



**International Association of Consultants,
Valuators and Analysts**

707 Eglinton Avenue West, Suite 501
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3 September 2010

International Valuation Standards
Council
41 Moorgate, LONDON, EC2R 6PP
United Kingdom
Submitte

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the IVSC. We are a knowledge transfer and credentialing organization with Charters, issued or pending, in China, Germany, Ghana, India, Indonesia, Mexico, Middle East, Nigeria, Philippines, Russia, South Korea, Taiwan, Thailand, the United States and Vietnam. We have nearly 8,000 members, who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, our members are extremely concerned with the development of the valuation provision in International Financial Reporting Standards (IFRS), as well as Generally Accepted Accounting Principles in the United States (GAAP). They are especially worried by the trend in the convergence activities that seems to result in IFRS moving towards GAAP rather than the process correcting the many practical deficiencies and complexities of the recent codification, especially its excessive rules.

We appreciate the opportunity to comment on the Exposure Draft "*Proposed New International Valuation Standards*". Our observations are as follows:

General Questions

1. Do you find the new structure of the Standards to be logical and easy to follow? If not, what alternative would you propose?

We find the new structure of the Standards to be logical.

2. Do you consider that the combination of background information and specific directions to be helpful? Would you prefer all background information and explanatory information on asset classes to be removed from the standards so that only the specific directions applicable to each application or asset type remained?

We consider background and explanatory information to be useful but it should be so indicated in the text (perhaps by italics) to differentiate it from the actual Standard.

3. Which delivery method for the new edition of the standards are you or your organisation likely to use?

The electronic form is the most practical.

IVS 101- GENERAL CONCEPTS AND PRINCIPLES

4. Do you consider that this objective has been met? Do you consider that there are any additional valuation concepts and principles that should be considered and discussed in this standard?

In general, we find the descriptions satisfying except for the section entitled The Market. It should be renamed Markets and expanded to deal with the different types such as: exchanges, auctions, dealer, brokered, principal to principle, etc.

5. Are you in agreement with this approach or would you prefer the word “valuation” either not to be used at all or always used with qualifying words to indicate the intended meaning, for example “valuation process” or “valuation result”?

In our view, the term valuation per IVSC 101-4, should only be applied to the act of valuing. The term should not be used for a “Conclusion of (Fair) Value”.

IVS 102- VALUATION APPROACHES

6. Do you agree that these three approaches encompass all methods used in the assets or liabilities that you value? If not, please describe what approaches you feel have been omitted.

We consider there are four, not three, approaches, each comprising numerous methods:

- A. Market - not Direct Market Comparison, as there are many cases where conclusion are reached from transactions in related or derivative items.
- B. Income - Discounted Cash Flows, Capitalization of Earnings, Relief from Royalties, etc.
- C. Cost Depreciated Replacement Cost, Depreciated Duplication Cost

- D. Volatility - techniques such as option pricing (both Black-Scholes and binomial) and other models that are often shoe-horned into the Income category.

7. Do you agree with this hierarchy and do you consider it helpful? If not explain if you would prefer to see no reference to a hierarchy or would prefer an alternative hierarchy.

While the Market Approach is preferable if there are Level I Fair Value inputs, this is an unusual situation outside the securities industry. Therefore, we recommend that IVSC 102-6 be deleted and replaced with the statement: "All approaches should be considered for every valuation assignment. The degree of acceptability depends on the facts and circumstances involved." In addition it is desirable for the IVSC to establish guidelines for minimum basis for acceptable market data that can be relied on especially for Level 3 inputs.

8. Do you find this change of terminology to be helpful? If not please explain what alternative you would prefer and why.

As set out in our answer to question 7, we strongly believe that the term Market Approach is the correct one. The other approaches may use market derived, as well as other internal or external data, while the Market Approach only uses market derived information.

IVS103 - BASES OF VALUE

9. Do you agree with the proposed change to the definition? If not indicate what alternative you prefer and why.

We recommend that the definition of Basis of Value not be changed. Assumptions change, often rapidly, over time; principles do not.

10. Do you agree with this proposed change? If not, please explain why and what you believe the distinction is between investment value to a prospective purchaser and special value to a prospective buyer who can realise that special value to be?

To improve clarity, we suggest the terms Investment Value and Special Purchaser be eliminated: the fewer valuation definitions the better, fair, market and Fair Market are quite enough. All other value terms appear to describe the position of a "specific" buyer or seller. We suggest, the terms: "Value to Owner", "Value to Specific Buyer(s)" and "Specific Buyer(s)".

11. Do you support the continued use of the term "Investment Value" or would you prefer an alternative? If so, what would that alternative be?

See answer to question 10.

12. Do you agree with the approach taken in IVS? If not, explain why not and give examples where you believe the highest and best use may be different from the market value.

We consider HABU as a separate concept from market value. An example is a piece of agricultural land that has potential as a subdivision. Based on past experience, it is likely to be considered for re-zoning within a short time. The market value is what it is, the HABU what it may become.

13. Do you consider this proposed change in the definition to be helpful? If not, please indicate how you believe it could be improved.

We do not believe the term Fair Value should ever be used in a sense other than that defined by IFRS or US GAAP, especially after the definitions have been converged. The statement on page 36 regarding Fair Value under IFRS being (effectively) the same as Market Value under IVS 103 should immediately follow the definition of Fair Value on page 24. In North America, Fair Market Value is used mainly for tax, and occasionally for securities, purposes, as is Market Value in the UK. If another definition of Fair Value is needed, it should be given a new name. In certain US jurisdictions, the term has been used in divorce situations meaning “fair under the circumstances”; it is then commonly described as Divorce Value.

IVS 104 - SCOPE OF WORK

14. Do you:

- a) Agree with the inclusion of a standard for scope of work in IVS?*
- b) That the minimum contents identified in the draft are proportionate and represent a realistic minimum standard? If you disagree, please explain why.*

- a) Yes
- b) We suggest that the relevant parts of the AICPA standard relating to valuation assignments should be used as a basis, as this represents best practices worldwide. In particular there should be a subsection on **Scope Limitation** which should will set out the coverage of the Valuation Report and what the outcome can and can not be used for.

IVS 105- VALUATION REPORTING

15. Do you agree with the changes that have been made? If not, please explain what provisions of the current IVS3 you believe should be carried forward into the new standard.

We prefer that IVS 3 be carried forward and amended only to reflect the relevant policies of the AICPA provisions.

APPLICATION STANDARDS

16. Which view do you support? If you consider that future IVS should contain application standards, do you consider that the degree of detail of those in the draft is appropriate and help the better understanding of the valuation requirements?

Our view is that detailed applications standards are important; the more information, the better. Even though the fundamental principles remain unchanged, their application obviously will vary depending on the objectives and purposes of the particular engagement.

17. Which of these views do you support?

We support view (b) and recommend the IVSC work with IASB so that the disclosure and implementation requirements of the proposed new IFRS on “Fair Value Measurement” are reflected in IVS 201 and vice versa. A good starting point is the currently available “Staff Draft”.

ASSET STANDARDS

18. Do you have any other comments on the general structure of the Asset Standards?

We would hope that in the future, more information will be included on the various types of assets, notably intangible items.

18.(2) Do you consider that a class of “personal property” can be identified that is not already covered by the proposed new asset standards? If so, do you consider that it has distinct characteristics that need to be considered in valuations that would benefit from a new IVS asset standard being developed?

A class of personal property exists and should be included in the IVS.

19. Do you agree that a standard on valuing non financial liabilities is required and what topics should it cover?

We agree a standard on valuing liabilities both financial (loans, etc.) and physical (goods & services, warranties, remediation, pensions) is necessary. This should deal with their

different natures – financial (a payment), physical (an activity) and how they might be valued. The staff draft of the IFRS on Fair Value Measurement could be helpful.

20. Please identify any additional types of asset or liability that you believe should be considered for future inclusion in IVS, together with an indication of the benefits that you consider a new standard would bring.

As well as the integration into the glossary of all the definitions in various IFRS, we have the following additional comments.

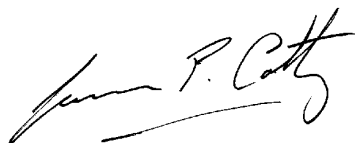
1. Page 16, para 4: we do not understand the phrase “where an all risks yield is applied...”
2. IVS 201.04, Impairment para 2 on page 52 vs. Recoverable Amount on page 54: I’m conjunction challenged. There is impairment when the carrying amount of the asset exceeds the greater of the amounts that can be recovered from EITHER its continued use OR a sale. We read this para to be the opposite of page 54 each other. For consistency, the statement should be the same on both pages.
3. Page 74, para 14: A cost approach can be used to establish a floor value for businesses that are not generating a reasonable return on assets employed. Depending on the facts and circumstances involving a financially struggling business, it may be more appropriate than the income or market approaches. The cost approach should not be reserved only for early stage or start-up businesses. In fact, a PWERM or real option modeling/Monte Carlo simulation is often more appropriate for the startup or early stage business valuation.
4. Page 76, para 22: “However adequate information is often difficult to obtain” This statement should not apply to publicly traded shares, for which adequate information is readily available. The degree of comparability between the subject and the public comparable may be inadequate, but the information to make that determination is not .
5. Page 76, para 27: This paragraph indicates that the "actual" carrying value of interest bearing debt is deducted from the enterprise value to determine equity value. We believe this has been the generally accepted appraisal methodology in the past. With the downturn in the credit markets and economic conditions, there has been an increased need for the valuation of corporate debt, particularly of companies that are financially distressed. In addition, some appraisers are valuing corporate debt for purposes of calculating a residual value of equity. For a distressed entity, this normally results in a deep discount from the face value of the debt. Some practitioners believe that the market value of the debt should be deducted from invested capital in determining the equity value (FV Enterprise - FV Debt = FV Equity). In some circumstances, this exercise can result in significant value to equity, whereas deducting the carrying value of debt would result in a negative or negligible value of equity. Whether the discount on the debt should directly enhance the value of equity is subject to debate. Guidance on this matter would be much appreciated.
6. Page 78 para (i): This section describes a direct approach to valuing a minority interest. As an alternative, many valuers adopt an indirect or “top down” method.

This involves first determining the value of a 100% equity interest and then applying a lack of control discount to the proportionate interest. This method should be mentioned.

7. Page 83, para 18. The suggestion that income, direct-market and cost approaches can all be used in the valuation of each intangible asset is misleading. It should be revised to "may be used." As later explained, the excess earnings method is prevalent for the most critical intangible asset (page 87, para 39).
8. Page 83, para 20: While the auditors may require an estimate of the remaining useful life of an asset (to calculate amortization expense), we do not believe this figure is required to reach a value conclusion using each valuation approach. A cost approach generally does not require an estimated remaining useful life. Consider the valuation of assembled workforce (albeit included as part of goodwill).
9. Page 88, para 44. Under US GAAP, there is significant divergence concerning this position. An EITF includes an ambiguous series of calculations to determine whether the maximum tax benefit would be realized under a taxable vs. non-taxable transaction. However it extensively relies upon seller specific information such as the existing tax basis in the assets. The emphasis is not on the buyer's perspective. Additional guidance on the matter is appropriate.

Should you wish to discuss this matter further, a member of your staff may contact the writer in Toronto, at 1 416 865 9766.

Yours very truly,

A handwritten signature in black ink, appearing to read "James P. Catty". The signature is fluid and cursive, with a horizontal line underneath the name.

James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CFE
Chair