



27 April 2009

International Valuation Standards Committee  
12 Great George Street  
Parliament Square  
London SW1P 3AD  
UNITED KINGDOM

By email: [CommentLetters@ivsc.org](mailto:CommentLetters@ivsc.org)

Dear Sir/Madam,

**Comments on Revised International Valuation Guidance Notes – No 4 “Valuation of Intangible Assets”**

Thank you for the opportunity for The Institute of Chartered Accountants in Australia (“The Institute”) to provide comments on the IVSC revised International Guidance Note No 4 - “Valuation of Intangible Assets”.

Overall, The Institute supports the issue of the guidance note. Detailed comments are set out in the appendix and were prepared by the Institute’s Business Valuation Special Interest Group (“BVSIG”), a special interest group whose members are most affected by the proposed Exposure Draft.

The Institute is Australia’s premier accounting body, which represents over 45,000 members who are fully qualified Chartered Accountants working either in the accounting profession providing auditing, accountancy, taxation and business consultancy services or in diverse roles in business, commerce or government.

The Institute is a founding member of the international accounting coalition called the Global Accounting Alliance (GAA), which provides reciprocal arrangements with eight of the other leading accounting bodies in the world. The Institute is the only Australian accounting body within the alliance. The GAA represents more than 700,000 members world-wide and includes professional accounting organisations from America, Canada, Hong Kong, England/Wales, Ireland, Scotland, New Zealand and South Africa.

In July 2005 the Institute established the Business Valuation Special Interest Group (BVSIG) for the benefit of the Institute, members and stakeholders, including regulators and the community. The BVSIG currently has over 900 members working in the field of business valuation. The key aim of this group is to provide standards in the area of business valuations. The BVSIG is represented in most states and nationally.

Should you have any questions in relation to the matters discussed in the attached document, please contact John Gibson, Chair, BVSIG on +61 2 9248 4616.

Yours sincerely,

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## Guidance Note No 4. “Valuation of Intangible Assets”

Questions for respondents

- 1. The existing GN4 in the International Valuations Standards (IVS) contains a lengthy list of definitions. During the review of this draft the Board formed a view that the majority of these definitions were unnecessary as their were of words or terms that were not used in the text in accordance with their normal dictionary meaning or that were otherwise widely understood. It also has to be borne in mind that this GN is designed to be part of IVS which already defines many valuation terms, such as different bases if value. This Exposure draft only defines “Goodwill” and “Intangible Asset”.**

**Do respondents consider that further definitions are necessary to explain terms that are used in this draft?”**

No further definitions are required for understanding of the GN when read in conjunction with IVS. Definitions should be left to minimum.

- 2. Section 3 is a discussion on the identification of different types of Intangible Asset. This uses the four category descriptions of “Marketing Related”, with a note that under each of these categories, assets may be wither contractual or non-contractual. These categories are different from those in the existing G4 but are similar to those used in the Illustrative Examples in previous versions of IFRS 3. under IFRS 3 “Contract Based Intangible Assets” are identified as a separate Category. The board is interested in the views of respondents on:**

- **Whether the categorization of Intangible Assets is important because it helps valuers identify assets that have similar characteristics and for which similar valuation approaches may be adopted, or whether it is simply a convenient way of describing the different types of asset that exist.**
- **If categorizations is important, is it important that the categories in GN 4 follow the illustrative examples in IFRS 3 ?**
- **If it is considered important to follow the categorization in IFRSs, should “Contract Related” assets be separately categorized from the other types?**

Categorization is helpful in the identification process. As GN 4 is not specific to IFRS the categories so do not need to be the same.

- 3. Various common valuation methods are described in this draft. These are been based on those in the discussion paper and the responses received. The Board would be interested to learn if respondents consider that the major valuation methods in use for the valuation of intangibles assets are all included? Conversely, are methods included that are seldom used in practice?**

The methods listed reflect the major valuation methodologies adopted by valuation professionals in the valuation of intangible assets. Although not widely used, real option methodologies are used by some in the mining, oil and gas, and R&D industries.

- 4. The aim of the Guidance Note is to identify the principal approaches and methods used in intangible asset valuation and define them, with the objective of reducing the diversity of terminology and making valuation reports more comprehensible to users. It is not to provide a comprehensive discussion of all the nuances of different**

valuation techniques nor instructions on how to value. Some members of the expert group involved in the preparation of the Exposure Draft considered that the Guidance Note provides too much detail, especially in relation to the discussion on Valuation Inputs. They believe that this material risks being interpreted as either constraining a valuer's discretionary judgement or giving limited, and therefore potentially misleading, instruction. The Board would be interested in the views of respondents on the degree of detail in the Guidance Note, and particularly if this goes beyond that which is necessary for a professional user of an intangible asset valuation to understand the basic techniques and principles that an expert valuer should normally adopt.

The degree of detail (in particular with respect to valuation inputs for PFI) goes beyond that which is necessary for a professional user. The other risk of the level of detail is that it falls short of what would be included in technical or best practice guide (refer to The Appraisal Foundation exposure draft on contributory asset charges).

- 5. Section 6, *Selection of Valuation Methods* advocates the use of multiple valuation methods when the necessary data is available without undue difficulty or cost, and gives guidance on how these methods may be ranked in different situations. Do respondents agree that it is preferable to use multiple methods, and if so, do they consider that the guidance provided is sufficiently comprehensive to prevent unnecessary cost and confusion being incurred in undertaking valuations of intangible assets?**

As stated in the GN "the method or methods used and the reason why they are considered appropriate should normally be documented in the Valuation Report". The use of alternative method or methods as a cross check is also appropriate. Requiring multiple methods would not be appropriate. Accordingly the wording of the GN is appropriate although sections 6.6 and 6.7 are not required and should not be included.