



THE CANADIAN
INSTITUTE OF
CHARTERED BUSINESS
VALUATORS

April 30, 2009

Sent by email to: CommentLetters@ivsc.org

International Valuation Standards Board
12 George Street
London
SW1P 3AD
United Kingdom

Dear Sirs:

Re: Invitation to Comment on IVSC Exposure Drafts (i) Revised International Valuation Guidance Note No. 4 – *Valuation of Intangible Assets* and (ii) Proposed New International Valuation Guidance Note No. 16 – *Valuation of Intangible Assets for IFRS Reporting Purposes*

The Canadian Institute of Chartered Business Valuators (CICBV) is pleased to comment on the above noted IVSC Exposure Drafts.

The CICBV is the largest professional business valuation organization in Canada. It is a self-regulated organization that, in addition to governing its Members with a strict Code of Ethics and Practice Standards, grants the Chartered Business Valuator (CBV) / expert en évaluation d'entreprises (EEE) designation. The CBV/EEE designation is recognized as the premier credential for professional business valuers in Canada, with Members providing a broad range of business valuation services to Canada's business, legal, investment, banking and government communities.

We commend the IVSC for the comprehensive body of work that it has prepared on this very important subject. We support the work that the IVSC is undertaking in its efforts to develop clear, internationally recognized and accepted, valuation standards.

Our comments are organized to address certain conceptual issues concerning the attributes of professional business valuation practice standards, responses to the specific questions asked, and other comments on the draft guidance notes.

We are concerned that the content of the Exposure Drafts are incompatible with principle-based business valuation standards. While the content of the Exposure Drafts contains useful information, the stated objective of summarizing what constitutes best practice (i.e., to improve consistency between business valuers and informing investors and other users) is not necessarily consistent with the objective of professional business

valuation standards. In our view, business valuation standards should not be overly prescriptive in order to achieve these other objectives.

By issuing the Exposure Draft materials as Guidance Notes, it is the IVSC's intention to incorporate their content into its valuation standards. We are of the view that such material, as it stands, should not form part of business valuation standards and are appropriate for technical papers and/or educational materials on the subjects. The reasons for our concern are set out below:

- 1) Business valuation standards need to be principle-based in order that they can be applied by the practitioner with a proper consideration of all the relevant factors. It is our view that the Exposure Drafts are incompatible with practice standards that are principle-based because of their prescriptive nature. Additionally, matters that are complex and continue to evolve would not benefit from standards that are prescriptive. Business valuation standards need to remain flexible in order to allow for the consideration of particular facts and circumstances and to enable proper consideration of new issues as they arise. Moreover, professional business valuers need to be able to take into account all of the relevant factors that are appropriate in a given situation. Business valuation standards need to allow for the natural evolution of developing new solutions and approaches that inevitably takes place in best practices.
- 2) As mentioned earlier, detailed discussions of business valuation theories and methodologies are better suited to technical papers and/or educational materials (e.g., text books or courses). The nature of the materials in the Exposure Drafts is far too detailed and technical in nature to be associated with business valuation standards.
- 3) In preparing business valuations in the context of financial reporting, business valuers necessarily need to follow the applicable accounting standards or rules. In order to do so, business valuers need guidance on the interpretation of these accounting standards. However, this guidance needs to come from accounting bodies and authorities in accounting matters. In our view, it is inappropriate for a business valuation standard setting body to interpret accounting standards. We are also of the view that the role of a valuation standard setting body with respect to the development of accounting standards is to act in an advisory capacity to accounting bodies and authorities while they are developing and setting accounting standards dealing with valuation issues.
- 4) Accounting standards are in a constant state of change and will continue to evolve. To the extent that matters in the Exposure Drafts, and hence the business valuation standards which they intended to become, are based on the requirements of accounting standards, they would need to continue to change as well. Moreover, business valuation standards derived in this manner will become outdated with every change in the underlying accounting standards.
- 5) The question arises as to which accounting standards international valuation standards should relate? There are a number of standard setting bodies in the field of accounting.

As an international valuation standards setter, the IVSC needs to be relevant to the requirements of more than one accounting body.

We are of the view that business valuations need to be carried out by professionals who are competent in the area. Using practice standards (as encompassed by the proposed Guidance Notes) as a means of education is not an appropriate forum.

Guidance Note No. 4 – Responses to Questions

Question 1

Further definitions are not required.

Question 2

The issue of categorization of intangible assets is only important to their identification and should be relevant to the business valuation approach used, which is driven by the fact circumstances and the professional judgment and experience of the business valuator.

Question 3

The discussion on business valuation methodologies should be kept general, consistent with principle-based standards.

Question 4

It is our view that the degree of detail goes beyond that which is necessary for a professional preparer of an intangible asset valuation and is inconsistent with the requirements of professional business valuation standards. We hold this view as IVSC policy Guidance Note No. 4 would become a part of the IVSC standards, and for which compliance would be mandatory for all business valuers preparing a report under International Valuation Standards. It is our view that the education of valuation report users (which is the question asked) is not an appropriate role of valuation standards, but rather, the IVSC should issue much of the material in Guidance Note No. 4. as a Technical Paper.

Question 5

It is our view that where possible the results obtained using a primary valuation method should be cross-checked for reasonableness against another valuation method. However it is in this context that the use of multiple methods must be assessed. A test for reasonableness is different than employing multiple valuation methods and then weighting their results in arriving at a value conclusion as may be implied by the question asked.

Guidance Note No. 16 – Responses to Questions

Question 1

The definitions in IAS 38 must stand on their own and it is not the purview of business valuation standards to any way modify accounting standards.

Question 2

The definitions listed are the responsibility of the accounting standard setters; it is up to them to explain what the terms mean.

Question 3

Business valuation standards are not an appropriate venue to provide ‘briefing’ notes on the valuation objective of various IFRSs. With this in mind, the answer to the second part of the question concerning whether sufficient references to IFRSs are included is clearly “yes”. Principle-based business valuation standards would require that a professional business valuator is aware of the requirements of the accounting rules that form the basis of their work. The relevant accounting rules will inevitably change over time. Similarly, a business valuation standard that purports to outline and explain the accounting rules will similarly inevitably be out of date.

Guidance Note No. 4 - Detailed Observations on Text

- 1.1 While the GN is said to not provide instructions on how to value, the detail provided throughout the GN is very prescriptive and often a “how to value” instruction.
- 1.3 Other examples might include restructurings and ‘fresh start’ accounting and licencing.
- 2.1 Goodwill is also defined at 3.2, and the two are different.
- 2.2 In addition to generating income, other outcomes include those that would generate a future benefit in the form of reduced expenses.
- 3.2 Whether a security interest in “goodwill” can “legally” be given, should not be part of its definition or description.
- 3.9 Trade secrets could be added to the list of intangible assets.
- 3.11 Replace “Usually” with “For some intangible assets” as more often than not market evidence on an intangible asset does not exist.
- 4.4 The use of the term “must” in the phrase “assumptions which must be made” is likely too strong.
- 4.11/4.12 In practice these multiples are rarely used.

- 4.15 Suggest the last statement be removed as the first sentence captures the essence of the second sentence and as worded the second sentence could be subject to misinterpretation by both valuers and regulatory bodies.
- 4.18 The term "turnover" is often referred to as "revenue". A comment to that effect would be relevant.
- “Useful life” is an accounting term, for business valuation use of the term “economic life” would be preferable.
- 4.24 The discussion on tax adjustments is very specific. A principle-based business valuation standard would more appropriately indicate that such adjustments should be considered. The tax adjustments contemplated preclude consideration of a benefit from the perspective of the acquirer, which may be relevant in some circumstances.
- 4.25 The text indicates that the royalty payments are discounted to present value and then capitalized. This would seem to be a duplication of the value.
- 4.27 The sentence should start with “some or all of the following”. The term “should consider” would be more appropriate than “are required”.
- 4.28 This cross check to operating margins is not always relevant, so the use of the term “prudent” may overstate the requirement.
- 4.31 The term “should consider” would be more appropriate than “are required”.
- 4.33 It is unlikely that PE ratios of businesses would be appropriate for profits attributable to a brand as have differing opportunity and risk characteristics.
- 4.37 Workforce is incorrectly excluded from being an identifiable intangible asset.
- 4.41 The term “required” is too strong.
- 4.42 The excess earnings method should not be limited to circumstances when other valuation methods are not available.
- 4.48 The statement that the cost approach can only be applied to a few types of intangible assets is very limiting. For example, excluded from the list are customers, licenses, and broadcast rights.
- 4.49 The statement as to when the cost approach is not suitable is too definitive.
- 5.1 Excluded from the list are terminal period growth rate, terminal multiples, and the discount period.

- 5.9 The section benchmarking sounds like a requirement, however it may not always be possible.
- 5.11to 5.13 Seems to be telling the business valuator how to value rather than setting out principles.
- 5.15 The examples listed are very specific; however a complete list of factors would be too numerous to list.
- 5.20 The examples listed are very specific; however a complete list of factors would be too numerous to list.
- 5.21 This is clearly a “how to” that is inappropriate to a standard.
- 5.23 These considerations are clearly a matter of professional judgment and should not be specified in a standard.
- 5.33 With respect to depreciation the operative word should be “could” instead of “would”.
- 5.39 This check may not always be reasonably performed and should not be a requirement.
- 5.40 The Capital Asset Pricing Model should also be included in a discussion of how to determine discount rates.
- 6.8 These requirements are very prescriptive and should be left to the business valuator to determine what is best in the circumstances.

Guidance Note No. 16 - Detailed Observations on Text

- 1.1 The level of detail in this standard would make it difficult for a business valuator to depart from them as suggested. The standards are described as being “principle-based” but their detail would indicate otherwise.
- 1.2 GN 4 is referred to as the “main recognised method used for the valuation of intangible assets”. If a business valuator determined that they needed to utilize an approach not included in GN 4 this would imply that such approach would be recognized.
- 1.3 Indicating which business valuation bases and method are appropriate is very prescriptive.
- Similarly, specification of the cross checks that are relevant is not appropriate to a business valuation standard as the appropriate cross check can vary widely based on the particular facts and circumstances.
- 3.2 The use of the term “market value” in the context of IFRS is very confusing. If GN 16 is in respect of IFRS it should adopt the terminology used in IFRS which is “fair value”.

- 4.1 to 4.8 IFRS can stand on its own and should not be summarized in a business valuation standard.
- 4.16 This is an accounting concept; the requirement in a business valuation report is disclosure of the aggregation.
- 4.18 It should be specified that it is the actual net debt deducted from enterprise value as one could mistakenly deduct a notional amount. This is an example of the risk of having a 'how to' in the standards.
- 4.17 to 4.22 This section on cross checking would imply that if the business valuator does not cross check the conclusions then they have not met the standard.
- 4.19 There are numerous other methods to ensure reasonableness which are not included.
- The emphasis on limited methods to cross check could lead one to conclude that if the methods listed are unsupportive of the valuation work and/or conclusions, then the valuation work and/or conclusions are unreasonable.
- 4.20 There are other possible reasons why value and price are not relatively close. This section should indicate these reasons among others need to be considered.
- 4.21 This is clearly a "how" to and is a matter for professional judgment.
- 4.22 This is clearly a "how to" and is a matter for professional judgment.
- 5.1 What is the definition of "recoverable amount"?
- 5.7 If the appropriate methods of business valuation are set out in GN 4, are any other methods therefore not appropriate and outside of the "standard"?
- 5.8 The standard, in using the word "must" is very directive. What constitutes a recent transaction that must be considered?
- 5.9 Are the techniques in IVS GN 6 referenced as appropriate consistent with IFRS based fair value?
- 5.10 This section should consider whether the assessment is on a pre-tax or post-tax basis and should deal with circumstances where there is a minority interest.
- 5.12 Reference is only made to a value determined using DCF techniques. Does this mean that no other technique is appropriate?

Are the techniques in IVS GN 9 referenced as appropriate consistent with IFRS based fair value?

6.1 to 6.5 IFRS can stand on its own and should not be summarized in a business valuation standard.

6.5 Are the techniques in IVS GN 69 referenced as appropriate consistent with IFRS based fair value?

We hope that this submission is helpful to you. If you have any questions regarding our comments, please contact Robert Boulton, CICBV Director of Professional Affairs (telephone 416-977-1117 / email boultonb@cicbv.ca).

Yours truly,

A handwritten signature in black ink, appearing to read 'Farley Cohen', written in a cursive style.

Farley Cohen, CA, CBV
Secretary/Treasurer and Chair, Professional Practice Committee

cc. Iseo Pasquali, CA, CBV, CICBV Chair
Jeannine Brooks, CICBV President & CEO