June 28, 2019

International Valuation Standards Council
IVS 2017 Additional Technical Revisions Exposure Draft

To Whom It May Concern:

This letter is in response to the IVS 2017 Additional Technical Revisions Exposure Draft issued March 28, 2019.

On behalf of the Valuations Committee of DFK Canada, please accept our submission for recommendations regarding the proposed changes to IVS 2017 Additional Technical Revisions Exposure Draft.

DFK Canada Inc. is a national association of independent accounting firms representing over 115 partners and 550 staff. DFK International is a top 10 international association of independent accounting firms and business advisors, representing approximately 220 member firms across 92 countries.

Please contact us with any questions

Yours very truly,

Ron L. Martindale Jr, CPA, CA, LPA, CBV, CFF, Davis Martindale LLP, 519 673-1341 x1209

Andrea Harris, CPA, CA, CBV, Buckberger Baerg & Partners LLP, 306 657-8992

Kody Wilson, CPA, CA, CBV, GGFL LLP, 613 694-4486

Lloyd Compton, CPA, CA, CBV, MRSB Group, 902 368-2643

Ryan Buist, MBA, CBV, Taylor Leibow LLP, 905 523-0000 x379

Question 1

We see the benefits of harmonizing valuation standards from the perspective that a harmonized approach would increase uniformity and clarity of standards and reports among users on a global scale. However, from our experience within small to mid-sized local/regional firms, the industries and clients which we service does not garner significant volume of cross-border valuation work. As such, the benefits to firms our size, within Canada, would be limited and we would not see a use for a consistent global standard.

We can see that multinational firms may find it beneficial, and as such, could support it from that perspective. We can see a benefit to having a possible middle ground for the proposed standards which defines important or key terms (such as client, intended user) and omits less important terms such as assignment or confidential.

Question 2

We think that this is a term that is less important to define than other terms. However, we do not have any issues with the proposed definition for the term Agreement.

Question 3

We think that the term Confidential is less important to define and also that the definition is somewhat redundant in that it is self-explanatory. To elaborate, the definition may be too specific, since clients do not always specify that information received is confidential as it is assumed to be confidential. Therefore, confidential information may need a broader definition such as *anything received from a client that is not otherwise publicly available*.

Question 4

Yes, we believe these terms should be clearly defined. We believe they are necessary as the valuation conclusion reached may differ depending on the intended use, user, and purpose. Therefore, it is important that the user knows in what context the report is being prepared. Also, from the perspective of providing restrictions to the reports use it is important to define the user to be able to distinguish for whom the report is being prepared. This limits who may and may not be able to rely on the conclusion.

Question 5

We would agree that the definition in Section 50.1 should be updated to “should” from “must”, to account for specific situations. However, we have some concerns that need to be rectified prior to accepting this change. It is of the utmost importance that this change in no way diminishes the work product and it would be appropriate that the valuator would have the appropriate technical skill to complete the engagement, while acknowledging that the valuator may not have experience in a certain geographical area at the time of accepting the engagement.

We would also expect that any area where the valuator did not have the requisite knowledge at the time of accepting the engagement, such knowledge would be obtained during the process of the engagement and certainly before the issuance of a draft report.

We suggest a proposed update to the definition as follows:
Valuations must be prepared by an individual or firm having the appropriate technical skills. The preparer must obtain knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation prior to issuing a formal report. In addition, valuations should be prepared by an individual or firm with experience of the subject of the valuation, if such experience is available to the individual or firm.

Question 6

We are in general agreement with the proposed changes in Section 20.4 related to inputs received by the valuator from management/ owners of the company. It may be necessary to define the scope further to account for the various levels of reports, as the consider/investigate/corroborate expectations change significantly as the level of reporting increases from a calculation to an estimate to a comprehensive report.

We would expect a different level of consideration, investigation, and/ or corroboration for a higher level of reporting and such intense scrutiny is likely not required for a calculation report. We are of the opinion that some professional skepticism is required at the calculation level and the reporting standard and definitions should reflect this.

Question 7

We would certainly agree that the intended use of the report must be added to IVS 102, given the overall importance to the valuation engagement undertaken and necessity for users to understand the valuators understanding of the use of the report. We believe that among other things, this would help deter improper use and dissemination of the report by the client without the valuators consent.

It would also be helpful to require the report to state that the valuation conclusion could change should the intended use/user differ as it may bring new facts to light and it alerts the user to a specific purpose of the report.

Question 8 through 11

We agree they should be addressed, however we have nothing to add.

Question 12

Yes, we anticipate that modeling for valuation purposes will become more common in the future, and it is therefore important to develop clear definitions and standards surrounding their use. Without clear standards, there is a risk that valuators may use Automated Valuation Model (“AVM”) results at face value, without fully understanding their workings and limitations.

Question 13

Yes, we believe that IVS should define the term valuation model. Listed below is a proposed definition. As valuation models are a relatively new concept, it is important to reevaluate any adopted definitions regularly to ensure they remain relevant and up-to-date.

Valuation Model – a tool for analysis that provides a summary regarding the valuation of a subject business or group of assets. A valuation model may be automated, semi-automated or manual. Most valuation models calculate a subject asset's value at a specific point in time by analyzing the subject asset's specific financial components, comparable market transactions, and/or rules of thumb.

Question 14

Yes, it is important to distinguish that a "valuation calculation" is different from a calculation level valuation report issued under Standard 110 of the CBV Institute Standards. For this reason, we recommend that the IVS refer to a "valuation calculation" under a different name, such as a *valuation computation* or a *valuation conclusion*. Listed below is a proposed definition:

Valuation Computation/Conclusion – a determination of the value of a subject business or group of assets.

Question 15

Yes, valuators should be held accountable and responsible for the output of the model, to the extent it is *relied on* as part of a valuation conclusion, and *included* in the valuation report.

The following are two possible examples where a CBV may not be held accountable for a valuation model:

- <u>Example #1</u>: When a valuator determines the value of a subject asset and uses AVM as a secondary check. If the AVM is included in the report as support for the valuation conclusion, the valuator should be responsible for the output of the model. If, however, the AVM conclusion is not included in the report (for example, a calculation "off to the side"), the valuator should not necessarily be responsible for the output. This treatment would be consistent with other secondary checks, such as rules of thumb; and
- <u>Example #2</u>: A CBV uses an AVM for consulting purposes, and the engagement is not under CICBV/IVS standards, the CBV should not be responsible for the output of the model under the IVS framework.

Question 16

The following are some of the regulations surrounding document records that we are aware of:

- Canada Revenue Agency: 6 year minimum;
- Internal Revenue Service: 3 year minimum; and
- CBV Institute: 5 year minimum (based on practice inspections occurring every four years).

As a general rule, the longer a file or model is maintained for, the better. DFK members have experienced instances where records 10 years (or older) were required for various circumstances. As storage is becoming more available and affordable, this should not be a challenge for most practices.

Question 17

Yes, to the extent described in questions 15 and 16.

Question 18

We agree it should be addressed, however we have nothing to add.