



International Valuation Standards Board
41 Moorgate
London, EC2R 6PP
United Kingdom

September 14, 2010

RE: Proposed New International Valuation Standards

Dear Board Members,

The International Private Equity and Venture Capital Valuation Board (IPEV Board) appreciates and welcomes the opportunity to respond to the International Valuation Standards Board's Proposed New International Valuation Standards Exposure Draft. There is great importance for the private equity investment community to be able to obtain and rely on consistently determined fair value estimates. Fair Value Measurement is a subject area where preparers, users, auditors and valuers face challenges in both estimating and understanding true measures of value.

The International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines), launched in March 2005 and revised in September 2009, provide the private equity industry with best practice in consistently estimating the fair value of investments, compliant with IFRS and US GAAP accounting principles. Valuation guidelines are used by the private equity and venture capital industry as a basis to consistently value private investments and provide a framework for fund managers and investors to monitor the value of existing investments.

Our responses to the International Valuations Standards Board (IVSB) are general in nature and are presented with the objective of providing the Board with practical input from the perspective of the global private equity industry. Our views should be considered from the perspective of industry best practice used in the private equity and venture capital, and not necessarily from the perspective of a technical independent valuation service provider. Because of the unique nature of the private equity and venture capital industry, in particular regularly valuing illiquid or infrequently traded assets, we can provide the IVSB with our experience with the challenges inherent in exercising judgment to value such assets, consistent with the principles espoused by both the IASB and FASB, in this industry segment.

The IPEV Board supports the use of fair value (using the applicable accounting definition) as the best measure of valuing private equity portfolio companies and investments in private equity funds. The following represent our comments to your specific questions where we have input on the International Valuation Standards (IVS). We have not responded to questions we deemed more applicable to valuation service providers.

General Questions

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?

The structure of the document is logical. The document contains general guidance, specific guidance and background information. As such, it may be more useful to clearly identify those portions deemed to be “standards” and those portions deemed to be guidance, or supporting information.

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

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?

As noted above, generally we find separating “standards” from supporting guidance and information is more beneficial to readers.

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 organization likely to use?

We provide the IPEV Private Equity Valuation Guidelines via web access and have found web only to be both cost effective and efficient.

IVS 101- GENERAL CONCEPTS AND PRINCIPLES

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 understand that the purpose of IVS 101 is to explain fundamental concepts and principles. We further understand the information originated from several sources. As such, it appears to be fairly high level and is not fully supported by an underlying framework that articulates actionable standards and application principles.

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”?

In English, the use is clear. If the document is translated into other languages, the use may be less clear.

Other IVS 101 comments:

- **Paragraph 19.** We agree with the concept that depending on the facts and circumstances assets should be valued with other complementary assets. However, the proposed changes to the US GAAP and IFRS definitions of fair value, may not allow such treatment. Therefore, further explanation may be warranted once the accounting standards are updated.

IVS 102- VALUATION APPROACHES

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.

From a general perspective, yes we agree. It may be helpful to clarify that other methods, such as option pricing models, are a subset of these general approaches and would be used depending on the facts and circumstances.

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.

We generally agree with the proposed hierarchy. It should be made clear that the selection of a valuation method should be consistent with the individual facts and circumstances for the asset being valued. Accounting standards encourage the use of more than one method. The hierarchy may need to address situations in which it is appropriate to use multiple methods. For the Private Equity and Venture Capital Industry, the IPEV Guidelines provide a best practice hierarchy or techniques that encourage consistent estimates of value.

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.

Using the words “Direct Market Comparison Approach” could be interpreted to mean that a specific comparable transaction is required. Using a broader term which allows the use of judgment in given circumstances may be preferable.

IVS103 - BASES OF VALUE

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.

It may be more clear to simply use the term “Valuation Purpose”.

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?

No comment. The terms are of limited use for private equity investors. While Investment Value may be relevant for internal purposes, it is not necessarily relevant when reporting to investors.

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 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?

No comment.

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 agree with the approach, however we caution that proposed IASB and FASB Fair Value accounting standards (with which we do not agree) would eliminate the concept of highest and best use for financial instruments.

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 find the IVS definition of Fair Value to be highly confusing and in conflict with accounting standards, both US GAAP and proposed IFRS. We recommend conforming the use of the term "Fair Value" in IVS with the accounting standard definition ("market value" in the proposed IVS).

IVS 104 - SCOPE OF WORK

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.

No comment

IVS 105- VALUATION REPORTING

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.

The terms, standards, principles, guidelines, can mean different things to different people. Generally standards would be fairly exact and proscriptive. Principles and guidelines would allow more use of judgement. We suggest harmonizing both the use of the key term and then ensure that supporting text is congruent with the term.

APPLICATION STANDARDS

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?

Generally we support providing guiding principles which can be consistently applied based on individual facts and circumstances. It is unlikely that all potential valuation estimates for all potential purposes could be identified and described. Therefore, a principle based approach would be more useful. It should not be necessary to provide accounting interpretations as part of the valuation standards.

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?

We have suggested that the IFRS/US GAAP definition of fair value be used as the IVS definition of fair value. We therefore support a modified view (a) which would articulate the definition of fair value used in IFRS & US GAAP, but not reinterpret existing accounting valuation guidance.

ASSET STANDARDS

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?

Because of nuances with individual industries and assets, we believe the 300 series would be more appropriately labeled as guidance rather than as standards.

19. (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.

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?

No comment

20. (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?

No comment.

21. (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 recognize that there are several organizations focused on standardizing valuation practice, including the Appraisal Foundation and the AICPA. IPEV was created to provide best practice valuation guidelines specifically for the Private Equity and Venture Capital Industry. Specific Industries, such as private equity, are very specialized. The IPEV Board

includes preparers, investors, auditors, and valuation specialists. For the private equity industry, such efforts have achieved international acceptance.

We encourage the Board to continue to leverage, and incorporate by reference as appropriate, the work done by industry groups such as IPEV.

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We appreciate the opportunity to provide the Board with our feedback. We would be pleased to discuss any questions you may have with you.

Very truly yours,

The International Private Equity and Venture Capital Valuation Board

Prof. Herman Daems

Chairman of the IPEV Board

The International Private Equity and Venture Capital Valuation Guidelines

The International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines) were launched in March 2005 and revised in September 2009 to reflect the need for greater comparability across the industry and for consistency with IFRS and US GAAP accounting principles. Valuation guidelines are used by the private equity and venture capital industry for valuing private equity investments and provide a framework for fund managers and investors to monitor the value of existing investments. The IPEV Guidelines are based on the overall principle of 'fair value' in order to be consistent with IFRS and US GAAP.

The International Private Equity and Venture Capital Valuation Board (IPEV Board) reports and is accountable to a general assembly composed of all the endorsing associations to manage the evolution of the guidelines going forward. The IPEV Guidelines have been endorsed by 40 national and regional trade associations.

For more information: <http://www.privateequityvaluation.com>.