

September 2, 2010

Ms. Marianne Tissier
International Valuation Standards Board
41 Moorgate
London EC2R 6PP, United Kingdom

Dear Ms. Tissier:

The attached file contains the comments which we have accumulated from Managing Directors of American Appraisal regarding the International Valuation Standards Council's exposure draft entitled **Proposed New International Valuation Standards**. We feel these comments are important to the process of developing the most comprehensive and useful set of standards possible.

Of particular concern to us are the numerous terms being used to describe various bases of value in Standard 103 Bases of Value and in the Glossary. We believe that the terms "Fair Value" (as defined by the FASB and by the IASB for financial reporting purposes), "Fair Market Value" (as defined in U.S. Federal Income Tax literature), and "Market Value" (as defined in this Exposure Draft) are essentially equivalent, as they all imply prices obtainable in the marketplace based on market participant assumptions. Similarly, we believe that the terms "Fair Value" (as defined in this Exposure Draft), "Investment Value" (as defined in this Exposure Draft), "Special Value" (as defined in this Exposure Draft), and "Synergistic Value" (as defined in this Exposure Draft) are essentially equivalent, as they all imply value to a specific owner or to a specific buyer. In summary, the Standards can be simplified by distinguishing between an arm's length basis of value, and a basis of value to a particular owner or buyer.

As a firm, we will also support the process of finalizing this document by having senior staff members of our firm attend the Round Tables now scheduled for New York, Hong Kong and London.

Thank you in advance for considering these comments as you finalize this very important document.

Yours sincerely,

A handwritten signature in black ink that reads "American Appraisal" in a cursive, flowing script.

American Appraisal

Attachment to Comment Letter 38, American Appraisal International Valuation Standards

p. 12 Paragraphs 13 and 14 address “market participants” which is a term of art in the FASB’s ASC Topic 820, Fair Value Measurements. It is also used in the IASB’s Exposure Draft on Fair Value Measurement. It is similar to the concept of “willing buyer / willing seller” which is the term used by the IRS for tax-related valuations. We suggest that the concepts of “market participants” and “willing buyer/willing seller” be discussed more fully, and contrasted and compared.

p. 20 Paragraph 3(a): The basis of value discussed here (Market value) seems equivalent to fair value (as defined in the FASB and IASB guidance), as well as fair market value (as defined by the Internal Revenue Service for tax reporting purposes in the United States). These terms should be discussed and compared at this point, and any differences among them should be identified.

Paragraph 3(c): The basis of value discussed here is clearly different from “fair value” as defined by the FASB or the IASB for financial reporting purposes. It is also different from “fair value” as developed under state law in the United States in dissident shareholder suits. Although this basis of value is discussed more fully in paragraphs 14 through 18, it needs further clarification as it has elements of investment value in addition to market value.

Paragraph 6: The definition of market value is substantially the same as the definition of fair market value in US tax literature. It also seems equivalent to the definition of fair value in the FASB and IASB guidance. These terms should be discussed and compared at this point, and any differences among them should be identified.

p. 24 Paragraphs 14 through 18: This definition and discussion of fair value is clearly different from the concept of “fair value” for financial reporting purposes, as well the concept of “fair value” under state law in the United States in dissident shareholder suits. And since it represents the price specific identified parties would pay to transfer an asset, it has elements of investment value, as well as “special value” and “synergistic value.”

Paragraph 19: The definition of “special value” is closely related to the definition of “investment value.” If there is truly a difference, it needs to be discussed more fully and differences between the two terms needs to be demonstrated with examples.

In summary, the Standards seem to over-complicate an issue that can be simplified in the following way: distinguish between an arm’s length basis of value, and a basis of value to a particular owner. The arm’s length basis is equivalent to fair value (for financial reporting purposes), to fair market value (for tax purposes, at least in the US), and to market value (as defined in this document). The basis of value to a particular owner is equivalent to investment value, special value (as defined in this document) and/or synergistic value. But the term “fair value” defined in this way is confusing, and distinguishing it from investment value, special value and synergistic value will be operationally difficult, if not impossible.

p. 27 International Valuation Standard 104 Scope of Work

Paragraph 2. (a) on page 64 in Standard 202.01 Valuations of Property Interests for Secured Lending, contains the following language:

“Lenders normally require a valuation that is independent of the borrower. The scope of work should include disclosures of any material involvement that the valuer has with either the property to be valued, the borrower or a prospective borrower.”

Per the recent changes to USPAP on disclosure, this requirement should apply to any valuation engagement. We suggest that language similar to paragraph 2. (a) in Standard 202.01 be included in Standard 104, as well as Standard 105 and the entire IVS 201 series of Standards.

p. 40 Paragraph 14: The basis of value for financial reporting purposes is best defined in this document as “market value.” If an appraiser is using the cost approach to estimate market value, he should determine the replacement cost new of the asset, and reduce it by physical depreciation, functional obsolescence, and economic obsolescence. An economic analysis must be performed and considered in the market value conclusion. Furthermore, the use of the term “impaired asset” confuses the issue. An asset is impaired if its fair value (as defined by the IASB and FASB) is less than its book value. An asset is subject to economic obsolescence if the earnings do not support its current replacement cost new less physical depreciation and functional obsolescence.

p. 42 Valuations for Depreciation

Paragraph 5: If land and a building are purchased in a single transaction, the price paid must be allocated for financial reporting purposes and for tax purposes between the non-depreciable portion (land) and the depreciable portion (building) based on their relative fair (or market) values. The combined price, less the market value of the land, is one indication of the market value of the building. But the market value of the building determined in this way should be validated through a cost or income approach. And it may be necessary to allocate the price paid between the land and building based on their relative market values. But the market value of the land at any point in time should not be deducted from the carrying (or book) value of the combined property to estimate the market value of the building at that time.

p. 47 Lease Accounting

Paragraph 5: The statement “The classification test depends on the substance rather than the form of the contract” is misleading. A criticism of the current lease accounting rules is that they put form over substance, and can obscure the substance of the transaction.

Paragraph 6: The intent of this paragraph is confusing. The client typically has a desire to classify a lease as an operating lease or a finance lease, and the lease is written to meet this need. Any analysis of residual value, economic useful life, market rent, etc. performed by an appraiser is used to support the desired treatment. But the client is ultimately responsible for defending the treatment, and is not relying on an appraiser, or accountant, to determine the classification.

p. 74 Valuations of Businesses and Business Interests

Paragraph 7 is unclear. The value on a given date reflects current ownership, and not future ownership. But current fair value reflects future benefits. The paragraph needs to be re-written.

Paragraph 10 seems unnecessary. We are not valuing separate assets, but the interest in the business.

Paragraphs 14 and 15 could be clearer. They should first address the difference between operating companies, and real estate and investment holding companies. Then the valuation approaches for each can be discussed: Market and Income for operating companies, and NAV for holding companies. The Cost approach is limited to early-stage start-ups.

Paragraph 27 fails to address an important issue: is the enterprise value reduced by the book value of the debt, or the fair value of the debt?

Paragraph 29 (c): the only assets on the balance sheet which need to be adjusted from carrying value to fair value would be non-operating assets. The BEV would capture the total value of the operating assets.

p. 79 Valuations of Intangible Assets

Paragraph 2 should be eliminated. The definition of goodwill in paragraphs 14 – 16 is much more complete.

Paragraph 4: It should be made clear that the two criteria which determine whether an intangible is identifiable come from the FASB and IASB statements on Business Combinations. There could be other criteria in tax or valuation literature which differ.

Paragraph 5 should be eliminated. All discussion of goodwill should be added to paragraphs 14 – 16.

p. 100 Valuations of Property Interests

Paragraph 19: We do not agree that the discount rate used in an income approach is adjusted by the rate at which a building will depreciate. An income approach typically includes specific annual cash flows for a defined period (5 years) and a terminal value calculation to account for all subsequent cash flows. These cash flows are reduced by the annual CAPEX needed to keep the building in its current condition. Alternatively, cash flows are projected over the remaining life of the property, and discounted to present value. But the rate of depreciation in either model does not affect the appropriate discount rate.

Glossary of Terms for the International Valuation Standards

Cost approach and Direct market comparison approach: the definitions provided in the Glossary make it difficult to understand the differences between the Cost and Market approaches. We suggest that the Cost approach be defined asthe cost to construct an asset of equal utility, and the Market approach be defined as.....the price to acquire a similar asset. Also, the term used should be “Market approach.” There is no need to redefine the approach as the “Direct market comparison approach.”

Depreciated replacement cost: the traditional definition of depreciated replacement cost refers to current replacement cost new, less physical deterioration, functional obsolescence, and economic obsolescence, which is more complete than the definition provided in the Glossary.

We are troubled by the definitions of the terms Fair value, Investment value, Special value, and Synergistic value in the Glossary, as the definitions all imply value to a specific owner or buyer, rather than to market participants or willing buyers/willing sellers. As discussed above, we believe that the terms Fair Value (as defined by the FASB and IASB for financial reporting purposes), Fair Market Value (as defined in US tax literature), and Market Value (as defined in the Exposure Draft) are essentially equivalent, as they all imply prices obtainable in the general market based on market participant assumptions. A single distinction could be made between these terms and value to a specific owner or buyer, which could be labeled Investment value. "Special value" and "Synergistic value" are redundant, and Fair value is misleading.

Real estate and Real property: both terms include surface rights and mineral rights. If this is intended, it should be expanded to include rights to underlying minerals and petroleum, water rights and air rights, and these concepts should be discussed more fully. Alternatively, Real estate and Real property should be limited to surface rights, as mineral and petroleum rights, water rights and air rights can be owned and sold separately from surface rights.