



Willamette Management Associates

8600 West Bryn Mawr Avenue, Suite 950-N
Chicago, Illinois 60631
773 • 399 • 4300/(Fax) 773 • 399 • 4310

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CommentLetters@ivsc.org
International Valuation Standards Board
41 Moorgate
London, EC2R 6PP
United Kingdom

Dear Sirs:

Thank you for your work in preparing the June 2010 “Exposure Draft Proposed New International Valuation Standards.” This letter responds to your request for comments.

Willamette Management Associates has been in the business of offering valuation opinions for over 40 years. Members of our staff have authored dozens of books and book chapters on the subject of business valuation. And, we have authored more than one thousand articles on various subjects regarding valuing businesses and business interests. Our employees have served as board members of professional organizations that promulgate valuation standards and as members of those organizations’ standards-setting committees. Each year our firm issues hundreds of valuation opinion reports. Many times each year, members of our staff provide expert witness testimony in defense of our valuation opinions.

We have a high degree of respect for the valuation profession and for professional valuation standards.

We have included brief answers to your specific questions and, in addition, we have provided additional, general recommendations.

BRIEF ANSWERS TO YOUR SPECIFIC QUESTIONS

1. The layout of the Proposed New International Valuation Standards (“IVS”) is more concise and easier to follow. The IVS could be even more concise and easier to follow. We recommend using a professional editor to accomplish that objective.
2. The Background Section is confusing and does not provide a context that is universally understandable.
3. The electronic version is the only version necessary.
4. The fundamental terminology is not comprehensive or consistent. We recommend using a professional editor to achieve this objective.
5. We recommend using the terms “valuation analysis” and “valuation opinion.”

6. We recognize only three *approaches* to value but many valuation analysis *methods*.
7. The hierarchy should be left to the valuation analyst's judgment. The valuation analyst's judgment should reflect the data that was available to generate the indication of value. However, the prices for identical assets that have changed hands between independent third parties in an organized exchange usually provide the most compelling evidence of value.
8. The "market approach" is an approach that is differentiated from the income approach and the asset approach even though all three approaches rely on data that has been generated in the marketplace. We recommend considering all three approaches before reaching a valuation opinion.
9. We recommend using the term "Standard of Value" rather than "Basis of Value." This is neither a principal nor an assumption. An assumption is a variable that may be changed (under a different assumption). The Standard of Value is a critical component of the definition of the scope of a valuation assignment. The Premise of Value is also a critical component of the definition of the valuation assignment and the IVS is silent when it comes to this component. The Premise of Value includes, for example, "going concern" and "forced liquidation." We recommend that the IVS include a standard on Premise of Value.
10. We do not recognize the distinction between "investment value" and "special value."
11. We understand "investment value" to mean the value of an asset to a particular buyer or seller or to a particular class of buyers or sellers based on their individual characteristics.
12. HABU is part of the definition of the premise on which the asset is being analyzed and should be included in the description of the valuation opinion.
13. The definition of "fair value" may be different for different purposes and the valuation analyst should cite the source of his or her definition. For example, "fair value" for financial statement reporting purposes pursuant to IAS16 is one definition of value. "Fair value" in the context of a specific statutory application may be defined differently than in IAS16 and has a different source.
14. The Standard of Value should be explicitly defined as part of the scope of the assignment.
15. Alternative reporting requirements are available and should be described as part of the IVS.
16. Alternative standards exist and may be described in the IVS in a section separate from the general section.
17. Valuation standards under IFRS are different and may be described in a separate section of the IVS.
18. (Note: there are two questions numbered 18) Separation of standards for some asset classes may be helpful. The standards selected for inclusion in the IVS, however, are confusing. For example, "Valuation of Historic Property" is not different from the valuation of real estate that is subject to specific conditions and regulations. However, the principles used to value historic property are not distinctive from the valuation of non-historic property. Therefore, this "standard" is not necessary. The benefits associated with a separate standard for valuing "Biological Assets", for example, are not obvious and, therefore, a separate standard is not necessary.
19. The benefits associated with a separate standard for valuing non-financial liabilities are not obvious and, therefore, a separate standard is not necessary.
20. At this time, we believe that the existing IVS should be substantially improved before any new standards are established.

GENERAL RECOMMENDATIONS

We have additional, general recommendations and we have included some examples which are meant only to put our general recommendations in context. This letter presents these general recommendations and does not include (1) an exhaustive list of our comments or (2) all of the examples that put our general recommendations in context.

Edit Using a Professional

The International Valuation Standards are designed to, among other things, “promote consistency and aid the understanding of valuations of all types by identifying or developing globally accepted principals and terminology...”¹

Our first recommendation is to engage a professional editor whose assignment is to ensure that the IVS are internally consistent² and understandable.³

In such an extensive document, errors in punctuation, syntax, terminology, etc. exist that may not be inconsequential.

Recognize Other Professional Valuation Standards

Valuation opinions are used for many purposes including, but certainly not limited to, financial statement reporting, regulatory compliance, and support of secured lending and transactional activity.⁴

The objective of the IVS is to provide a framework for the delivery of credible and consistent valuation opinions. The IVS are designed to promote the convergence of existing valuation standards that are in use in different sectors and states.

Our second recommendation is to include a list of the existing valuation standards that the IVS are designed to converge. This would assist the reader in (1) identifying the different perspectives and terminology that are being used in the IVS⁵ and (2) comprehending its terminology. We are aware of most

¹ Exposure Draft Introduction, page 5, paragraph 3.

² Consider, for example, that goodwill is widely recognized to be an intangible asset. However, the Exposure Draft Standard 301.02 page 79, is internally inconsistent when in paragraph 2 it states “An intangible asset is distinguishable from goodwill.” and in paragraph 5 the standard recognizes goodwill as any unidentifiable intangible asset.

³ Consider, for example, the lack of clarity in the Exposure Draft on page 6, paragraph 8: “To assist the legibility of these standards, the words asset or assets are deemed to include liability or liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded.”

⁴ Exposure Draft Introduction, page 5, paragraph 2.

⁵ For example, most professional valuation standards in use in the United States use a “standard” of value rather than a “basis” of value. And, your definition of “fair value” in the Exposure Draft, Standard 103, page 24, paragraphs 14 - 18, and “special value” in paragraphs 19 - 21, are not replicable, objective standards because fair value or special value could represent a different amount to each valuation analyst and to each person who is relying on the valuation

of the professional valuation standards that are promulgated in the United States and most of these standards have the same general objectives of the IVS (i.e., to promote market efficiency by reducing confusion). However, each set of standards seems to approach the development of professional valuation standards differently than the IVS development approach (and, in many cases, differently from each other). However, the use of terminology in other professional valuation standards of which we are aware, while different than the IVS terminology, is usually not as different from one set of professional standards to the next.⁶

Limit Applicability

Most professional valuation standards are limited to describing (1) the general principles that should be followed in the valuation process and (2) the best practices for reporting the valuation opinion. Professional valuation standards endeavor to be applicable in the most general situations with few exceptions. In many paragraphs, the IVS include a level of detail that limits its applicability.⁷ The valuation purposes for which the IVS apply and the valuation purposes for which the IVS do not apply should be defined. This may help reduce the potential for confusion among valuation analysts and users of valuation opinions.

We agree that individuals who consider professionally-prepared valuation opinions when making decisions are more likely to have confidence in the valuation opinion when it has been prepared in a manner consistent with prevailing professional valuation standards. In many paragraphs, for the most general audience, the IVS is too specific in describing valuation principles, and yet, when describing how valuation opinions should be reported the IVS is not specific enough.

Only generally recognized professional valuation principles should be included in a general set of professional valuation standards. As you know, there are too many acceptable permutations of valuation analyses and techniques to describe in one set of professional valuation standards. After all, many books on the subject of valuation have been published.

However, there are certain components of a professionally prepared valuation report that are generally expected of the reader of a valuation analysis. And, there is more than one standard for the extent to

opinion. Is “special value” always greater than “market value” as implied in paragraph 21 when it says “more attractive”?

⁶ Several examples make this point: In the Exposure Draft Standard 301.01, page 72, paragraph 1(c) “Redundant assets” is not the same as “non-operating assets” and cannot be considered a synonym. For purposes of professional standards, a “business” in the following paragraph 2 should be defined as a recognizable *legal* entity and not be defined as an activity. If the valuation assignment involves the valuation of an activity, the activity that is being valued should be carefully defined, as the paragraph recommends, but that doesn’t make the activity a business. IVS 303.04 addresses real property that is designed for a specific type of business, a situation that is usually addressed by real estate appraisers when analyzing the highest and best use of the property and without the need for a separate standard.

⁷ Consider for example: Exposure Draft, Valuation of Financial Instruments, page 125, paragraph 29 describes two perspectives to consider in making estimates of the probable income and the determination of the discount rate. “Depending upon the purpose of the valuation, these assumptions will need to reflect either those that would be made by market participants, or be based on the holder’s current expectation or targets.” In our experience, the assumptions regarding (1) the projected economic income stream and (2) the present value discount rate are interrelated and, depending on the purpose of the valuation assignment (e.g., bankruptcy, marital dissolution, economic damages), more than these two perspectives may be considered.

which the detail of that valuation analyses is expected to be reported. For instance, in some circumstances, the valuation opinion report is delivered orally and not in writing. Also, in some instances, it is generally acceptable for the valuation report to refer to certain analyses that are contained in the analyst's work papers but not produced in the written document. The audience for valuation reports prepared for other purposes may require that more detail be included in the written document. It is appropriate for the IVS to identify reporting standards and to set more than one valuation opinion reporting standard (e.g., oral, summary, complete).

The specific circumstances in which IVS should be or will be invoked is not specifically identified in the IVS. The IVS 200 Series contains valuation standards that appear to be applicable only for specific purposes such as when the valuation opinion is being prepared for international financial reporting purposes. The IVS may not be applicable for other assets and for other purposes. For example, it appears that many types of valuation analyses of real estate need not comply with the IVS.⁸

In any case, at this time, it appears that compliance with IVS is strictly voluntary and that IVS only applies when the analyst has voluntarily and expressly invoked IVS.⁹ There is no apparent reason to invoke IVS. There does not appear to be any penalty for failing to comply with the IVS once they have been invoked. Therefore, only after voluntarily invoking IVS and then failing to comply would it be necessary for a valuation analyst to explain any (intentional or inadvertent) departure from the IVS.¹⁰

When professional valuation standards exist but the context in which they apply is not understood, unintended consequences follow. For example, in our experience, an expert witness may be challenged as to whether his or her opinion has been prepared in accordance with professional valuation standards. In this setting, the professional standards should be understandable and unambiguous especially with respect to the use of words such as "duty", "must", "need", and "always". These words, in particular, should be used more carefully in the IVS because these words have strict meanings in certain settings, especially when interpreted in a court of law.

CONCLUSION

Thank you for the effort you have made to prepare the IVS. At your request, this letter describes our brief answers to your specific questions and our general recommendations.

In order to promote market efficiency and to reduce confusion, we ask that you consider the following general recommendations:

1. Employ a professional editor in order to improve the use of punctuation, syntax, terminology, etc.
2. In order to assist valuation analysts and the users of valuation opinions, recognize (preferably, by name) that other professional valuation standards exist, and

⁸ The tangible assets addressed by the IVS are plant and equipment which are assets that "are normally capable of being moved or relocated without significant damage or disruption to the land or buildings..." Exposure Draft Standard 302.01, page 90, paragraph 3.

⁹ When would the IVS be "effective" when invoking or "adopting" the IVS is voluntary? Most of the individual IVS Standards conclude with Effective Date: "This standard is effective from ## ## 2011, although earlier adoption is encouraged."

¹⁰ It is not clear why an analyst would voluntarily invoke a standard from which he or she is departing (as is described in Exposure Draft Introduction, page 5, paragraph 5).

3. Limit the applicability of the IVS to the purposes for which you intend for them to apply.

Thank you for the opportunity to present these general recommendations.

Very Truly Yours,

A handwritten signature in blue ink that reads "Robert P. Schweih". The signature is written in a cursive style with a large initial "R".

Robert P. Schweih
Managing Director