

International Valuation Standards Board
12 Great George Street
Parliament Square
London
SW1P 3AD

30 April 2009

Dear Sirs

Re: Invitation to Comment: Exposure Drafts of Revised International Valuation Guidance Notes No. 4, 'Valuation of Intangible Assets' ("GN 4"), and Proposed New International Valuation Guidance No. 16, 'Valuation of Intangible Assets for IFRS Reporting Purposes' ("GN 16")

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the above mentioned Exposure Drafts. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

PricewaterhouseCoopers agrees that more guidance on the valuation of intangible assets is necessary to reduce diversity in practice. In particular there is a need for guidance to address the unique challenges of valuation for financial reporting.

Existing IFRS literature contains some guidance on valuation issues and the Exposure Draft ('ED') on Fair Value Measurement is expected within a matter of weeks. In our view the IASB is responsible for setting the principles on which valuations used for financial reporting should be based. More detailed guidance produced by the IVSB should be consistent with the principles in IFRS. For this reason, we suggest that the IVSB delay publishing any guidance on the valuation of intangibles until the Fair Value Measurement ED is available.

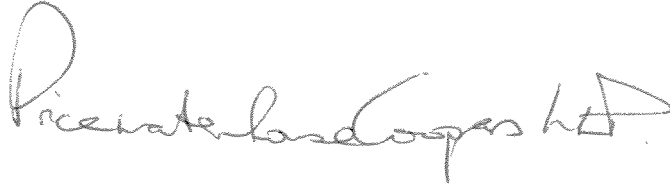
Once the Fair Value Measurement ED has been published, we encourage the IVSB to engage with the IASB to discuss the content of more detailed guidance on the valuation of intangible assets to ensure that it is consistent with the principles and guidance contained in the accounting literature.

We note that the IVSC has implemented its restructuring proposals announced in 2007 and is modelling itself along the lines of the structure used by the financial reporting standard setters. We acknowledge the progress made to date. However we believe there remains more to be done. The IVSC needs to establish a due process that is both robust and transparent. For example, it is unclear from publicly available information to what extent the Standards Board deliberated these exposure drafts. We would also expect to see clearer reasoning behind the conclusions reached in the exposure drafts, for example in a 'Basis for Conclusions'.

Our responses to the specific questions raised in the two Exposure Drafts are set out in the attached Appendices. We also offer some additional comments on GN4 which were not covered by those questions.

If you have any questions on the content of this letter, please do not hesitate to contact Richard Keys, PwC Global Chief Accountant (+44 20 7212 4555), or Andreas Mackenstedt, PwC Global Valuation Leader (+49 69 9585 5704).

Yours faithfully



Appendix A
Exposure Draft of Proposed Revised International Valuation Guidance Note No.4

Part 1- Response to questions

1. The existing GN4 in the International Valuation 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 they were of words or terms that were 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 of 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?

In general, we see a high demand for definitions in the valuation context. We believe that the goal of a single set of high quality, understandable and enforceable global valuation standards can only be achieved by using consistent definitions.

The terms ‘Goodwill’ and ‘Intangible Asset’ are defined in IFRS and it is likely that the forthcoming Exposure Draft on Fair Value Measurement will include further definitions relevant to valuation. We suggest that the IVSB uses identical definitions to those included in IFRS to avoid confusion in practice.

Given that GN4 is guidance rather than a standard requiring mandatory compliance, it is not necessary for all terms to be formally defined but it may be helpful if the IVSB restricted any definitions to those terms which are more relevant to valuation professionals and thus not included in the accounting literature.

2. Section 3 is a discussion on the identification of different types of Intangible Asset. This uses the four category descriptions of “Market Related”, “Customer or Supplier Related”, “Artistic Related” and “Technology Related”, with a note that under each of these categories, assets may be either contractual or non-contractual. These categories are different from those in the existing GN4 but are similar to those used in 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 the respondents on:

- Whether the categorisation 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 categorisation is important, is it important that the categories in GN 4 follow the illustrative examples in IFRS 3?
- If is considered important to follow categorisation in IFRS, should “Contract Related” assets be separately categorised from the other types?

Most of the guidance contained in Section 3 of the Guidance Note is already found in the relevant IFRSs. In our view, any deviation from the guidance in IFRS creates confusion in

practice. Accordingly we recommend that the IVSB does not seek to amend or replace terminology already contained in IFRS literature. On this basis, we agree that 'Contract Related' assets should be separately categorised as this is how they are presented in IFRS 3.

- 3. Various common valuation methods are described in this draft. These are 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 is use for the valuation of intangible assets are all included? Conversely, are methods included that are seldom used in practice?**

We believe the Guidance Note should also mention the green-field/build-out method and the real options method. These methods are applied in certain circumstances to value some intangible assets.

- 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.

We consider the current discussion in relation to valuation inputs to be fairly generic. We believe that discussion of these input parameters would be better incorporated within the discussion of each relevant valuation method rather than as a separate section. The current guidance might be misunderstood as providing a form of working list to be used in every valuation.

We do not believe that the presented eight inputs are necessarily the most relevant in practice. The relevance or importance of a valuation input depends on the underlying intangible asset and valuation method applied. For example, when valuing customer relationships, an attrition rate would be an important input but it is not mentioned in the guidance note.

- 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 a reasonableness check, it is certainly preferable to use multiple methods where appropriate. However, a ranking of methods does not seem to be appropriate considering the vast number of different valuation situations that can occur in practice. For this reason, guidance on the use of multiple methods, whilst helpful, can only be illustrative.

Additional comment on GN4

We do not agree with paragraph 5.31 of GN4. The Exposure Draft discusses taking Contributory Asset Charges ('CACs') for elements of goodwill as a remedy for the fact that the Multi-period Excess Earnings Method is a residual approach and many observe that it may capture elements of goodwill in addition to the particular asset being measured leading to a potential overvaluation of the asset subject to measurement.

While we acknowledge that taking a CAC for an element of goodwill that contributes to the generation of a cash flow stream for a group of assets has conceptual merit, our view is that only in very limited circumstances, such as those envisaged by IFRS 3, would an element of goodwill be sufficiently clear to be reliably measurable. Accordingly, we suggest that the IVSB provides a more precise view of the facts and circumstances around elements of goodwill that can be viewed as reliably measurable taking into consideration relevant accounting guidance on asset recognition and the meaning of the term "reliably measurable".

Appendix B
Exposure Draft of Proposed Revised International Valuation Guidance Note No.16

Part 1- Response to questions

1. Some respondents to the discussion paper consider that because IAS 38 only permits intangible assets for which there is an active market to be carried at their revalued amount, and that the definition in IAS 38 of an active market includes a requirement that the assets traded are homogenous, or identical, it is necessary to further define the characteristics of assets that are identical, similar and different. They argue that because IAS 38 effectively directs that the fair value of qualifying identical assets is based on prices that are available to the public, valuers need guidance for which assets a valuation technique other than a straightforward price x quantity calculation may be used when valuing intangible assets under other IFRSs. The Board's view is that there is little scope for confusion as the adjectives in question are used in IAS 38 with their normally understood meaning, and any attempt to draw clear lines between classes of assets based on prescriptive definitions is not only unnecessary but also a source of potential anomalies.

Do respondents consider that further explanation of the characteristics of identical, similar and different intangible assets is required?

We support the IVSB's view that any attempt to define identical, similar and different assets might be a source of potential anomalies. Moreover, we believe that any further explanation or interpretation would need to be provided by the accounting standard setter, the IASB.

2. IAS 38 contains a precise definition of an "active market", which describes not only the characteristics of the market but also the nature of the assets traded, i.e. they must be homogenous. This has led some commentators to the view that markets that either do not meet the criteria in IAS 38 or involve heterogeneous assets should logically be termed "inactive markets". Others consider that this is misleading, as activity in markets is not dependant upon whether the goods being traded are similar, but upon supply and demand and the extent to which either is elastic. They point to the fact that there are many active markets involving assets that are not homogenous.

IVS does not have a single definition of a market, although in discussion under "Concepts Fundamental to Generally Accepted Valuation Principles" (p21 IVS 2007) it is described as an environment in which goods and services are exchanged through a price mechanism. Although market concepts are discussed throughout IVS, no need has previously been identified to categorise and define different types of market.

Do respondents consider that in order to improve the consistency of intangible asset valuations prepared for use under IFRSs, it is necessary for IVS to explore and define what is meant by a "market" and by sub descriptions such as "active", "inactive", "accessible", etc?

We strongly discourage the IVSC from developing its own definition of a market and whether a market is active or inactive.

The existing definition of an active market in the context of intangible assets in IAS 38 is clear. Furthermore, the IASB's exposure draft on Fair Value Measurement is expected within the next few weeks which will contain the Board's views on markets and market participants. It would be inappropriate for the IVSB to promote guidance which might contradict or otherwise create confusion with the IASB's views.

3. **This draft is intended to provide valuers with a briefing of the valuation objectives under various IFRSs. It is not intended to be a guide to the accounting requirements. Consequently, only selected extracts from the relevant IFRSs documents have been referred to, and elsewhere the IFRSs requirements have been paraphrased or précised.**

Do respondents consider that this guidance contains sufficient references to IFRSs to enable a valuer to understand the valuation objectives and criteria necessary to produce valuations that are suitable for use by a reporting entity in preparing its financial statements, or is more background material on IFRSs required?

In our view the IASB is responsible for setting the principles on which valuations used for financial reporting should be based. Once the Fair Value Measurement ED has been published, we encourage the IVSB to engage with the IASB to discuss the content of more detailed guidance on the valuation of intangible assets to ensure that it is consistent with the principles and guidance contained in the accounting literature.