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Via email: commentletters@ivsc.org

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

Re: IVS 210: Intangible Assets Exposure Draft
Comments from Globalview Advisors LLC

Dear IVSC Representatives:

The valuation professionals at Globalview Advisors LLC appreciate the efforts of the International Valuation Standards Council, its staff and others participating in the development of the exposure draft on "*IVS 210: Intangible Assets*" ("IA Exposure Draft"). This is an important endeavor. We believe the exposure draft advances the quality and depth of understanding of key concepts pertaining to intangible asset valuation and that divergence in practice in developing valuations and the resulting valuation estimates will be reduced.

Globalview Advisors is pleased to provide comments on the IA Exposure Draft.

1. *Question (a) Removal of commentary label* – Overall, the IA Exposure Draft seems to reflect valuation factors pertaining to intangible asset valuations prepared for financial reporting. Our sense is that the content of this financial reporting guidance is most likely relevant for valuations prepared for a variety of valuation purposes. Given this, the removal of the commentary label is reasonable. See suggestions below at question 4 for further thoughts to enhance this draft.

2. *Question (b) Eliminate TIP 3 and incorporate certain elements into IA Exposure Draft* – This document goes beyond providing general standards for intangible asset valuation and provides a high level overview of technical issues pertaining to the valuation of intangibles. The technical discussion is high level and not sufficient to provide an appraiser that does not already perform these projects the information needed to successfully complete intangibles valuation projects. Language noting this should be incorporated into the document. Also, given the international audience for this document, inclusion (or perhaps a separate document) of a bibliography with references to existing guidance in intangibles

valuation from The Appraisal Foundation, AICPA and possibly other sources might be merited.

3. *Question (c) Valuation approach and method* – See any comments included below.

4. *Question (d) Applicability beyond financial reporting* – The IA Exposure Draft reflects available guidance pertaining to valuations for financial reporting. Efforts to rewrite (frequently expand or broaden discussion) at various points throughout would increase the relevance of this document for intangible valuations for purposes other than financial reporting. An example of an area for expansion might include the customer valuation discussion pertaining to attrition. Further elaboration on the valuation of existing customers as this meets asset recognition criteria, whereas, future customers do not meet accounting requirements to be considered an asset might be helpful to readers. Also, some discussion to note that litigation related valuations may depend on specific factors unique to the court jurisdiction and the litigated matter at hand would be helpful. Similarly, a note on differences in tax treatment of intangibles compared to financial reporting treatment of intangibles may be helpful to readers without significant experience in intangibles valuation.

   In a variety of areas, the document seems to be written with an assumption that the reader has moderate to a relatively high level familiarity with intangibles valuation. Adding further descriptive language and background may be helpful to potential users.

5. *Page 5, 10.1* – "Valuations with an intangible assets component" should be clarified. Most ongoing business enterprises have intangible assets as a component of value. As written, this language might suggest valuation of specific intangible assets; however, this is often not required in the valuation of an ongoing business enterprise.

6. *Page 5, 20.1* – Use of a definition identical to that included in IFRS would increase consistency with other recognized guidance.

7. *Page 5, 20.3(b)* – The language "right to benefits such as royalties" does not add much to the listing of intangible assets. Many artistic intangibles will generate benefits from income streams other than royalties.

8. *Page 5, 20.4* – Suggest elimination.

9. *Page 5, 20.5* – Suggest elimination of “thoroughly” and “sufficiently” from sentence.

10. *Page 6, 20.6* – Goodwill may be viewed differently by a variety of parties. The language on goodwill reflects financial reporting guidance. Many individuals that are not aware of the financial reporting guidance may view goodwill as encompassing certain intangible assets (See IGBVT definition as an example). Expansion of the document to reflect these alternative definitions is suggested.

11. *Page 6, 20.7* – The contractual and separability criteria are extremely complex. As noted these are relevant for IFRS and US GAAP valuations. Inclusion of this language may make this document too financial reporting specific. Rather than further clarifying the two criteria, elimination of the language would seem appropriate as this language provides a very limited understanding. If retained, language to note that this is provided in accounting guidance for asset recognition may be merited.

12. *Page 6, 20.8(a)* – Revision to clarify that synergies may be revenue, expense synergies or possible other synergies is suggested. Including examples under each of these three groups would be helpful.

13. *Page 6, 20.8(b)* – This seems to be an example of revenue synergies and inclusion under 20.8(a) would be helpful to readers.

14. *Page 6, 20.8(e)* – Clarification of assemblage and going concern terms would be helpful to readers.

15. *Page 6, 20.9* – Second sentence beginning “however” is difficult to follow. Also, might want to clarify / provide example(s) of intangible assets associated with machinery and equipment. Is this software embedded in a piece of equipment?

16. *Page 7, 20.10* – Suggest deletion of word “sole”.

17. *Page 8, 40.2(a)* – Might consider changing income to revenue. Also, add language noting that changes would lead to increased cash flow.

18. *Page 8, 40.3* – “”Income related to intangible assets is frequently included . . .” Suggest revision to indicate focus on the possible contribution of intangible

asset(s) to revenue generation. Increased revenues could be from increases in price charged (P) or quantity sold (Q) or both.

19. *Page 9, 60.1* – Suggest expansion from “other assets” to be more specific to mention working capital, fixed assets and intangible assets needed to support operations.

20. *Page 9, 60.2* – This paragraph doesn’t add much to the material and could be deleted.

21. *Page 9, 60.5* – Inclusion of the language on the single-period excess earnings method can be deleted as this is a subset of the excess-earnings method which has been described.

22. *Page 9, 60.7* – Suggest referencing only excess-earnings method and exclude references to single, multi and capitalised.

23. *Page 11, 70.2* – Suggest changing from “. . . key steps to . . .” to “. . . key steps in applying . . .”

24. *Page 11, 70.2(b)* – Suggest change from comparable to guideline here and in various other places in the document.

25. *Page 11, 70.2(d)* – May want to expand language to discuss gross vs. net license agreements and gross vs. net royalty rates and implications on the valuation model.

26. *Page 13, 80* – In our experience, the With-and-Without Method (WWM) is more frequently observed than Premium Profit Method. While WWM is mentioned in the Contributory Asset Charge document issued by The Appraisal Foundation, we do not believe the Premium Profit Method is mentioned. Also, in many cases, focus is on cash flows rather than profit. Also, we have terms income, earnings and now profit that may (or may not) be intended to reflect similar benefit streams.

27. *Page 14, 100.2* – “. . . it identifies the incremental or “excess” cash flow associated with the subject asset.” While this sentence might be technically correct, it isn’t really descriptive of the method and could confuse less experienced readers. Suggest deletion.

28. *Page 15, 100.2* – May wish to expand this paragraph to clarify or delete.

29. *Page 18, 130.4* – The concept of “buy vs. build” is widely accepted in making various business decisions. The cost approach is reflective of the “build” scenario and arguably would also be considered by an informed party considering the creation “build” or purchase “buy” of an intangible. This would suggest that, in some/many cases, a cost approach might be applied to confirm the reasonableness of the valuation based on the “buy” scenario. We view the RFR Method as essentially a “buy” model that is most frequently employed. Given challenges associated with identification of meaningfully comparable guideline royalty transactions as well as challenges with the application of the RFR Method, we believe the reference “. . . a valuer should make every effort to identify an alternative method . . .” is overly strong and could influence appraisers to avoid the cost approach when it should be appropriately employed.

    Also, in considering the RFR Method, the potential scalability of an internal use asset creates concerns in the application of this method. Internal use software could be highly scalable. An RFR Method might produce dramatically different values for an internal use asset depending on the revenue base. These differences would not be expected from a cost approach based valuation.

30. *Page 18, 140.3(a)* – As written, this seems to suggest overhead is a direct cost. It should be included but the sentence can be rewritten to avoid suggesting overhead is a direct rather than an allocated cost.

31. *Page 18, 140.3(b)* – This paragraph should also reference functional (technical) obsolescence in addition to economic obsolescence.

32. *Page 18, 140.3(c)* – As the provision for profit is added to estimated costs, this would reflect a profit mark-up rather than a profit margin. Profit margin is most frequently expressed as a percentage of revenues and not as a percentage of costs.

33. *Page 18, 140.3(d)* – Suggest the language be clarified to note that opportunity costs might be appropriate for inclusion in the event the asset is not quickly replaced. Also the term “associated costs” isn’t very clear – this should focus on the lost profits over the time to replace.

34. *Page 20, 170.5* – The sentence should be revised and section modified and/or expanded. The sentence refers to measurement but items a) and b) are not forms

of measurement but rather choices of attrition pattern to apply. Items c), d) and e) are considerations in the attrition measurement process.

35. *Page 20, 170.5(a)* – In a large number of cases, customer attrition rates decline the longer a set of customer relationships are in place. Given undue cost and burden considerations, constant percentage rates of loss are frequently applied. As the sentence is presented, it could suggest that constant rate of loss is not applied except in a few circumstances.

36. *Page 20, 170.5(c)* – Suggest addition of a sentence to note that customer count attrition might be appropriate for larger customer bases where customers generally provide similar revenues (an example might be subscribers to a magazine). Attrition for advertisers would probably be best measured using revenue attrition as revenues for different advertisers may vary markedly.

37. *Page 20, 170.5(e)* – Suggest clarification pertaining to the word “period”. Many might initially view this as how many years of data needs to be considered, whereas, the focus is on what period of time without revenues would lead to a conclusion of customer loss.

38. *Page 21, 170.6(a)-* The word “the” should be added after “on”

39. *Page 21, 170.7* – The discussion should be expanded to clarify that some customers may have growing revenues whereas others may have declining revenues or may disappear altogether. Test should note that best practice is to exclude the growth from the attrition measurement – attrition rates and growth rates should be disaggregated and estimated separately for the existing customer base. May note that although customer count attrition excludes the potential impact of growth in the attrition measurements, its treatment of all customers equally when revenue may vary markedly is a critical shortcoming.

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40. *Page 21, 180.1-* Suggest adding “and effectively increasing cash flows” after “taxpayer’s tax burden.”

41. *Page 22, 180.3* – There is general agreement that assets have the same value regardless of the form of transaction for the acquisition. Suggest paragraph be revised to reflect this perspective.

Thank you for the opportunity to provide these comments.

Sincerely,
GLOBALVIEW ADVISORS LLC

Raymond Rath

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