June 28, 2019

International Valuation Standards Council
4 Lombard Street
LONDON EC3V 9AA
United Kingdom

Reference: ***IVS 2017 Additional Technical Revisions Exposure Draft***

Dear Technical Director:

Duff & Phelps is pleased to provide a response to the above-referenced Exposure Draft.

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, investigations, dispute, cyber security, compliance and regulatory matters, and other governance-related issues. Our valuation advice is sought by hundreds of global clients annually as we work with them in developing pragmatic solutions for applying fair value techniques.

We support the idea of a set of harmonized global valuation standards and we appreciate the IVSC Boards' efforts in working to improve IVS.

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We have provided comments below that we hope are constructive and helpful in making additional technical revisions to IVS 2017.

IVS Glossary

Question 1: Do you believe that IVS should seek to harmonise valuation standards with other standards such as CUSPAP and USPAP? If so, please discuss why you think the harmonisation of valuation standards is necessary.

Question 2: Do you believe that IVS should define the term Assignment? If so, please discuss why you think the additional definition is necessary.

Question 3: Do you believe that IVS should define the term Confidential? If so, please discuss why you think the additional definition is necessary.

Question 4: Do you believe that IVS should define the terms Client, Intended Use, Intended User, and Purpose? If so, please discuss why you think the additional definitions are necessary.

D&P Response:

Standards - In general, we support the idea of harmonizing IVS with other VPO standards.

With respect to any IVS-USPAP harmonization efforts, care should be taken in recognizing that USPAP has evolved from real estate appraisal, and while it has been broadened to include business and intangibles appraisal, IVS is much more heavily focused on business valuation in its core. Also, IVS includes additional asset classes (e.g. financial instruments). A harmonization effort could also be an opportunity to further streamline and simplify USPAP, if and where feasible.

Implementation Guidance - To the extent various VPO standards include implementation guidance, the IVSC needs to clarify what its objective will be in this harmonization process. It is our understanding that the implementation guidance is to be within the remit of the VPO members of the IVSC. Is this still the case, and if so, is the harmonization effort intended to stop at the “standards level”?

Definitions - While harmonizing definitions amongst different standards would be beneficial (and especially in standards of VPOs that are under the IVSC umbrella), we do not believe that the IVSC needs to follow USPAP as the primary or exclusive source for definitions for the reasons stated above.

IVS Framework

Question 5: Should IVS change Section 50.1 to a "*should*"? If not, please provide your reasons.

D&P Response: We do not believe the Board should change Section 50.1 from "must" to "should". This can greatly compromise valuation quality. It is meaningless to have global harmonized valuation standards if they are not applied by qualified valuation professionals.

Rather than lowering the standard, the IVSC should assist in building up the local VPOs that can in turn appropriately educate and train the local valuation professionals.

IVS 102 Investigations and Compliance

Question 6 (*from the body of the document*): Should IVS change Section 20.4 to state "Inputs provided to the valuer (e.g., by management/owners), should be considered, investigated and/or corroborated."? If not, please provide your reasons.

Question 6 (*from the back of the document*): Should IVS change Section 20.4 to state "Relevant Inputs"? If not, please provide your reasons.

D&P Response: It is not clear which Question 6 the Board intended to invite comments on.

We do not believe the word "significant" used in describing inputs should be removed. Whether an input is s*ignificant* requires professional judgment (and should not be confused with *material*, which is not an assessment that a valuer should make). Notwithstanding the judgment required for *significant* inputs, we think that this concept is will understood, and in general, many aspects of the valuation process require judgment. It should also be noted that references to *significance/significant* are also prevalent in the valuation professional literature, for example:

- **Mandatory Performance Framework for the CEIV Credential**: multiple references to *significant* inputs, data, assumptions, estimates, etc.
- **IFRS 3 and ASC 820**: multiple references to *significant* inputs; *significant* adjustments to the measurement, etc.

Removing the word "significant" and stating the requirement in par. 20.4 for inputs generally is too broad, as the valuer would presumably be required to investigate and corroborate all inputs indiscriminately, without consideration of significance or relevance.

Also note that the word *corroborate* (see par. 20.4) means different things to different people. It could be interpreted as an audit-like tracing and verification of the input or it can be interpreted as a reasonableness check. Please consider this in determining whether this term should be replaced.

Separately, note that the revisions to par. 20.4 on page 11 of the ED do not consistently show the changes made. The word “significant” is missing altogether rather than being shown as a deletion. This makes reliance on the redlined portions of the ED problematic.

IVS 103 Reporting

Question 7: Must a report that is the result of an assignment involving the valuation of an asset or assets, in addition to the other requirements stated above, also convey the intended use? If not, please provide your reasoning.

D&P Response: Yes, a report must specify its intended use. This is both a common practice and a common requirement in other valuation and performance standards.

IVS 104 Bases of Value

Question 8: Should IVS 2017 use the term ‘allocation of value’ or ‘apportionment of value’ or both?

Question 9: Should it be mandatory for the valuer to state the reason for the sum of the assets/components being greater or less than the whole as stated in 220.3? If not, please provide your reasoning.

Question 10: Section 220.4 states that “*If the value of the asset includes an element of assemblage value or portfolio premium/discount the valuer must report the overall value separately from the value of the individual assets or components.”* Are there any instances where you feel that this is not the case, if so, please provide examples?

Question 11: Section 220 has been drafted to apply to all specialisms. Should additional information be Included within the Assets Standards for Business Valuation, Financial Instruments or Tangible Assets? If yes, please provide examples of the initial information to be included.

D&P Response: We believe the issue of portfolio premium/discount; assemblage value; sum of the parts vs. aggregate value; assignment of value to the components of a group - as the topic might be described in many ways - is a complex issue that does not lend itself to a simple amendment and must be addressed in separate standard setting.

Whether it is even appropriate to “allocate” the value of the whole to its component parts depends on, among other things, the unit of account required for the measurement, the valuation premise, and stated measurement attribute. In addition, whether the valuer may consider the individual components or the whole may depend on the available data and the valuation technique(s) used.

In general, it would be better to use a term that describes a less mechanical “allocation” process – such as *assignment* or *attribution*.

Par. 220.3 may be imposing additional requirements where they may not exist and where reporting both the value of the components and the value of the whole are not required by the valuation assignment or by governing standard requiring the valuation, as differences in value could be a function of many factors, some of which were referenced above. This is unnecessary and may have unintended consequences.

- For example, pursuant to proposed par. 220.3, in a purchase price allocation the valuer would be required to provide the *fair value of the business*, independent of the purchase price (which may or may not approximate the fair value of the purchase price).

Par. 220.4 is also too broad. Here as well, this may introduce a sweeping requirement to report component and aggregate values and create an additional burden - when in fact this may not be required and relevant to the valuation assignment or by the legal and regulatory requirements underlying the valuation. A broad requirement also oversimplifies the factors that may cause differences between the components and the whole, which include but are not limited to, unit of account, valuation premise, and the required measurement attribute. A disclosure that overlooks the impact of these factors may create more confusion than transparency.

Finally, the Board needs to be more specific about the circumstances it wishes to address when discussing “allocation of value”. These circumstances may be limited to specific valuation specialisms and valuation purposes, and generalizing that differences may or may not exist, and requiring disclosures, may not be appropriate.

- For example, the overall equity value in a business enterprise may not always equal the sum of a controlling interest and the remaining non-controlling interest in the enterprise, as these are different units of account which may have different attributes in the context of a business combination. That is, the overall residual value of the equity in the enterprise is a unit of account that may have different attributes from *interests in the enterprise*. In that regard, the attributes of a noncontrolling interest may include lack of control and/or lack of marketability, which may either not apply to the overall enterprise (equity) or might apply to a much lesser degree.

In summary, the Board needs to further discuss the issues, the factors at play, examine the circumstances and valuation specialisms where such amendments may be helpful and meaningful, and should also provide a basis for such amendments.

IVS 105 Valuation Approaches and Methods

Question 12: Do you think that IVS should include a section within the General Standards on Modelling for Valuation purposes? If not, please provide your reasoning.

Question 13: Do you believe that IVS should define the term valuation model? If so, please suggest a definition and discuss why you think the additional definition is necessary.

Question 14: Do you believe that IVS should define the term valuation calculation? If so, please suggest a definition and discuss why you think the additional definition is necessary.

Question 15: Section 90.2 states that "*When using a valuation model the valuer must take responsibility for the output of valuation model...."* Are there any instances where you feel that this is not the case, if so, please provide examples?

Question 16: Section 90.2 also states that "*When using a valuation model the valuer must.... keep appropriate records to support the selection of the model."* How long are you required to keep valuation records in the market(s) in which you operate? Please provide details of any relevant valuation record keeping legislation within the market(s) in which you operate.

Question 17: Do you agree with Section 80.3 that "*when using a valuation model the valuer must take responsibility for the output of valuation model and keep appropriate records to support the selection of the model?*" If not, please provide instances when this is not the case.

Question 18: Do you feel that additional valuation standards on valuation modelling are required within the Asset Standards (ie IVS 200 Business and Business Interests, IVS 400 Real Property Interests, IVS 500 Financial Instruments)? If so, please provide an indication of the proposed content and where within the IVS Asset Standards you think this additional content should be contained?

D&P Response: The Board should first explain in more detail why it believes a broad standard on valuation modeling is necessary; how it defines valuation modeling/valuation model; what type of "models" it has in mind; what type of guidance it contemplates to include in such standard; and what type of valuation or service activities it might be targeting with this guidance.

Also consider the following:

- Should a distinction be made between specialized software vs. an Excel model (created by the valuer or valuer's firm)? And the same question posed for a "black box" vs. a reasonably transparent Excel model?
- Is the Board primarily targeting valuation services, pricing services, or "calculations" using "black box" models?
- Would the Board's concern be addressed by narrowing the specific problem it is trying to solve, rather than issuing too broad a guidance that may result in

confusion? Use of AVMs is clearly one of the specific issues the Board has identified.

In general, one might argue that any mathematical operation performed by a valuation professional, underpinned by valuation techniques, involving quantitative inputs and qualitative judgments, considering all relevant factors, with the objective of arriving at a valuation conclusion, is "valuation modeling". While this is a very wide description, perhaps the crucial points here are:

1) A *valuation professional* is performing the work…
2) …while applying *professional judgment* and considering *all relevant factors*…
3) …resulting in a *conclusion of value*, rather than a calculation output.

It seems that the Board's concerns stem from the potential of failure along one or more of these crucial points. These key points underlie any valuation analysis, with or without reference to modeling. As such, perhaps the Board should be emphasizing the importance of these critical points, rather than creating a broad standard on modeling.

In addition:

Question 14 poses an issue that is independent of and/or not unique to modeling, and that can be addressed on a standalone basis. We believe that a calculation is not a valuation primarily because the valuer is precluded from one or more of the following: selecting the inputs; choosing the valuation techniques; and fully exercising professional judgment, among other factors. Rather, the valuer is instructed to conduct the analysis using specific inputs, techniques, etc. As such, these procedures do not rise to the level of a valuation analysis resulting in a valuation opinion but constitute a "limited" analysis. It should be clearly communicated when an analysis is a calculation or a limited analysis rather than a valuation.

Other standards and best practices have addressed this issue, including but not limited to:

- **AICPA's VS 100** - defines a calculation engagement;
- **USPAP's** *Scope of Work Rule* - addresses the required extent of research and analysis;
- **Mandatory Performance Framework for the CEIV Credential** - describes the concept of a limited analysis (vs. a complete analysis).

Separately:

- The definition of Valuation Modelling in Par. 90.1 seems insufficient. What kind of "tool" is being referenced? A program? A calculator?
- The current proposed language in paragraphs 90 to 90.3 does not read well:
    - Par. 90.1 - missing word?
    - Par. 90.3 - the bullets do not flow from the main statement: i.e., try reading the main statement followed by each individual bullet, one by one; **c)** does not work.

Also, it is not clear why in par. 90 a reference is made to IVS Framework par. 50.1 – 50.3 (*Competence*), but not to IVS Framework par. 10 (*Compliance with Standards*), IVS 101 (*Scope of Work*), or IVS 102 (*Investigations and Compliance*). Elements of these IVS standards also seem relevant considering the current guidance in USPAP Advisory Opinion 18, *Use of an Automated Valuation Model*, and USPAP Advisory Opinion 37, *Computer Assisted Valuation Tools* – assuming the Board was contemplating including similar explanatory guidance in IVS as what exists in USPAP. If the Board decides to refer to the above-mentioned IVS standards, there needs to be a deeper discussion of the reason for the references, like USPAP does.

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We would be pleased to further discuss our comments with the IVSC staff. Please direct any questions to me via the contact information set forth below.

Sincerely,

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