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International Valuation Standards Board
12 Great George Street
Parliament Square,
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Our ref **MT/288**
Contact **Mary Tokar**

8 September 2010

Dear Sir

Exposure Draft: Proposed New International Valuation Standards

We appreciate the opportunity to comment on the Exposure Draft *Proposed New International Valuation Standards* (the “ED”) issued by the International Valuation Standards Board (“IVSB” or the “Board”). The following response expresses the views of the international network of KPMG member firms, including its Global Valuation Committee. We have set out responses to the questions raised in the ED in Appendix 1 as well as other comments related to specific elements of the ED in Appendix 2. We offer general comments on the ED below.

Objectives of International Valuation Standards

We support the International Valuation Standards Council’s (the “IVSC”) efforts to provide standards and guidance to improve the quality and reliability of valuations. The IVSC has set out ambitious objectives for International Valuation Standards (“IVS”) and other material it or its subsidiary boards propose to issue. It has positioned IVS to be at the centre of efforts to achieve high quality valuations, supporting the public interest in financial reporting and capital markets, bank lending, etc. To achieve these objectives, the IVSC’s Critical Review Group identified a number of different publications to be considered including the IVS, a model code of conduct, educational and explanatory material and real life or “how to” examples of best practices, technical papers and discussion papers (collectively referred to as “IVSC’s Material”).

We recognize that the proposed standards address some of the factors relevant to valuations, especially scope of work, bases of value and valuation reporting issues. We acknowledge that IVSs will be useful, particularly in those jurisdictions where professional valuation associations do not exist.

We believe that the IVSC needs to accelerate its efforts to release a comprehensive range of material that will achieve its goals of standards that provide “consistency and comparability of valuations” and that “provide a consistent valuation approach in similar circumstances”.¹ We do not believe that the ED, as a standalone document, will achieve these objectives and must therefore be considered as part of the longer term plan for the generation of more comprehensive material.

Level of proposed standards, professional judgement

The proposed standards in the ED are at a high level and do not deal comprehensively with application issues encountered in practice. Although we are supporters of principles based valuation standards, the principles in the ED are articulated at such a high level that a very diverse range of practices may be compliant with IVS. For example, the standards do not provide a framework for how application issues encountered in practice should be addressed, so different valuation professionals are likely to adopt different approaches. As a result, we do not believe that the proposed IVS will necessarily lead to improved consistency or quality of valuation conclusions. Moreover, as these standards may confer approval on a wide range of practices rather than guiding practice to a high quality and consistent application of principles, we are concerned that users of such valuations or users of financial statements that refer to such valuations may place excess reliance on a statement of compliance with IVS.

We understand that valuations involve the exercise of professional judgement and that high quality application guidance should not prevent a valuation professional from applying appropriate judgement. We believe that the IVSC’s objective of improving the quality and consistency of valuations will not be met by the proposed IVS. As such to achieve this objective we believe more comprehensive guidance should be issued as part of the IVSC’s Material.

More specific guidance in the future

In the short term, the Board may conclude that it is preferable to release high level standards to be followed by the release of other and more specific material. We believe that it is the latter more comprehensive guidance that will be most influential in improving the quality of valuations and reducing diversity in practice and needs to be a key focus if the IVSC is to achieve its objectives.

In this regard, we understand that the International Valuation Professional Board (“IVPB”) proposes to issue guidance, called Technical Information Papers (“TIPs”), addressing specific technical topics not limited to financial reporting matters. The utility and influence of TIPs will be determined by whether they improve the quality and reliability of valuations. In our view, the timely release of comprehensive, influential material will determine whether the IVSC succeeds in meeting its objectives. Given the proposed importance of guidance material in influencing valuation practices, it is important that they be developed with appropriate due process.

¹ References are to the Report of the Critical Review Group published by the IVSC in June 2007.

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We also suggest that the IVSC reconsider the level of authority it proposes to apply to application guidance. While we believe that high quality guidance can achieve quasi-authority through professional recognition of the quality of such material, an ability to state that a valuation was prepared in accordance with IVS despite not complying with high quality application guidance is troubling and would not achieve the objective of improving the reliability of valuation reports.

Application and asset standards

We acknowledge that the application and asset standards describe common purposes for which valuations are required and relate these back to the IVS general standards. However, we do not believe that the application and asset standards address the selected subject matter to a degree that would influence valuers' practices. For example, we do not believe that the proposed standard on the valuation of financial instruments provides a comprehensive principles-based framework for the valuation of such assets and liabilities. If retained, the application and asset standards would benefit from references to more comprehensive guidance. Examples of valuation guidance that have influenced and improved valuation practices are the practice aids issued by the American Institute of Certified Public Accountants (AICPA) on the valuation of in-process research and development and the guidance on contributory asset charges issued by The Appraisal Foundation. These describe best practices in addressing complex valuation questions and provide clear argument and articulation of the basis for positions adopted.

Other matters

We believe that the use of different terms in IVS and material issued by other bodies is confusing for users. For example, the direct market comparison approach is termed the market approach in valuation standards and guidance issued by bodies such as the AICPA and The Appraisal Foundation and in the International Accounting Standards Board's (IASB's) exposure draft on fair value measurements. Similarly, differences in the basis of value between fair value for financial reporting purposes and fair value under IVS are likely to be confusing for users.

References to accounting requirements in IVS are limited to international financial reporting standards. There are a number of other accounting standards, e.g., US generally accepted accounting principles (US GAAP), which are not referenced in IVS. The IVSB's view of the applicability of IVS to valuations performed in the context of other accounting standards is unclear.

As stated in prior comment letters on other IVSC projects, in our view, IVSC should revisit its approach of preparing standards and guidance addressed to both valuers and users of their services. We believe that the IVSC's guidance and standards should be directed to valuation professionals, with outreach to users accomplished by issuing supplementary educational and explanatory material. We also note that clear, well written material standards/guidance that articulate the reasons for conclusions and link principles to underlying valuation concepts should help inform users of valuation services.



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Please contact Patrick Coady, at +1 613 212 2841 or Mary Tokar, Julie Santoro or Jim Calvert at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours faithfully

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Appendix 1

Revised International Valuation Guidance Note No. 4 — Valuation of Intangible Assets

Question 1

The proposed new edition of IVS follows the recommendations of the Critical Review that was commissioned by the old IVSC in 2007. Among the key recommendations of this review was that in future editions of the standards the term “International Valuation Standards” should apply to all pronouncements, not just to a limited number, and that all pronouncements should carry equal weight. In this draft the previous distinction between “standards”, “applications” and “guidance” in the titles of various documents has been removed. However, the Board recognises that standards still fall into different categories and has identified these as General Standards, Application Standards and Asset Standards, and grouped these together.

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

Pending a broader re-evaluation of the authority of materials it releases, as discussed in our cover letter, we believe that having these three categories of Standards is acceptable. However, we note that the material in the application and assets standards are mainly background in nature and they provide limited incremental requirements.

We accept that the Board may conclude that the version of IVS under revision should limit the term “standards” to high level material intended to apply across all valuations. However, we believe that the IVSC should now focus on producing more comprehensive guidance to improve the consistency and quality of valuations.

We understand that under the Board’s current plan for standards such guidance may not be formally authoritative, i.e., it would fall outside formal valuation standards. However, if supported by well articulated principles linked to underlying valuation concepts, such guidance would achieve widespread acceptance from valuers.

As stated in our cover letter, we suggest that the IVSC reconsider the level of authority it proposes to apply to application guidance. While we believe that high quality guidance can achieve quasi-authority through professional recognition of the quality of such material, an ability to state that a valuation was prepared in accordance with IVS despite not complying with high quality application guidance is troubling and would not achieve the objective of improving the reliability of valuation reports.

Question 2

The Application Standards contain some information on the background to the valuation requirement and the Asset Standards information on the asset type in question and the characteristics affecting value. They also identify particular actions that should be taken in order to apply the principles in the General Standards to the particular valuation purpose or when valuing the particular type of asset.

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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 believe that there may be some incremental benefit to valuers in understanding the context to some of the circumstances in which valuations are prepared. However, we note that much of the materials in the Applications Standard are background in nature, are of limited informational benefit and generally do not give rise to a requirement or standard to be followed.

The incremental requirements in the Application and Asset Standards deal with scope of work and valuation reporting issues. Given the short length of these sections, the incremental benefit in terms of standards is limited.

As stated in our cover letter, we believe that comprehensive guidance is required to improve the quality and consistency of valuations. We do not believe that the asset or application standards are sufficiently comprehensive to provide such guidance, the timely release of which should be a key focus for the IVSC.

Question 3

It is currently proposed that the final version of the Standards will be published both in hard copy and be available for downloading from the IVSC website.

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

We can use electronic copies.

IVS 101- GENERAL CONCEPTS AND PRINCIPLES

Question 4

This Standard is intended to explain fundamental concepts and principles that are referred to throughout the remainder of the standards to assist in their application. Some of the material has been carried forward from previous editions of IVS and some new concepts have been introduced, for example the discussions on market activity and market participants.

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?

We note that the IVS discussion on market activity is limited, e.g., there are two paragraphs on market activity in IVS 101. We note that the exposure drafts on fair value measurement from the IASB and the FASB are expected to address this topic more comprehensively. Experience suggests that entities were unclear on what constituted an active or an inactive market, and greater guidance was required to be operational in practice and that in the absence of such guidance, diversity and inconsistency would occur in practice. Other topics considered in accounting standards not addressed in the IASB and FASB EDs are principal versus most

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advantageous market, bid-ask spreads, etc. The Board may wish to consider incorporating some of the principles in the IAS/FASB guidance.

Question 5

As indicated in paragraph 4, the word valuation can be used with two distinct meanings. Where the word is used in the Exposure Draft the Board believes that it is generally clear from the context which sense is intended and has only added words to emphasise whether the reference is to the process of estimating value or to the valuation result itself where there is scope for ambiguity.

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”?

We did not find this to be confusing.

IVS 102- VALUATION APPROACHES

Question 6

Previous editions of IVS have identified the principal valuation approaches listed in this proposed standard.

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.

In our experience, valuation methods fall into one of the three approaches. However, both accounting guidance as well as other valuation standards, e.g., the Uniform Standards of Professional Appraisal Practice (“USPAP”), Statement on Standards for Valuation Services issued by the AICPA Consulting Services Executive Committee, etc. refer to the market approach rather than the direct market comparison approach. We believe that the IVSC should adopt similar terms where possible as the use of different terms may be confusing for users or interpreted as indicating different intended meanings.

301.15 refers to the net asset or asset approach, which is used to value an investment or holding business. It is not clear where this approach fits into the classification set out in 102. We have seen this described as a cost approach.

Question 7

Paragraph 6 of the draft sets out a proposed hierarchy of approaches which indicates that the direct market comparison approach is generally to be preferred where there are observable prices for similar assets available at the valuation date.

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.

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We believe that the proposed hierarchy of approaches does not consider the basis of value. For example, the market approach may be less important in valuations where the basis of value is investment value or special value.

We note that the FASB standard and the IASB exposure draft on fair value measurements set out a hierarchy of inputs into valuation techniques, while the proposed IVS would state that the direct market comparison approach is preferable when there are observable prices at the acquisition date.

Given that the criterion for ranking the direct market comparison approach is based on the availability of observable inputs, we prefer the approach followed by the FASB and the IASB to rank the inputs into valuation techniques. We believe that the IVSC should avoid, where possible, differences with other guidance, whether issued by accounting or other valuation standard setters. Any such differences should be carefully explained and supported to allow users to understand how standards differ.

Question 8

In the current edition of IVS, the term “Sales Comparison Approach” is used to describe the process of estimating value by comparison with the prices of identical or similar assets in the market. The Board received representations that this term was too restrictive as it seemed to preclude market evidence that was not related to an actual sale. Some advocate the use of the term “Market Approach”; however, others find this confusing as both the income and cost approaches can use market based inputs. The Board also received evidence that some believed that only a “market approach” could be validly used to determine market value. After deliberation the Board has proposed the term “Direct Market Comparison Approach” in this edition of the standards.

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

We believe it is preferable to use the term market approach as this is used by a number of other valuation standard setters as well as by the FASB and the IASB. Use of different terms is confusing to users.

All valuation approaches, not just the market approach, should maximise the use of relevant observable, market inputs. However, we believe that this does not lead users to conclude that all are market approaches. The term “market approach” is widely used and well understood.

Consistent with valuation standards issued by other professional valuation associations and the approach taken by the IASB, FASB and others, we believe that other valuation approaches, such as the income and cost approaches can be applied to estimate market value (or fair value, the equivalent basis of value under IFRS).

IVS103 - BASES OF VALUE**Question 9**

Basis of value is defined in the draft as a statement of the “fundamental measurement assumptions of a valuation”. In the current edition of IVS it defined as a statement of the “fundamental measurement principles of a valuation”. Supporters of the proposed change believe that the word “assumptions” is more precise. It is self evident that a basis of value is a principle but IVS needs to explain the nature of that principle. The bases of value defined in IVS all consist of a set of assumptions that define the underlying hypotheses on which the value is based. The fundamental assumptions within a defined basis can then be used in conjunction with additional assumptions or special assumptions as explained in IVS 103 and 104. . Others prefer to retain the use of the word “principles”, while some consider that a basis of value is more precisely described as a statement of the measurement objectives of a valuation.

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

We believe that use of a term such as premise, objective or hypothesis would be clearer. Assumptions are often understood as the inputs that feed into valuation models.

Question 10

A change is proposed to the definition of Investment Value. The Board had received representations that some are confused by the distinction between Investment Value and Special Value in the current edition of IVS. The Board has proposed to amend the definition so that it only reflects the value to the owner, not the value to prospective purchasers. The rationale is that a prospective purchaser for whom an asset had value in excess of that to market participants generally could also be described as a special purchaser, which is separately defined. A reciprocal change is proposed to the definition of “special purchaser” to make it clear that it can include a single buyer with a special interest or a restricted class of buyers that can realise additional value not available to the market participants at large.

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?

The definition of investment value in paragraph 12 of Standard 103 refers to investment value being “the value of an asset to the owner *or a prospective owner*” (emphasis added). Therefore the change referred to above does not appear to have been made.

Subject to the comment above, we do not object to the proposed change in language.

Question 11

The Board has considered alternative names to “Investment Value” for the basis of value that describes value to a particular entity. Alternatives suggested include “Entity Specific Value”, “Owner Value”, “Value to Owner”, or “Invested Value”. Critics of Investment Value consider that the term is insufficiently precise; although it is a measure of the value of the

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investment in an asset to a particular party, it can also be interpreted as being the sum required to buy an investment in the market. Others consider that the term is sufficiently broadly understood that any change would cause confusion.

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

We are familiar with the use of the term as proposed. As a result, we do not require an alternative.

Question 12

In IVS highest and best use (HABU) is treated as an inherent feature of market value. This follows the economic theory that the price of an asset which is fully exposed to all potential buyers will sell for a price reflecting the most efficient or productive use of that asset. Other literature that has been published recently presents highest and best use as a separate concept from the price that would be paid in a hypothetical exchange between market participants.

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 do not believe there is a difference between highest and best use under IVS and HABU under US GAAP or as proposed for IFRS and do not object to the proposed description of HABU in IVS. However, if the IVSB believes that there is a difference between what is meant by this term for financial reporting and what is intended under IVS, it should explain the difference. We believe that the IVSB should apply this principle generally, i.e., where the IVSB believes that IVS differs to other financial reporting or other valuation guidance, it should explain its position in greater detail, supported by reference to underlying valuation concepts and principles.

It may be useful for the IVSB to clarify that in evaluating whether a use of an asset is legally permissible, possible changes in legal permissibility are considered from the perspective of market participants. For example, market participants may consider whether a change in zoning for a property may be obtained.

Question 13

In the existing IVS a clear distinction is made between fair value in general use and fair value as defined in IFRS. Some found this confusing since the definition of fair value in IVS was identical to that currently appearing in IAS16. Although the IASB is likely to change the definition of fair value in IFRS in its proposed new Fair Value Measurement Standard, in this draft the definition of fair value in general use has been changed to emphasise the distinction from the usage of the term in IFRS.

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

We believe that it will be confusing to users that fair value for financial reporting and fair value under IVS refer to different bases of value. We believe that it would be preferable for a common definition to be used. We acknowledge that some jurisdictions have separate

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definitions from fair value, e.g., individual states in the US may define fair value for certain applications but believe that fair value should be defined consistently for financial reporting and valuation standards purposes.

IVS 104 - SCOPE OF WORK

Question 14

Previous editions of IVS did not have a standard relating to scope of work, although the need to record the valuation instruction in writing was included under the heading of “Code of Conduct”. The Board considers that a more specific standard is required to detail the minimum acceptable scope of work. This reflects established best practice in many markets and provides the necessary foundation for the valuation process to begin.

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.

We agree with the inclusion of a standard related to scope of work.

IVS 105- VALUATION REPORTING

Question 15

This proposed standard is significantly less prescriptive than the equivalent standard IVS 3 in the current IVS. The proposed changes reflect the general recommendation of the Critical Review Group that the standards should contain less prescription and focus on principles. It also reflects the need to ensure that these standards can be applied to a wider sector of asset classes than previously.

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 believe that the valuation reporting standards should address the wide range of purposes for which valuations are prepared. Additional guidance related to specific purposes of valuation reports may be appropriate, e.g., Fairness Opinions.

As stated in our cover letter, we believe that further guidance is required to reduce diversity in practice and improve consistency. This will be achieved through a process of identifying areas of divergence in practices, issuance of more comprehensive guidance to address such issues and further enhancement to these general standards.

APPLICATION STANDARDS

Question 16

The standards in the 200 series relate to valuations for specific purposes. They provide guidance on the background for the valuation requirement before setting out specific matters that should be reflected or considered when applying the principles in the General Standards. Some consider that the fundamental principles of valuation should remain unchanged regardless of the purpose for which it is being prepared and therefore these application standards are superfluous. Others consider that it is important that valuation standards highlight factors that could be relevant to determining the appropriate valuation hypothesis for different purposes, and to set down criteria to ensure that reports contain the appropriate information.

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?

We believe that there may be some incremental benefit to valuers in understanding the context to some of the circumstances in which valuations are prepared. However, we note that much of the materials in the Applications Standard are background in nature, are of limited informational benefit and do not give rise to a standard to be followed.

The incremental requirements arise in the sections of the Application Standards dealing with scope of work and valuation reporting. Given the short length of these sections, the incremental benefit in terms of standards is limited.

Question 17

The series 201.01 - 201.04 inclusive are all concerned with valuations under IFRS. With the exception of 201.01, which addresses the current IASB Fair Value project, the topics covered all appear in IVA 1 in the current edition of IVS, although in this draft the text has been updated and some additional detail included to address issues of particular relevance to the valuation task. There are opposing views as to the extent and how IVS should address valuation issues under IFRS.

View (a) is that IVS should not refer to valuations under IFRS at all because the IASB is in the process of producing its own fair value standard that will clearly set out the valuation criteria for all valuation measurements required under IFRS and if parallel valuation standards are produced in IVS these will have no relevance. Supporters of this view also argue that limited references to the accounting requirements under IFRS can be misleading and lead to misinterpretation.

View (b) is that valuation measurements under IFRS are intended to reflect market reality and are not a special type of valuation reserved for financial statements. It is therefore important that the requirements under IFRS are properly related to wider valuation principles and practice through cross references in IVS. Supporters of this view also believe that limited references to IFRS are necessary to help those who are valuers rather than accounting experts understand the required criteria and assumptions so that appropriate valuations can be provided. Which of these views do you support?

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The IVSC has concluded that detailed application guidance falls out of the scope of valuation standards and should be issued as TIPs. We believe that appropriately supported TIPs are more important to improving the quality and reliability of valuations than the current proposed application standards dealing with IFRS. As stated in our cover letter, the IVSC should re-evaluate the authority of TIPs.

We believe that the basis of value determines the perspective and assumptions used in a valuation, rather than whether the valuation is performed pursuant to a financial reporting requirement or not. For example, assuming, as stated in 201.01.5, that market value under IFRS is the same as fair value for financial reporting for most practical purposes, we do not believe that a market value (IVS) measurement would differ to a fair value (IFRS) measurement as both are intended to estimate the price in a hypothetical transaction between market participants on the measurement date.

We also note that valuations are prepared in the context of other accounting standards, e.g., US GAAP. The current guidance only provides references to IFRS.

ASSET STANDARDS

Question 18

The proposed standards in the 300 series are all concerned with the application of the General Standards to specific asset types. Each standard contains some high level guidance as to the characteristics of each asset type that are relevant to value, a discussion on the principal valuation approaches and methods used and sets down specific matters that should be addressed in settling the scope of work or when reporting. Many of the asset classes included in this Exposure Draft are the subject of "Guidance Notes" in previous editions of IVS and much of the material has been drawn from these. Question 2 asked for your views on whether this combination of background information and specific directions was appropriate or whether you would prefer a clear separation.

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

We believe that more comprehensive guidance is required. We understand that the IVSC proposes that this be issued outside of the IVS in the form of TIPs.

Question 18

All the asset classes covered in Guidance Notes in the current edition of IVS are carried forward into this Exposure Draft. There are no equivalents for GN5 Personal Property, GN 10 Agricultural Property or GN14 Extractive Industries. Agricultural Property is to be included in the scope of a proposed new project on Biological Assets. A new project is also proposed on Extractive Industries. Personal Property has not been carried forward as the Board considered that the definition of what constitutes personal property in the current IVS is too widely drawn, with the result that much of the subject matter in the current GN5 is more specifically covered in other proposed standards.

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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?

We are not aware of another class of personal property assets that should be included in IVS.

Question 19

The Board is proposing a project to produce a new standard on valuing non financial liabilities, i.e. liabilities that are not attached to a financial instrument.

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

We would welcome comprehensive additional guidance from the IVSC on the valuation of non-financial liabilities. However, a high level standard would provide no incremental benefit. We believe that any IVSC guidance in this area should be comprehensive and should address issues such as techniques used to incorporate risk in such measures and gather input from both valuers and other interested parties.

Question 20

The Board would welcome suggestions for additional asset (and liability) types that are not already the subject of a proposed new standard or project.

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.

We believe that if the IVSC has concluded that IVS should be at a high level, the incremental extension of IVS to other assets would provide no incremental benefit. As a result, we believe that the IVSC should focus on the development of more comprehensive guidance to reduce diversity in practice of those areas already identified.

The IVS should adopt a formal mechanism with appropriate due process to add projects to its agenda. Some topics that are relevant include estimation of marketability discounts and control premiums, valuation of entities with complex capital structures, etc.

Appendix 2

Ref	Paragraph	Issue
101	6	Refers to “ <i>estimated price that would be paid for an asset</i> ”. Does this mean that an entry price is to be assumed? The FASB and IASB have described fair value as an exit price. [Note references in this document related to fair value measurement guidance from the IASB and the FASB relate to the IASB 2009 exposure draft Fair Value Measurement (ED/2009/05), FASB Topic 820 and proposed changes thereto.]
101	8	Refers to “ <i>the market in which the asset or liability is normally exchanged</i> ”. The FASB and IASB refer to the principal market and the most advantageous market. It would be useful if this was addressed in IVS.
101	15 (b)	Please address how this is effected by circumstances when the unit of measurement is greater than the unit of account.
101	17 (a)	Value in use uses market participant discount rates and the forecast cash flows are subject to specific rules that may be different to an entity’s expectations, e.g., cash flows related to reorganisations to which the entity is not committed are ignored as are expansionary capital expenditures.
102	1	Refers only to assets. The document should be careful to refer to assets and liabilities, where this is intended.
102	2	In reference to the market approach, refers only to similar and substitute assets. Prices for the same, i.e., identical assets may be available
102	3	No reference to liabilities. Where a method may be used to value a liability, this should be discussed
102	4	Income capitalisation may be applied to cash flows that are not fixed.
102	5	There is no discussion of Reproduction Cost New There is no explicit reference to the incorporation of each of physical, functional and economic obsolescence. Later comments suggest that the IVSC does not believe that a cost approach incorporates economic obsolescence. (201.01.14 and 201.04.15)
102	6	This appears to present a hierarchy of valuation approaches, i.e., the direct market capitalisation approach is preferred when suitable prices are available. The FASB and IASB have concluded that a hierarchy should be based on valuation inputs. The rationale expressed in the IVS appears to be based on the availability of relevant prices, i.e., inputs so the intent appears to be similar. We believe the approach followed by the FASB/IASB should be followed.
102	11	The reference to accumulated depreciation may be confusing given that the term is generally used with regard to accounting measures though the reference here is for valuation purposes. Similar terms for different items will give rise to confusion.
103		The standard does not include value in use as a basis of value. While we understand this is not required for commercial valuation purposes, it may be required in valuations performed for impairment testing for financial reporting purposes.
103	7 (c)	Refers to a value being incorrect on a different day. This suggests an error when what occurs is that value may have changed. Values are always date sensitive.
103	15	Differences in terminology between accounting standards and valuation standards gives rise to confusion. For example, the fact that fair value for financial reporting is different to fair value under IFRS is confusing. Similarly, use of the term direct market comparison approach in IVS as opposed to the term market approach is confusing.
201.01	5	This states that <i>the IVS do not stipulate a hierarchy of valuation based on inputs</i> . It would be useful to summarize the difference in outcome and what is the consequence of not stipulating a hierarchy. (Also, see comment under 102.6 States that <i>for most practical purposes</i> , market value under IVS will meet the fair value measurement requirement under IFRS. Please clarify circumstances when this is not the case.
201.01	8	This states that there are additional accounting requirements for Level 3 measurements. Level 3 measurements have additional disclosure requirements.
201.01	10	This states that non-performance risk <i>may</i> include the effect of the entity’s own credit risk. The FASB/IASB have concluded that credit risk <i>is</i> an element of non-performance risk. The standard should indicate circumstances where credit risk is not part of performance risk, if this is the IVSB’s position.
201.01	12(i)	This paragraph is rather confusing. It appears to deal with unit of account and unit of measurement issues, though this is not clear.



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		The reference to IAS 1 appears to be incorrect. Moreover, this refers to an entity specific factor that is not part of fair value.
201.01	14	This states that <i>When a valuation for inclusion in a financial statement is prepared using the cost approach, the report should include a caution that the reported value is subject to the asset or assets not being impaired. This is because an entity would not replace an impaired asset with a modern equivalent, which is the underlying premise of the cost approach.</i> In our experience, valuers argue that a cost approach may be used even where an asset may have fallen in value, because this effect is captured in an economic obsolescence factor. Please confirm the IVSB's view of the cost approach.
201.01	Annexe	There is no reference to IFRS 7
201.02		It is unclear why a valuation standard is required for depreciation, i.e., depreciation is an accounting mechanism independent of fair value.
201.02	9-10	We believe that the treatment of componentization in two paragraphs does not address the full complexity of this issue.
201.04	2	This discusses an asset falling in value as an indication of impairment. The factors mentioned after this, , e.g. obsolescence are the indications.
201.04	6	This states that value in use is similar to investment value. However, value in use is subject to explicit rules, some of which differ to those used in investment value calculations. For example, the costs of a reorganization to which the entity is not committed cannot be included.
201.04	8	This refers to "ensuring" when discussing expected cash flows. The scope of work to "ensure" may be quite considerable.
201.04	8	This refers to expected cash flows. Has the IVS concluded that the Discount Rate Adjustment method, cannot be employed. There is also a reference to expected cash flows in paragraph 14(i) (note that numbering in this section appears incorrect).
201.04	15	This states that <i>Value in use, see paragraphs 5-10 above, is estimated using a method that falls under the income approach. Fair value less costs to sell will normally be estimated using the direct market comparison approach. It is inappropriate to use the cost approach in order to estimate either or both elements of the recoverable amount. If an asset is impaired the entity would not replace it with a modern equivalent.</i> In our experience, a DCF is often used to estimate fair value less costs to sell. Moreover, as in our comment on 201.01, paragraph 14, this appears to assume that economic obsolescence is not reflected in a cost approach.
201.04	14 (g)	This refers to enquiry made on <i>abnormal</i> costs incurred in a sale. It is unclear why a qualifier is added here.
301.01	27	This refers to the deduction of actual interest bearing debt. The Board should clarify that the fair value of debt is deducted, assuming that is its position.
301.01	29 (i)	This refers to an adjustment for lack of control but not to adjustments for lack of marketability. Does the Board believe that such discounts are not appropriate?
301.01	27	This does nor refer to any enterprise value allocation methods which may be required when an entity has a complex capital structure, e.g., ordinary shares and preferred shares which may be convertible, etc.
301.01	26	The document discusses the consistent use of nominal discount rates with nominal cash flows and real discount rates with real cash flows. This does not address how such calculations should be performed when the rate of inflation for a company's revenues and/or costs differs to the general rate of inflation.
301.01	23-29	This does not discuss the use of single estimate or expected cash flows.
301.01	23-29	This section does not address issues in the selection of discount rates, e.g., the use of a small company premium, testing their reasonableness by reference to market transactions, etc.
301.01	27	This discusses an enterprise value calculation without describing that equity cash flow may be measured directly.
301.01	1 (a)	This does not include other elements of enterprise value such as leases, pensions, etc.
301.01	1 (d)	"en bloc value" – it is unclear how is this unlike either "equity value" or "business enterprise value"
301.01	15	It is unclear from the description which of the three approaches to value described in 102 covers the net asset approach. In our experience, it is generally regarded as part of the cost approach.
301.01	16	Reference should be made to prior transactions in the same shares.
301.01	20 (c)	Treatment of blockage factors are not addressed.



KPMG IFRG Limited

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301.01	22	This seems to offer an unfavourable view of the market approach as a primary valuation approach.
301.02	40-42	This description of the cost approach does not consider developer's profit or premium for certainty of functionality.
301.02	40-42	The discussion of the use of the cost approach to value intangible assets does not include a discussion of opportunity costs, e.g., income foregone while an intangible asset is developed internally. Has this position been deliberated?
301.02	38	There is a single sentence reference to contributory asset charges. We note the Appraisal Foundation recently issued a working paper on contributory asset charges, which with a related toolkit, exceeds 100 pages. This latter document will help improve the quality and consistency of valuations.
301.02	43	This does not discuss the application of a tax amortisation benefit under different valuation approaches. For example, some valuers believe that a tax amortization benefit should be applied in valuation under an income approach but not under a market approach.
304.01	5	A unit price may not be appropriate, e.g., if the basis of value is investment value or if the unit of account is different, e.g., a controlling position rather than a single share.
304.01	9	This seems to mix credit risk with other concepts. For example, key determinants of credit risk are not addressed, e.g., company profitability, investment requirements, industry structure, leverage, etc. Subordination issues are discussed under default protection. A key point, that subordination makes higher tranches less risky and lower tranches more risky, is not addressed. The discussion of netting agreements does not address unit of account issues.
304.01	11	Refers to some arguing that credit risk is considered in valuing a liability. The IASB and FASB have concluded this.
304.01	14	The reference to a Renaissance painting in a discussion of financial instruments is unclear. We also note that while such a painting may be saleable, the price realised is unclear.
304.01	18	Consensus pricing services are a subset of pricing services. Recommend adding pricing services as an example.
304.01	26	Is the reference in the second bullet to the size of the reported trade related to blockage. If so, the implications of this are not explained. The influence of how the timing of a trade would influence value is unclear, other than the general principle that information should not be stale.
304.01	28	In the discussion of the discount rate, there is no mention of the time value of money, systematic vs. unsystematic risk, etc.
304.01	30	Why is risk replication mentioned if the Board believes it does not estimate a price but rather potential profitability. We believe this description should be amended as risk replication may be used to value an instrument by reference to its disaggregated components, e.g., an option can be valued by reference to equivalent positions in shares and bonds.
304.01	31-35	The description of control environment is cursory. We are unclear why this is relevant to a valuer. The involvement of external parties and audit committees does not generally occur in practice as described.
304.01	40	Materiality is referenced. Is this in the context of an audit of the financial statements? It is unclear how this should be measured or applied in a valuation.