IVS Exposure Draft

Response to invitation to comment on IVS 2017 : Introduction & Framework

7 July 2016

Contents

Response to Questions for Respondents

In your Exposure Draft (publication date 7 April 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our response to your questions at the start of the Exposure Draft below.

In summary, we are in agreement with your approach but we would emphasise the importance that the Introduction and Framework explicitly sets what aspects, chapters, topics etc are mandatory for a valuer to follow to ensure that the valuations is in line with IVS. Although this is stated in each relevant section or chapter, we believe it is important to explicitly state this upfront.

Comments on your specific questions:

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

Yes, we agree that it clarifies the standard by removing the portions labelled commentary. This is backed up and clarified by the rest of the Exposure Draft which states quite clearly that the standards are mandatory and any Departures "are not permitted in valuations performed in accordance with IVS".

b) 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 this is a necessary clarification and that a valuation would still be in accordance with IVS when there are departures due to legislative, regulatory or other authoritative requirements. We have commented separately on Exposure Drafts Introduction & Framework; IVS 104 : Bases of Value; IVS 105 : Valuation Approaches and Methods; and IVS 210 : Intangible Assets but we highlight in our comments to IVS 105 : Valuation Approaches and Methods that when selecting an appropriate approach and method a valuer should consider the appropriate bases of value and the terms and purpose of the valuation assignment. In addition, the valuer will need to consider whether the approach and method is governed by any legal and/or regulatory guidance which may set out, implicitly or explicitly, a certain valuation approach or method which the valuer will need to adopt. We therefore believe that it is important that you highlight that deviations due to legislative, regulatory or other authoritative requirements will not preclude the valuation from being in accordance with IVS.

(c) 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?

Yes, we agree with this decision. In addition, we would suggest that separate chapters on approaches to discount rates (including with reference to public market benchmarks when valuing private companies) and discounts/premiums to be included in both the market and income approaches is considered for future projects.

(d) Do you agree with the IVS definition of Exceptions and Departures? If not, why?

Yes, we agree with this definition and, as commented above, we consider it important that it is stated that legislative, regulatory and other authoritative requirements do not mean that the valuation is not in line with IVS.

IVS Exposure Draft

Response to invitation to comment on IVS 104 : Bases of Value

7 July 2016

Contents

Response to Questions for Respondents

In your Exposure Draft (publication date 7 April 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our comments on the Exposure Draft in the next section giving background to our comments and where relevant a proposed alternative and/or additional wording. You have also asked specific questions at the start of the Exposure Draft which we have commented on below.

Comments on your specific questions:

1.1. a) Do you 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? If not, why not?

Yes, we agree that valuers should be responsible for choosing the appropriate basis, agreeing this with their client/instructing body as appropriate. We would also expect the valuer to adopt the basis selection and the rationale by reference to existing widely recognised literature – i.e. what is said in this standard about IVSC bases and other bodies' bases of values.

We agree that the option to choose bases of valuation that have not been defined by the IVSC should be retained. Although we consider that this would be unusual, it is reasonable that another basis of valuation could be required. The valuer should clearly state what basis of value has been adopted and the underpinning assumptions that entails, for example with reference to why it is different to the market value standard.

It would be helpful to clarify the valuers responsibilities where they are instructed to adopt a bases of valuation. Although this will be unusual, in certain cases, for example contentious work where the valuer is instructed to value on a particular basis, the valuer may be instructed by another expert to adopt a certain basis of value. Does the valuer have any responsibility for the basis of valuation adopted?

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.

Although we do not disagree with the Board's conclusion, our preference would be that "Special Value" is not removed. We recognise that the use of this approach is rarely used in name but it does help to have a defined term for where a valuer is required to depart from an IVSC Fair or Market Value concept. That is, it helps define what is and is not in the Market or Fair Value basis of value.

(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 this change, if not, why not?

We understand the proposition for this change, but consider there are positives and negatives to the suggestion.

The positive being the IVS definition being distinct from IFRS definition.

However, our concern on the negative side is that there could be confusion as the name change will not be reflected in the large number of contracts that are currently in place, or are currently being drafted, where Fair Value was used with an eye to IVSC. This gives rise to the situation (in some commercial or contentious contractual situations which refer to a "Fair Value") where the IFRS definition could end up being used where IVS definition was intended (i.e. a value that is fair to both parties opposed the "fair value" under IFRS). Although we believe that *valuers will adopt the changes relatively quickly, other professionals such as lawyers and judges could find the change confusing. Further consideration should be given to mitigate this potential issue.*

In addition, the word "Equitable" could have a particular connotation, often being understood to mean Equal or Even which could be different from "just" or "fair"; which is required by the basis of value.

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

We agree with the inclusion of Liquidation Value and the definition. However, we would consider it helpful if additional clarification was provided as there are potentially negative connotations around the term liquidation which may not be the intention of the basis of value. For example, individual assets or groups of assets sold on a piecemeal basis, assuming an orderly transaction with a typical marketing period, should not necessarily be valued at a discount to their fair or market value; it is simply that their value would not reflect any ongoing benefit from their use in concert with other assets. In order to avoid a valuer misinterpreting this basis of value, we consider that further clarification would be helpful.

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

We agree with the inclusion of Replacement Value. However, in our experience, valuers will often think of replacement value for tangible assets only and so we believe that there would be a benefit to expanding the definition to make reference to tangible and intangible assets (where the cost to replace or "design around" is sometimes neglected). As currently worded the definition does not preclude this, but does not make it clear whether such intangible assets should be included.

(f) Are there other bases of value defined by other entities / organisations that should be mentioned in IVS 104? Which ones? Why?

There are no other bases of value that we believe should be mentioned in IVS 104.

Specific comments on the Exposure Draft

2.1. **Paragraph 10.5** – "Most bases of value prohibit the consideration of information or market sentiment that would not be known or knowable on the measurement/valuation date by typical participants."

Comment: *We would prefer the wording "known or reasonably contemplatable" to "known or knowable" as we consider that it is important that this is linked to what would be reasonable for a typical participant to know rather than what we consider to be a wider remit of any potential information that could be found. The word knowable could be interpreted as any information available despite it being highly unlikely that the information or data would be considered relevant at the date of the transaction or highly unlikely to be discovered unless the participant had previous knowledge of the information being available. Examples would be useful in guidance.*

2.2. **Paragraph 30.1** – "Market Value is the estimated amount for which and asset or liability should exchange on the valuation date between a willing buyer and willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Comment 1: *Guidance as to how the definition of Market Value is different (or not) to the price that could be achieved on the sale of the asset in the market at the given valuation date would be useful*

Comment 2*: It would be helpful if further guidance was provided as to what would constitute "Proper Marketing" as in our experience there is no common view on this term. It may be helpful to make reference to liquidity and market activity such as the wording set out in IVSC 2013 paragraphs 15 to 17 and paragraph 54 and examples provided with respect to liquid and illiquid assets from the perspective of the willing buyer and willing seller Further, guidance how the proper marketing period interacts with information as of the valuation date (i.e. point in time / valuation date market information vs a sale process where the price is somewhat set in advance of the completion).*

2.3. **Paragraph 30.3** – "The Market Value of an asset will reflect its highest and best use."

Comment: *We recognise that this has not changed from the 2013 standards but there remains some uncertainty and or contention around "Market Value of an asset will reflect its highest and best use". An example is whether a transaction premium is applied which can cause a disconnect between the price achieved through a listing of a majority of the company's shares on a stock exchange versus the sale of a majority of the company's shares to one or more buyers who may potentially pay a premium for control/synergistic benefits. It would therefore be helpful if further guidance was provided on how to interpret this definition.*

A further example could be in the case of businesses dependent on valuable real estate assets where, the break-up of the business is more valuable than its current use.

2.4. **Paragraph 60 & 70** – "IVS – Defined Basis of Value – Investment Value/Worth and Synergistic Value."

Comment: *As we stated in 1.1 (b) above, we would prefer Special Value to remain as a defined term within IVS 104. If it is concluded that Special Value is removed as a distinct basis of value then we would find it helpful if paragraphs 60 and 70 could be elaborated to explain how these two bases (Investment and Synergistic) relate to Market and Fair Value.*

2.5. **Paragraph 180** – "Premise of Value – Forced Sale"

Comment: *As this paragraph is currently drafted, it could suggest that if an asset has not been "properly marketed" then that implies a "forced sale". It would be helpful to clarify the distinction between the two concepts and possible drawing a distinction to paragraph 30.1. Also, it is conceivable that conditions exist whereby proper marketing can take place, but that the market knows the seller is under some compulsion to sell (e.g. some managed distress situations) which should be explained by the valuer and how this has impacted the value.*

2.6. **Paragraph 190.1** – “Entity Specific Factors ”

__Comment__: It would be helpful if each of the items noted contained an example of and how this would impact value. This may also make reference to whether the factor is unique or uncommon. An example would be, an Irish domiciled pharmaceutical company which has multinational operations would gain a tax benefit which due to where it is domiciled. Should this be considered to be an “Entity Specific Factor”? It would therefore help if the paragraph was expanded to help the reader understand how to consider if something is entity specific.

2.7. **Paragraph 210.3** – “Assumptions related to facts are consistent with, or could be consistent with, those existing at the date of valuation may be the result of a limitation on the extent of the investigations or enquiries undertaken by the valuer. Example of such assumptions include,….. ”

__Comment:__ In legal processes we often see a basis of valuation where it is assumed “that all the classes of shares are treated equally (i.e. no account is given for the rights or restrictions to particularly classes of shares)”. It would be helpful if this was included as another example given that we have seen this in practice.

2.8. **Paragraph 210.5** – “Assumptions and special assumptions must be reasonable and relevant having regard to the purpose for which the valuation is required.”

__Comment:__ This helps to support the point that we have raised above in paragraph 190.1 Entity Specific Factors. However, a reader may see some confusion and/or contradiction to paragraph 30.3 which states Market Value will be the “highest and best use”. We believe that it would be helpful for there to be a requirement for a valuer to state in their valuation why assumptions and special assumptions are relevant and why it is reasonable to make these assumptions. In addition to explaining why the assumption is reasonable we would suggest including wording such as “supported by appropriate evidence” to avoid unsupportable subjective judgements.

2.9. **Paragraph 220.2 -** “However, a valuer may need to consider transaction costs when determining highest and best use, the market for a transaction, and the likely market participants.”

There is ambiguity here as to when transaction costs should be included/excluded. Guidance as to which bases do not include transaction costs and which do (or which circumstances do) would be very beneficial.

Deloitte.

IVS Exposure Draft

Global Deloitte response to invitation to comment on IVS 105 : Valuation Approaches and Methods

7 July 2016

Contents

1 Response to Questions for Respondents

In your Exposure Draft (publication date 7 April 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our comments on the Exposure Draft in the next section giving background to our comments and where relevant a proposed alternative and/or additional wording. You have also asked specific questions at the start of the Exposure Draft which we have commented on below.

Comments on your specific questions:

1.1 Q (1): Do you agree that when selecting an appropriate valuation approaches and methods a valuer should consider the following:

a) the appropriate bases of value, determined by the terms and purposes of the valuation assignment,

Yes, we agree that this is an important consideration when selecting an appropriate valuation approach. However, we consider that it may be helpful to explicitly state that when selecting an appropriate valuation approach, the terms and purpose of the valuation assignment may be set by legal and/or regulatory guidance which may set out, implicitly or explicitly, a certain valuation approach or method which the valuer will need to adopt. Further, as noted in our specific comments, we consider that wherever possible more than one approach should be adopted and valuation results under each method reconciled to reach a reasoned valuation conclusion. We provide further comments in the next section.

b) the respective strengths and weaknesses of the possible valuation approaches and methods,

Yes. We agree that the valuer should adopt the most appropriate approaches and methods and in concluding what is the most appropriate then the respective strengths and weakness should be considered. Again, noting that more than one approach should be considered/adopted where appropriate. Where only one approach is adopted, the valuer should clearly explain why this is the case.

c) 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,

Yes. The nature of the asset is fundamental to determining the most appropriate approach or method. The nature of an asset will mean that the appropriate approach(es) or method(s) is determined by factors such as industry norms, available market information, value drivers etc. which the valuer will need to consider.

d) the availability of reliable information needed to apply the method(s), and

Yes. However, this implies that if information is available but not reliable then a specific bases of value could not be adopted. For example, high level forecasts may not be robust and therefore this would mean that an income approach is not adopted or treated with scepticism. An alternative approach may to work with the preparers of the forecasts to expand and/or extend the detail of the forecasts to increase their reliability making them more robust for the valuation exercise. It would be helpful to include some commentary that sometimes the valuer may need to work with management/the owner of the asset to expand or improve the information that is available to make a certain bases of value more robust.

e) if not, why? What considerations would you add to or remove from the list?

We have covered this in our comments above.

1.2 Q (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 each approach? If no, what changes would you make? Why?

Our specific comments on the Exposure Draft are set out in the next section.

1.3 Q(c): Are there areas of this chapter that you feel should be expanded upon in future projects (e.g. discount rates, discounts/premiums, etc.)?

Yes. We would find it helpful if a separate chapter on approaches for discount rates (including with reference to public market benchmarks when valuing private companies) and discounts/premiums to be included in both the market and income approaches was considered for future projects.

2 Specific comments on the Exposure Draft

2.1. Generally

Comment: *In general, guidance as to how the approaches used (and adjustments made) link the bases of value (i.e. IVS 104) should be included throughout this chapter.*

2.2. **Paragraph 10.4** – "Valuers are not required to use more than one method of valuation of an asset, particularly when the valuer has a high degree of confidence in the accuracy and reliability of a single method"

Comment: *Given that valuations is not an exact science, as best practice and in order to produce a robust valuation conclusion, we would recommend that more than one valuation method should be considered. It would be beneficial to comment that a valuer should typically cross check the valuation conclusion to other methods wherever possible. This is in part covered by paragraph 10.6, but in isolation, paragraph 10.4 could be interpreted that normal practice is to use one method only. This would bring the Exposure Draft more in line with topic 820/IFRS 13 which suggests that multiple approaches should be considered.*

2.3. **Paragraph 10.7** – Valuers should maximise the use of observable market information in all three approaches.

Comment: We consider that a valuer should also consider the relevance of the observable market information and would therefore suggest the following wording "Valuers should maximise the use of observable ***relevant*** *market information* ***(explaining the relevance and comparability of such information)*** *…"*

2.4. **Paragraph 10.8** – "Although no one approach or method is applicable in all circumstances, price information from an active market is generally considered to be the strongest evidence of value."

Comment: *It would be helpful to define the term "active market" and comment on approach or guidance for when there is no market. In addition, if the asset is unique or at a very early stage in its development then guidance to the approach to adopt would be helpful to allow the valuer to reach a robust valuation conclusion. Some guidance may be gained by referring to other standards such as IVS 500 – Financial Instruments and/or IASB Expert Advisory Panel – Measuring and disclosing the fair value of financial instruments in markets that are no longer active.*

Further, guidance could be considered with respect to the consideration to be given to comparability of market data (used for both market multiples and inputs to a discount rate) to that of the subject entity. In an extreme example a multi-billion dollar tech company may, or may not, be relevant in assessing the value of a small niche technology company.

The Market approach

2.5. Generally

Comment: *This should also be linked to the basis of value, and in particular the "market value basis", giving examples where relevant as to how the evidence is used and /or adjusted under the "market value" bases.*

As an example; with respect to "after proper marketing", "where the parties had each acted knowledgeably, prudently", "without compulsion", etc.

2.6. **Paragraph 20.2 (b)** – "the asset or substantially similar assets are actively publicly traded, and"

Comment: *Should this make reference to a listing on a primary exchange? There are often liquidity issues with listings on other exchanges. In addition, certain primary exchanges have different prices for foreign investments or a lack of liquidity which may impact value. If a less liquid exchange is used, a comment as to what further adjustments may be required would be beneficial.*

Further, as indicated above, guidance as to how "similar" is defined should be considered.

2.7. **Paragraph 20.3 (a) to (d)** – "(a) Transactions involving the subject asset or substantially similar assets are not recent enough considering the level of volatility in the market

(b) the asset or substantially similar assets are publicly traded, but not actively,

(c) information on the market transactions is available, but the comparable assets have significant differences to the subject asset, potentially requiring subjective adjustments,"

Comment: *Including examples for (a) to (c) would be useful to the reader as has been included in (d) and (e) in this paragraph.*

This point goes to similarity of the subject asset to market data. It is sometime more intuitive for a valuer to rationalise/reconcile changes in the company (financial, operational performance, etc) and the market for broadly comparable assets from the time of a transaction in the company to the valuation date than it is to fully address comparability of publicly traded assets.

"(d) Information on recent transactions is not reliable (i.e., hearsay, missing information, synergistic purchaser, not arm's length, distressed sale, etc.),"

Comment: *The information from recent transactions may not be reliable and/or it may not be relevant. For example if the information is based on an informal offer or press gossip then it may make it less reliable. If the information is based on a non-arm's-length transaction or a fire sale it is potentially less relevant. It is important that the valuer assesses the basis of valuation when considering whether a transaction is relevant and clearly explain the reasons why.*

2.8. **Paragraph 20.5 –** "….It will often be necessary to make adjustments based on the comparative analysis. Those adjustments must be reasonable and valuers must document the reasons for the adjustments and how they were quantified."

Comment: *Is reasonable the right word? This is judgmental and so "supportable/measurable" may be a more appropriate when preparing valuations for financial reporting or fiscal purposes.*

2.9. **Paragraph 30.3 –** "When considering listings or offers to buy or sell, the weight afforded to the listings/offer price should consider the level of commitment inherent in the price. For example, an offer that represents a commitment to purchase or sell an asset at a given price may be given more weight than a quoted price without such a commitment."

Comment: *This point is not clear; an example would be useful.*

Paragraph 30.4 – "A few of the common units in comparison used in business valuation include price/EBITDA multiples, price/earnings multiples and price/revenue multiples. Financial instrument valuations often consider metrics such as yields and interest spreads. The units of comparison used by the market participants can differ between the asset classes and even across industries and geographies."

Comment: *Instead of price, we would expect the wording to be more specific and state enterprise value or equity value where appropriate. In addition, should this also include balance sheet metrics such as price/NAV and price/capital employed to avoid valuers limiting their focus to income statement metrics?*

2.10. **Paragraph 30.7 (c)** – "transactions that happen closer to the valuation date are more representative of the market at that date than older/dated transactions"

Comment: *We would consider that the comparability of the transaction is as important as proximity. If you agree, it would be helpful to clarify this by stating "based on hypothetically identical transactions, transactions that…." so that the valuer considers the comparability of the transaction. This is on the premise that a transaction in the asset in question one year ago (or more) may be more relevant than a transaction in a comparable asset yesterday. See comments on paragraph 20.3 above.*

2.11. **Paragraph 30.8** – "A professional should make adjustments for any material differences between the comparable transactions and the subject asset. Examples of common differences that warrant adjustments may include, but are not limited to…"

Comment: *In point (a), or as a separate point, we would also expect to see reference to the amount/percentage of the asset transacted.*

Examples or guidance in respect to how such adjustments are made, generally, would be useful.

2.12. **Paragraph 30.15** – "As prices in traded markets will generally incorporate credit risk, incremental credit risk adjustments may not be required. If prices do require adjustment for credit risk, these adjustments should be computed based on market observable information such as CDS rates and credit spreads"

Comment: *Examples would be helpful to clarify this point.*

2.13. **Paragraph 30.18** – "The fundamental basis for making adjustments in the market approach is to adjust for differences between the subject asset and the guideline transactions or publicly traded securities. Some of the most common adjustments made in the market approach are known as discounts and premiums."

Comment: *We consider that there are two parts to this and it would be helpful to highlight that there are 1) adjustments to the subject asset for differences between the subject asset and the asset being valued such as set out 30.14 and 2) adjustments for the ownership percentage or liquidity of the asset being valued. In addition, further explanation in the paragraph would be helpful to explain why they should be considered, in what circumstances they affect value and in what circumstances they would be considered.*

The Income approach

2.14. **Paragraph 40.2** – "The income approach should be used as the primary basis of a valuation under the following circumstances:"

Comment: *Care needs to be given here, that the valuer does consider commercial reality with respect to market metrics / other approaches, reasonable required rates of return and reasonableness of projections. That is, a valuer has to be cautious that the income approach is not "gamed" by aggressive or prudent projections.*

2.15. **Paragraph 40.5** – "Generally, investors can only expect to be compensated for systematic risk (also known as market risk or undiversifiable risk). For example, although it is more risky to invest in only one asset (or asset class) rather than to invest in a diversified portfolio of assets, rates of return on single assets would not be expected to exceed rates of return on the portfolio, all else being equal."

Comment: *This is not fully clear to us. An example would be useful and linkage to the bases of value chapter IVS 104.*

Further, this may be something that is covered better in a separate chapter, such as discount rates, but some comment would be helpful on financial risk where companies have artificially high leverage due to the funding structure, for example private equity backed companies.

2.16. **Paragraph 50.13** – "As required by para 50.12, regardless of the source of the PFI (e.g. management forecast), a valuer must perform analysis to evaluate the PFI… "

Comment: *It would be helpful to give further guidance to recommend that the PFI could be benchmarked to industry growth reports, metrics such as profit margins implied by comparable listed companies, economic reports etc.*

2.17. **Paragraph 50.17** – "These different types of cash flow often reflect different levels of risk and may require different discount rates……A single most likely set of cash flows may be conditional on certain future events and therefore could reflect different risks and warrant a different discount rate."

Comment: *We agree that it is important for the valuer to appropriately balance the risk from future cash flows against the return that those cash flows will provide. Regardless of whether they are one set of cash flows or probability weighted expected cash flows, the important point is that the valuer needs to assess whether the cash flows are the expected cash flows or have some aspirational or conservative bias in them which would impact the discount rate that is applied. It is important to highlight that adjustments may need to be made to the cash flows rather than only changing the discount rate to avoid discount rates being applied that are significantly different to what would generally be expected in that sector or for similar assets. This again highlights the need to consider more than one valuation approach, wherever relevant.*

2.18. **Paragraph 60.2** – "the terminal value should consider the following:"

Comment: *We would consider it helpful to include a specific comment on balance sheet items and the impact on the terminal value. The terminal value should include a normalised level of balance sheet items such as working* *capital and capital expenditure and this should be explicitly brought out. In addition, there are other approaches such as Superfinite Normal which it would be helpful to make reference to or state that there are other approaches.*

Cost Approach

2.19. **Paragraph 80.12** – "An asset acquired from a third party would presumably reflect their costs associated with creating the asset as well as some form of profit margin to provide a return on their investment. As such, under bases of value that assume a hypothetical transaction, it may be appropriate to include an assumed profit margin on certain costs which can be expressed as a target profit, either a lump sum or a percentage return on cost or value."

Comment: *Further guidance is required here and how this relates to the bases of value chapter IVS 104 and in particular with respect to the willing buyer / seller and market view.*

IVS Exposure Draft

Response to invitation to comment on
IVS 210: Intangible Assets

7 July 2016

Contents

Response to Questions for Respondents

In your Exposure Draft (publication date 7 April 2016), you have invited individuals and organisations to comment on all matters in the proposed update. We have included our comments on the Exposure Draft in the next section giving background to our comments and where relevant a proposed alternative and/or additional wording. You have also asked specific questions at the start of the Exposure Draft which we have commented on below.

Comments on your specific questions:

a) In IVS 2013, all substantive portions of IVS 210 *Intangible Assets* were labelled as "commentary" (except for scope and effective date). This label seems to have created some confusion amongst stakeholders 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?

Yes, we agree in the removal of the commentary label. As the guidance is meant to be general in nature, and is meant to assist arguably those new to valuations, the removal of 'commentary' is helpful. The continued non-use of mandatory is helpful, as given the unique nature of individual intangible assets it is not possible to provide an all-inclusive list of considerations that must be made.

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

Yes, in principle we agree. The development of a single document on the topic of intangible assets is useful and will help reduce any confusion as to what is authoritative or non-authoritative. We do not note any particular aspects of TIP3 that should be incorporated into IVS 210.

(c) In addition to the contents of IVS 105, this Exposure Drat 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 presented under each approach? If no, what changes would you make? Why?

Broadly speaking the criteria listed are appropriate. However, it should be made clear that the facts and circumstances of the valuation purpose, the valuation subject and the available quality of information will be paramount in determining the most relevant valuation methodology.

(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?

The level of guidance in terms of being a broad framework (which is required given the uniqueness of intangible assets) for the review of potential methodologies can be used across purposes – as it is the underlying assumptions (e.g., fair value on a market participant basis, arm's length principle) that will likely drive the underlying requirement of the valuation – given the specific purposes and definition of value. We note that it should be made clear that the requirements of a specific valuation may trump those suggested in the Exposure Draft (e.g., a specific clause in a legal agreement setting a specific valuation methodology). However, the valuer should be able to explain the obvious deviation and therefore still be in alignment with the Exposure Draft. Further, we note that the examples provided in para 20.3 are those from a financial reporting aspect and although illustrative the Board should consider adjusting the language to move to a more general example.

Specific comments on the Exposure Draft

2.1. Pa**ragraph 60.9 –** "… investment return a typical market participant would require…"

Comment: *We note the use of 'market participant' in the Exposure Draft which, as arguably a specific of financial reporting under IFRS and US GAAP, is not appropriate for a standard which is meant to be agnostic to the underlying purpose of the valuation. Within the Exposure Draft the term 'market participant' is used more than once and the same general comment applies in each circumstance.*

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2.2. **Paragraphs 107.5 through 107.8**

Comment: *We think some of the guidance suggested is too specific and is more appropriately addressed in existing guidance provided by organisations such as the Appraisal Foundation. The Board should consider if it is appropriate to provide application guidance in a standard that is meant to be a more general framework.*

2.3. Paragraph 140.3 (d) – "… opportunity costs may also be included, which recognises that deploying assets in the recreation of the subject intangible assets may have certain associated costs."

Comment: *It would be helpful if it was clarified that a time period of lost profits should be considered in additional to more traditional opportunity costs.*

2.4. Paragraph 160.3 (e) – "… Similar to other investments, intangible assets with longer lives are often considered to have higher risk."

Comment: *This could be potentially misleading and may cause an inexperienced valuer/review of valuations to draw unreasonable conclusions. There are several examples of long lived intangibles that may not have (in isolation) a higher risk profile. Some examples include contracts to supply parts to an aerospace & defence platform where the expected production of, say, an aircraft is over numerous years or the assessment of a newly patented pharmaceutical.*