



September 2, 2010

Sent via email to: CommentLetters@ivsc.org

International Valuation Standards Board
41 Moorgate
London
EC2R 6PP
United Kingdom

Dear Sirs:

Re: Comments on IVS June 2010 Exposure Draft of Proposed New International Valuation Standards and Responses to Questions for Respondents

The Canadian Institute of Chartered Business Valuators (CICBV) is pleased to comment on the above noted IVS Exposure Draft and related Questions for Respondents.

The CICBV is the largest professional business valuation organization in Canada. It is a self-regulated organization that, in addition to governing its Members with a strict Code of Ethics and Practice Standards, grants the Chartered Business Valuator (CBV) / expert en évaluation d'entreprises (EEE) designation. The CBV/EEE designation is recognized as the premier credential for professional business valuers in Canada, with Members providing a broad range of business valuation services to Canada's business, legal, investment, banking and government communities.

We commend the International Valuation Standards Board for the comprehensive body of work that it has prepared on this very important subject. We support the work that the IVSC is undertaking in its efforts to develop clear, internationally recognized and accepted valuation standards.

Our comments are organized to respond to the Questions for Respondents using the question numbers in the IVS paper. Additional comments related to the Exposure Draft follow our responses to these questions.

Comments are provided only on matters directly related to our profession, the valuation of businesses, business ownership interests and tangible and intangible business assets that are not real or personal property (referred to herein as business valuation). We do



not provide comment on any area outside of our profession that may be covered by the proposed new International Valuation Standards.

As an overriding observation, we are of the view that valuation standards are not a useful avenue for delivering education or providing explanation. Including material that meets such purposes in valuation standards has the potential to make standards that purport to be principles based appear, and potentially be interpreted, as being prescriptive.

Responses to Questions for Respondents

1. Subject to our further comments herein, we agree with the approach taken that all pronouncements which fall into the category or standards be included in the one body of work.
2. We are of the view that background information and specific directions related to how a specific business valuation should be determined should not form part of business valuation standards and are appropriate for technical papers and/or educational materials on the subjects. The reasons for our concern are set out below:
 - (a) Business valuation standards need to be principle-based in order that they can be applied by the practitioner with a proper consideration of all the relevant factors. It is our view that the inclusion of any specific directions on the ``how to`` of business valuation in the proposed standards is incompatible with standards that are principle-based because of their prescriptive nature. Additionally, matters that are complex and continually evolving would not benefit from standards that are prescriptive. Business valuation standards need to remain flexible in order to allow for the consideration of particular facts and circumstances and to enable proper consideration of new issues as they arise. Moreover, professional business valuers need to be able to take into account all of the relevant factors that are appropriate in a given situation. Business valuation standards need to allow for the natural evolution of developing new solutions and approaches that inevitably takes place in best practices.
 - (b) As mentioned earlier, detailed discussions of business valuation theories and methodologies are better suited to technical papers and/or educational materials (e.g., text books or courses). The nature of the materials in the Application Standards and Asset Standards sections of the proposed standards is far too detailed and technical in nature to be associated with business valuation standards.
3. The members of our organization would most likely find an electronically downloadable version of the Standards to be the most useful.



4. We do not agree that a principal purpose of professional valuation standards should be directed to explaining fundamental concepts and principals. We are of the view that business valuations need to be carried out by professionals who are competent in the area. Using practice standards as a means of education is not an appropriate objective. In this regard, other avenues should be used to meet the objective of informing those who rely on business valuations about the subject rather than attempting to include such subject matter in minimum professional standards. In addition, valuation standards should not be driven by a particular use, such as for financial reporting.
5. We believe that the context of the term valuation is sufficiently clear in the proposed standards.
6. The three approaches (cost, market, and income) encompass all methods used in the process of business valuation.
7. We are of the view that the inclusion of a hierarchy of value in the standards is neither helpful nor appropriate. Whether or not a particular valuation approach is appropriate / preferable depends on the facts of each particular circumstance. The hierarchy proposed, that the direct market approach is generally to be preferred where there are observable prices for similar assets available at the valuation date, is potentially misleading in the context of business valuation as such a determination depends on the extent of knowledge of the various forms of consideration included in price and of the business operations to be able to assess comparability. That the assets are similar is not sufficient when referencing comparable transactions in a business valuation as the ability to make necessary adjustments is dependent on the information that is available regarding the referenced transaction.
8. The term ``Direct Market Comparison Approach`` would be the preferable term.
9. We are somewhat unsure as to the meaning of this question. We can however state that the term ``assumption`` is an important part of business valuations as all business valuations are fundamentally based on stated assumptions which are supported by analysis, as appropriate. We agree that a statement of the basis of value is better described as an assumption as opposed to a principal as it makes it clearer that the onus is on the valuator to justify the stated basis of valuation based on the particular facts and circumstances.
10. The definition of the term ``Investment Value`` as used in the Glossary of Terms in the proposed standards includes value to a prospective owner, without limitation. If the purpose of the term includes exclusion from value any additional amount related



to special value that may accrue to a buyer who has special attributes that are not shared by the market of potential buyers generally, the definition should explicitly state this.

11. In businesses valuations in Canada the term “Investment Value” is not generally used. Where that term is used, it is our understanding that it represents the value to a particular investor based on individual investment requirements and expectations. In Canada we refer to this term as “Value to Owner” and would encourage the use of such term to clarify that it is not market value.
12. We agree that market value appropriately reflects highest and best use.
13. It is our view that the definition of any valuation term in the context of financial reporting requirements should be left to the relevant accounting authority. The role of the valuator is to apply such authorities. In Canada, the term fair value also has particular meaning derived from securities regulations and/or legal jurisprudence related to a determination of value without the application of a discount for lack of control in particular circumstances. Other than these two contexts, we are not otherwise aware of the relevance of the term fair value to business valuation.
14. It is our view that it is not appropriate to include with business valuation standards the areas covered in the proposed Scope of Work standard. The valuation of business interests is a very complicated process that is very dependent on investigation and analysis of relevant factors in order to determine the most appropriate assumptions on which to base value. The Scope of Work standard included in the proposed standards calls for a determination of significant assumptions before the valuation analysis is performed. In business valuation this, while often being impossible, can be tantamount to arriving at a conclusion before performing the work. The matters enumerated in the Scope of Work standard include mostly matters that would be either included in an engagement letter with the client or are report disclosure requirements.
15. We have set out below the additional areas of disclosure that are required to ensure that the proposed standards are consistent with our business valuation report disclosure standards, and for which we recommend consideration be given:
 - (a) Statement that the valuation report was prepared by the valuator acting independently and objectively;
 - (b) Statement that the valuator’s compensation is not contingent on an action or event resulting from the use of valuation report;
 - (c) Definitions for the terms of value used;



- (d) With respect to the definition of market value, indication of the extent to which special purchasers were considered and the reasons why;
- (e) Sufficient information to allow the reader to understand how the Valuator arrived at the conclusion expressed;
- (f) Description of the valuation calculations;
- (g) Where relevant, a full description of the classes of shares and rights attached thereto, where interests other than common shares have to be valued either directly or as part of the overall valuation;
- (h) A summary of relevant financial information;
- (i) A description of the business being valued, sufficient for the reader to understand the valuation basis and approach adopted, as well as the various earnings or cash flow risk factors present;
- (j) Reference to trading volumes and price ranges, in the case of publically-traded securities; and
- (k) Any qualifications that affect the value conclusion.

In addition, we point out that (i) in reference to page 33, para 5 (k) our standards do not allow for a form of opting out and (ii) we are not familiar with what a “non reasoned valuation report” (page 33, para 5 (l)) might be and the context in which it is appropriate as we have no such concept in our professional standards.

16. It is our view that the degree of detail in the Application Standards goes beyond what is necessary for a professional valuator to perform a valuation appropriately and is inconsistent with the requirements of professional business valuation standards that are principles based. It is our view that the education of valuation report users is not an appropriate role of valuation standards, and that material of this sort would be more appropriately addressed in a textbook or technical paper that is separate from professional standards. We are concerned that the content of the Application Standards is incompatible with principle-based business valuation standards. While they may contain information to the objective of informing users, this objective is not necessarily consistent with the objective of professional business valuation standards. In our view, business valuation standards should not be overly prescriptive in order to achieve these other objectives.
17. Business valuations prepared in the context of financial reporting need to follow the applicable accounting standards or rules. In order to do so, business valuers need guidance on the interpretation of these accounting standards. However, this guidance needs to come from accounting bodies and authorities in accounting matters. In our view, it is inappropriate for a business valuation standard setting body to interpret accounting standards. We are also of the view that the role of a valuation standard setting body with respect to the development of accounting standards is to act in an advisory capacity to accounting bodies and authorities while they are developing and



setting accounting standards dealing with valuation issues. Accounting standards are in a constant state of change and will continue to evolve. To the extent that matters in valuation standards are based on the requirements of accounting standards, they would need to continue to change as well. Moreover, business valuation standards derived in this manner will become outdated with every change in the underlying accounting standards. The question also arises as to which accounting standards international valuation standards should relate? There are a number of standard setting bodies in the field of accounting. As an international valuation standards setter, the IVSC needs to be relevant to the requirements of more than one accounting body. Therefore we are in support of view (a).

18. It is our view that the degree of detail in the Asset Standards goes beyond what is necessary for a professional valuator to perform a valuation appropriately and is inconsistent with the requirements of professional business valuation standards that are principles based. As discussed earlier, it is our view that the education of valuation report users is not an appropriate role of valuation standards, and that material of this sort would be more appropriately addressed in a textbook or technical paper that is separate from professional standards. We are concerned that the content of the Asset Standards is incompatible with principle-based business valuation standards. While they may contain information to the objective of informing users, this objective is not necessarily consistent with the objective of professional business valuation standards. In our view, business valuation standards should not be overly prescriptive in order to achieve these other objectives.

18(2nd use). We offer no comment as the areas addressed are outside of our profession.

19. With respect to a proposed project to produce a standard related to liabilities that are not attached to a financial instrument, we are of the view that the general valuation standards are already adequate to cover such items.

20. We have no comment at this time.

Additional Comments on Proposed Standards

(page 8, para 14)

We concur that valuation standards should not give instructions on how to estimate value or contain educational material. Business valuations need to be carried out by professionals who are competent in the area. Using practice standards as a means of education is inappropriate.



(page 9, para 1)

There are other reasons not cited which distinguish price from value, such as non cash form of consideration, unequal bargaining power or ability, lack of information, motivation to transact, lack of appropriate due diligence, etc.

(page 10, para 3)

In business valuation, the definition of value is determinative of what is to be considered in the value determination. We are not aware of how the valuation objective is relevant to a value determination.

(page 12, para 14 and 15)

We do not understand why buyers that would pay more because of their ability to realize synergies are excluded from the market of buyers in a determination of market value. In our definition of market value (a term we call fair market value) the impact of special value is a required consideration if such information is available. While often very difficult to indentify or quantify, special value (if information is available) reflects the reality of the market place and logically forms part of market value.

(page 16, para 4)

We would recommend the inclusion of “cash flow” with the income approach. In addition, we do not consider the requirement that a stream of income or cash flow be “fixed” for a capitalization approach to be appropriate to be correct. The use of the term “stable” is more appropriate.

(page 17, para 8)

It is our view that where possible the results obtained using a primary valuation method should be cross-checked for reasonableness against another valuation method. However it is in this context that the use of multiple methods must be assessed. A test for reasonableness is different than employing multiple valuation methods and then weighing the results in arriving at a value conclusion as may be implied by the question asked.

(page 17, para 10)

The situation where assumed inputs are more relevant than actual inputs should be expanded to include projected cash flows where actual historic cash flows are not indicative of most likely future cash flows to be clear that this circumstance is included. In addition, the reference to weighing might imply that some weight need be given to the less relevant input, which is not necessarily the case.

(page 20, para 5)

We do not agree that the source of a basis in value necessarily needs to be referenced to some standard or document. The standard of value and the rationale for it need only be clearly explained.



(page 21, para 7(a) and page 25, para 21)

Again, we question why special value is omitted from market value.

(pages 52 to 56)

Business valuations prepared in the context of financial reporting need to follow the applicable accounting standards or rules. In so doing, business valuers need guidance on the interpretation of these accounting standards. However, this guidance needs to come from accounting bodies and authorities in accounting matters. In our view, it is inappropriate for a business valuation standard setting body to interpret accounting standards.

(page 73, para 10)

Goodwill should be defined as the residual value after all tangible and identifiable intangible assets and liabilities have been taken into account. The word identifiable is missing.

We hope that this submission is helpful to you. If you have any questions regarding our comments, please do not hesitate to contact Robert H. Boulton, CA, CBV, Director of Professional Affairs.

Yours truly,

Gordon G. McFarlane, CA, CBV
Chair, Professional Practice and Standards Committee