Dear Sirs,

**Re:** Exposure Draft to provide Illustrative Examples for certain valuation concepts and principles discussed in the IVS Framework – Chapter 1

We are responding to your invitation to comment on the above Exposure Draft (“ED”) on behalf of PricewaterhouseCoopers.

Following consultation with several members of the PricewaterhouseCoopers network of firms, this response summarises our views. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. PricewaterhouseCoopers appreciates the International Valuation Standards Council’s (IVSC) efforts in this process and welcomes the opportunity to provide comments on the ED.

**Overall comments**

1. Although we recognise the objective of this ED is to “assist practitioners to better understand the [valuation] concepts by illustrating their application in various scenarios”, we believe it would be good to obtain clarity on the circumstances in which the IVSC envisage the IVS terms of value will be applied. Paragraph 5 states that the illustrative examples are high-level in nature and may not reflect facts and circumstances in practice, which highlights that the practical application of the illustrative examples is limited.

   For regulatory purposes, practitioners will apply the relevant standard under which they are performing the valuation and this will take precedence over any IVS terminology and guidance. For commercial and advocacy purposes, practitioners will apply terms as commonly used in the market and as agreed with their client for the purposes of that particular valuation. Therefore, it is unclear where the IVS Bases of Value (and related illustrative examples) will be of practical use to practitioners.

2. We recognise that the diagrams are a helpful and clear way to explain the concepts and terms included in the ED. However, we note two points of confusion regarding the bases of value included in the paper:

   a. The IVS bases of value are not synonymous with the terms of value commonly used or applied in the market. For example, ‘special value’ is not a term used in the market but appears to be similar to synergistic or acquirer specific value. Introducing a new basis of value may cause confusion to some end users.

   b. Some of the bases of value included in the ED appear to cover several bases of value which is confusing to a user. For example, in Figure 3, investment value covers investment value to the
buyer as well as investment value to the seller. In practice, the two concepts can lead to very different values. In addition, IVS FV appears to potentially cover every basis of value included within the ED which does not provide the end user with any clarity as to the meaning or application of the IVS FV.

3. Having illustrations in the ED is helpful. However, they are simplified to a level that they do not reflect any real life scenarios and therefore do not provide practitioners with any insight or guidance on practical application. We suggest that examples included in the ED should focus on areas where there are different interpretations and applications of value in practice.

4. While the ED explicitly differentiated the IFRS FV basis of FV in order to differentiate it from IVS FV, we recommend that there should be a joint project alongside the IASB to explain and define fair value and provide some illustrative examples in the context of financial reporting.

Outside of the financial reporting framework, Market Value appears to be more widely used. It may be more meaningful to compare IVS FV with Market Value as Market Value is a broadly understood concept.

Overall, we feel that this ED in its current form does not meet its stated objectives. Further, we do not understand why the Board considers this project to be a priority in light of its current resources, nor do we believe the issuance of “educational” documents is furthering the goal of developing comprehensive global valuation standards. This document seems to be trying to provide guidance with which to interpret the provisions of the IVS framework which in our view should be issued in that form. As noted in our recent response to the CVA/DVA exposure draft, we are concerned with the lack of clarity in how the Board believes its guidance should be structured and believe there is a need to be disciplined in its approach. For those reasons we encourage the Board to focus its resources on more pressing matters, and not proceed with issuing this document.

We have provided responses to each of the specific questions in the ED. Our comments note some example areas where further guidance or clarification might be helpful.

If you have any questions on the content of this letter and the attached appendix, please do not hesitate to contact John Glynn, US Valuation Leader (+646 471 8420) or Romil Radia, UK Valuations partner (+44 20 7804 7899).

Yours faithfully,

PricewaterhouseCoopers LLP
Appendix A – Questions for Respondents

QUESTIONS

1. **Do you consider the differences among the IVS bases of value have been adequately illustrated? If not, what additional illustrations might be helpful?**

   In the current ED, we feel there is a lack of clarity around how certain bases of value have been illustrated. In particular, Fair Value as defined and illustrated by the IVSC is a broad term that can include other bases of value (e.g. Investment Value, Market Value) as shown in figure 3. In addition, some of the terminology such as Investment Value and Special Value is inconsistent with generally accepted valuation terminology. See below for feedback on specific terms.

   **Price / Value:** As already the principal definition of the three Bases of Value refer to the price of an asset or liability, it could be useful to introduce the chapter "Price, cost and value" earlier in the ED and refer to this when explaining the relationship between the price and the bases of value. In particular, Market Value seems to be based on an exchange concept between two unspecified willing parties, whereas Fair Value (IVS) is based on the price that reflects the respective interests of two identified knowledgeable and willing parties. These differences are not covered by the illustrations in detail.

   **Fair Value:** As illustrated in Figure 3, Fair Value can fall within a wide range of values as long as two identified knowledgeable and willing parties agree to a specific price. However, we believe this concept is difficult to illustrate relative to the other Bases of Value and will cause confusion among valuation practitioners. Since the definition of Fair Value implies a price from a transaction, we recommend removing Fair Value from Figure 3 and including additional language around how key assumptions from Fair Value transactions (e.g. implied multiples) can be used to determine other Bases of Value. For example, if a Fair Value transaction yielded a LTM EBITDA multiple of 6.0x, this data point could be used to determine Market Value or Investment Value, plus/minus adjustments to the multiple to account for the difference in the Bases of Value. This is akin to using an EBITDA multiple from a comparable transaction but adjusting the multiple to remove certain synergies included in the transaction price. In this example, the adjusted multiple could be used to derive an indication of Market Value/IFRS 13 Fair Value.

   **Investment Value:** Investment value to the owner (akin to Value in Use) and Investment value to the buyer (akin to Acquirer specific value) are very different concepts and are likely to result in different valuation assumptions and outputs. This is illustrated in Figure 3. Given that different concepts are defined by the same term, we recommend the IVSC include additional language in the ED that outlines the key assumptions (e.g. PV of cash flow from current use, market participant or buyer-specific synergies including revenue and cost savings synergies and discount rates with company-specific risk premiums) that could lead to differences in value if an entity was acquired. Said differently, Investment Value should be described as a building block or link to different bases of value as opposed to a specific basis of value.

   **Special Value:** We have some concerns that certain explanations of Special Value could lead to confusion. We understand that Special Value is an additional amount reflecting some but not all of a specific acquirer synergistic value.

   - In particular the difference to the latter is not clear from the IVS definition and we would recommend that this definition is clarified.
• If Special Value does not constitute a specific basis of value but rather adjustments to be made to the existing base of value, it would be clearer to say in paragraph 22: “Fair Value (IVS) that embeds Special Value will therefore normally fall between Market Value and Investment Value to the special purchaser.” However, the ‘Special Value’ discussion does not add to the ED in its current form so this should be reviewed in its entirety before any specific wording adjustments are considered. It might be neater to explain the various different components of value as set out above, and in that context Special Value might be argued to be akin to certain acquirer specific synergies.

• In the introductory section and Application examples, it is assumed that the Special Value is likely to be reflected in the price (paragraph 22 and Example 1 – Special Value). In contrast, Example 3 states that the value of an opportunity enabled by a specific acquirer should not find its way into the price, although there might be room for negotiations. While we realise that both statements lead ultimately to the same result of incorporating specific acquirer synergistic value to some extent, we believe more consistent statements could avoid confusion.

• Example 4, Chart 6: We understand that the specific synergistic value comprises the whole additional value that will accrue from ownership for a specific investor. Under this methodology, should the amount included in the purchase price (here 140 CU) therefore be denominated as Special Value? Would the consideration of the Specific Synergistic Value not arrive at the Investment value for this specific acquirer rather than Fair Value (IVS)?

• There is some lack of clarity in the market around what constitutes a buyer-specific synergy versus a market participant synergy. If a joint exercise with the IASB is undertaken to look at the differences between IVS FV and IFRS FV, it would be useful to include Illustrative examples to provide guidance on this point and help clarify to practitioners how they should conclude in these subjective areas.

Concepts and definitions need to be consistent throughout. It is not clear what is meant by the IVS Fair Value definition and this appears to be inconsistently used throughout the paper. For example Figure 3 illustrates the issue with the IVS Fair Value definition as it is so broad that it becomes confusing to the user when being applied in context of other bases of value.

Since the term “Fair Value” is applicable to valuations performed for financial reporting and other purposes across multiple jurisdictions, we recommend the Board clearly state in the ED that the IVSC’s definition of Fair Value (“FV”) does not supersede other definitions of FV. This point is particularly relevant in situations where the jurisdiction the valuation practitioner is located is different from the jurisdiction where the subject company has its primary operations.

We recognise that the Illustrative Examples do not form part of the International Valuation Standards and do not alter or amend any of the standards. We agree that it would be useful for practitioners to be able to refer to Illustrative Examples when applying the International Valuation Standards. However, these Illustrative Examples need to clearly show the issue at hand and provide a consistent methodology and framework throughout. We are concerned that the Illustrative Examples do not provide clarity in cases where application generally shows divergence in the industry – i.e. the ‘grey areas’.

In addition, the ED includes discussion around the importance of projected financial information (PFI) in understanding the bases of value. While PFI is certainly a key driver, there are other key assumptions (e.g. discount rates, effective tax rates, long-term growth rates, etc.) that should be discussed in the ED. Where applicable, we recommend the Board include additional language and illustrative examples of how of other valuation assumptions impact the bases of value.
2. Do you perceive any issues or unintended consequences arising from any of the illustrations? If you do, please explain what these are.

As a general observation we think there would be merit in the IVSC setting out more clearly its purpose and agenda to ensure that the status of documentation provided by the IVSC and its intended use is defined. In particular, whether the role of the IVSC is to provide application guidance in respect of the use and interpretation of existing standards or to develop its own parallel set of standards and definitions. We believe the former would be more useful than that latter.

We understand that the aim of the proposed Illustrative examples is to support the adoption and use of the International Valuation Standards (IVSs). Chapter 1 – Bases of Value is the first concept of the IVS Framework to be illustrated in a separate paper with further chapters to follow. As noted in previous response letters to the IVSC, we feel it would be useful to include some guidance as to the expected application of the ED, in particular how the terminology and concepts relate to other valuation guidance and standards already in existence. We have some concerns that concepts such as ‘IVS basis of value’, which spans a wide range of possible bases of valuation and ‘Special Value’, which appears akin to synergistic value, may be confusing to users.

One concern is that the definition of Fair Value (IVS) leads to confusion with IFRS 13 Fair value, the IPEVCG Guidelines or other widely used fair value concepts and sources of guidance. The ED adds complexity rather than adding clarity in this respect. As noted above, we recommend that, if IFRS 13 is going to be referenced in the ED, this is done so in conjunction with the IASB to ensure clarity and consistent guidance with respect to interpretation of IFRS.

3. Do you consider that there are any other differences between Market Value and IFRS 13 Fair Value that should be discussed and illustrated?

Since the objective of the ED is to illustrate the IVSC bases of value, we do not think a detailed discussion of IFRS should be included in this document. In practice, the two are often similar and the differences are relatively easy to understand and apply. As noted above, if a robust comparison between IVS FV and IFRS 13 FV is to be performed, this should be done jointly with the IASB in a separate document designed for that specific purpose.

Differences between Market Value and IFRS 13 Fair Value are limited to very specific circumstances (blockage factors, defensive value, please see paragraph 29), in contrast IAS 36 Value in Use is only mentioned in one paragraph and referred to as having some similarities with Investment Value. This leads to the ED in its current form being confusing to the reader. To simplify this, we recommend the Board include one sentence to mention the IFRS definition in the context of stating that IFRS 13 FV is a different basis of value to the IVS FV definition and may lead to a different valuation outcome.

4. Does the term “arm’s length” in the Market Value definition need explanation?

The term "Arm's length" is probably familiar to most of the targeted group of valuation practitioners. Nevertheless it could be helpful to include a IVS definition, in particular to avoid confusion with or confirm it is defined in the same way as the IFRS term.

5. Do you find the graphics in the document helpful in understanding the relationships between the bases of value and other pertinent concepts?

Overall the graphics are a clear and concise way to present the relationships between bases of value. Our summary point around confusion between the bases of value and relation to other guidance and standards remains. In addition, we have a few suggestions regarding single illustrations:
Figure 1 and 2: Whilst both figures are helpful, it could be made more clear that these two figures illustrate specific examples of the bases of value as opposed to the general relationship between the three principal bases of value (e.g. introductory sentence). We also recommend moving both figures after Figure 3 in the ED.

Figure 1: We recommend removing the “Investment Value” circle from the figure as it creates too much confusion. The focus of the figure and accompanying write-up should be on the difference between Fair Value (IVS) and Market Value.

Figure 3: as discussed above, we recommend removing Fair Value (IVS) from this Figure.

Figure 3: This is the most critical figure in the ED as it provides a good illustration of how the bases of value fit together. As such, we recommend moving this figure ahead of Figures 1 and 2 (see comments above). Also, paragraph 12 on pg. 5 mentions that cash flow and risk are key items that lead to different bases of value. To capture the risk component, we recommend including a footnote in Figure 3 that states “An assessment of the risk factors incorporated in PFI components should also be performed to ensure that the appropriate bases of value is used.”

Figure 4 – Change "Owner/Operator Assumptions" to "Owner/Buyer Assumptions"

Example 3 – Since the target was a supplier to the buyer prior to the transaction, we recommend including language around how the value of the pre-existing relationship was viewed in both the standalone valuation of the target and the value components that accrue to different buyer groups.

Example 3, chart 3 and 4: Is it necessary for the following explanations to differentiate between enablers of opportunities? Does the fact that the specific synergies are enabled by the target company together with the specific acquirer have an influence on the decision to include it (partly) in the purchase price?

Example 4, chart 6: Is 140 CU the Specific Synergistic Value or Special Value reflected in the purchase price? Would the Specific Synergistic Value not be 330 CU in this example (whole value of synergies to the specific acquirer)?

6. Below are examples of other topics within the scope of the Illustrative Examples project which the Board is planning to cover in future chapters:

- Market Participants
- Market
- Proper Marketing
- Forced Sales
- Assumptions and Special Assumptions
- Aggregation and Unit of Account
- Highest and Best Use
- Transaction Costs
- Valuation Date

Please indicate the perceived priorities from this list and if there are any additional concepts or issues within the IVS Framework that you believe it would be helpful to address.

We note that the topics listed above are particularly relevant to IFRS FV. As discussed above, we believe that any ‘compare and contrast’ document between the IVS FV and IFRS FV should be prepared in conjunction with the IASB. We are unclear as to the relevance of further discussion of the above topics if this is not with reference to the IFRS definitions and concepts.
Taking the above into consideration and assuming that this would be a joint endeavor with the IASB where appropriate, in our opinion it would be particularly useful to receive further guidance for and see the practical application of the following concepts:

1. Market Participants
2. Market
3. Assumptions and Special Assumptions

In addition, we see the need to prioritise the following topics in the Illustrative Examples project:

4. Highest and Best Use
5. Transaction Costs
6. Aggregation and unit of account