

April 15, 2016

International Valuation Standards Board  
1 King Street  
London EC2V 8AU  
United Kingdom

**Re: IVS 210: Intangible Assets Exposure Draft**

Dear Sir/Madam :

I am Robert H. Herz, former Chairman of the Financial Accounting Standards, former member of the International Accounting Standards Board, a long-time audit partner, and currently a director and audit committee member of several companies and a member of several oversight and advisory councils to standard setting and regulatory organizations. I am pleased to respond to your exposure draft (ED) IVS 210: *Intangible Assets*. While I am not an appraiser or valuation specialist, I have been extensively involved in the valuation of intangible assets for many years as an auditor, as an accounting standards setter, as a director and audit committee member, and as an expert witness.

At the outset, I would like to commend the International Valuation Standards Board (the Board) for developing and issuing this ED, as well as the other three exposure drafts on *Introduction & Framework*, *Bases of Value*, and *Valuation Approaches*. I believe that collectively these represent an important step towards enhancing international valuation standards.

Overall, I found the ED on intangible assets to be a quality proposal that is well written and organized and easy to understand. Nonetheless, I offer a few comments and suggestions for your consideration. First, with regard to the scope of the principles and requirements in the ED, while paragraph 10.1 appears to set forth a broad scope, the examples in paragraph 20.3 left me wondering whether “softer” intangibles not directly tied to legal or contractual rights such as brands and those arising from human capital are meant to be covered by the ED. I also wondered whether valuations of in process research and development (IPR&D) is meant to be covered by this ED.

Second, while the ED explains the key features of and differences between various valuation approaches and methods and key steps in performing valuations using each method, as a standard setter I found that examples of the application of different methods and techniques are helpful to constituents. If there are concerns that examples might be inappropriately used as templates to be mechanically followed, I suggest they be educational and explanatory and provided as supplementary, non-authoritative guidance.

A real world issue that I have encountered a number of times in regard to valuations of intangible assets done by a valuation specialist engaged by management of a company in connection with the required purchase price allocation of an acquiree for financial reporting purposes relates to the extent of responsibility taken and procedures performed by the valuation specialist and by the company's independent auditor on the accuracy and soundness of the information used in developing the

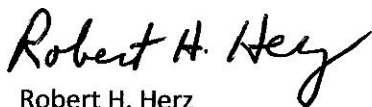
intangible asset valuations. For example, who takes responsibility for the ensuring the reasonableness of the prospective financial information provided by management that is used by the valuation specialist in applying income approaches to value intangible assets? I have seen varied practices among valuation specialists in the extent of work performed to gain comfort with the information provided by management and instances of confusion and disagreements between management, the valuation specialist, and the auditor on who takes what responsibility for ensuring the accuracy or soundness of the information used in developing the valuations.

While I recognize that this is a “performance “ matter that may be beyond the purview of the Board and that may be more appropriately addressed elsewhere within the IVSC, I believe it is an important issue that can adversely impact the effectiveness, cost, and quality of the valuation process performed for financial reporting purposes and the auditing of the resulting information. As you are probably aware, in recent years audit regulators in various parts of the world have found recurring deficiencies in the auditing of fair value information, including in the audit procedures performed on valuations of intangible assets developed by valuation specialists, and both the International Auditing and Assurance Board and the U.S. Public Company Accounting Oversight Board have ongoing standard setting projects in this area. I also understand that in the U.S., the American Institute of Certified Public Accountants is working with certain appraisal organizations on performance standards in this area and will be focusing on the use of prospective financial information in the valuation process. I encourage the IVSC to closely monitor these developments and to try to work with auditing standard setters and regulators to address the issues that are encountered in the use and auditing of valuations performed for financial reporting purposes, including the nature and extent of responsibility taken by the valuation specialist and the auditor for the information used in developing the valuations.

Finally, while I commend the Board for including a Basis for Conclusions in its exposure drafts, the Basis in this ED is rather brief and does not seem to address what I would have thought were a number of important issues discussed by the Board in developing the proposal. Accordingly, I would recommend and expect a more thorough and robust Basis for Conclusions in the final standard.

Please feel free to contact me with any questions on the contents of this letter.

Yours faithfully,

A handwritten signature in black ink that reads "Robert H. Herz". The signature is written in a cursive, flowing style.

Robert H. Herz