Glossary

10. Overview of Glossary

10.1. This glossary defines certain terms used in the International Valuation Standards.

10.2. This glossary is only applicable to the International Valuation Standards and does not attempt to define basic valuation, accounting or finance terms, as valuers are assumed to have an understanding of such terms (see definition of “valuer”).

20. Defined Terms

20.1. Asset or Assets

To assist in the readability of the standards and to avoid repetition, the words “asset” and “assets” refer generally to items that might be subject to a valuation engagement. Unless otherwise specified in the standard, these terms can be considered to mean “asset, group of assets, liability, group of liabilities, or group of assets and liabilities”.

20.2. Basis (bases) of Value

The fundamental premises on which the reported values are or will be based (see IVS 105 *Valuation Approaches and Methods*, para 10.1) (in some jurisdictions also known as standard of value).

20.3. Client

The word “client” refers to the person, persons, or entity for whom the valuation is performed. This may include external clients (ie, when a valuer is engaged by a third-party client) as well as internal clients (ie, valuations performed for an employer).

20.4. Cost(s) (noun)

The consideration or expenditure required to acquire or create an asset.

20.5. Discount Rate(s)

A rate of return used to convert a monetary sum, payable or receivable in the future, into a present value.

20.6. Equitable Value

This 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.

20.7. Fair Market Value

1. The Organisation for Economic Co-operation and Development (OECD) defines "fair market value" as the price a willing buyer would pay a willing seller in a transaction on the open market.

2. For United States tax purposes, Regulation §20.2031-1 states: "The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts"[1].

20.8. Fair Value (International Financial Reporting Standards)

IFRS 13 defines "fair value" as 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.

20.9. Intended Use

The use(s) of a valuer's reported valuation or valuation review results, as identified by the valuer based on communication with the client.

20.10. Intended User

The client and any other party as identified, by name or type, as users of the valuation or valuation review report by the valuer based on communication with the client.

20.11. Investment Value

The value of an asset to the owner or a prospective owner given individual investment or operational objectives (may also be known as worth).

20.12. Jurisdiction

The word "jurisdiction" refers to the legal and regulatory environment in which a valuation engagement is performed. This generally includes laws and regulations set by governments (eg, country, state and municipal) and, depending on the purpose, rules set by certain regulators (eg, banking authorities and securities regulators).

20.13. Liquidation Value

The amount that would be realised 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 under two different premises of value (see IVS 104 *Bases of Value*, section 80):

(a) an orderly transaction with a typical marketing period; or

(b) a forced transaction with a shortened marketing period.

[1] United States Internal Revenue Service

20.14. Market Value

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.

20.15. May

The word *"may"* describes actions and procedures that valuers have a responsibility to consider. Matters described in this fashion require the valuer's attention and understanding. How and whether the valuer implements these matters in the valuation engagement will depend on the exercise of professional judgement in the circumstances consistent with the objectives of the standards.

20.16. Must

The word *"must"* indicates an unconditional responsibility. The valuer must fulfill responsibilities of this type in all cases in which the circumstances exist to which the requirement applies.

20.17. Participant

The word "participant" refers to the relevant participants pursuant to the basis (or bases) of value used in a valuation engagement (see IVS 104 *Bases of Value*). Different bases of value require valuers to consider different perspectives, such as those of "market participants" (eg, market value, IFRS fair value) or a particular owner or prospective buyer (eg, investment value).

20.18. Price (noun)

The monetary or other consideration asked, offered or paid for an asset, which may be different from the value.

20.19. Purpose

The word "purpose" refers to the reason(s) a valuation is performed. Common purposes include (but are not limited to) financial reporting, tax reporting, litigation support, transaction support, and to support secured lending decisions.

20.20. Should

The word "should" indicates responsibilities that are presumptively mandatory. The valuer must comply with requirements of this type unless the valuer demonstrates that alternative actions which were followed under the circumstances were sufficient to achieve the objectives of the standards.

In the rare circumstances in which the valuer believes the objectives of the standard can be met by alternative means, the valuer must document why the indicated action was not deemed to be necessary and/or appropriate.

If a standard provides that the valuer "should" consider an action or procedure, consideration of the action or procedure is presumptively mandatory, while the action or procedure is not.

20.21. Significant and/or Material

Assessing significance and materiality require professional judgement. However, that judgement should be made in the following context:

- Aspects of a valuation (including inputs, assumptions, special assumptions, and methods and approaches applied) are considered to be significant/material if their application and/or impact on the valuation could reasonably be expected to influence the economic or other decisions of users of the valuation; and judgments about materiality are made in light of the overall valuation engagement and are affected by the size or nature of the subject asset.

- As used in these standards, “material/materiality” refers to materiality to the valuation engagement, which may be different from materiality considerations for other purposes, such as financial statements and their audits.

20.22. Subject or Subject Asset

These terms refer to the asset(s) valued in a particular valuation engagement.

20.23. Synergistic Value

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 synergistic value will differ from market value, as the synergistic value will 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.

20.24. Valuation

The act or process of determining an opinion or conclusion of value of an asset on a stated basis of value at a specified date in compliance with IVS. ~~A “valuation” refers to the act or process of determining an estimate of value of an asset or liability by applying IVS.~~

20.25. Valuation Approach

In general, a way of estimating value that employs one or more specific valuation methods (see IVS 105 *Valuation Approaches and Methods*).

20.26. Valuation Method

Within valuation approaches, a specific way to estimate a value.

20.27. Valuation Purpose or Purpose of Valuation

See "Purpose".

20.28. Valuation Reviewer

A “valuation reviewer” is a professional valuer engaged to review the work of another valuer. As part of a valuation review, that professional may perform certain valuation procedures and/or provide an opinion of value.

20.29. Value (noun)

The opinion resulting from a valuation process that is compliant with IVS. It is an estimate of either the most probable monetary consideration for an interest in an asset or the economic benefits of holding an interest in an asset on a stated basis of value. ~~The word "value" refers to the judgement of the valuer of the estimated amount consistent with one of the bases of value set out in IVS 104 *Bases of Value*.~~

20.30. Valuer

A "valuer" is an individual, group of individuals ~~or a firm~~ or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), ~~who possesses~~ possessing the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a valuer.

20.31. Weight

The word "weight" refers to the amount of reliance placed on a particular indication of value in reaching a conclusion of value (eg, when a single method is used, it is afforded 100% weight).

20.32. Weighting

The word "weighting" refers to the process of analysing and reconciling differing indications of values, typically from different methods and/or approaches. This process does not include the averaging of valuations, which is not acceptable.

20.33. Worth

See investment value.