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

September 3, 2010

Reference: Exposure Draft: *Proposed New International Valuation Standards*

Duff & Phelps appreciates the opportunity to provide comments on the above referenced exposure draft and the associated questions raised by the Board. Our responses to the questions for comment and our additional observations are in the attached document.

We would be pleased to further discuss our comments with the International Valuation Standards Board and staff. Please direct any questions to Paul Barnes in our Philadelphia office at (215) 430-6025.

Sincerely,
/s/ Paul F. Barnes
Managing Director
Global Leader - Office of Professional Practice

Duff & Phelps Corporation (NYSE: DUF) is a leading independent valuation consultancy and financial advisory firm

IVSC

September 3, 2010

Response to Exposure Draft: Proposed
New International Valuation Standards

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Overview

As a valuation advisor to many of the world's largest global and domestic companies that prepare financial statements under U.S. generally accepted accounting principles or international financial reporting standards, Duff & Phelps is keenly aware of the differences of opinion as to how valuation principles should be interpreted and applied in a variety of contexts. We appreciate the efforts of the International Valuation Standards Board (IVSB) to address this diversity through the development of the Proposed New International Valuation Standards (Proposed Standards).

Duff & Phelps has made significant direct contributions of resources, thought and insight to a number of organizations, in addition to the IVSB, that have recognized the need to address the diversity of practice in valuation, including:

- FASB Valuation Resource Group;
- The International Private Equity and Venture Capital Valuation Board;
- The Appraisal Foundation Task Force (Steering Committee) on Best Practices for Valuations in Financial Reporting;
- The Appraisal Foundation Intangible Asset Working Group – Contributory Assets;
- AICPA Impairment task force.

Our participation on these working groups and task forces has given us a full appreciation of the challenges inherent in evaluating diverse views on a variety of valuation topics. The efforts of these and other working groups have been, and will continue to be, significant. They are not, however, given any specific recognition in the Proposed Standards. We suggest that the IVSB consider as a goal not the preparation of a new set of valuation standards but to leverage off of the investment and efforts of others to assemble a global set of best practices in addition to embarking on specific complementary working groups to address other pertinent specific issues.

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Following are our responses to the IVSB's specific questions.

Responses to Specific Questions

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

Duff & Phelps response: While we do find the structure logical and easy to follow the standards seem too broad to be operable. The 100 Series of “standards” may be better described as “general valuation principles and common terminology” rather than “standards”. There is a need for a general and uniform set of best practices valuation guidelines or principles that spans various applications and the 100 series does begin to address that need. Generally, we prefer the prior distinction among standards, applications and guidance as assimilating them all into one group of standards seems to imply that the same level of discipline is appropriate for all of the categories.

The IVSB should consider whether the “standards” should be limited to the 100 Series and potentially add an overview chart to highlight how the general guidelines interact with and relate to specific applications and assets. A well-designed graphic or table (or perhaps an interactive page on the IVSC website) would benefit parties who may rely on valuations by providing a concise summary of the issues.

Question 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?*

Duff & Phelps response: Combining the background information and specific direction has resulted in somewhat general statements, similar to summary valuation guides, which are put forth in the context of a proposed standard. These valuation issues are complicated and require significant thought and experience to address. By including a limited amount of background information, the proposed application standards lose their effectiveness and may cause more confusion by giving the reader the impression that complying with the standards is somewhat straightforward.

Question 3: *Which delivery method for the new edition of the standards are you or your organization likely to use?*

Duff & Phelps response: Availability to download is clearly preferred. It will likely achieve wider readership and also allows the user to research specific issues efficiently.

General Questions

IVS 101- General Concepts and Principles

Question 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?*

Duff & Phelps response: This section appears to be a high level compilation of concepts from various sources without an underlying framework which may therefore severely limit its usefulness in practice even from a conceptual point of view.

The stated objective is to make the general concepts and principles accessible not only to valuation practitioners but also to their clients and any third parties who may rely on valuations and to promote a wider understanding of good practice. Therefore, the document would benefit from a simplification and clarification of certain discussions¹.

Question 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”?*

Duff & Phelps response: The use of the term valuation as describing either a process or a result does not currently present any issues. However, this may not be the case if (or when) this document is translated into other languages. If it is the intent of the IVSB to provide various language versions, then the multiple use of the term valuation should be evaluated in each language as appropriate.

Other comments on IVS 101:

- **Price** is not always factual. For example, in the context of financial reporting (IFRS or U.S. GAAP), price (exit price) can be hypothetical.
- It may be helpful to clarify that the concept of **cost** is not limited to just out-of-pocket costs, but that it is a broader economic concept which may include profit and opportunity costs, as appropriate.

¹ For example, the explanation of the fundamental concept of “value” in paragraph 3 does not seem to meet the objective of increased accessibility or understandability:

“Value is not a fact but an estimate of the likely price to be paid for goods and services in an exchange or a measure of the economic benefits of owning those goods or services. Value in exchange is a hypothetical price and the hypothesis on which the value is estimated is determined by the valuation objective. The value to the owner is an estimate of the benefits that would accrue to a particular owner or beneficiary of the goods or services.”

- It is not clear if a **market** can be hypothetical; we believe that it can be (i.e. assets or liabilities that do not trade are transacted in hypothetical markets).
- **Markets participants.** We question whether any views attributed to market participants are always “typical of those of the majority of buyers and sellers”.
- It is unclear what “**material date**” refers to. Is it the valuation date?

IVS 102- Valuation Approaches

Question 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.*

Duff & Phelps response: While some may consider the Real Options and Underlying Assets (Net Assets) approaches as subsets of the cost, market or income approaches, these are also common methods utilized in valuation. Consideration should be given to a specific discussion of these or at least a mention of them in the standard. Similarly, there should be a mention that these main approaches have many *variations* when applied to specific assets (e.g. a relief from royalty approach or a MPEEM in valuing intangibles, or for specific valuation *objectives* (e.g. a replacement cost approach for fair value for financial reporting, and a reproduction cost approach for insurance purposes).

Question 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.*

Duff & Phelps response: The hierarchy is reasonable and reflects the common practice of relying on relevant transaction data when it is available. However, the related discussion should be better balanced to address issues with the use of transaction data, such as those related to lack comparability, which may not be easily quantifiable, and the use of prices from markets that are not active.

Further, we recommend expanding the discussion to address factors that might be considered in determining which of the approaches should be more heavily weighted in different situations. In other words, address circumstances under which the income or cost approach may be preferable over the transaction approach.

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

Duff & Phelps response: The term “Direct Market Comparison Approach” infers that a market transaction for the specific asset or a directly comparable asset has occurred and data is available. We believe that the use of a broader term such as “Guideline Market Transaction Approach” might be less prescriptive and allow for a greater use of judgment.

Other comments on IVS 102:

- We believe the discussion should cross reference and be consistent with other portions of the document, as appropriate. For example, under the income approach the discount rate is described by the term *yield* while elsewhere it is referred to as the *Weighted Average Cost of Capital*.
- The discussion of the income approach should be made more robust with respect to cash flows and discount rates used. For example, the approach referred to an “income capitalization” using an “all risks yield” presumably refers to the approach in which the discount rate embodies all adjustments for risk which are applied to set or contractual or promised cash flows. By contrast, what the document refers to as “discounted cash flow” presumably refers to a situation in which the adjustments for risk are captured in the cash flows, or in the discount rate, or in both. This discussion should be significantly enhanced.
- Further, we encourage that significant thought be given to the terminology used, such that no new terminology is created in the valuation space, but rather that existing terminology is used, clarified and reconciled, when necessary. For example, applying an “all risks yield” to a fixed income stream is also a form of a discounted cash flow. Therefore the term “discounted cash flow” cannot be referred to with the meaning used in the document currently without creating confusion.
- We note the reference to “factual”, “observable” and “actual” inputs. If they all refer to the same type of inputs, the use of the terms should be conformed.

IVS 103 – Bases of Value

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

Duff & Phelps response: As a goal of these standards is to promote a wider understanding of good practice, it may be most straightforward to define it as the “Purpose of the Valuation” (or a similar phrase), in other words, why the valuation is being performed. Using either of the terms “fundamental measurement assumptions of a valuation” and “fundamental measurement principles of a valuation” seems to detract from the desired transparency to the process.

Question 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?*

Duff & Phelps response: If the Board’s intent was to amend the definition so that it only reflects the value to the owner, not the value to prospective purchasers, it is not clear why paragraph 12 reads as follows:

“Investment value is the value of an asset to the owner or a prospective owner.”

In general we agree with the distinction between the current owner versus a prospective purchaser. However, we do have some specific observations with regard to the two types of value as defined.

- Investment value: May be enhanced with additional discussion as to whether the specific benefit could be transferred to a market participant. This may be indirectly reflected in the discussion but an explicit statement would serve to highlight the issue.
- Investment value: As written, it could be interpreted to mean that a specific piece of equipment could be worth more based on a specific use when in reality the value is created in another intangible asset. We suggest clarifying the discussion to avoid such an interpretation.
- Special Value: Paragraph 22 infers that all synergies are attributes of a special purchaser. Market participant synergies do in fact exist and could be included with any elements of synergies specific to the purchaser.
- Special Value: Paragraph 23 leads the reader to believe, by including it in this section, that all synergies created by combining two or more interests are by default a portion of the Special Value. It could be argued that the concept of synergies applies under

other bases of value as well. This should be clarified or discussed elsewhere. Further, no distinction is made between market participant and buyer-specific synergies.

Question 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?*

Duff & Phelps response: We also believe that the term “Investment Value” is too broad and subject to a variety of interpretations. “Entity Specific Value” is much more definitive and preferable in our view. Another more refined term that might be considered is “Entity Specific Investment Value”.

Question 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.*

Duff & Phelps response: We agree with the approach.

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

Duff & Phelps response: The proposed use of parallel definitions of fair value will likely confuse users further. For example, we find that the definition of fair value as one including specific advantages or disadvantages of the parties lack clarity given that the fair value definition under IFRS specifically excludes such influences. Fair value has been clearly defined in accounting standards (both international and in the U.S.) and there is broad use of this term internationally. It would be much preferable to maintain the definition of fair value in IFRS and modify the other terms accordingly. Even though a statement is made later in this IVS (in paragraph 4) that other documents and regulations apply the measurement bases differently, it would be helpful to know in what specific contexts is fair value as defined above in IVS used. The IVSB should strive for broad acceptance and use of these Proposed Standards. Assimilating widely used terms such as the IFRS definition of fair value, rather than proposing alternative definitions would certainly contribute to that desired goal.

Other comments on IVS 103:

- It is not clear if the bases of value discussed in this IVS only relate to standalone value or if they may include synergistic value as well.
- The discussion of **market value** should also address transportation costs.

IVS 104 - Scope of Work

Question 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.

Duff & Phelps response: Including the scope of work is an important element of a standard.

We note that the AICPA issued a Statement on Standards for Valuation Services in 2007. This document, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* addresses a number of issues with regard to the scope of work. It is our view that the IVSB should attempt to incorporate these standards into the IVS where appropriate. A consistent message across organizations with regard to the scope of work would be beneficial.

IVS 105 – Valuation Reporting

Question 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.*

Duff & Phelps response: See reference to AICPA document above.

Application Standards

Question 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?*

Duff & Phelps response: The preparation of Valuation Standards to interpret Accounting Standards is a very challenging undertaking and cannot be produced on a high level. A valuation prepared for the purpose of financial reporting requires a deep understanding of the issues and subtleties inherent in the application of the accounting standards. By providing abbreviated overviews, high level recaps and broad interpretations of the respective application standards it creates somewhat of a false sense of security that a valuation properly reflects the specific application if prepared in accordance with the respective Application Standard.

Further, the Accounting Standards are complex and subject to ongoing revisions. Therefore attempts to summarize the respective applications will invariably lead to statements such as in paragraph 12:

“It would not normally be appropriate for a valuation prepared for inclusion in a financial statement to be made on the basis of a special assumption.”

This statement contradicts the notion Value in Use in impairment testing.

In addition, statements such as the following require a specific accounting interpretation that is generally outside of the scope of a valuation assignment:

“It may also be necessary to identify the appropriate unit of account for valuation purposes as provided by the relevant IFRS standard.”

To the extent that the IVSB issues guidance on the application of specific accounting standards, we believe that such guidance should take the limited form of guidance rather than be considered an Application Standard. In addition, as the issues are varied and complex, they might each require specific attention and may best be addressed through individual working groups or task forces to evaluate and recommend best practice guidance.

Question 17: *Which of these views do you support?*

Duff & Phelps response: As stated in previous responses we believe that the use of IFRS definition of fair value is critical to the broad acceptance of these Proposed Standards. Therefore, View (a) of not referring at all to IFRS would be counterproductive. Furthermore, we do not believe that Application Standards should be presented as espoused in View (b). A consistent use of the IFRS definition of fair value combined with guidance rather than standards would in our opinion provide the best presentation.

Other comments on Application Standards:

- The aggregation discussion in IVS 201.01 should also address unit of valuation, not just unit of account. This is an example of how the interpretation provided is insufficient for the proper application of the related IFRS standards.
- We find that some of the interpretative guidance provided may not be properly stated (e.g., IVS 201.01, 12 (i))
- The use of valuation approaches may be too prescriptive at times (e.g., IVS 201.04, 15)

Asset Standards

Question 18: *Do you have any other comments on the general structure of the Asset Standards?*

Duff & Phelps response: Again, we believe they are best left as guidance notes rather than defined as standards.

Question 18: *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?*

Duff & Phelps response: The valuation of personal property has a number of specific and unique attributes and characteristics that are applicable to each of the specific types of property. For example, if the issue of the nature, types and applications of depreciation curves were addressed in a Guidance Note that would be quite beneficial. Prior to developing an outline for such a Guidance Note we suggest that the IVSB seek input from the valuation community as to which specific issues have contributed to diversity in practice.

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

Duff & Phelps response: While such guidance would be helpful, we would not consider it to have the highest priority. See the response to the following question.

Question 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.*

Duff & Phelps response: As stated in the overview, there are a number of significant efforts underway by various organizations to address the issue of standardization in the valuation industry. The IVSC’s goal of preparing a broad an accepted set of standards across the varied topics contained in the Proposed Standards within a short time frame seems to be somewhat ambitious. Perhaps if the Proposed Standards were limited to the 100 Series with a specific focus on aligning them with other standards that have been developed (e.g., AICPA), broad acceptance may be more likely. Further, rather than creating a comprehensive series of Guidance Notes we suggest reviewing and adopting the efforts of others and embarking on specific complementary working groups to address other pertinent issues.

Other comments on Asset Standards:

- IVS 301.02 - Although this standard seems to be focused on intangible assets in general (across many contexts), the criteria for identifying intangible assets are actually those used in financial reporting or tax. Other valuations may not be constrained by such recognition criteria.
- IVS 301.02 - The discussion of the excess earnings method should make reference to and incorporate The Appraisal Foundation's best practices monograph "*The Identification of Contributory Assets and Calculation of Economic Rents*".
- IVS 301.02 - The Cost approach discussion should specify if the costs should be analyzed on a pre-tax or after-tax basis, and should address related adjustments such as developer's profit and opportunity cost. This is a potential topic for a unique issue that could be the subject of an IVSB working group.
- IVS 301.02 - The TAB discussion should address circumstances in which the TAB is appropriate, and conversely, not appropriate, and should also discuss the types of assumptions that go in its calculation, whether based on actual or hypothetical circumstances.
- IVS 304.01 – It is not clear in what context the financial instruments are valued. For example, the discussion of credit risk ignores the notion of unit of account in financial reporting and whether credit enhancements should in fact be reflected in the valuation of the financial instrument, or if they should be broken out separately. Also, the perspective used in the valuation (holder of the asset or obligor for a liability) also deserves some discussion. As such, the standard touches upon generalities and may not be useful from a practical standpoint.