IVS 2017 Introduction and Framework, BV Committee comments

(1) In IVS 2013, all substantive portions of the standards were labeled as "commentary" (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standards were mandatory. The Board's position is that all aspects of IVS 2017 should be mandatory and this exposure draft has removed the "commentary" label for clarity. Do you agree with the removal of the commentary label?

We agree that the "commentary" label should be removed for clarity.

(2) Do you agree with the Board's decision to remove the section on Bases of Value from the IVS Framework and produce a single chapter on Bases of Value in order to clarify the mandatory nature of this section and to avoid repeating certain guidance throughout the IVS? If not, why?

We agree that the Bases of Value should be presented in a separate chapter in IVS to avoid any confusion from repeating throughout IVS.

(3) Do you agree with the Board's decision to remove the section on Valuation Approaches from the IVS Framework and produce a single chapter on valuation approaches and methodologies in order to clarify the mandatory nature of this section and to avoid repeating certain guidance throughout the IVS? If not, why?

We agree that the Valuation Approaches should be presented in a separate chapter in IVS to avoid any confusion from repeating throughout IVS.

IVS 104: Bases of Value

(a) Do you agree that valuers should be responsible for choosing the appropriate basis (or bases) of value according to the terms and purposes of the valuation assignment, and that the basis of value may not be one defined by the IVSC? If not, why?

Yes, we agree that valuers should be responsible for choosing the appropriate basis (or bases) of value according to the terms and purpose of the valuation assignment, and that the basis of value may not be one defined by the IVSC.

Yes, we agree however, there will be times when the valuer must obtain advice from legal counsel or another specialist to interpret the issues that influence the selection of the basis of value.21

(b) Prior versions of international valuation standards included Special Value as a separate and distinct basis of value. The Board generally believes that valuers seldom perform valuations using Special Value as a distinct basis of value. Rather, valuations are typically performed using another basis of value predicated on certain hypothetical assumptions ("special assumptions") or a specific purchaser (resulting in synergistic value). Do you agree with the removal of Special Value as a separate and distinct basis of value? If not, please describe the circumstances in which you use Special Value as a distinct basis of value?

We agree with the removal of *Special Value* as a distinct basis of value for the reasons cited.
Yes, we agree.

(c) The IVSC has retitled the previously defined Fair Value as Equitable Value in order to avoid confusion with other definitions of Fair Value. Do you agree with the change, if not why not?

We agree with the IVSC's decision to retitle the previously defined *Fair Value* as *Equitable Value* in order to avoid confusion with definitions of Fair Value.
Yes, we agree.

(d) Liquidation Value has been added as an additional basis of value. Do you agree with its inclusion within IVS 2017 and are you in accordance with the definition used? If not, why not?

We agree with the inclusion of *Liquidation Value* as an additional basis of value.
Yes, we agree.

(e) Replacement Value has been added as an additional basis of value. Do you agree with its inclusion within IVS 2017 and are you in accordance with the definition used? If not, why not?

We agree with the inclusion of *Replacement Value* as an additional basis of value.
Yes, we agree.

(f) Are there other bases of value defined by other entities/organizations that should be mentioned in IVS 104? Which ones? Why?
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No.
No. In fact we think that the IVSC should avoid trying to be comprehensive in stating and defining all known standards/bases of value in use around the world. The main point has been made regarding the fact that the valuer should apply a professional level of care to the selection of the basis of value to any particular assignment.

IVS 105: Valuation Approaches and Methods

Currently, IVS 105 is mandatory from top to bottom. However, there is much in this chapter which should not be mandatory. In some respects, certain segments are more prospective tutorial in nature, and belong in a more extended class rather than in mandatory guidance that the IVSC hopes to make universal around the world. Therefore our recommendation is to reorganize this guidance into "mandatory" and "recommended" sections.
"Mandatory" portions would be principles-based guidance
"Recommended" portions could be more rules-based suggestions
Currently, the guidance in IVS 105 is a mixture of rules and principles, with all of them being "mandatory".

(a) Do you agree that when selecting an appropriate valuation approaches and methods a valuer should consider the following?

1. The appropriate bases of value, determined by the terms and purpose of the valuation assignment,
2. The respective strengths and weaknesses of the possible valuation approaches and methods,
3. The appropriateness of each method in view of the nature of the asset, and the approaches or methods used by participants in the relevant market,
4. The availability of reliable information needed to apply the method(s) and
5. If not why? What considerations would you add to or remove from this list?

We agree with the provisions spelled out in the first question, especially the concept of applying the approaches and methods used by participants in the relevant market.

(b) Under each valuation approach, this exposure draft includes criteria for when the approach should be used. Do you agree with the criteria presented under ach approach? If not, what changes would you make? Why?

We question the idea that it is possible for the IVSC to require when a particular approach should be the primary approach in a given circumstance.

(c) Are there areas of this chapter that you feel should be expanded upon in future board projects (eg, discount rates, discounts/premiums, etc)?

We recommend that the IVSC break the IVS 105 guidance into two sections:

a) mandatory, but principles-based guidance, and
b) recommended, or educational guidance that can be more specific, but can also be adapted over time as theory and practice evolve.

Specific sections in the IVS 105 guidance with which the ASA Business Valuation Standards Committee takes particular exception to are the "Other Market Approach Considerations" (30.16

through 30.18), dogma with regard to financial theory (40.5, 50.5), and the discussion about discount rates (60.9 – 60.11).

IVS 210: Intangible Assets

(a) In IVS 2013, all substantive portions of IVS 210 Intangible Assets were labeled as "commentary" (except for scope and effective date). This label seems to have created some confusion amongst stake holders as to whether the standard was mandatory. The Board's position is that all aspects of IVS 2017 should be mandatory and this Exposure Draft has removed the "commentary" label for clarity. Do you agree with the removal of the commentary label?

We agree that the commentary label should be removed for clarity if it is the intention of the Board to include all aspects of IVS 210 as mandatory.

(b) Do you agree with the decision to incorporate relevant portions of TIP 3 into IVS 210 and to eliminate TIP3 as the standalone document? Are there any other elements of TIPS 3 that you believe should be incorporated into IVS 210?

No, we do not agree with the incorporation of portions of TIP 3 into IVS 210 because the inclusion begins to cause the standard to be more "proscriptive" as a "how to" rather than be an effective standard. For example, the Exposure Draft has two and one-half pages describing how to apply the Excess Earnings Method and another page describing the key steps in applying the Relief From Royalty Method. To further our point, we question why a standard would describe specific steps in how to apply the Greenfield and Distributor Methods to measure the value of intangible assets. The detailed steps are fact and circumstances-based and "best practices" and should be left to the discretion of "appraiser" or "valuer", not incorporated into a standard.

(c) In addition to the contents of IVS 105, this Exposure Draft includes criteria that should be used by an appraiser in selecting an appropriate valuation approach and method for the valuation of intangible assets. Do you agree with the criteria present under each approach? If no, what changes would you make? Why?

We disagree with the criteria listed under the cost approach as these criteria relate primarily to valuations in financial reporting. There may be purposes where the cost approach can be appropriate without these considerations.

(d) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of intangible assets regardless of the purpose of the valuation (financial reporting, tax transactions, litigation, etc.) Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?

We agree as long as the standard makes clear that the purpose of the valuation is the overriding consideration and that the methods are secondary based upon facts and circumstances.