

**I. COMMENTS ON THE EXPOSURE DRAFT REVISED GN 4:
VALUATION OF INTANGIBLE ASSETS**

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In relation to the above subject, kindly refer to my comments below, which are culled from my professional experience and training on the relevant areas. I hope the committee will find these helpful.

1. On Further Definitions

The exposure draft contains sufficient definitions as it is. No further definitions are necessary.

2. On categorization of Intangible Assets

Yes, this is very important in that the valuation professionals would find categorization helpful in determining which valuation approaches may be applicable for similar assets. The categorizations in IFRS 3 and GN 4 are sufficiently aligned and are easy to understand for practitioners.

Categorization as to “Contract Related” or “Non-Contract Related” may not be necessary. In fact, this may limit the valuer’s perception as to the nature of an asset during its use or idle period. Also, the terms of the contract itself may not be reflective of the values that are inherent in an asset or group of assets.

3. On Valuation Methods Described

The Exposure Draft makes very little mention, if not none at all, of valuation of natural resources or at least the right to exploit such natural resources. One valuation approach that can be used for this purpose is the Option-Pricing Method.

The underlying asset in a natural resource usage right is the resource itself. The current value of the underlying asset is the present value of expected cash flows from this natural resource. The uncertainty in the cash flow estimates, such as is present in the quantification of natural resources, is the reason why the product option has value. If expected cash flows were known with certainty, there would be no need to adopt an option pricing framework, since there would be no value to the option.

The nature of rights over natural resources as an asset partakes of the behavior of options, which is determined by: the price of the underlying natural resource itself, a strike price, the variance of the underlying natural resource, time to expiration, interest rates and dividends paid, if any.

There is currently more demand in our country (Philippines) for valuation of rights over natural resources like various minerals, metals, and water. Our company had clearly seen the inappropriateness of all the other methods mentioned in the exposure draft for this purpose.

4. On Degree of Detail of Discussion in the Exposure Draft

I do believe that the Exposure Draft provides too much detail. Readers may take the details to be the rule rather than a guide, and may certainly be limiting for a professional valuer. Moreover the large amount of detail in the exposure draft calls attention to other discussions or details that are omitted, probably inadvertently.

Cases in point:

a. On the discussion on discount rates (par.5.40)

A discussion on the Capital Asset Pricing Model may be needed in light of the detailed discussion in paragraphs 5.43-5.46 on how discount rates can be computed or derived.

b. On the matrix of valuation methods for a brand (par. 6.6)

This table provides a lot of detail but omits the fact that the information provided in the table may be applicable prospectively primarily to existing brands. New brands that need to be valued may require methods like the option-pricing approach.

5. On Section 6, Selection of Valuation Methods

Yes, in practice, it may indeed be necessary in certain occasions to use multiple valuation approaches to confirm findings. There is no need for GN 4 to be more comprehensive in its guidance. The current level of information is sufficient and clear.

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