

The novelties in the International Valuation Standards (IVS) and their relationship with the Bulgarian Valuation Standards (BVS) and appraisal practice

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Abstract: The purpose of the article is to examine the novelties in the latest edition of the IVS (issued by IVSC and published in the UK by Page Bros, Norwich) and to make a connection with the Bulgarian Valuation Standards (BVS), their update, as well as the overall improvement of the appraisal practice in our country. The IVS are the basis for professional valuation practice on a global scale. They are also a foundation for European Valuation Standards (EVS), The European Business Valuation Standards (EBVS), several other current valuation standards around the world and the BVS and the Bulgarian valuation practice. The new highlights of the IVS are mainly related to changes in the market environment, the development and needs of the valuation profession, and the challenges faced by professional valuers of assets, liabilities and businesses. The scope of the research corresponds to the used bibliography sources, including, in addition to the IVS, but also other leading valuation standards worldwide and mainly in Europe, Asia and North America, the professional organization of valuers in the country, namely the Chamber of Independent Appraisers in Bulgaria (CIAB), domestic regulations, the Independent Valuers Act (IVA), BVS, the development of appraisal activity in our country over the last 30 years, as well as the activities of major international appraiser organizations, including the latest editions of the best authors in the world in the field of asset appraisal and businesses appraisal. The research is mainly limited to the latest editions of the IVS and BVS, as well as the valuation activity in our country since 1992. The design and layout of the article include the main points regarding the emergence of the appraisal profession in our country, the presentation in chronological order of the main stages of development, including the timetable-type figure, tables, as well as the presentation of the novelties in the IVS effective from 31 January 2022. The methodology used includes a historical approach, a systematic approach, a method of analysis and synthesis, and a method of induction and deduction. Empirical research methods applied are survey, observation, comparison and measurement, and statistical and descriptive methods of analysis. The findings, practical implementations (consequences) and originality in the research are determined by the type of the researched matter, its poor knowledge in our country, and the good international practices that can be imposed in the assessment guild in Bulgaria, which in turn are largely related to some gaps in our regulations, the evaluation standards and the activity of the CIAB. Logically, the main conclusion is formed at the end of the article, which mainly covers the possible change in the BVS based on the International evaluation standards, which would have a positive impact on the evaluation practice in Bulgaria in general.

Key words: Bulgarian Valuation Practice, BVS, Changes, IVS, Novelties, Relationship.

Received: 03.12.2022

Revised: 12.12.2022

Accepted: 17.12.2022

Published: 30.12.2022

1. Introduction

The valuation activity in Bulgaria has been developing dynamically for 30 years (Kostov & Atanasova 2021; CIAB 2022; CIABVRC 2022). Here is the place to celebrate its round anniversary, on the occasion of which many events for the valuers in Bulgaria were planned and organised in 2022, some of them with representatives of extremely significant valuation organisations worldwide: (1) ASA – American Society of Appraisers (USA), which dates back to 1936 and is significant for the valuation guild in our country, as members of this organisation came to Bulgaria in the early 1990s as lecturers and advisors in order to create a valuation profession and practice. The ASA is a world-renowned and respected international organisation dedicated to the

appraisal profession. ASA is the oldest and only major membership international organisation of professional appraisers from all valuation specialities. Its structure, in terms of introduced valuation skills, closely resembles Bulgarian practice. In some sources, ASA is presented as the most famous international organisation dedicated to the profession of the appraiser (ASA 2022); (2) TEGOVA – the European Group of Valuers' Associations, representing a source of valuation standards for 45 years, originally established as TEGOVOFA, The European Group of Valuers of Fixed Assets (TEGOVA 2022).

2. Development of the valuation profession in Bulgaria

The most important stages of development and improvement of activities related to the valuation profession in Bulgaria in the period 1992 - 2022 include:

- 1992 – the Transformation and Privatisation of State and Municipal Enterprises Act was adopted; the Privatisation Agency was established.
- 1992 - 1993 – Licensing (by the Privatisation Agency) of the first independent valuers of businesses and individual assets in Bulgaria (modelled after well-established German and Anglo-Saxon schools, including with the collaboration of leading lecturers in the field of valuation).
- 1994 - 2001 – the Association of Business Appraisers, later renamed Association of Bulgarian Appraisers, was established in 1994; the Bulgarian Association of Real Estate Appraisers was established in 1995; valuations were carried out predominantly for the purposes of the privatisation process in Bulgaria.
- 2002 – the Privatisation and Post-Privatisation Control Act was adopted; the Privatisation Agency was restructured into the Privatisation Agency (PA) and the Post-Privatisation Control Agency (PPCA).
- 2003 - 2007 – The valuation practice began to expand to private clients and other state and municipal bodies beyond the framework of the privatisation process.
- 2008 – IVA was adopted (IVA 2008); the valuation profession became self-regulating (Kostov 2020).
- 2009 – the CIAB was established in accordance with IVA (CIAB 2022; Kostov 2020); the Code of Professional Ethics and the Statute of CIAB were adopted; the governing bodies of CIAB (Management Board, Supervisory Board, Professional Ethics Committee) were elected; ex-officio certification of existing valuers licensed by the Privatisation Agency; establishment of a Public Register of Independent Appraisers (kept at CIAB); first certifications of valuers by CIAB; establishment of the first regional college of CIAB (Varna Regional College, and subsequently seven more regional colleges were established in Bulgaria); establishment of the Chamber of the Professional Valuers.
- 2010 – Establishment of the Privatisation and Post-Privatisation Control Agency (through the restructuring of the PA and the PPCA); adoption of amendments to the Independent Valuers Act.
- 2011 – Latest amendment to the Independent Valuers Act.
- 2012 – CIAB became a member of TEGOVA; the first memorandum for international cooperation was signed (between CIAB – Varna Regional College and the National Association of Authorised Romanian Valuers /ANEVAR/ – Constanta Territorial Centre).
- 2013 - 2014 – Development of the regional colleges of CIAB.
- 2015 - 2017 – the IVS become mandatory for use in the valuation practice in Bulgaria; dynamic activity related to the qualification of valuers; establishment (after an initiative of the author of this paper and express inclusion in the departmental program "Training and Qualification" of CIAB and a suggestion of the author of this paper) of a national conference of independent appraisers in Bulgaria on the topic "Current issues of the valuation practice", held for the first time in Varna on 5 September 2015 on the model of established European and global practices in the field of valuation, which subsequently became a traditional annual event, and in 2021 it brought together nearly 700 participants; organising a number of courses and exams (including some conducted by leading international lecturers from Europe); increasing number of certified valuers; international activity of CIAB; start of the process of setting the BVS (BVS 2018), as well as creating the first conditions and entry into negotiations with TEGOVA to accredit CIAB to award the well-known European designation REV (Recognised European Valuer).
- 2018 - 2022 – Amendment to the Code of Professional Ethics (CPE 2018); adoption of the BVS (effective 1 June 2018), with mandatory application; the requirement for mandatory use of IVS is no longer in force; IVS, EVS, EBVS, RICS, USPAP, CVS and other internationally applicable

valuation standards are now optional and can only be used where the client expressly has requested so (IVSC 2021; TEGOVA 2020; RICS 2019; AF 2020; Wolters Kluwer CCH 2013; WAVO 2022); CIAB is recognised by TEGOVA as a REV Awarding Member Association; the designation REV is for the first time awarded to valuers in Bulgaria; introduction of an annual membership fee (payable by all certified valuers) used for technical, administrative and logistical support of the Public Register of Independent Appraisers (CPE 2018; Kostov 2020); dynamic activity of CIAB in the field of qualification and training courses for valuers (by holding numerous conferences, seminars, webinars, round tables, qualification discussions, etc.); annual verification of the fulfilment of the obligation of valuers under IVA to maintain a professional liability insurance (CPE 2018; Kostov 2020); introduction of a rule for annual documented retraining (qualification) for each valuation competence (CPE 2018; Kostov 2020); striking-off thousands of certified valuers from the Public Register due to failure on their part to fulfil specific obligations under IVA and various regulations, as well as under procedures put in place by CIAB; increasing the number of online trainings (mostly due to the pandemic), as well as of hybrid trainings conducted both online and in person; dynamic activity of CIAB internationally (including through regular participation of CIAB in important forums of professional valuers' organisations in Europe, etc.) (SCIAB 2022).

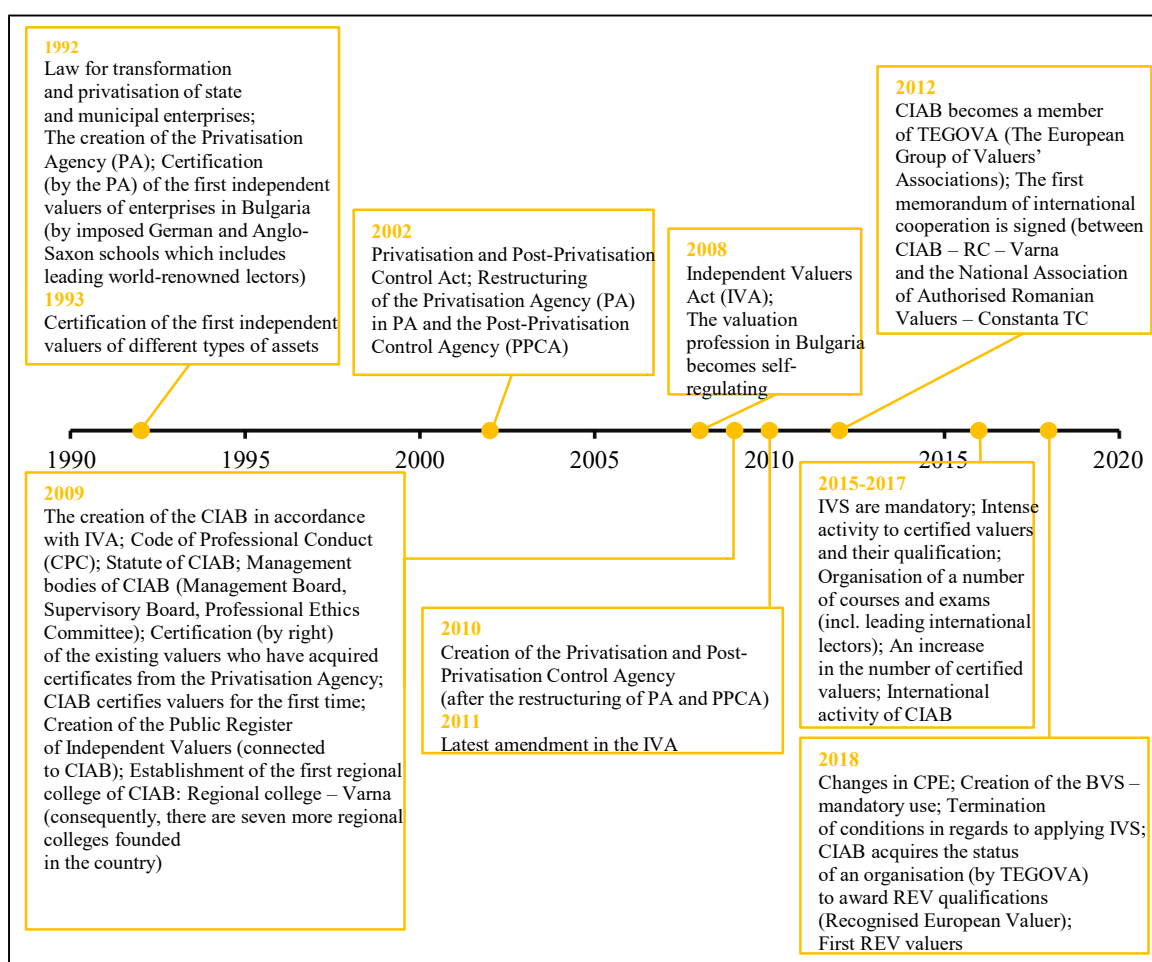


Figure 1. Development of valuation activity in Bulgaria for the period 1992 – 2022 (main stages)

Source: Own elaboration

Table 1.

Relative share of valuers (individuals) by certification in Bulgaria as of 2022
(some valuers have more than one license)

Valuation certification	Relative share
Real estates	68,19%
Machinery and equipment	24,99%
Trade enterprises and receivables	23,18%
Agricultural lands and perennial crops	19,41%
Land properties in forest areas	6,48%
Rights of intellectual and industrial property and other factual relations	5,88%
Financial assets and institutions	2,00%
Other assets	0,90%
Immovable cultural heritage	0,00%

Source: CIAB and own calculations

Table 2.

Relative share of valuers (legal entities) by certification in Bulgaria as of 2022
(some valuers have more than one license)

Valuation certification	Relative share
Real estates	94,30%
Machinery and equipment	63,16%
Trade enterprises and receivables	60,53%
Agricultural lands and perennial crops	31,58%
Rights of intellectual and industrial property and other factual relations	19,74%
Financial assets and institutions	8,77%
Other assets	2,63%
Land properties in forest areas	1,32%
Immovable cultural heritage	0,00%

Source: CIAB and own calculations

3. The BVS and the leading valuation standards worldwide

When scrutinising the BVS, it becomes evident that they were created mainly on the basis of the IVS and the European Valuation Standards, taking into account the legal framework of valuation in Bulgaria (BVS 2018). That is why a good knowledge of both IVS and EVS (including their amendments) is essential for the updating of BVS and also for the Bulgarian valuation practice in general. We should also note that in 2020 the European Business Valuation Standards (EBVS) were adopted. A variety of good practices and innovations are identified through a detailed study of RICS Valuation – Global Standards, as well as of USPAP (issued by the Appraisal Foundation, which is authorised by the US Congress to set valuation standards and qualifications of appraisers). There are valuation standards (at a national level) also in Russia, China, Poland, Romania, Serbia and many other countries around the world.

4. The novelties in the IVS

In the latest updated edition of the IVS, effective 31 January 2022, the following highlights stand out (IVSC 2021):

1. First and foremost, not only for IVS but also for a number of other valuation standards globally, is the mandatory process of professional proofreading of texts. For the next updated edition of the BVS, it is advisable to apply this global good practice, bearing in mind that these standards are regularly used by professionals (some with very extensive practical experience), as well as their significance in historical terms. It would be expedient to introduce appropriate numbering of the relevant standards (e.g. BVS 100, BVS 200, etc.) so that they can be more easily identified, used and managed (including for the purposes of more effective monitoring and adoption of appropriate measures thereafter).
2. Some core principles have been introduced in the IVS: the purpose, the relevant valuation standards, the development and revision of the standards, and the jurisdiction are clearly set out.

3. Particular attention is paid to the meaning of the term "scope of work".
4. Record-keeping rule – for an appropriate period of time; a copy on digital media (photocopy or electronic copy) also meets the requirement for record-keeping, and such an option is laid down in a number of other valuation standards (e.g. USPAP, USA).
5. "Discount rate" is a widely-used concept that appears in many places. A thorough review of the Bulgarian valuation theory and practice reveals that this concept is often used via one of the following different phrasings (some of them varying semantically): "profit rate", "discount factor", "capitalisation rate", "interest rate", "required rate of return" and the like. In this regard, it is desirable, both in the BVS and in the valuation practice, to use a more precise and clear single concept in connection with the discounting of cash flows back to a present value (Pratt et al. 2022; Damodaran Online 2022).
6. The terms "cost" and "price" are often used, and here is the place to pay special attention to the significant differences between such basic concepts in the valuation practice as "value", "price", and "cost".
7. *IVS 104 Bases of Value* includes the term "allocation of value", which denotes the separate apportionment of the value of an asset on an individual or component basis.
8. An entirely new standard has been created – *IVS 230 Inventory*. In this regard, it would be appropriate to include information on inventory valuation also in the BVS, but in examining this matter, our attention was drawn to another "gap" in the BVS and IVA, which has been the subject of vigorous discussions in the valuation profession in recent years, namely the valuation of biological assets, for which purpose the Tangible Assets Standards Board under the IVSC (IVSC 2022) issued in June 2019 the *IVSC Perspective Papers Issue 1: A road map to valuing agricultural properties (including biological assets)*, where biological assets are defined as living animals or plants, and a number of other clarifications have been made with regard to the valuation of these specific types of assets.
9. For the purposes of valuations of inventory and non-financial liabilities, the Top-Down method is described, and also the Bottom-Up method. *On the other hand, it should be clarified that even in previous versions of the IVS, there was a standard (not well known to the Bulgarian valuation practice) for the valuation of non-financial liabilities, which are liabilities requiring a non-cash performance of obligation through the delivery of goods or services. The non-exhaustive list of liabilities that may in part or in full require a non-cash fulfilment and be subject to IVS 220 Non-Financial Liabilities includes deferred revenue or contract liabilities, warranties, environmental liabilities, asset retirement obligations, certain contingent consideration obligations, loyalty programmes, power purchase agreements, certain litigation reserves and contingencies, and certain indemnifications and guarantees.*
10. It is noted in *IVS 400 Real Property Interests* that, in some instances, legitimate individual, communal/community and/or collective rights over land and buildings are held in an informal, traditional, undocumented and unregistered manner.
11. The definition of "transaction costs" remains valid.

Some of the other amendments to and more significant characteristics of the updated version of the IVS include:

- The definition of "bases of value" – these are the fundamental premises on which the reported values are or will be based.
- "Costs" – the price or costs incurred in the acquisition or construction of an asset.
- "Discount Rate" – a rate of return used to convert a monetary sum, payable or receivable in the future, into a present value.
- "Equitable Value" – 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. This concept is presented as different from the concept of "Fair Market Value" and that of "Fair value".
- In addition to the traditional definition, well known in the valuation theory and practice, it is also referred to as *worth*.
- "Price" – it should also be noted here that the price may be equal to, higher or lower than the value; this applies to both the asking price and the market price (the actual selling price – the transaction price).
- The valuation is as of a specified date, i.e. it is not acceptable (such valuation practice exists in Bulgaria) to designate a validity period of the valuation report, for example, 90, 180 or 270 days (as required by some banking institutions, municipal administrations, government agencies), as there

are no guarantees as to what the state of the subject asset and the market will be, e.g. on the 198th day after the effective date of the report.

- The definition of “valuation reviewer” is still valid and effective – 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. Looking at the existing BVS, we notice that reviews do not constitute valuations within the meaning of the IVA (BVS 2018; IVA 2008). It should be noted that there are a number of well-established valuation practices around the world (including USPAP, USA) where the reviewing of valuations requires a separate valuation competence.
- The definition of a valuer includes even an “external” individual engaged by an entity under a contract. It is also stated that in some jurisdictions, licensing is required before one can act as a valuer. By this logic, we come to the conclusion that there are countries in the world where it is not necessary to obtain such licensing in order to perform certain valuations. *An example in this respect is Poland, where only the practice of real property valuers is regulated by law. Thus, valuations of machinery, business or assets/liabilities other than real property can be performed by any person who has the necessary knowledge for this and whom the client would trust to determine reliable values and achieve the final results of the valuation.*
- *IVS 105 Valuation Approaches and Methods* expressly states that one or more valuation approaches may be used in order to arrive at the value in accordance with the basis of value. It is worth noting that many valuers in Bulgaria still comply with outdated valuation standards adopted decades ago for the purposes of privatisation, where it is specified that at least two approaches/methods must be used in the valuation reports.
- According to *IVS 200 Businesses and Business Interests*, “enterprise value” is often described as the total value of the equity in a business plus the value of its debt or debt-related liabilities minus any cash or cash equivalents available to meet those liabilities.
- *IVS 230 Inventory* stipulates the following:
 1. Inventory includes different types of goods (raw materials, parts, supplies, work-in-progress, finished goods).
 2. The market value of inventory typically differs from and is usually higher than the book value of inventory.
 3. The valuation techniques and considerations for inventory vary from those of other assets.
 4. The three valuation approaches can all be applied to the valuation of inventory.
 5. Distributor profit margins may represent a meaningful market proxy for returns on the disposition process. Contract manufacturers, to the extent available, may provide a proxy for margins earned through the manufacturing process.
 6. Under the income approach, the value is arrived at through the allocation of profit (value) contributed pre-valuation date versus the profit (value) contributed post-valuation date.
 7. The main methods for the valuation of inventory include (1) Top-Down; (2) Bottom-Up; (3) Current Replacement Cost.
 8. With regard to intangible assets and their relationship to inventory, whether intangible assets are owned or licensed, the market value of the inventory should be the same.
 9. The valuer should account for obsolete inventory reserve balances.
 10. Typically, the obsolete inventory adjusted for the inventory reserve would not be valued as it has been adjusted to net realisable value.
- It can be concluded that *IVS 300 Plant and Equipment* covers facilities, installations, units, apparatus and equipment.
- In *IVS 400 Real Property Interests*, the three main types of interest remain valid:
 1. The superior interest in any defined area of land.
 2. A subordinate interest that gives the holder rights of exclusive possession and control of a defined area of land or buildings for a defined period and/or
 3. A right to use land or buildings but without a right of exclusive possession or control.
- *IVS 410 Development Property* remains effective, and such properties are defined as interests where redevelopment is required to achieve the HBU or where improvements are either being contemplated or are in progress at the valuation date, including the construction of buildings, previously undeveloped land which is being provided with infrastructure, the redevelopment of previously developed land, the improvement or alteration of existing buildings or structures, land

allocated for development in a statutory plan, and land allocated for a higher value uses or higher density in a statutory plan.

5. Conclusion

A significant part of the amendments to the IVS examined in this paper are directly relevant to the valuation practice in Bulgaria, and this, in turn, warrants discussions and updates to the BVS to improve the valuation profession and services in general, with emphasis on valuations of the assets, liabilities and businesses or parts thereof, for the needs of banks, state and municipal bodies, buyers, sellers, tenants/lessees, landlords/lessors, credit intermediaries, leasing companies, investment companies, construction companies, insurance companies, pension funds, the judiciary, etc.

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