

5.1.4 In all approaches, the valuer should use prudent and well-informed judgment to synthesise the analysis into a logical value conclusion.

5.1.5 All valuation conclusions should be reasonably based and clearly supported by appropriate evidence. If more than one valuation approach has been used in the analysis, the valuer should reconcile the results.

5.1.6 The Board does not prescribe the methodology that a valuer should use. However, the valuer should be prepared to justify the rationale for the approach adopted.

Other valuation considerations

5.2 In addition to the requirements of **NVPS 3, Valuation reports**, the valuer's research and analysis should consider:

- the extent of the information that should be communicated to the client and other intended users. The valuer should take account of the fact that the valuation knowledge of clients will vary and should communicate information that can be understood by all intended users of the report
- the interest to be valued (there may be situations where the interest in personal property to be valued is shared with others, and in such cases, it should be clearly specified)
- the characteristics required to establish the identity of the property (including artist or maker, material or medium, size, title, origin, style, age, provenance or history, condition, exhibition history, and citations in the literature)

- the *basis of value* and the source of the definition (e.g. *market value*)
- any special assignment conditions or regulatory requirements
- restrictions, encumbrances, leases, covenants, contracts, or any other items that may affect the valuation or ownership of the personal property to be valued
- the degree to which third-party information can be verified and relied on
- the relationship of the object to any *real property* or *intangible assets* that may affect the valuation of the property
- the importance of individual assets in an instruction that includes multiple objects with a wide range of values
- analysis of prior sales of the property being valued, if relevant • the degree to which the market conditions and the economy affect the level of certainty of the valuation conclusion.

6 Reports

6.1 It is the responsibility of the valuer to ensure that the valuation report is clear and accurate, is not ambiguous or misleading, and does not create a false impression. It should be prepared with independence, integrity and objectivity (see **NPS 2 paragraph 4, Independence, objectivity and conflict of interest**).

6.2 The valuer should comply with the minimum requirements listed in **VPS 3, Valuation reports**, and incorporate all the valuation considerations listed in paragraph 5.2, Other valuation considerations. Additionally, when the valuer has used the services of specialist consultants and/or professionals in the process of preparing the valuation, these sources and their credentials should be identified and their input acknowledged (see paragraph 4.5, Inspection, research and analysis).

6.3 The level of detail provided in the valuation report should adequately address the needs of the client and the intended user(s), the nature of the property, and the intended use of the valuation. The terminology used in the report should be understood by all intended users.

6.4 The valuer should state any limitations or conditions regarding inspection, research or analysis and explain any effect on the valuer's conclusions.

6.5 The purpose of the valuation (for example, advice on dissolution of marriage), the *basis of value* (for example, *market value*), and the level of value (for example, auction or private treaty) should be set out clearly within the report.

6.6 The valuer should report that the conclusion complies with any special requirements of the client, other regulatory rules, or local laws.

6.7 The valuer should summarise the research conducted and the data used in the analysis. The valuer should also state the approach(es) to valuation used (that is, comparison, cost or income) and the rationale, including an explanation of why other approaches were considered but rejected. If multiple approaches were used in the analysis, a reconciliation of the results should also be included in the report.

6.8 When arriving at a valuation based on any *special assumptions*, such as where an aggregated value is determined, these should be specifically stated together with the effect on value, if any, of the *special assumption*.

6.9 The valuer should comment on any issues affecting the certainty of the valuation. The extent of the commentary will vary, depending on the purpose of the valuation and the knowledge of the user.

6.10 Photographs should be appropriate and used as required by the assignment.

6.11 Valuation instructions in certain jurisdictions that cover numerous, low value items may find the use of an Board approved template report that complies with this *guidance note* helpful (available at www.esvarbon.gov.ng).

NVPGA 8 Valuation of portfolios, collections and groups of properties

1 Scope

1.1 The **IVS Framework paragraphs 23–24 Aggregation** refer to the valuation of portfolios, collections and groups of property or assets.

1.2 The material in this Valuation Practice Guidance – Application (NVPGA) provides additional commentary on practical matters that the valuer should consider when undertaking a valuation of several properties simultaneously for the same client. Any mandatory requirements are highlighted in **bold type**.

1.3 To avoid giving misleading or inappropriate advice, particular regard must be had to matters such as ‘lotting’ or grouping, the identification of different property or asset categories and any *assumptions* or *special assumptions* relating to the circumstances under which the properties may be brought to the market.

2 Identification of separate property or assets

2.1 Where there is doubt about what constitutes a single property or asset, the valuer should generally ‘lot’, or group, the properties for valuation in the manner most likely to be adopted in the case of an actual sale of the interest(s) being valued.

However, the valuer should discuss the options with the client and must confirm the approach adopted in both the *terms of engagement* and the report.

2.2 Examples of situations where specific clarification of the lotting *assumption* needs to be made include:

- physically adjoining properties that have been acquired separately by the current owner (e.g. where a developer has assembled a site with a view to future redevelopment, or where an investor is building a strategic stake in the locality)
- physically separate properties that are occupied by the same entity and where there is a functional dependence between the properties (e.g. a car park that is separate from, but exclusively used by, the occupier of a building)
- where ownership of a number of separate properties or assets would be of particular advantage to a single owner or occupier because of economies that may result from either increased market share or savings in administration or distribution, as with a block of flats or hotels, and
- where each individual property is an essential component of an operation covering a large geographical area (e.g. as part of a national or regional utility network, such as telecommunication masts).

2.3 The purpose of the valuation may well dictate the approach taken. For example, there may be a requirement for the value of the assets to be reported individually.

The extent of what comprises an individual property or other asset will need to be clarified with the client.

2.4 Requests to value properties on an *assumption* that lots them in an artificial manner should normally be declined. However in certain circumstances, unusual lotting may be dealt with using a *special assumption* (see **NVPS 4 paragraph 3, Special assumptions**).

3 Valuation assumptions

3.1 Once the valuer has identified the lots within a portfolio that are to be valued separately, consideration needs to be given to any particular *assumptions* or *special assumptions* that may be necessary. These need to be recorded in the *terms of engagement* (see **NVPS 1, Minimum terms of engagement**) and in the report (see **NVPS 3, Valuation reports**). Examples of situations where different *assumptions* can have a material effect on the valuation of a portfolio are discussed in the following paragraphs.

3.2 If a whole portfolio, or a substantial number of properties within it, were to be placed on the market at the same time, it could effectively flood the market, leading to a reduction in values. Conversely, the opportunity to purchase a particular group of properties might produce a premium. In other words, the value of the whole could exceed the sum of the individual parts, and vice versa.

3.3 If valuing for a purpose that assumes that the portfolio will continue to remain in the existing ownership or occupation, for example, for inclusion in *financial statements*, it would be inappropriate to make any reduction or allowance in the valuation to reflect the possible effect of flooding the market. A statement to this effect should be made in the report.

3.4 If the same portfolio were to be valued as security for secured lending, the possible adverse effect on individual properties if the whole portfolio were placed on the market at the same time should not be ignored. In such case it would normally be appropriate to state that the *assumption* has been made that the properties would be marketed in an orderly way and would not all be placed on the market at the same time. However, if circumstances existed that such an *assumption* would not be made by the market, for example, if it were known that the current owner was in financial difficulty, this would become a *special assumption* and its effect on the valuation should be clearly stated (see **NVPS 4 paragraph 3, Special assumptions**).

3.5 Likewise, where the valuer ascribes a single value to a group of separate properties, any *assumptions* necessary to support that approach should be stated. If the valuer considers that the treatment of the portfolio on this basis is not one that the market would necessarily make, such an *assumption* would become a *special assumption* (see **NVPS 4 paragraph 3, Special assumptions**).

4 Reporting requirements

4.1 In any case where the total value of the properties within a portfolio would differ significantly depending on whether they were disposed of individually, in groups or as a single lot, this should be stated clearly in the report. The lotting *assumptions* made should also be included in any published reference.

4.2 Where a portfolio or group of properties or assets has been valued on the *assumption* that it would be sold as a single entity, the reported *market value* will relate to the whole of the group. Any breakdown of the *market value* of the individual properties or assets should be clearly expressed as such, with a statement that this apportionment does not necessarily equate to the *market value* of the interest in any individual property or asset.

4.3 Conversely, if the total of the *market values* for each individual property or asset in a portfolio as an aggregated figure is provided, care should be taken not to present this as the *market value* of the entire portfolio.

NVPGA 9 VALUATION IN MARKETS SUSCEPTIBLE TO CHANGE: CERTAINTY AND UNCERTAINTY

1 Introduction

1.1 The purpose of this Valuation Practice Guidance – Application (NVPGA) is to encourage best practice in the reporting of valuations, with specific reference to conveying a clear picture to users concerning the degree of certainty and risk attached to them.

1.2 All valuations are professional opinions on a stated basis, coupled with any appropriate *assumptions* or *special assumptions* (see **NVPS 4 paragraph 2, Assumptions**, and **VPS 4 paragraph 3, Special assumptions**). A valuation is not a fact, it is an opinion. The degree of subjectivity involved will inevitably vary from case to case, as will the degree of certainty – that is, the probability that the valuer's opinion of *market value* would exactly coincide with the price achieved were there an actual sale at the *valuation date*. Ensuring user understanding and confidence in valuations requires transparency in the valuation approach and adequate explanation of **all** factors that materially affect the valuation.

1.3 For some purposes it is often helpful, if not essential, to the understanding of the valuation to include supporting evidence, an explanation of the approach and the market context. Such commentary, context and explanation may not be required in all cases. However, valuers should view the provision of such supporting advice as a means to provide the user with increased confidence in the valuation.

1.4 Valuers should not treat a statement expressing less confidence in a valuation than usual as an admission of weakness. Indeed, if a failure to draw attention to material uncertainty gave a client the impression that greater weight could be attached to the opinion than was warranted, the report would be misleading and in breach of **VPS 3, Valuation reports**.

1.5 A property may have unique or unusual characteristics that may make it difficult for the valuer to reach a decision. Such unusual attributes and the assumptions made by the valuer to aid his decisions must be clearly expressed in the valuation report.

2 Matters that may affect valuation certainty

2.1 The valuation report must not be misleading or create a false impression of the property. The property should be able to convey the true and accurate position of things, the property, the interest, the market and the resultant value consistent with all the appropriate and relevant factors of valuation.

2.2 The following list, which is not exhaustive, provides some examples of issues that may have a material effect on the degree of certainty and confidence that can be applied to a valuation opinion:

• status of the valuer
• inherent uncertainty
• restrictions on enquiries or information provided
• liquidity and market activity and • market volatility.

Status of the valuer

2.2 The accuracy and relevance of the judgments required for a valuation depends on the skill and experience of the individual making them. The confidence in those judgments is also dependent on the independence of the valuer. **PS 2 paragraph 3, Member qualification**, and **paragraph 4, Independence, objectivity and conflict of interest**, set out the criteria relating to the qualification and independence of the valuer, and **VPS 3, Valuation reports**, requires confirmation in the report that the valuer has sufficient experience and no conflict of interest.

Inherent uncertainty

2.3 The property itself may have particular characteristics that make it difficult for the valuer to form an opinion of the likely value. For example, it may be an unusual, or even unique, type of property. Similarly the quantification of significant change, either related to potential planning permission, or the existence of a *special purchaser*, will be highly dependent on the *assumptions* made.

Restrictions on enquiries or information provided

2.4 Where the information available to the valuer is limited or restricted, either by the client or the circumstances of the valuation, less certainty can be attached to the valuation than would otherwise be the case. **VPS 3 paragraph 7(h), Nature and source of information relied on**, requires that the sources of information are stated and attention is drawn to any limitations.

Liquidity and market activity

2.5 In markets that are inactive with low levels of liquidity or restricted debt availability there is a reduced amount of data to provide empirical support for valuations. In such cases the valuer should be as explicit and transparent as possible to demonstrate the degree to which the conclusion is based on subjectivity.

Similarly, in liquid and functioning markets the valuer should state that there is an abundance of empirical data to support the conclusions drawn.

Market volatility

2.6 Disruption of markets can arise due to unforeseen financial, macro-economic, legal, political or even natural events. If the *valuation date* coincides with, or is in the immediate aftermath of, such an event there may be a reduced level of certainty that can be attached to a valuation, due to inconsistent, or an absence of, empirical data, or the valuer being faced with an unprecedented set of circumstances on which to base a judgment. In such situations demands placed on valuers can be unusually testing. Although valuers should remain able to make a judgment, it is important that the context of that judgment is clearly expressed.

3 Reporting

3.1 **VPS 3, Valuation reports**, requires that the valuation report must not be misleading or create a false impression. The valuer should draw attention to, and comment on, any issues affecting the certainty of the valuation. The extent of that commentary will vary, depending on the purpose of the valuation, and the format of the report agreed with the client.

3.2 Where appropriate, the valuer also should consider including the use of *special assumptions* and sensitivity analysis, and give a full and clear account as to why these items are being included:

• Use of *special assumptions*: Where the valuer can reasonably foresee that different values may arise under different circumstances, the valuer should enter into a dialogue with the client to consider alternative valuations using *special assumptions* that reflect those different circumstances.

However, it is important to note the requirements of **VPS 4 paragraph 3.3, Bases of value, assumptions and special assumptions**, which stipulates that *special assumptions* may only be used if they can be regarded as realistic, relevant and valid in connection with the circumstances of the valuation.

• Sensitivity analysis: Where issues are identified that could have a material impact on the certainty attached to the valuation, it may be prudent to provide a sensitivity analysis to illustrate the effect that changes to these variables could have on the reported valuation.

3.3 It would not normally be acceptable for a valuation report to have a standard caveat to deal with valuation certainty. The degree to which an opinion is uncertain will be unique to the specific valuation, and the use of standard clauses can devalue or bring into question the authority of the advice given. The task is to produce authoritative and considered professional advice within the report. Issues that affect the degree of certainty should be reported in this context.

3.4 Unless specifically requested, the expression of values within a stated range is not good practice. In most cases the valuer has to provide a single figure. The use of qualifying words such as 'in the region of' would not normally be appropriate or adequate to convey material uncertainty without further explicit comment. Where different values may arise under different circumstances it is preferable to provide them on stated *special assumptions*.

3.5 If a mathematical measure of uncertainty is included in any report, it is essential that the method or model used is adequately explained, with any limitations appropriately highlighted.