



Exposure Workshop on the Draft Updated Philippine Valuation Standards (PVS)

Workshop Agenda – in Brief

1st Day

- Introduction and opening remarks
 - Overview of Valuation Standards
 - General and Asset Standards

2nd Day

- Working Group discussions
- Reports from Working Groups
 - Open Forum
 - Next Steps and Closing Remarks



Real Estate Valuation: The Need for Standards



The PVS Objectives - 2009

- **To raise the quality of public and private sector valuations and reporting of valuations;**
- **To provide consistency and understanding between providers and users of valuations at national and international levels;**
- **To promote transparency and reliability of valuations for disposal of government assets, financial reporting, secured lending, transfers of ownership and litigation and taxation;**
- **To reduce financial risk for users of valuations.**





- Valuers supply global clients: Banks, Investment Funds, Corporate Entities
- Clients need consistency of service wherever they operate worldwide
- Real Estate is a global industry
- National boundaries result in different legal requirements- but basic “rules of engagement” are generally the same worldwide.




Why have Valuation Standards?

- Consistency, objectivity and transparency are fundamental to building and sustaining public confidence and trust in valuation;
- In turn their achievement depends crucially on possessing and deploying the appropriate skills, knowledge, experience and ethical behaviour, both to form sound judgments and to report opinions of value clearly and unambiguously to clients and other valuation users.



History

- RICS Asset Valuation Practice and Guidance Notes 1976
 - Currently the 'Red Book' 2014 – RICS Valuation – Professional Standards
 - Mallinson report – RICS 1994; and Carsberg Report RICS 2002
 - IVSC published first definitions and standards in early 1990s
 - In 2000 first comprehensive book of standards published – six subsequent editions to 2017
 - European Valuation Standards – EVS 2016
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IVS - Valuation Standards

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).

The IVS have the following characteristics –

- Developed collaboratively – shared ownership
- High level – principle based
- Independent experts used
- Transparent consultation process
- Enacted locally, through or alongside national standards
- Provide consistency, comparability and common language




IVS

- Adopted as national standards in many countries (e.g. Australia, New Zealand, Romania, South Africa, Turkey)
- Some countries have adopted as national standards with amendments to meet requirements of national legislation. **Philippines**
- Professional organisations adopting IVS:
 - Appraisal Institute (US)
 - RICS (GLOBAL)
 - South African Institute of Valuers
 - Plus many more!!!



Valuation Standards....1

For clients and other valuation users professional valuation standards ensure:

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

Valuation Standards....2

But acceptance alone is not enough – effective implementation is the key. 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.



Why We Are Here Today?

- To continue the process of updating the Philippine Valuation Standards (PVS)
- Previous exposure meeting was held on 10th April 2017 in Manila
- Draft PVS2017 was published on the BLGF website (www.blgf.gov.ph/vggt-pvs)
- Initial consultation provided some very useful feedback and suggestions
- The BLGF is currently holding three 2-day workshops; 2 in Manila and one in Davao City to gain widespread consultation
- The consultation process is fundamental to the revision of the PVS. The objective is to gather from those with an interest in valuation their comments/suggestions. Everyone would agree that valuation standards are essential and the Philippines is following in the steps of many other countries in having a set of standards.

PVS – General Standards



The IVS General Standards 2017

| General Standards | Contents/Inclusions | | | Proposed Revisions |
|--------------------------|---------------------|----------------------|---|---|
| IVS 101 Scope of Work | 10 | Introduction | | |
| | | | Definition of scope of work | This is also referred to as “terms of reference” or TOR. |
| | | | Application of the standards to valuation assignments, including in-house appraisals, third party appraisals, and review appraisals | Qualification of appraisals being done by the local assessors |
| | 20 | General Requirements | | |
| | | | All valuation advice and the work undertaken in its preparation must be appropriate for the intended purpose. | Application to assessors’ work |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|--------------------------|----------|--|--|--------------------|
| IVS 101 Scope of Work | | | A valuer must ensure that the intended recipient(s) of the valuation advice understand(s) what is to be provided and any limitations on its use before it is finalized and reported. | |
| | | | Communicating the scope of work to its client prior to completion of the assignment | |
| | | | Wherever possible, the scope of work should be established and agreed between parties to a valuation assignment prior to the valuer beginning work. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|--------------------------|----------|--|---|--------------------|
| IVS 101 Scope of Work | | | A written scope of work may not be necessary, however, a written scope of work should be prepared. | |
| | | | Some aspects of the scope of work may be addressed in documents such as standing engagement instructions, master services agreements or a company's internal policies and procedures. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|--------------------------|----------|--------------------------|---|--------------------|
| IVS 101 Scope of Work | 30 | Changes to scope of work | Whilst the scope of work may be established at the outset, it may be established over time throughout the course of the assignment and any changes made over time must be communicated to the client before the assignment is completed and the valuation report is issued. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---|----------|-------------------|---|--------------------|
| IVS 102 Investigations and Compliance | 10 | General Principle | To be compliant with IVS, valuation assignments, including valuation reviews, must be conducted in accordance with all of the principles set out in IVS that are appropriate for the purpose and the terms and conditions set out in the scope of work. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|--|----------|----------------|---|--------------------|
| IVS 102 Investigations and Compliance | 20 | Investigations | Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis (es) of value. References to a valuation or valuation assignment in this standard include a valuation review. | |
| | | | Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. | |
| | | | In considering the credibility and reliability of information provided valuers should consider matters such as: purpose, significance of information, expertise of the source, etc. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|--|----------|------------------|--|--------------------|
| IVS 102 Investigations and Compliance | 30 | Valuation Record | A record must be kept of the work performed during the valuation process and the basis for the work on which the conclusions were reached for a reasonable period after completion of the assignment, having regard to any reasonable period after completion of the assignment, having regard to any relevant statutory, legal or regulatory requirements | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|--|----------|-------------------------------|---|--------------------|
| IVS 102 Investigations and Compliance | 40 | Compliance with the Standards | As noted in the IVS Framework, when statutory, legal, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS, a valuer must follow the statutory, legal, regulatory or other authoritative requirements (called a “departure”). Such a valuation has still been performed in overall compliance with IVS. | |
| | | | Most other sets of requirements, such as those written by Valuation Professional Organizations, other professional bodies, or firms’ internal policies and procedures, will not contradict IVS and, instead, typically impose additional requirements on valuers. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|-------------------|----------|--------------|---|--------------------|
| IVS 103 Reporting | 10 | Introduction | It is essential that the valuation report communicates the information necessary for proper understanding of the valuation or valuation review. A report must provide the intended users with a clear understanding of the valuation. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|-------------------|----------|----------------------|---|--------------------|
| IVS 103 Reporting | 20 | General Requirements | It is essential that the valuation report communicates the information necessary for proper understanding of the valuation or valuation review. A report must provide the intended users with a clear understanding of the valuation. | |
| | | | The report should also be sufficient for an appropriately experienced valuation professional with no prior involvement with the valuation engagement to review the report | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|-------------------|----------|-------------------|--|--------------------|
| IVS 103 Reporting | 30 | Valuation Reports | Where the report is the result of an assignment involving the valuation of an asset or assets, the report must convey the following, at a minimum: the scope of the work performed, the approach or approaches adopted, the method or methods applied, the key inputs used, the assumptions made, the conclusion(s) of value and principal reasons for any conclusions reached, and the date of the report (which may differ from the valuation date). | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|-------------------|----------|--------------------------|--|--------------------|
| IVS 103 Reporting | 40 | Valuation Review Reports | Where the report is the result of a valuation review, the report must convey the following, at a minimum”: The scope of the review performed, scope of work to the extent each is applicable to the assignment, the valuation report being reviewed and the inputs and assumptions upon which that valuation was based, the reviewer’s conclusions about the work under review, including supporting reasons, and The date of the report (which may differ from the valuation date). | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|--------------|--|--------------------|
| IVS 104 Bases of Value | 10 | Introduction | Bases of value (sometimes called standards of value) describe the fundamental premises on which the reported values will be based. It is critical that the basis (or bases) of value be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer's selection of methods, inputs and assumptions, and the ultimate opinion of value. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|----------------|---|--------------------|
| IVS 104 Bases of Value | 20 | Bases of Value | <p>In addition to the IVS-defined bases of value listed below, the IVS have also provided a non-exhaustive list of other non-IVS-defined bases of value prescribed by individual jurisdictional law or those recognized and adopted by international agreement: IVS-defined bases of value: Market Value (section 30), Market Rent (section 40), Equitable Value (section 50), Investment Value (section 60), Synergistic Value (section 70), and Liquidation Value (section 80). Other bases of value (non-exhaustive list): Fair Value (International Financial Reporting Standards) (section 90), Fair Market Value (Organization for Economic Co-operation and Development) (section 100), Fair Market Value (United States Internal Revenue Service)</p> | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|--|--|--------------------|
| IVS 104 Bases of Value | 30 | IVS-Defined Basis of Value- Market Value | Market Value 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. | |
| | 40 | IVS-Defined Basis of Value – Market Rent | Market Rent 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 lessee terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|---|--|--------------------|
| IVS 104 Bases of Value | 50 | IVS-Defined Basis of Value – Equitable Value | Equitable Value is 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. | |
| | 60 | IVS-Defined Basis of Value – Investment Value/Worth | Investment Value is the value of an asset to a particular owner or prospective owner for individual investment or operational objectives. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|--|--|--------------------|
| IVS 104 Bases of Value | 70 | IVS-Defined Basis of Value – Synergistic Value | Synergistic Value is the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer then reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as “marriage value”. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|--|--|--------------------|
| IVS 104 Bases of Value | 80 | IVS-defined Basis of Value – Liquidation Value | Liquidation Value is the amount that would be realized when an asset or group of assets are sold on a piecemeal basis. Liquidation Value should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation Value can be determined two different premises of value: a) An orderly transaction with a typical marketing period (see section 160), or b) A forced transaction with a shortened marketing period (see section 170). | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|--|--|--------------------|
| IVS 104 Bases of Value | 90 | Other Basis of Value – Fair Value (International Financial Reporting Standards) | IFRS 13 defines Fair Value as the price that would receive to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. | |
| | 100 | Other Basis of Value – Fair Market Value (Organization for Economic Co-operation and Development (OECD)) | The OECD defines Fair Market Value as the price a willing buyer would pay a willing seller in a transaction on the open market. | |

The IVS General Standards 2017

| General Standards | | | Proposed Revisions |
|---------------------------|-----|---|--------------------|
| IVS 104 Bases of Value | 110 | Other Basis of Value – Fair Market Value (United States Internal Revenue Service) | |
| | 120 | Other Basis of Value – Fair Value (Legal/Statutory) in different jurisdictions | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|--|--|--|
| IVS 104 Bases of Value | 120.1 | | Many national, state and local agencies use Fair Value as a basis of value in a legal context. The definitions can vary significantly and may be the result of legislative action or those established by courts in prior cases. | In the Philippines, Republic Act 7160 or the Local Government Code of 1991, exhaustively uses the term Fair Market Value in relation to real property for taxation purposes and expropriation cases. "Fair Market Value" is defined as the price at which a property may be sold by a seller who is not compelled to sell and bought by a buyer who is not compelled to buy; |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|------------------------------|--|--------------------|
| IVS 104 Bases of Value | 130 | Premise of Value/Assumed Use | <p>A Premise of Value or Assumed Use describes the circumstances of how an asset or liability is used. Different bases of value may require a particular Premise of Value or allow the consideration of multiple Premises of Value. Some common Premises of Value are: a) Highest and best use, b) Current use/existing use, c) Orderly liquidation, and d) Forced sale.</p> | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|---|---|--------------------|
| IVS 104 Bases of Value | 140 | Premise of Value – Highest and Best Use | Highest and best use is the use, from a participant perspective, that would produce the highest value for an asset. Although the concept is most frequently applied to non-financial assets do not have alternative uses, there may be circumstances where the highest and best use of financial assets needs to be considered. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|--|---|--------------------|
| IVS 104 Bases of Value | 150 | Premise of Value – Current Use/Existing Use | Current use/existing use is the current way an asset, liability, or group of assets and/or liabilities is used. The current use may be, but is not necessarily, also the highest and best use. | |
| | 160 | Premise of Value – Orderly Liquidation | An orderly liquidation describes the value of a group of assets that could be realized in a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|--------------------------------|---|--------------------|
| IVS 104 Bases of Value | 170 | Premise of Value – Forced Sale | The term “forced sale” is often used in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible and buyers may not be able to undertake adequate due diligence. | |
| | 180 | Entity-Specific Factors | For most bases of value, the factors that are specific to a particular buyer or seller and not available to participants generally are excluded from the inputs used in a market-based valuation. Examples of entity-specific factors that may not be available to participants include | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---------------------------|----------|-------------------------------------|--|--------------------|
| IVS 104 Bases of Value | 190 | Synergies | “Synergies” refers to the benefits associated with combining assets. | |
| | 200 | Assumptions and Special Assumptions | In addition to stating the basis of value, it is often necessary to make an assumption or multiple assumptions to clarify either the state of the asset in the hypothetical exchange or the circumstances under which the asset is assumed to be exchanged | |
| | 210 | Transaction Costs | Most bases of value represent the estimated exchange price of an asset without regard to the seller’s costs of sale or the buyer’s costs of purchase and without adjustment for any taxes payable by either party as a direct result of the transaction | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---|----------|-----------------|--|--------------------|
| IVS 105 Valuation Approaches and Methods | 10 | Introduction | Consideration must be given to the relevant and appropriate valuation approaches. The three approaches used in valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution. The principal valuation approaches are: Market approach, Income Approach and Cost Approach | |
| | 20 | Market Approach | The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---|----------|-------------------------|---|--------------------|
| IVS 105 Valuation Approaches and Methods | 30 | Market Approach Methods | Comparable Transactions Method | |
| | | | Guideline publicly-traded comparable method | |
| | 40 | Income Approach | The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---|----------|-------------------------------|---|--------------------|
| IVS 105 Valuation Approaches and Methods | 50 | Income Approach Methods | Although there are many ways to implement the income approach, methods under the income approach are effectively based on discounting future amounts of cash flow to present value. They are variations of the Discounted Cash Flow (DCF) method and the concepts below apply in part or in full to all income approach methods | |
| | | | Discounted Cash Flow (DCF) Method | |
| | | | Type of Cash Flow | |
| | | | Explicit Forecast Period | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|--|----------|--|---|--------------------|
| IVS 105 Valuation Approaches and Methods | | | Cash Flow Forecasts | |
| | | | Terminal Value | |
| | | | Gordon Growth Model/Constant Growth Model | |
| | | | Market Approach/Exit Value | |
| | | | Salvage Value/Disposal Cost | |
| | | | Discount Rate | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|--|----------|---------------|--|--------------------|
| IVS 105 Valuation Approaches and Methods | 60 | Cost Approach | The cost approach 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 by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence. | |

The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---|----------|--------------------------|--------------------------|--------------------|
| IVS 105 Valuation Approaches and Methods | 70 | Cost Approach Methods | | |
| | | | Replacement Cost Method | |
| | | | Reproduction Cost Method | |
| | | | Summation Method | |
| | | | Cost Considerations | |



The IVS General Standards 2017

| General Standards | Contents | | | Proposed Revisions |
|---|----------|---------------------------|--|--------------------|
| IVS 105 Valuation Approaches and Methods | 80 | Depreciation/Obsolescence | In the context of the cost approach, “depreciation” refers to adjustments made to the estimated cost of creating an asset of equal utility to reflect the impact on value of any obsolescence affecting the subject asset. | |

Thank You!



PVS – Asset Standards



The IVS Asset Standards 2017

| Asset Standards | Overview/ Introduction | Bases of Value |
|---|---|----------------|
| IVS 200 Business and Business Interests | Business – commercial, industrial, service or investment activity | IVS 104 |
| IVS 210 Intangible Assets | Non-monetary asset that grant rights and/or economic benefits | IVS 104 |
| IVS 300 Plant and Equipment | Tangible assets used in manufacturing/production or supply of goods or services for rental or administrative purposes | IVS 104 |
| IVS 400 Real Property Interests | Real property interest is a right of ownership, control, use or occupation of land and buildings | IVS 104 |
| IVS 410 Development Property | Development properties are interests where redevelopment is required to achieve highest and best use, or improvements are planned/in progress at the valuation date | IVS 104 |
| IVS 500 Financial instruments | Financial instrument – a contract that creates rights or obligations between specified parties to receive or pay cash or other financial consideration | IVS 104 |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|---|--|
| IVS 200 Business and Business Interests Bases of value IVS 104 | <ul style="list-style-type: none"> •Business – commercial, industrial, service or investment activity. •Forms – corporations, partnerships, joint ventures, sole proprietorships. •Levels of value <ul style="list-style-type: none"> a. Enterprise value – equity value plus debt minus cash; b. Total invested capital value – total assets less current liabilities and cash; | Market Approach <ul style="list-style-type: none"> •Sources of data: <ul style="list-style-type: none"> a. Public stock markets b. Acquisition market c. Prior transactions in shares or offers Income Approach <ul style="list-style-type: none"> •Type of income or cash flow: <ul style="list-style-type: none"> a. Pre-tax b. Post-tax Type of cash flow with respect to type of interest being valued <ul style="list-style-type: none"> a. Enterprise value – before debt servicing b. Equity value – after debt servicing | Ownership Rights – articles of association, memorandum clauses, articles of incorporation, bylaws, partnership agreements and shareholder agreements. Business Information – owner-specific synergies or participant perspective; business history Economic and Industry – political outlook, government policy, exchange rates, inflation, interest rates and market activity <ul style="list-style-type: none"> •Factors – location, nature, market, currency, suppliers and taxes Operating and Non-Operating Assets – income producing vs. redundant or excess at valuation date; unrecorded assets (intangibles, depreciated machinery and equipment, legal liabilities/lawsuits) |
| Philippine Setting | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|--|---|--|
| IVS 200 Business and Business Interests Bases of value IVS 104 | c. Operating value – total value of operations, excluding non-operating assets and liabilities; d. Equity value – business value to shareholders •Purposes of valuation – acquisitions, mergers, sales of business, taxation, litigation, insolvency proceedings and financial reporting. | Cost Approach •Applications: <ol style="list-style-type: none"> Start-up business Investment or holding business Value of assets in liquidation exceeds going concern value | Capital Structure – debt and equity •Waterfall method – equity value equals enterprise value less book value •Where the value of the debt differs from its book value; <ol style="list-style-type: none"> Value the debt directly Probability-weighted expected return or option-pricing model – method that allocates value to debt and any equity securities. |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|---|--|
| IVS 210 Intangible Assets Bases of value IVS 104 | Non-monetary assets that grants rights and/or economic benefits. •Characteristics – ownership, function, market position and image. •Types – marketing-related, customer-related, artistic-related, contract-related and technology-based. •Customer data, customer contracts and customer relationships. | Market Approach •Criteria: a. Information on arm's-length transactions is available b. Information to allow for adjustments on significant differences between subject intangible and those involved in the transactions •Examples: a. Broadcast spectrum b. Internet domain names c. Taxi medallions Guideline transaction method – the only market approach applicable to intangible assets. Guideline public company method (rare) – publicly traded security similar to the subject intangible asset; e.g. Contingent value rights (CVRs) | Discount Rates/Rates of Return •Professional judgement •Risk assessment a. Higher risk than tangibles b. Highly specialized c. Single vs. Groups of assets d. Non-routine vs. routine functions e. Life of the asset f. Estimable cash flow streams |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|--|---|--|
| IVS 210 Intangible Assets Bases of value IVS 104 | •Goodwill – future economic benefit; the residual amount remaining after the values of tangible, intangible and monetary assets, adjusted for actual or potential liabilities has been deducted from business value; transferrable goodwill or non-transferrable/personal goodwill. | Income Approach Value is determined by reference to the present value of income, cash flows or cost savings attributable to the intangible asset. a. Technology b. Customer-related intangibles (e.g. backlog, contracts, relationships) c. Trade names/trademarks/brands d. Operating licenses (e.g. franchise agreements, gaming licenses, broadcast spectrum) e. Non-competition agreements | •Discount rate benchmarks a. Risk-free rates b. Borrowing rates c. Equity rates d. Weighted average cost of capital (WACC) e. Internal rate of return (IRR) f. Weighted average return on assets (WARA) |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|---|---|
| IVS 210 Intangible Assets Bases of value IVS 104 | •Intangible Asset (IFRS or US GAAP) a. Separable b. Arises from contractual or other legal rights c. Elements – company-specific synergies, expansion opportunities, assembled workforce benefit, future benefits, assemblage/going concern value | •Income Approach Methods a. Excess Earnings Method – present value of cash flow from the intangible asset b. Relief-from-Royalty Method – DCF from savings through owning, instead of licensing the intangible asset from a third party c. Premium Profit Method or With-and- Without Method – indicates the value of an intangible asset by comparing its use and non-use d. Greenfield Method – cash flow is assumed to come from the intangible only e. Distributor Method – disaggregated method used to value customer-related intangible assets; a variation of the multi-period excess earnings method | Economic Lives •Legal, technological, functional and economic factors •Pattern of use or replacement •Attrition a. Constant rate of loss b. Variable rate of loss c. Revenue based or customer count d. Customer segregation e. Period used |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|--|--|
| IVS 210 Intangible Assets Bases of value IVS 104 | Purposes: a. Financial reporting b. Tax reporting c. Valuation analysis in litigations d. Statutory or legal events e. General consulting, collateral lending and transactional support engagements | Cost Approach Value is determined using replacement cost. a. Acquired third-party software b. Internally developed/internally used, non-marketable software c. Assembled workforce Considerations using replacement cost: a. Direct and indirect costs b. Economic obsolescence c. Profit mark-up d. Opportunity costs | Tax Amortization Benefits (TAB) – to reduce tax burden and increase cash flow |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|---|---|
| <p>IVS 300 Plant and Equipment</p> <p>Bases of value</p> <p>IVS 104 Sections 140 – 170 are crucial</p> | <ul style="list-style-type: none"> •Tangible assets (sometimes categorized as personal property) used in manufacturing/production or supply of goods or services; for rental; or for administrative purposes. •Lease of machinery and equipment (right to use) – different life span than service life span (considers both preventive and predictive maintenance). •“In use” – group of assets cascading into sub-systems. •Intangible assets (e.g. Intellectual property rights, operating software, technical data, production records, patents) – have impact on the value of plant and equipment assets. •Range of factors in the valuation of plant and equipment: <ol style="list-style-type: none"> a. Asset-related b. Environment-related c. Economic-related | <p>Market Approach Commonly used for homogenous classes (e.g. motor vehicles, office equipment or industrial machinery)</p> <p>Income Approach Used where specific cash flows can be identified (e.g. a processing plant is operating to produce a marketable product) Exclude elements of value relating to intangible assets, goodwill and other contributory assets.</p> | <p>Financing Arrangements</p> <ul style="list-style-type: none"> •Assets subject to a leasing or financing arrangement •Assets subject to operating leases |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|--|------------------------|
| IVS 300 Plant and Equipment Bases of value IVS 104 Sections 140 – 170 are crucial | <ul style="list-style-type: none"> •Obsolescence •Identification of the asset or liability: <ul style="list-style-type: none"> a. Permanently attached to the land b. Part of an integrated production line c. Component of the real property [e.g. Heating, Ventilation and Air Conditioning (HVAC) System] •Plant and equipment connected with the supply or provision of services – are often integrated with the building and, once installed, are not separable from it; forms part of the real property interest. | Cost Approach For individual assets that are specialized or special-use facilities. Actual cost considerations: <ul style="list-style-type: none"> a. Timing of the historical expenditures. b. Basis of value c. Specific costs d. Non-market components After establishing replacement cost, deduct obsolescence. | |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|---|--|---|------------------------|
| IVS 300 Plant and Equipment Bases of value IVS 104 Sections 140 – 170 are crucial | •Assumptions (examples): a. Valued as a whole, in place and as part of an operating business b. Valued as a whole, in place but not yet in production c. Valued as a whole, in place but the business is closed d. Valued as a whole, in place but is a forced sale value e. Valued as individual items for removal from current location. •Purposes – financial reporting, leasing, secured lending, disposal, taxation, litigation and insolvency proceedings. | Cost-to-Capacity Method a. To estimate the replacement cost with one capacity where the replacement costs with a different capacity are known. b. To estimate the replacement cost for a modern equivalent asset with capacity that matches foreseeable demand where the subject asset has excess capacity. Used as a check method | |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|---|--|---|---|
| IVS 400 Real Property Interests Bases of value IVS 104 (see para 30.3 for HABU) | <ul style="list-style-type: none"> • Property interests are defined by state or the law of individual jurisdictions, regulated by national or local legislation (legal framework). • Real property interest is a right of ownership, control, use or occupation of land and buildings. • Types of interest: <ul style="list-style-type: none"> a. Superior interest – absolute right of possession and control of the land and any buildings upon it in perpetuity, subject only to any subordinate interest and any statutory or other legally enforceable constraints. b. Subordinate interest – rights of exclusive possession and control of a defined area of land or buildings for a defined period. c. Right to use land or buildings but without a right of exclusive possession or control. | Market Approach Adopt generally accepted and appropriate units of comparison, such as: <ul style="list-style-type: none"> a. Price per square meter/hectare b. Price per room c. Price per unit of output (e.g. crop yield) Specific Differences (subject vs comparables): <ul style="list-style-type: none"> a. Type of interest b. Location c. Quality of the land or building specs d. Permitted use and zoning e. Circumstances under which the price was determined | Hierarchy of Interests The different types of real property interests are not mutually exclusive. Examples: <ul style="list-style-type: none"> ➤ A superior interest may be subject to one or more subordinate interests. ➤ The owner of the absolute interest may grant a lease interest in respect to part or all of his interest. |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|---|--|
| IVS 400 Real Property Interests Bases of value IVS 104 (see para 30.3 for HABU) | <ul style="list-style-type: none"> •Intangible assets fall outside the classification of real property assets, but may have material impact on its value (e.g. hotel brand) •Identity of the asset: <ol style="list-style-type: none"> a. Description of the real property interest b. Identification of any superior or subordinate interests that affects the interest to be valued. | g. Effective date of the price evidence and valuation date h. Market conditions Income Approach Based upon actual or estimated income. Income-generating ability; actual or potential cash flows (profits method) Cash flow for a defined future period is adjusted to a present value using a discount rate. | ➤Head lease interest are lease interests granted directly by the owner of the absolute interest. ➤Sub-lease interest may be granted by the holder of a head lease interest. |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|--|--|---|
| IVS 400 Real Property Interests Bases of value IVS 104 (see para 30.3 for HABU) | IVS 101 Scope of Work and IVS 102 Investigations and Compliance: <ol style="list-style-type: none"> Evidence required to verify the real property interest and any relevant related interest. Extent of inspection. Responsibility for information on the site and building areas. Responsibility for confirming the specification and condition of any building. Extent of investigation into the nature, specification and adequacy of services. Existence of any information on ground and foundation conditions Responsibility for the identification of actual or potential environmental risks. Legal permissions or restrictions on the use of the property. | Capital value is the sum of present day values for individual periods. The discount rate is the time cost of money and the risks/rewards of the income stream. Developing yield or discount rate with respect to objective: <ol style="list-style-type: none"> Owner's investment criteria – rate of return or weighted average cost of capital Market value – analysis of returns implicit in market transactions | Characteristics: <ol style="list-style-type: none"> Subordinate interests of an absolute interest include leases, restrictions by previous owner or by statute. Lease interest will be for a defined period. Right of use may be held in perpetuity or for a defined period. |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|--|--|---|
| IVS 400 Real Property Interests Bases of value IVS 104 (see para 30.3 for HABU) | •Typical Assumptions: a. Physical change (e.g. A proposed building is valued as if complete on valuation date) b. Change in status (e.g. A vacant building was leased or a leased building became vacant) c. Other existing interests were not accounted for. d. The property is free from contamination or other environmental risks. •Purposes: secured lending, sales and purchases, taxation, litigation, compensation, insolvency proceedings and financial reporting. | Cost Approach Depreciated replacement cost (DRC) method Used when there either there is no evidence of similar transaction prices or no identifiable actual or notional income stream. Used as a secondary or corroborating approach. Adjust for obsolescence – physical condition, functionality and economic utility. | Rent •Market rent (IVS 104, Sec. 40) •Contract rent – the rent payable under the terms of an actual lease. |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|---|--|--|--|
| IVS 410 Development Property Bases of value IVS 104 | Development properties are interests where redevelopment is required to achieve highest and best use, or improvements are planned/in progress at the valuation date. a. Construction of buildings b. Undeveloped land provided with infrastructure c. Redevelopment of previously developed land d. Improvement or alteration of existing buildings or structures | Market Approach Applicable to homogenous development property frequently exchanged in the market. Have limitations for larger or complex development property or smaller properties with heterogeneous improvements. Even more problematic for partially completed development property. | Residual Method •Completed Property Value Special assumptions on estimated value on completion: a. Current values b. Projected values |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|---|--|--|---|
| IVS 410 Development Property Bases of value IVS 104 | e. Land allocated for development in a statutory plan. f. Land allocated for a higher value uses or higher density in a statutory plan Purposes: a. When establishing whether proposed projects are financially feasible. b. As part of general consulting and transactional support engagements for acquisition and loan security. | Income Approach Use of cash flow model to establish the residual value. Cost Approach Used to establish the development cost as a key component of the residual approach. A means of indicating the value of development property for which there is no active market on completion. | Reflect pre-sale or pre-lease agreements on the valuation of the completed project. Make value adjustments if the terms are not reflective of the market. •Construction Costs Include preparatory work required. Contracts in place. •Consultants' Fees •Marketing Costs •Timetable •Finance Costs •Development Profit •Discount Rate |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|---|--|---|---|
| IVS 410 Development Property Bases of value IVS 104 | c. For tax reporting purposes (ad valorem taxation analyses) d. For litigation requiring valuation analysis (shareholder disputes and damage calculations) e. For financial reporting purposes (accounting for business combinations, asset acquisition and sales, and impairment analysis) f. For other statutory or legal events (compulsory purchases) | Residual Method Indicates the residual amount after deducting all known or anticipated costs required to complete the development. Consider the reliability of information on: a. Any proposed building or structure b. Construction and other costs | Existing Asset (specialists reports) a. Market for the proposed development b. Highest and best use c. Non-financial obligations d. Legal permissions or zoning e. Limitations, encumbrances or conditions f. Rights of access g. Geotechnical conditions h. Necessary services i. Off-site infrastructure j. Archaeological constraints |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|---|---|---|---|
| IVS 410 Development Property Bases of value IVS 104 | Residual Value – very sensitive to changes in assumptions or projections concerning the income or revenue to be derived from the completed project. The valuer must highlight the potentially disproportionate effect of possible changes in either the construction costs or end value on the profitability of the project and the value of the partially completed property. A sensitivity analysis may be useful for this purpose provided it is accompanied by a suitable explanation. | Basic elements: a. Completed property value b. Construction costs c. Consultants fees d. Marketing costs e. Timetable f. Finance costs g. Development profit h. Discount rate | k. Sustainability (green buildings) l. Economic conditions and trends m. Supply and demand n. Funding cost o. Time p. Other risks Financial Reporting Accounting treatment vary depending on whether it is being held; a. For sale b. For owner occupation c. As investment property Assumption: the entity is a going concern. Secured Lending Market value, contractual obligations, risk, pre-sales, pre-leases |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|--|---|--|
| IVS 500 Financial Instruments Bases of value IVS 104 | Financial instrument – a contract that creates rights or obligations between specified parties to receive or pay cash or other financial consideration; such as, derivatives or other contingent instruments, hybrid instruments, fixed income, structured products and equity instruments. It can also be created through the combination of other financial instruments in a portfolio to achieve a net financial income. | Market Approach The price obtained from trading on a liquid exchange closest to the time or date of valuation is the best indication of market value. Otherwise, use relevant quoted or consensus prices or private transactions. Make adjustments to the price information if the observed instrument is dissimilar or the information is not recent enough. | Valuation Inputs Broker quotations, consensus pricing services, prices of comparable instruments and market data pricing services. In assessing brokers quotations <ul style="list-style-type: none"> a. Brokers make markets and provide bids in more popular instruments and may not extend to less liquid instruments b. A broker is concerned with trading and not valuation c. There is an inherent conflict of interest where the broker is the counterparty d. Brokers have an incentive to encourage trading Consensus pricing reflect a pool of quotations from different sources to overcome conflict of interest with brokers. |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|--|--|
| IVS 500 Financial Instruments Bases of value IVS 104 | Purposes of valuing financial instruments: <ol style="list-style-type: none"> Acquisitions, mergers and sales of businesses or parts thereof Purchase and sale Financial reporting Legal or regulatory requirements Internal risk and compliance procedures Tax, and Litigation Relevant market information: price of recent transactions of similar instruments, credit ratings, yields, volatility, indices, etc. | Income Approach Use discounted cash flow (DCF) method. Terms of a financial instrument: <ol style="list-style-type: none"> Timing of the cash flows Calculation of the cash flows Timing and conditions in the contract (put on call, prepayment, extension or conversion options) | Credit Risk Adjustments Factors in measuring credit risk: <ol style="list-style-type: none"> Own credit and counterparty risk Differentiate credit risk of the instrument and of the issuer and/or counterparty Subordination Leverage Netting agreements Default protection Collateral – an asset to which the holder of an instrument has recourse in the event of default |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|-----------------------|--|--|
| IVS 500 Financial Instruments Bases of value IVS 104 | | <ul style="list-style-type: none"> d. Protection of the right of the parties to the instrument Discount rate (assess the return thru the ...) <ul style="list-style-type: none"> a. Terms and conditions of the instrument b. Credit risk c. Liquidity and marketability of the instrument d. Risk of changes to the regulatory or legal environment e. Tax status of the instrument Cost Approach Follow the guidance in IVS 105 Valuation Approaches and Methods, paras 70.1 – 70.14 | Liquidity and Market Activity Liquidity is a measure of how easily and easily it can be transferred in return for cash or cash equivalent. Market activity is a measure of the volume of trading at any given time; a relative rather than an absolute measure. Valuation Control and Objectivity Control environment: <ul style="list-style-type: none"> a. Internal governance b. Control procedures Items to consider: <ul style="list-style-type: none"> a. Establishing a governance group b. Systems for regulatory compliance c. Protocol for the frequency and methods for calibration and testing of valuation models d. Criteria for verification e. Periodic validation of valuation models f. Identifying thresholds g. Identifying procedures for inputs |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
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| IVS 500 Financial Instruments Bases of value IVS 104 | Financial instrument – a contract that creates rights or obligations between specified parties to receive or pay cash or other financial consideration; such as, derivatives or other contingent instruments, hybrid instruments, fixed income, structured products and equity instruments. It can also be created through the combination of other financial instruments in a portfolio to achieve a net financial income. | Market Approach The price obtained from trading on a liquid exchange closest to the time or date of valuation is the best indication of market value. Otherwise, use relevant quoted or consensus prices or private transactions. Make adjustments to the price information if the observed instrument is dissimilar or the information is not recent enough. | Valuation Inputs Broker quotations, consensus pricing services, prices of comparable instruments and market data pricing services. In assessing brokers quotations <ul style="list-style-type: none"> a. Brokers make markets and provide bids in more popular instruments and may not extend to less liquid instruments b. A broker is concerned with trading and not valuation c. There is an inherent conflict of interest where the broker is the counterparty d. Brokers have an incentive to encourage trading Consensus pricing reflect a pool of quotations from different sources to overcome conflict of interest with brokers. |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|--|--|
| IVS 500 Financial Instruments Bases of value IVS 104 | Purposes of valuing financial instruments: <ol style="list-style-type: none"> Acquisitions, mergers and sales of businesses or parts thereof Purchase and sale Financial reporting Legal or regulatory requirements Internal risk and compliance procedures Tax, and Litigation Relevant market information: price of recent transactions of similar instruments, credit ratings, yields, volatility, indices, etc. | Income Approach Use discounted cash flow (DCF) method. Terms of a financial instrument: <ol style="list-style-type: none"> Timing of the cash flows Calculation of the cash flows Timing and conditions in the contract (put on call, prepayment, extension or conversion options) | Credit Risk Adjustments Factors in measuring credit risk: <ol style="list-style-type: none"> Own credit and counterparty risk Differentiate credit risk of the instrument and of the issuer and/or counterparty Subordination Leverage Netting agreements Default protection Collateral – an asset to which the holder of an instrument has recourse in the event of default |
| <i>Philippine Setting</i> | | | |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|---|--|--|
| IVS 500 Financial Instruments Bases of value IVS 104 | Identification requirements: <ol style="list-style-type: none"> Class or classes of instrument to be valued By individual instruments or portfolio Unit of account On investigation and compliance consider the following: <ol style="list-style-type: none"> Understand and validate all market data used. Select a model to capture the contractual terms and economics of the financial instrument. | <ol style="list-style-type: none"> Protection of the right of the parties to the instrument Discount rate (assess the return thru the ...) <ol style="list-style-type: none"> Terms and conditions of the instrument Credit risk Liquidity and marketability of the instrument | Liquidity and Market Activity Liquidity is a measure of how easily and easily it can be transferred in return for cash or cash equivalent. Market activity is a measure of the volume of trading at any given time; a relative rather than an absolute measure. Valuation Control and Objectivity Control environment: <ol style="list-style-type: none"> Internal governance Control procedures |

The IVS Asset Standards 2017

| Asset Standards | Overview/Introduction | Valuation Approaches and Methods | Special Considerations |
|--|--|---|--|
| IVS 500 Financial Instruments Bases of value IVS 104 | c. Adjust comparable prices of similar financial instruments. d. Multiple valuation approaches are preferred. Level of disclosure (IVS 103 Reporting) a. Materiality b. Uncertainty c. Complexity d. Comparability e. Underlying instruments | d. Risk of changes to the regulatory or legal environment e. Tax status of the instrument Cost Approach Follow the guidance in IVS 105 Valuation Approaches and Methods, paras 70.1 – 70.14 | Items to consider: a. Establishing a governance group b. Systems for regulatory compliance c. Protocol for the frequency and methods for calibration and testing of valuation models d. Criteria for verification e. Periodic validation of valuation models f. Identifying thresholds g. Identifying procedures for inputs |
| <i>Philippine Setting</i> | | | |

Thank You!

