

Global valuation standards

Charting a course for the future

Highlights

- With increasing frequency, global markets are shining a spotlight on valuation practices and the valuation profession.
- The importance of fair value and similar measurements in financial reporting mandates corresponding high-quality valuations.
- A leading global valuation standard setter that issues high-quality standards for financial reporting can promote consistency in practice and advance the brand of the valuation profession.
- A clear mission, transparent governance, and due process are critical to the success of a global valuation standard setter.

To strengthen its brand in the global markets, the valuation profession needs to unite behind a leading technical voice.

- The financial crisis highlighted the interdependency of the global financial markets, and the increasingly prominent role that the valuation profession plays in these markets. But with prominence comes scrutiny, and more than one high-profile stakeholder has voiced concerns over fundamental aspects of valuations and about the profession as a whole. We share certain of these concerns.
- To maintain its professional standing in an increasingly rigorous environment and promote greater confidence in its work, the valuation profession needs to address questions about the quality, consistency, and reliability of its valuations, particularly those performed for financial reporting purposes. A key element to successfully addressing such questions is having a leading global standard setter that issues technical valuation standards governing the performance of valuations for financial reporting purposes.
- We recognize that different territorial requirements, the evolution of certain products, such as the myriad types of financial instruments, and diversity in existing practice present significant challenges in developing conformity in the valuation profession worldwide. However, an agile standard setter with a clear mission, a transparent governance system, and an open and thorough due process would be well-positioned to meet these challenges.
- Having a substantive global valuation technical framework that is principles-based will improve the consistency of valuations performed. This will allow for better comparability across the financial markets and increased confidence in the valuations performed.

The valuation profession – at a crossroad

A global standard setter should strive to advance the valuation profession and progress its thinking.

The increasing complexity of the financial markets, the expanded use of fair value and similar measurements, and the global economic crisis have thrust the valuation profession into the spotlight. These events have led the SEC staff, among others, to question whether the profession has an appropriate infrastructure in place to support its newfound role as a critical contributor to the workings of the capital markets.

What organizations govern the profession today?

Within the US, there are a number of professional organizations with members who provide valuation services. However, there is no requirement for a valuation specialist to belong to a professional organization in order to provide valuation services for use in the financial markets. In short, there is no single governing organization.

Globally, professional organizations governing valuation professionals are similarly disparate.

Current state—technical guidance from a patchwork of sources

There are a variety of standard setters around the world, ranging from recognized national organizations to industry groups and others that provide technical guidance on valuation methods and approaches.

Within the US, two groups—the Appraisal Foundation and the American Institute of Certified Public Accountants—have issued a series of technical standards that have contributed to the quality of valuations performed for financial reporting. However, there is no overall framework or single set of technical standards that provide comprehensive guidance.

Perhaps the most widely recognized organization globally is the International Valuation Standards Council (IVSC). In response to the increasing importance of valuations, the IVSC restructured in 2008 with a view toward establishing itself as the standard setter of global valuation standards.

The IVSC has taken a number of positive steps to realize its goal of developing high-quality global valuation standards. For example, it has expanded its scope from its legacy real estate and property valuation focus to include other valuations such as intangible assets and fairness opinions. It has diverse representation on its boards (a board of trustees, a standards board, and a board that promotes the development of the valuation profession) and has issued technical guidance across the broad spectrum of valuations.

However, the IVSC has not yet achieved the worldwide recognition it needs to be the leading source of global valuation standards, i.e., the organization that promulgates valuation standards on a global scale that are accepted by valuation professional worldwide or can be tailored by local regulators and standard setters for use in a specific territory.

The Goldilocks syndrome: not too prescriptive, not too generic

Any global valuation standard setter will face the challenge of aligning the needs of different users with appropriate valuation principles when developing a single set of valuation standards for financial reporting.

Standards that are too generic are unlikely to provide useful guidance. However, if standards are too prescriptive, valuation professionals may not be able to appropriately apply valuation principles, given a certain set of facts and circumstances. This would negate the benefits of the guidance. Further, high-quality standards must improve on the status quo.

While clearly important, achieving a balance between high-quality, specific guidance, and a flexible set of principles will be challenging.

It's also important to realize that a global valuation standard setter will likely not be in a position to enforce its own standards. Therefore, it should address significant practical implementation issues associated with its standards to enable those who do enforce them to do so effectively.

Realizing a global vision will be challenging, but it can be done

Collaboration between the global valuation and other standard setters should ultimately enhance the quality and consistency across each regulatory and reporting framework.

Characteristics of a standard setter

There are three critical elements for a global valuation standard setter to be successful in issuing high-quality, well-balanced standards that are of practical use to valuation preparers: a clear mission, transparent governance, and open and thorough due process.

A clearly established and publicly defined mission statement should underpin all of a global standard setter's actions and should aim to drive quality and consistency in the profession.

A governance structure that emphasizes independence, accountability, and transparency is paramount. This should include a transparent and formal mechanism to oversee the selection of members of the standard setting body, and how different technical solutions are considered, conclusions are reached, and standards are implemented.

Open and thorough due process should be followed throughout the standard setting process. In addition, there should be a formal and transparent post-implementation review whereby implementation concerns can be identified and a plan developed to address them quickly and effectively.

To successfully develop high-quality and relevant standards that will be enforced at the local level, there will need to be buy-in by stakeholders in key territories that they will adopt and enforce the standards. The standard setter must have frequent interactions with those stakeholders (e.g., users, regulators, professional organizations) from the initial agenda-setting phase through issuance of a final standard to assure their support.

Benefits beyond the valuation profession

Clearly, a definitive set of global valuation standards would facilitate consistency and comparability among valuations. But the benefits go beyond that.

A global valuation standard setter that issues high-quality technical valuation standards would be the leading

international voice for the profession on technical matters. It would be well-positioned to identify key valuation issues, prioritize the development of technical standards, and provide a forum for collaboration.

Currently, when preparing valuations for financial reporting, valuation preparers utilize the applicable accounting standards that set the accounting parameters for the valuation. Yet in most cases they have limited input into what those parameters should be.

Collaboration between the leading global valuation standard setter, accounting standard setters, and regulators would facilitate the development of relevant high-quality valuation standards. Such standards should complement existing and future accounting guidance in complex areas such as fair value measurements, and enable the global valuation standard setter to influence the development of that guidance. This interaction would enhance quality and consistency across the valuation and non-valuation frameworks (e.g., financial reporting), benefitting both valuation users and preparers.

Building blocks may already exist

A number of organizations have been proactive in issuing technical valuation guidance, with the objective of improving current practice in specific areas. However, no single organization has yet to issue comprehensive guidance that can significantly improve current practice broadly. Likewise, we do not believe that any one organization has displayed all of the characteristics necessary to be the leading global standard setter. However, the IVSC may be best positioned to take on this global role.

In conclusion

We believe in the vision of a set of high-quality valuation standards issued by a widely recognized global valuation standard setter. Now is the time for the valuation profession to build the roadmap for the future of valuations, and solidify its integral role as contributors in the global markets.

Questions and answers

Q: Valuations are performed for a variety of purposes, not just to meet financial reporting requirements. Should the same global standard setter issue valuation standards for these other purposes as well?

A: Perhaps. Given the nuances specific to each type of valuation performed, the purpose of standards that are issued needs to be well-defined. We do not believe that one set of valuation standards can satisfy all purposes (e.g., financial reporting, compliance, advisory, regulatory etc.) in most instances. However, having the same standard setter for all purposes could enhance consistency where consistency is appropriate. It would enable that one standard setter to determine when separate guidance may need to be issued for different valuation purposes and when a single standard may have broader applicability.

Q: How should a global standard setter decide which topics to issue standards on?

One of the key outcomes of thorough due process is determining where to focus the standard setter's effort. The agenda-setting process is critical to issuing relevant standards that target high priority, hot topic areas where there is a lack of consistency and quality. Such a process should include substantive research and constituent feedback that supports the need for a standard and explores the potential solutions.

A global standard setter should ultimately strive to progress relevant thinking on valuation methods and techniques, not just codify existing practice.

A systematic approach to standard setting, supported by formal research capability, will not only help to ensure that standard setting projects are appropriately defined but that the global standard setter will generate innovative thinking.

Q: How could consistent use of global valuation standards be enforced?

There are several different ways that use of global valuation standards could be enforced, though each country or regulator will need to decide for itself how to enforce consistent application.

National professional organizations with a robust professional infrastructure can issue performance standards that require use of global valuation standards by their members. Regulators could also require their use by any valuation professional providing service to companies or individuals subject to that regulator's jurisdiction.

Professional organizations also can facilitate a formal peer review process to ensure that valuation firms are consistently and appropriately applying the global valuation standards.

Finally, key stakeholders can indirectly enforce application by mandating the use of global valuation standards whenever a company performs, or hires someone to perform, a valuation.

Contact Information

To have a deeper discussion about our point of view on the case for global valuation standards, please contact:

John Glynn
US and Global Valuation Leader
Phone: (646) 471-8420
Email: john.p.glynn@us.pwc.com

Beth Paul
US Strategic Thought Leader,
Accounting Services Group
Phone: (973) 236-7270
Email: elizabeth.paul@us.pwc.com

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