Apsis

Rio de Janeiro, April 19, 2011

MR. CHRIS THORNE
CHAIRMAN
INTERNATIONAL VALUATION STANDARDS COUNCIL

41 Moorgate

London

UNITED KINGDOM

EC2R 699

Email: CommentLetters@ivsc.org

Re: Exposure Draft related to Technical Information Paper 1 (DCF Method)

Dear Mr. Thorne,

Giving continuity to our efforts in becoming an IVSC sponsor, as discussed with Ms Tissier during our visit to IVSC Central Office two, APSIS CONSULTING is pleased to provide the attached comments on the above referenced topic.

In the meantime, we have already concluded the 1st step for the creation of IBAN (Brazilian Institute of Business Appraisers), which was supported by ANEFAC (National Association of Financial, Management and Accountant Executives). Besides all the activities demanded by the new born organization, we have placed a national research to evaluate the major challenges on 1st adoption of IFRS by the Brazilian companies. As soon as we finish the report, we will provide a hard copy to IVSC.

APSIS is a leading valuation business in Brazil with over 30 years of recognized experience and knowledge of the Brazilian M & A market, and we appreciate this opportunity to provide you with our feedback related to this important topic.

If you have any questions concerning our comments, please contact me at +55 (21) 2212-6850.

Sincerely,

LUIZ PAULO CÉSAR SILVEIRA
Diretor

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Technical information Paper 1 – Exposure Draft

Comments and Answers for the Questions for Respondents

1) This Exposure Draft states that the DCF method should not be judged on the basis of whether or not the explicit cash flow assumptions are ultimately realized but rather on the degree of market support for the assumptions at the time they were made.

Do you agree that the DCF method, if properly applied, can be used as a method to arrive at market value?

R.: Yes, we agree, if there is a structured process to gathering information from market participants, that can technically validate the assumptions adopted on the valuation. We also recommend a crosscheck with a second methodology, such as market comparable multiples.

2) The IVPB has concluded that although there may be distinct terms and types of analyses that apply respectively to real property valuations and business valuations, the underlying DCF method is identical in each case.

Do you agree that the underlying DCF method described in this paper applies equally to the valuation of real property and businesses? If not, please explain the differences that you believe exist?

R.: Yes we agree. The method is almost the same, despite de differences regarding the assets involved in each case, and the cash flows derived from each one.

3) This Exposure Draft states that the discount rate should be determined based on the risk associated with the cash flows (para 10), whether the DCF model is being used to determine a market value or investment value.

Do you agree, or do you consider that other matters should be taken into account in determining the appropriate discount rate?

R.: Yes, we agree. The discount rate calculated in a DCF model should represent, in theory, all the uncertainties related to cash flow projections. All the factors considered in discount rate calculation, such as equity risk premium, country risk premium, systematic risk (Beta) are, ultimately, a relative measure of increasing risk, starting from a risk free rate.

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4) A number of different methods are identified which can be applied to the calculation of the terminal value at the end of the cash flow period (growth, fading growth, net asset value, salvage value, etc). For long-life real property assets or going concern businesses the Board believes a constant growth model is the most commonly used method, coupled with a cross check for the reasonableness of the figure, eg by reference to the implied exit multiple.

Do you agree that the most commonly adopted terminal value calculation at the end of the explicit forecast period is the 'constant growth' model, cross-checked for sensibility to an implied capitalisation rate or exit multiple? If not please identify what other method you most commonly use?

R.: Yes, we agree, as it is really the most commonly used method.

5) The Exposure Draft explains that cash flows can be developed on the basis of alternative financial assumptions, eg inclusive or exclusive of anticipated inflation, inclusive or exclusive of tax etc. Providing the discount rate used is consistent with the financial assumptions in the cash flows the valuation result should not be affected by the alternative used.

Do you agree that providing a discount rate is used that is consistent with the financial assumptions made in calculating the cash flows that the choice of using explicit or implicit financial assumptions in the cash flows should not affect the valuation result?

R.: Yes, we agree, but a special attention should be given to specific tax policies as well to other financial assumptions adopted by the market participants in each country, before choosing the most suitable model and assumptions.

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6) This Exposure Draft is intended to identify best practice in the creation and application of discounted cash flow models. The Board has made the decision not to explain in detail the types of inputs that may be used in different situations or the investigations that may be appropriate. Neither are illustrative examples provided. The preliminary view of the Board is that detailed discussion of inputs or a limited range of examples is inappropriate because it could be misleading if it led readers to believe that these models were endorsed by IVSC or conversely, variations of these models in different situations were not appropriate. There are many industry specific sources for those who require training in the development and use of relevant DCF models.

Do you agree that more detailed discussion and examples of the valuation inputs into a discounted cash flow model are inappropriate? If not how much additional information do you think should be included in best practice guidance?

R**.: No, we do not agree. Best practice should consider practical examples of applications, focusing the historical mistaken interpretation of the rules. We suggest a view like FAQ (Frequent Asked Questions) or FMI (Frequent Misinterpretations Identified). As IFRS are related to the "essence over shape" concept, real examples starting from common situations to less common, would help on well understanding and better application.**

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