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**Subject: IVSC Discussion Paper on Intangible Assets and IFRS**

1 We set out below some comments on the abovementioned paper.

### **Background to our comments**

- 2 Pre-IFRS, Australia followed an accounting revaluation framework. As a result we have had extensive experience in the valuation of identifiable intangible assets (IIA). The writer was also a member of IFRIC (the interpretations sub-committee of the IASB).
- 3 Our firm is a specialist valuation practice with extensive experience in the valuation of IIA. We would be happy to participate in IVSC projects on IIA if this was thought by you to be of assistance.

### **Overview of IVSC Paper**

- 4 Rather than respond to the specific questions raised we have commented more generally on your paper.

### **Active and liquid market**

- 5 Your paper makes numerous references to intangibles in active and liquid markets. As these active and liquid markets are rare (which is correctly noted in 4.9) we recommend a significant reduction in the number of references to this (largely irrelevant) issue.

### **Summary – page 17**

- 6 Add "value in use".

**Section IV – page 18**

- 7 Paragraph 4.9 should be amended to add “or whole of entity valuations or takeovers from which an order of magnitude upper limit on the value of IIA can be inferred.”
- 8 Paragraph 4.16 it is not just “helpful” it applies to the vast majority of IIA.

**Section IV – page 21**

- 9 Paragraph 4.30.2 is not technically correct. In a takeover most bidders would achieve synergy gains (a simple example is reduced duplicated overheads). Many synergy items are nothing to do with IIA but are true goodwill.

**Section IV – page 22**

- 10 Paragraph 4.35.2. This is not quite correct. If the value is attributed to the brand it should be described as such. If the value is attributable to eg the brand and the product’s unique formula the asset is “brand and formula”. Your wording wrongly implies that brand plus formula value can be described as brand value.

**Section IV – page 23**

- 11 It would be useful to summarise the top down methodology, that is:

	\$
Value of consideration	100
Less: identifiable assets net of liabilities	60
Total value of all intangible assets	40
Less: value of brands (and other IIA)	30
Goodwill	10

**Paragraph 4.5.2**

- 12 See page 18 comment

**Section IV – page 24**

- 13 Paragraph 4.84 see page 18 comment.
- 14 Paragraph 4.57 we do not think “which effectively values the asset using an in use approach” is correct. The accounting standards clearly require IIAs to be fair value ie stated at market value.

**Section V – page 25**

- 15 Paragraph 5.3. The inputs must be market inputs, otherwise it is not fair (ie market) value.
- 16 Paragraph 5.10. Refer again page 18.

**Section V – page 26**

- 17 Turnover based valuations may be common practice in property valuation circles, but they are no more than rules of thumb or very broad indicators of IIA values in most situations. They are generally unreliable indicators of value. Your paper should say so, because it presently elevates rules of thumb to a much higher level than is warranted.
- 18 In all financial markets value is the present value of future cash flows. The widely used surrogate for cash flows is capitalised profits. Turnover is not the key driver of value.

**Section V – page 27**

- 19 Paragraph 5.20 this may be so but there is too much discussion of IIAs in active markets when, in fact, they are extremely rare.
- 20 Paragraph 5.25, put more simply any tax benefits must be taken into account.
- 21 Paragraph 5.26, you do not capitalise them, you calculate their present value.

**Section V – page 29**

- 22 The IASB focus on pre-tax (eg for impairment testing) in the Standards. However, the Basis for Conclusion indicates that after tax discount rates should be used to back solve to the pre-tax rate.

**Section IV – page 30**

- 23 Paragraph 5.43.2 no tab adjustment is required because you are already dealing with after tax numbers (see 5.43.2).

**Section IV – paragraph 33**

- 24 The use of probability adjusted cash flows should be referred to.

**Section IV – page 34**

- 25 Paragraph 5.60. As the cost approach would normally be tax deductible, tax should be mentioned.



**Section VI – page 48**

- 37 Paragraph 6.77.1. Not quite correct. WACC is adjusted to reflect market levels of gearing.
- 38 Paragraph 6.78. The reluctance of most lenders to lend much on the security of IIA should be mentioned.
- 39 Paragraph 6.85. This should only be done when cash flow reaches a “steady state” stage.

**Section VI – page 49**

- 40 Paragraph 6.89 showing an example would be useful. It sounds intuitively unlikely that the Gordon Growth Model, which is a growth is perpetuity model, can reliably value a finite life asset.

**Section VI – page 50**

- 41 Paragraph 7.5. Reliance on a rule of thumb is dangerous.

**Section VII – page 51**

- 42 Paragraph 7.10 (start). Whole of entity value information is, however, often available.
- 43 Paragraph 7.10 (end). Reference to “sales comparison” is not to turnover multiples. This should be footnoted.

**Section VII – page 54**

- 44 This seems to be a “bad” conclusion. It elevates rules of thumb without even disclosing the reservations that should be attached.

**Section VII – page 56**

- 45 Reliability, line 1, column 3. It is the date (and market place circumstances), not the asset, that is the unreliable element.

**Section VII – page 57**

- 46 Paragraph 7.34. This is a very curious conclusion. Neither DCF, nor relief from royalty (both much more reliable valuable indicia than og cost) are even mentioned.
- 47 7.34.1 can hardly ever apply.



**General**

48 If we can be of any further assistance, please contact the writer.

Yours faithfully

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