Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters covering the 55 countries listed in the Appendix and serving more than 6,000 members who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of the standards related to valuation especially in Canada (an international Financial Reporting Standards “IFRS” country), where we are incorporated, as well as in the United States, which has, at the moment, many of our members.

Before commenting on each particular Exposure Draft we wish to put on record that IACVA, like all established Valuation Professional Organizations (VPOs) has long-established standards dealing with ethics and professional competencies; those include a case study, examinations, Continuing Professional Development (CPD) and Quality Control (which is missing from the Framework).

With respect to the naming protocol, we find it confusing to have no number for the Framework and the same numbers in the separate series for IPS and IVS. We suggest that the IVSC have only one set of standards starting with IVSC 1-100 for the Framework for International Professional Standards followed by 1-101, etc. the IVS series would be IVSC 2-100 for Introduction & Framework, followed by 2-101, etc.
This comment letter is one of a set of four covering the following documents “IVS 2017: Introduction & Framework”, “IVS 104 Bases of Value”, “IVS 105 Valuation Approaches and Methods” and “IVS 210 Intangible Assets”.

Our responses to the indicated questions in the Exposure Draft “IVS 2017: Introduction & Framework” are set out below, followed by detailed comments on certain lines of the text. Incidentally, some standards have their questions numbered; this one uses lower case letters, is there a reason?

**Questions**

(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 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?

As set out in our comments on the Exposure Drafts IPS 101, 102, 103, 104, 105 & 201, IACVA does not believe that standards should consist of text and commentary on the text. Our view is that, to avoid confusion, all commentaries should be integrated into the relevant text.

(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 concur with the decision to establish a separate standard IVS:104 Bases of Value.

(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?

We agree with the decision to establish a separate standard IVS:105 Valuation Approaches and Method.

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

The *Framework* defines Exemptions and Departures as follows:

60.1 An exception is any circumstance where the mandatory application of IVS as a whole may be inappropriate or where the valuer is asked to comply with standards other than IVS (rather than in addition to IVS). In such circumstances, a valuer must not state that the valuation was performed in accordance with IVS.

60.2 A departure is a circumstance where legislative, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS. Departures are mandatory in that a valuer must comply with legislative, regulatory and other authoritative requirements.
appropriate to the purpose of the valuation to be in compliance with IVS. A valuer may still state that the valuation was performed in accordance with IVS when there are departures due to legislative, regulatory or other authoritative requirements.

60.3 As required by IVS 101 2(k) and IVS 103 5(k), the nature of any departures shall be identified (for example, identifying that the valuation was performed in accordance with IVS and local tax regulations).

60.4 Departures that are not the result of legislative, regulatory or other authoritative requirements are not permitted in valuations performed in accordance with IVS.

We believe that the definitions could be improved as follows:

60.1 An exception to IVS is defined as a situation where, for any reason, the mandatory application of IVS as a whole is inappropriate. In such circumstances which may include a requirement to apply standards other than, rather than in addition to, IVS; in all cases, the reason for invoking the exception shall be disclosed.

60.2 A departure from IVS is defined as any circumstance where for some legislative, regulatory or other authoritative reason, certain requirements must be followed that differ from those of IVS. In some countries, the departure is mandatory for a particular purpose. In such cases, the valuer, while indicating the nature of the departures, may still identify that the valuation was prepared according to IVS and the other (stated) requirements.

**Detailed Comments**

Lines

12-18 The definition of Valuer should conform to that of Professional Valuer in the IPS. Our comments on the IPS Framework suggested the following wording:

“A Professional Valuer is:

“An individual who has expertise in a particular field of valuation, achieved through both formal education and practical experience supported by continuous learning and development. To maintain this status, s/he should be held to a high professional standard (at a similar level to the IVSC’s IPSs and Code of Ethical Principles) and whose compliance with such standards is subject to enforcement by a VPO.”

A Professional Valuer Candidate is: “An individual who is undertaking a Professional Valuer accreditation program.”

A Professional Valuer Firm is: “An entity, all of whose senior executives are Professional Valuers.”

In some jurisdictions, where there is no applicable VPO, an individual may qualify under the jurisdiction of an existing VPO.
Major existing specialty fields of valuation are:

- Real Estate (Real Property)
- Plant, Machinery & Equipment
- Businesses & Business Interests
- Intangible Assets
- Intellectual Property
- Software & Software Development Organizations
- Financial Instruments
- Mining Properties & Companies
- Petroleum Exploration & Reserves
- Personal Property
- Art & Antiques

The last two categories have many sub-divisions; we suggest at least the following be acknowledged:

<table>
<thead>
<tr>
<th>Personal Property</th>
<th>Art &amp; Antiques</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antique Firearms, Armour &amp; Militaria</td>
<td>African Art</td>
</tr>
<tr>
<td>Automotive Specialties</td>
<td>American &amp; European Furniture</td>
</tr>
<tr>
<td>Books and Manuscripts</td>
<td>American Indian Art</td>
</tr>
<tr>
<td>Clocks</td>
<td>Asian Furniture</td>
</tr>
<tr>
<td>Diamonds</td>
<td>Asian Art</td>
</tr>
<tr>
<td>Dolls &amp; Toys</td>
<td>Decorative Art</td>
</tr>
<tr>
<td>Antique &amp; Modern Jewellery</td>
<td>Fine Art</td>
</tr>
<tr>
<td>Musical Instruments</td>
<td>Ethnographic Art</td>
</tr>
<tr>
<td>Coins</td>
<td>Fine Art Photography</td>
</tr>
<tr>
<td>Oriental Rugs</td>
<td>Japanese Prints</td>
</tr>
<tr>
<td>Other precious &amp; semi-precious stones</td>
<td>Old Masters</td>
</tr>
<tr>
<td>Residential &amp; General Contents</td>
<td>Modern Painting</td>
</tr>
<tr>
<td>Silver and Metalware</td>
<td>Film &amp; Video</td>
</tr>
<tr>
<td>Sports Collectibles &amp; Memorabilia</td>
<td></td>
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<tr>
<td>Stamps</td>
<td></td>
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<tr>
<td>Textiles</td>
<td></td>
</tr>
<tr>
<td>Wines – Fine &amp; Rare</td>
<td></td>
</tr>
</tbody>
</table>

19-25 We find the text of this paragraph to be difficult to understand. In our view, factual data and assumptions have to be treated separately. A better version might be:

The process of reaching a supportable valuation conclusion requires the valuer to make informed, impartial judgements as to the reliability (audited, reviewed,
compiled or management prepared) of the factual data supplied by internal parties the reliability of the sources of external information and the degree of outside support available for all significant assumptions adopted.

For a valuation conclusion to be considered credible to outside users, it is important that sources and quality of the factual data (both internal and external) be included and the evidence in support of the assumption summarized. The purpose is to make the subjective elements in the judgments that have to be applied as little as possible.

26-31 We believe that the IVSC Code of Ethical Principles for Professional Valuers and the Introduction to Professional Standards should be integrated with the IVS into one set of standards.

32-36 The beginning of this section should include the definitions of capability and competence that are the same as those set out in the IVS Framework for Professional Standards paragraphs 33, 34 and 35.

43-59 See our answer to question (d).

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Submitted on behalf of IACVA

James P. Catty, MA, CA•CBV, CPA/ABV, CFA, ICVS, CGMA, CFE
Chairman Emeritus
### Appendix

## IACVA List of Countries

### Americas
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- Kenya
- Nigeria
- South Africa
- Uganda

### Europe
- Austria
- Germany
- Netherlands
- Switzerland
- Romania
- Ireland
- United Kingdom

### Asia/Pacifica
- China
- Taiwan
- Japan
- South Korea
- Hong Kong
- Singapore
- Malaysia
- Thailand
- Australia
- India

### Middle East
- Lebanon
- Egypt
- Syria
- Jordan
- Kuwait
- United Arab Emirates
- Saudi Arabia
- Israel
- Bahrain

### Commonwealth of Independent States
- Armenia
- Azerbaijan
- The Republic of Belarus
- Kazakhstan
- Kyrgyzstan
- Moldova
- Russia
- Tajikistan
- Turkmenistan
- Ukraine
- Uzbekistan
- Georgia
- Estonia
- Latvia
- Lithuania
7 July 2016

International Valuation Standards Council
1 King Street
London EC2V 8AU
United Kingdom
By email: CommentLetters@ivsc.org

Re: Exposure Draft “IVS 104: Bases of Value”

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters covering the 55 countries listed in the Appendix and serving more than 6,000 members who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of the standards related to valuation especially in Canada (an international Financial Reporting Standards “IFRS” country), where we are incorporated, as well as in the United States, which has, at the moment, many of our members.

Before commenting on each particular Exposure Draft we wish to put on record that IACVA, like all established Valuation Professional Organizations (VPOs) has long-established standards dealing with ethics and professional competencies; those include a case study, examinations, Continuing Professional Development (CPD) and Quality Control (which is missing from the Framework).

With respect to the naming protocol, we find it confusing to have no number for the Framework and the same numbers in both series (IPS and IVS). We suggest that the IPS series be IVSC 1-100 Framework, 1-101, etc. and the IVS series, IVSC 2-100 Framework, 2-101, etc.
Our responses to the indicated questions in the Exposure Draft “IVS 104: Bases of Value” are set out below, followed by detailed comments on certain areas of the text.

Questions
(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?

The valuer should be primarily responsible for choosing the appropriate basis of value unless that is prescribed by custom, market practice and law, regulation or judicial decisions.

(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 as the concept of Special Value (the particular worth to a special purchaser) has been subdivided into at least two categories – Investment Value and Synergistic Value, each of which is defined.

(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 agree with the change in the name. Even now there are numerous different definitions of Fair Value. We suggest to avoid confusion in the IVS, the term be linked solely to the one established by IFRS 13 and ASC (Accounting Standards Codified) 820 for US GAAP and that any other would have a qualifier such as California Fair Value.

(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?

It is a pity that the IVSC needs to introduce new definitions of accepted terms. A loose-leaf service, PPC’s (Practitioners Publishing Company) Guide to Business Valuations includes a Glossary of Valuation Terms derived from several sources, they include:

- *International Glossary of Business Valuation Terms*. The glossary is a joint effort of five North American business appraisal organizations: the American Institute of Certified Public Accountants (AICPA), the American Society of Appraisers (ASA), the Canadian Institute of Chartered Business Valuators (CICBV), the Institutes of Business Appraisers (IBA), the National Association of Certified Valuation Analysts (NACVA was previously an IACVA US affiliate).
That Glossary defined liquidation values as:

- **Forced (Sale) Liquidation Value**: liquidation value (net amount realized) at which (when) the asset or assets are sold as quickly as possible, such as at an auction.

- **Orderly Liquidation Value**: liquidation value (net amount realized) at which (when) the assets or assets are sold over a reasonable period of time to maximize proceeds received.

We prefer those to the IVSC's versions.

(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?

Replacement Value and Reproduction (Duplication) Value are commonly used in real estate appraisals, they are defined in the Glossary as:

- **Replacement Cost New (RCN)**: the current cost of a similar new property having the nearest equivalent utility to the property being valued.

- **Depreciated Replacement Cost**: RCN less provisions for Physical Decline, Functional Deterioration, Technological Obsolescence and Economic Deprivation.

- **Reproduction (Duplication) Cost**: classification which contemplates the construction of an exact replica of the subject asset.
• **Reproduction (Duplication) Cost New**: the current cost of an identical new property.

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

There are a number of other commonly used bases of value that should be included. One example is Fair Market Value for Canadian Income Tax purposes which is similar to the US definition but deals with the highest rather than most likely price:

“The highest price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”

In addition, the Asset (Cost) Approach often uses going concern values for Intangible Assets; this might be defined as:

“The Going Concern Value (value in place) of an asset (or liability) is the amount it contributes to (detracts from) the value of a business under the assumption it will continue to be operated in its present form for the foreseeable future.”

Another commonly used term in North America is “Intrinsic” (sometimes called fundamental) Value. This differs from investment value in that it represents an analytical judgment of value based on the characteristics inherent in the investment not affected by characteristic peculiar to any particular investor.

The Handbook for Financial Decisions Makers (John J. Hampton, 1979) defines it as:

“Value, intrinsic of common stock. The price that is justified for a share when the primary factors of value are considered. In other words, it is the real worth of the stock, as distinguished from the current market price of the stock. In is a subjective value in the sense that the analyst must apply his own individual background and skills to determine it and estimates of intrinsic value will vary from one analyst to the next.”

In The Stock Market Theories and Evidence (1973), James H. Lorie and Mary T. Hamilton comment on the notion of intrinsic value:

“The purpose of security analysis is to detect differences between the value of a security as determined by the market and a security’s “intrinsic value” – that is, the value that the security ought to have and will have when other investors have the same insight and knowledge as the analyst.”

If the market is below what the analyst concludes is the intrinsic value, she considers the security a “buy”. If the market value is above the intrinsic value, the security is a “sell”.
Further information on the meaning of *intrinsic value* and *fundamental analysis* is found in the following definitions from Kohler’s Dictionary for Accountants (1983):

“Intrinsic value. The amount that an investor considers, on the basis of an evaluation of available facts, to be “true” or “real” worth of an item, usually an equity security. The value that will become the market value when other investors reach the same conclusions. The various approaches to determining intrinsic value of the finance literature are based on expectations and discounted cash flows.”

“Fundamental Analysis. An approach in security analysis which assumes that a security has an “intrinsic value” that can be determined through a rigorous evaluation of relevant variables. Expected earnings is usually the most important variable in this analysis, but many other variables, such as dividends, capital structure, management quality and so on, may also be studied. An analyst estimates the "intrinsic value" of a security on the basis of those fundamental variables and compares this value with the current market price of that security to arrive at an investment decision.”

Finally, Value-in-Use, established by IAS 36 *Impairment of Assets* should be added:

“Value-in-Use is the present value of future cash flows expected to be derived from an assets or cash generating unit.”

This is not a market based exit amount like Fair Value but a particular form of intrinsic value.

**Detailed Comments**

**Lines 44-71**

To reduce difficulty for valuers when, as is often the case, there is an accepted definition of a “Value”, the IVS should adopt it. Examples are Fair Value used by all the numerous countries that have adopted IFRS or US GAAP; Fair Market Value (US Internal Revenue Service, IRS), etc.

In particular, the complete Fair Value framework including “market participant” and the three level value hierarchy should be included. This is becoming one of the most adopted bases of value, even more than that of Fair Market Value as used by the IRS. The level of a value in the hierarchy has been taken up for litigation and similar matters.

**148-170**

Market Rent is not a “Basis of Value”, it is one component of Market Value for real estate.

**190, 210, 226, ,240, 308, 310, 319, 356, 377, 395 and 430**

All the applicable headings such as “60. IVS Defined Basis of Value – Investment Value/Worth” on line 190 should be in bold and on a separate line.

**226**

100. Other Basis of Value – Fair Value (International Financial Reporting Standards should also add US Generally Accepted Accounting Principles.
247  130 Basis of Value – Fair Value (Legal/Statutory) should insert Other before “Fair” and be in bold, on a separate line.

252  This line should read 130.2: Examples of US and Canadian definitions of Fair Value (Legal/Statutory).

429-430  This should read “All assumptions and special assumptions must be reasonable in the circumstances, be supported by evidence and be relevant having regard to the purpose for which the valuation is required.

435-436  The paragraph should continue “Liquidation Values should always take into account the costs of getting the assets into saleable condition as well as those of the disposal activity (costs to sell)”. 

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Submitted on behalf of IACVA

James P. Catty, MA, CA+CBV, CPA/ABV, CFA, ICVS, CGMA, CFE
Chairman Emeritus
Appendix

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**Europe**
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- Germany
- Netherlands
- Switzerland
- Romania
- Ireland
- United Kingdom

**Asia/Pacifica**
- China
- Taiwan
- Japan
- South Korea
- Hong Kong
- Singapore
- Malaysia
- Thailand
- Australia
- India

**Middle East**
- Lebanon
- Egypt
- Syria
- Jordan
- Kuwait
- United Arab Emirates
- Saudi Arabia
- Israel
- Bahrain

**Commonwealth of Independent States**
- Armenia
- Azerbaijan
- The Republic of Belarus
- Kazakhstan
- Kyrgyzstan
- Moldova
- Russia
- Tajikistan
- Turkmenistan
- Ukraine
- Uzbekistan
- Georgia
- Estonia
- Latvia
- Lithuania
7 July 2016

International Valuation Standards Council
1 King Street
London EC2V 8AU
United Kingdom
By email: CommentLetters@ivsc.org

Re: Exposure Draft IVS 105: Valuation Approaches and Methods

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters covering the 55 countries listed in the Appendix and serving more than 6,000 members who are mainly involved in business valuation and fraud deterrence.

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Before commenting on each particular Exposure Draft we wish to put on record that IACVA, like all established Valuation Professional Organizations (VPOs) has long-established standards dealing with ethics and professional competencies; those include a case study, examinations, Continuing Professional Development (CPD) and Quality Control (which is missing from the Framework).

With respect to the naming protocol, we find it confusing to have no number for the Framework and the same numbers in the separate series for IPS and IVS. We suggest that the IVSC have only one set of standards starting with IVSC 1-100 for the Framework for International Professional Standards followed by 1-101, etc. the IVS series would be IVSC 2-100 for Introduction & Framework, followed by 2-101, etc.
This comment letter is one of a set of four covering the following documents: “IVS 2017: Introduction & Framework”, “IVS 104 Bases of Value”, “IVS 105 Valuation Approaches and Methods” and “IVS 210 Intangible Assets”.

Our responses to the indicated questions in the Exposure Draft “IVS 105: Valuation Approaches and Methods” are set out below, followed by detailed comments on certain lines of the text. We suggest that the IVS should be renamed “Approaches, Methods & Techniques”.

Approach: Market, Asset, Income
Method: Means such as DCF of applying a particular approach
Technique: Ways of obtaining appropriate inputs, such as Weighted Average Cost of Capital, needed for a method.

We prefer to rename Cost as Asset to reflect the inclusion of methods of valuing holding companies by restating all assets and liabilities to going concern values.

In recent years there has been considerable discussion in the literature as to which Approach covers the numerous, complex mathematical Option Pricing Models (OPMs of which Black-Scholes is the most common) that are widely used to value derivative financial instruments. Those, depending on circumstances, may change from being an asset to a liability for the purchaser (or vice versa). and of course the reverse to the counterparty.

One proposed solution is to consider OPMs as part of a fourth (Formulae) approach. However, this has received limited support and IACVA does not endorse it. Therefore, OPMs are generally included as part of either the Income Approach (usually) or the Market Approach (sometimes), even though they do not fit within either of their traditional boundaries. As such, models, methods and techniques are in widespread use among banks and many other financial market participants including private investors, as well as valuers dealing with complex securities, it is essential the Standard should discuss them in detail.

Questions
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 purpose of the valuation assignment,
   b) the respective strengths and weaknesses of the possible valuation approaches and methods,
   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,
   d) the availability of reliable information needed to apply the method(s), and
   e) if not, why? What considerations would you add to or remove from this list?

In our view, the selection of the appropriate Approaches, Methods and Techniques involves the following nine steps:
1.0 Defining the Subject (asset, liability, business or derivative financial instrument) being valued.
1.1 Is it to be considered only as a single (Stand Alone) item or grouped (In Combination) with other assets or liabilities. For example, machinery & equipment has a different fair value depending on whether it is: in use, on the dock (uninstalled) or dismounted and available for sale. Other examples of a Subject consisting of a group of Assets and Liabilities are Brands and Businesses.
1.2 Does it have special characteristics such as representing control of an entity?
1.3 To what extent is there a market for the Subject?

2.0 Establishing the purpose of the Valuation Conclusion.

3.0 Choosing the appropriate Basis (Standard) of Value and the related Premise of Value. Examples of the latter include a going concern business, an assembly of assets (not a business), Orderly Liquidation or Forced Sale.

4.0 Defining the future benefits.
4.1 To what extent will they come from current (period to period) activities and how much from a potential resale? The value of a residence or a work of art does not come from benefits that are occurring now (except for shelter) but from an expected transaction in the future. However, that of an apartment building, a brand or a business will come both from present returns, as well as a future potential disposal.

5.0 The strengths and weakness of each potential valuation methodology.

6.0 The availability of information with respect to any existing market(s) for the Subject.

7.0 The reliability of information relating to the generation of benefits by the Subject.

8.0 The degree of confidence in the available information, such as historical financial statements, budgets, forecasts, projections or details of previous transactions.

9.0 The appropriateness of each method under the one or more selected Approaches in view of the nature of the Subject and the Approaches and/or methods commonly used by participants in the relevant market,

The relevant section on the choice of valuation methods should contain a flow chart similar to this one below from the PPC Guide to Business Valuation.
Exhibit 2-2
Example Approach to Selecting Valuation Methods

(See discussion beginning at paragraph 204.9)

(Paragraph 204.11)
Consider engagement requirements.

Any methods required for legal or regulatory purposes? Yes

Follow applicable statutes, case law or regulations.

No

(See discussion beginning at paragraph 204.14)
Consider industry and company factors.

(See discussion beginning at paragraph 204.17)
Are asset-based and/or earnings-based methods appropriate?

Asset-based methods

Earnings-based methods

Yes

Is adequate guideline data available? Yes

(See discussion beginning at paragraph 204.19)

Determine appropriate benefit stream.

Value multiple methods using guideline data (such as price/earnings method).

(Chapter 6)

No

Determine appropriate benefit stream.

(See discussion beginning at paragraph 204.26)

Is the company a going concern and is it worth more than in liquidation?

Yes

No

(Paragraph 204.21)

Are future operations expected to differ significantly from current operations?

Yes

Capitalized returns methods (generally capitalization of net cash flow)

(Chapter 5)

Excess earnings method

(Chapter 7)

Discounted future returns methods (generally discounted net cash flow)

(Chapter 5)

Net asset value method

(Chapter 7)

Liquidation value method

(Chapter 7)

No

Notes:

a Although classified in this Exhibit as an earnings-based method, throughout the Guide excess earnings is arbitrarily classified under the asset approach because it consists of adjusting tangible assets to current market values and adding an estimate of intangible asset value. Generally, the excess earnings method is only suited to small businesses.

b If the ownership interest is a minority interest and adequate guideline data is available, then price/net asset value method or price/book value method often should be considered.
2) 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 detailed comments on each of the Approaches are set out referenced to the appropriate lines of text. They include our views of the criteria provided for each approach and explanations for our suggested changes.

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

Our recommendations for expansion of certain areas in this Standard (not Chapter) IVS 105 are set out in the Detailed Comments and Missing Sections

**Detailed Comments**

<table>
<thead>
<tr>
<th>Lines</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-12</td>
<td>This section should reference three generally accepted Approaches and indicate where OPMs are included.</td>
</tr>
<tr>
<td>13-23</td>
<td>Reference our answer to Question 1.</td>
</tr>
<tr>
<td>24-32</td>
<td>The first sentence should read: “Valuers are encouraged but not required to use more than one Approach as well as several methods in reaching a supportable valuation conclusion for a Subject. If only one Approach is adopted, the valuer should have a high degree of confidence in the accuracy and reliability of the conclusion”</td>
</tr>
<tr>
<td>33-37</td>
<td>Refer to OPMs.</td>
</tr>
<tr>
<td>38-43</td>
<td>In penultimate line replace “whether one of the approaches/methods ….“ with “which of the methods adopted…”</td>
</tr>
<tr>
<td>44-47</td>
<td>Refer to OPMs.</td>
</tr>
<tr>
<td>48-53</td>
<td>Change last sentence to “Even so, stale price information from an inactive market or even an indicative (non-binding) bid ask quotation in a dealer market, may still be good evidence of value, even if, in the view of the Valuer, sometimes prohibited (for example for Fair Value), subjective adjustments may be needed.”</td>
</tr>
</tbody>
</table>
Change the last sentence to read, “While it is preferable to have reliable, verifiable and relevant price information from an active market, the price of the latest comparable sales or bid-ask prices in a dealer market may supply sufficient information for the market approach to be the preferable one in most cases”.

Add to the paragraph, “For businesses or business interests useful information can be obtained from valuation metrics (such as Price/Earnings or Price/Book ratios) calculated for: (a) quoted guideline companies or (b) reported Mergers & Acquisitions (M&A) transactions with comparable entities as the Target”.

This sentence should start “if the Subject (or a similar one) has ….”

Delete the word “publicly”; any market such as the dealer/auctioneer/online listing for used cars is suitable if sufficient price (and preferably volume) information is available.

Replace “frequent” with “sufficient”.

The first two sentences should read “Although the above circumstances would indicate that the Market Approach should be the primary basis for a valuation only when the above criteria are met”. However, the criteria listed below (in paragraph 20.3) suggest that a method under the Market Approach could be the primary basis for a valuation even if none of the criteria in 20.2 are met.

Delete the word “publicly” before traded. See comment on line 63.

Replace “missing information” with “defective data”.

Insert the word “similar” before “shopping centres” as many of them are sold on a net yield basis.

Insert “or similar” between “identical” and “assets”.

Replace text in brackets with “(for example, market based valuation metrics such as effective yields and capitalization/discount rates)”.

Insert “In particular” before “A comparative analysis”.

This paragraph should read “The market for many debt securities is thin or non-existent. In the New York dealer market for investment grade corporate and municipal bonds, many issues trade only by appointment. In such cases, matrix pricing (a technique under the comparable transactions method) is used by
many market participants. With such techniques, a supportable value may be obtained for many types of financial instruments (not only illiquid debt securities) without quoted prices in an active by relying on the investment relationship (yield spread, etc.) with suitable benchmark quotations such as security indices or relevant derivatives.

138 The reference should be to a “Valuer” and not a “Professional”. Was the list obtained from another source?

153 Again, the reference should be to a “Valuer” and not a “Professional”.

166 Should be “The Publicly traded Guideline method”.

170 The reference should be to “The Comparable Transactions method” not to the “guideline transaction method”; see line 115.

174-175 The reference should be to accounting “standards” or “principles” not “guidelines”.

177 Replace “comparable” with “guideline”.

178 Refer to “publicly traded guideline companies”.

181 See comment on line 178.

182 Replace “those” with “relevant”.

184 Replace “comparable asset” with “guideline”; delete “asset” after “Subject”.

186 Replace “comparable asset” with “guideline”.

187 Remove “asset” after “Subject”.

189 A “Valuer” not a “professional”; see comments on line 138.

191-192 The reference should be to guidelines, not comparables.

193-196 Replace “comparables” with “guidelines”. Insert “with similar” after “for example”.

197 Delete “publicly traded” at beginning of sentence.

199 A “Valuer” not a “professional”.
The first sentence should read “Many Prices in traded markets incorporate generic credit risk, therefore an adjustment for an incremental credit risk is usually not required.”

The first sentence should read “In the Market Approach, the fundamental basis for making adjustments to transaction prices is to reflect differences (such as with respect to condition, size or effective date) between the Subject and the asset involved in the comparable or guideline transaction.

For clarity, the first sentence should read “A Control Premium or its inverse a Discount for Absence of Control (DLAC) [not Lack of Control], are often applied to indications of value to reflect differences in either the guidelines or the comparables and the Subject with record to the owner’s ability to influence major decisions with respect to an entity or a multi-owner piece of property”. This is to reflect that with any holder of less than 100% of a business or an asset there is a continuum of control. For a corporation, this ranges from 80% (tax consolidation in the US) to less than 5% (nothing in practice).

Insert new paragraph (d) Condition and location discounts and premiums are often applied in valuations of real estate and machinery & equipment. Discounts relate to deficiencies in the physical condition (such as hour to a major overhaul for an aircraft or the need for a new kitchen/bathroom at a residence) and actual location (cost to deliver a machine tool to market from a faraway plant. Premiums come from a recent rebuild or being located at a plan with a good source of labour.

Should be “a” primary basis not “the”.

The end of the sentence should read “even if there are numerous relevant market comparables”.

The statement “rates of return on simple assets would not be expected to exceeded rates of return on portfolios all else being equal” is likely to be misleading and should be revised. Rates of return reflect but are not directly connected, to the degree of risk attached to the future cash flows expected to be obtained from an asset as well as the degree of marketability/liquidity it may have.

The statement “… all methods under the income approach are effectively based on discounts of future amounts of cash flow to (a) present value” is not true. In valuing business (frequently) and real estate (sometimes) some figure for current year’s earnings such as EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) or NOI (Net Operating Income) is capitalized.
319-321 To minimize confusion with one “value” being discounted to reach another, we prefer the phrase “Terminal Amount” to “Terminal Value”.

336-338 Value-in-Use is a concept of importance in calculating the impairment of assets under IFRS (IAS 26 in particular). It uses pre-tax cash flows with owner specific discount rates.

391-392 Prospective Financial Information (PFI) should include a full set of financial statements (Income, Financial Position and Cash Flows) Also, mention should be made of using Scenario projections for PFI; they are usually recommended, rather than most likely forecast. The definitions of the terms “forecast” and “projection” should conform to that of the AICPA (American Institute of Certified Public Accountants):

“Financial forecast—Prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and cash flows. A financial forecast is based on the responsible party’s assumptions reflecting the conditions it expects to exist and the course of action it expects to take. A financial forecast may be expressed in specific monetary amounts as a single point estimate of forecasted results or as a range, where the responsible party selects key assumptions to form a range within which it reasonably expects, to the best of its knowledge and belief, the item or items subject to the assumptions to actually fall. When a forecast contains a range, the range is not selected in a biased or misleading manner, for example, a range in which one end is significantly less expected than the other.

Financial projection—Prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows. A financial projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question such as, "What would happen if . . . ?" A financial projection is based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken, given one or more hypothetical assumptions. A projection, like a forecast, may contain a range.”

When using Scenarios, only the most likely is a financial forecast, the others are always financial projections.

393-400 Reference should be made to “Fair Value” as well as “Market Value” in referring to cash flows expected by market participants.

407-410 This section needs expansion with respect to Scenarios and PECF (Probability-weighted Expected Cash Flow). In addition, reference should be
made to the likelihood of the cash flows forecasts being biased upward including Rubach’s downside adjustment techniques.

417-421 In times like this (2016), it is essential that the PFI consider the possibility of a recession during the Forecast Period.

423-426 As previously mentioned, we prefer “Terminal Amount”.

443-445 At least two more methods should be added: “Adjusted Book Value at the end of the projected period” and “Adjusted Gordon Growth model”. The latter reflects the average holding period for the assets or entities involved.

475 Should be a “Valuer” not a “professional”.

476-490 Two final paragraphs are needed in this section:
(h) the matching of the tax position. For assets or groups of assets, cash flows are usually but not always, pre-tax. For businesses and business interests, they are normally after tax. It is essential that the tax portions are matched. 
(i) the applicable long-term growth rate. Most mature business cannot grow faster than the long term rate of their industry or the economy.

527-533 There are four commonly adopted methods. The one omitted is:
(d) Adjusted Original Cost method. This grosses up the original cost to adjust for changes in the appropriate cost index since creation. In addition, item (b) should be “duplication” rather than “reproduction” cost method.

608-618 The words depreciation and amortization are accounting terms used to match the costs of long term (Capital) assets against income over the relevant RUL (Remaining Useful Life). For valuation purposes, the use of one word obsolescence to reflect four very different reductions in value is, in our view, misleading. We prefer to deal with the four factors individually; they are:

- **Functional Deterioration**: the loss in value from a relative inability of the asset to fulfil its intended purpose.
- **Technological Obsolescence**: the loss in value of an asset from the introduction of a new process or material that significantly lowers operating costs or improves quality.
- **Physical Decline**: the loss in value from changes due to the passage of time.
- **Economic Deprivation**: the loss in value from external factors such as a change in market conditions.

619-627 A third concept, RUL, should be included. Remaining Useful Life (RUL) is an estimate of the how long an owner can expect to obtain benefits from an
income producing or cost reducing item in a trade or business setting. It refers to the duration for which the item will be useful to the owner and not how long it will actually last. Many factors affect an item’s RUL including the frequency of use, its age when acquired, the repair (or rebuild) policy and the environmental conditions of the business. The RUL for identical types of property will differ from user to user depending on the above factors, as well as additional elements such as foreseeable technological improvements, economic changes and alternations to the applicable laws.

628-631 This is misleading as an estimate of each of the four factors set out in our comments on lines 608-618 can generally be individually determined.

632-636 We agree that certain portions of several of the four factors can be “cured” by the incurring of significant (capital) expenditure (renovation of a building, etc.) but certainly not Economic Deprivation.

637-643 The distinction between excess Capital costs and excess Operating costs is useful. An explanation of their impacts on value is needed.

**Missing Sections**

Three essential sections are missing. The first would deal with OPMs such as Black-Scholes, which are an essential part of a Valuer’s toolkit. The second would fill the gap on valuing liabilities. While they are usually treated as an asset to the lender, we believe their valuation as obligations of the borrower should be discussed as is done in the IFRS Fair Value framework.

The Standard also needs a discussion on liquidity and marketability. For this, the US IRS (Internal Revenue Service) Job Aid on DLOM (Discount for Lack of Marketability) would be helpful. It is a useful tool which states that “marketability” represents the fact of Salability’, while liquidity indicates how fast that sale can occur at the current price with minimal cost.
We propose the following hierarchy for assets or liabilities:

- Marketable Liquid (active market)
- Marketable limited liquidity (there is an available formal market with brokers)
- Marketable illiquid (no formal market – auctions, dealers or by appointment)
- Nonmarketable (this does not mean that an item cannot be sold but that there is no ready market making a transaction time consuming and difficult).

This situation of certain identified assets is as follows:

- Actively traded financial instruments: Marketable Liquid
- A large block of financial instruments: Marketable limited liquidity
- Thinly traded financial instruments: Marketable limited liquidity
- Restricted shares of a public company: Marketable illiquid
- Control interest in a public company: Marketable limited liquidity
- Control interest in a private company: Marketable illiquid
- Minority interest in a private company: Nonmarketable
- Residential real estate: Marketable limited liquidity
- Commercial real estate: Marketable limited liquidity
- Machinery & equipment: Marketable illiquid

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Submitted on behalf of IACVA

James P. Catty, MA, CA+CBV, CPA/ABV, CFA, ICVS, CGMA, CFE
Chairman Emeritus
Appendix

IACVA List of Countries

**Americas**
- Bahamas
- Canada
- Grenadine Islands
- Guatemala
- United States
- Mexico
- Puerto Rico
- Argentina
- Brazil

**Africa**
- Ghana
- Kenya
- Nigeria
- South Africa
- Uganda

**Europe**
- Austria
- Germany
- Netherlands
- Switzerland
- Romania
- Ireland
- United Kingdom

**Asia/Pacifica**
- China
- Taiwan
- Japan
- South Korea
- Hong Kong
- Singapore
- Malaysia
- Thailand
- Australia
- India

**Middle East**
- Lebanon
- Egypt
- Syria
- Jordan
- Kuwait
- United Arab Emirates
- Saudi Arabia
- Israel
- Bahrain

**Commonwealth of Independent States**
- Armenia
- Azerbaijan
- The Republic of Belarus
- Kazakhstan
- Kyrgyzstan
- Moldova
- Russia
- Tajikistan
- Turkmenistan
- Ukraine
- Uzbekistan
- Georgia
- Estonia
- Latvia
- Lithuania
7 July 2016

International Valuation Standards Council
1 King Street
London EC2V 8AU
United Kingdom
By email: CommentLetters@ivsc.org

Re: Exposure Draft IVS 210: Intangible Assets

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters covering the 55 countries listed in the Appendix and serving more than 6,000 members who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of the standards related to valuation especially in Canada (an international Financial Reporting Standards “IFRS” country), where we are incorporated, as well as in the United States, which has, at the moment, many of our members.

Before commenting on each particular Exposure Draft we wish to put on record that IACVA, like all established Valuation Professional Organizations (VPOs) has long-established standards dealing with ethics and professional competencies; those include a case study, examinations, Continuing Professional Development (CPD) and Quality Control (which is missing from the Framework).

With respect to the naming protocol, we find it confusing to have no number for the Framework and the same numbers in the separate series for IPS and IVS. We suggest that the IVSC have only one set of standards starting with IVSC 1-100 for the Framework for International Professional Standards followed by 1-101, etc. the IVS series would be IVSC 2-100 for Introduction & Framework, followed by 2-101, etc.
This comment letter is one of a set of four covering the following documents: “IVS 2017: Introduction & Framework”, “IVS 104 Bases of Value”, “IVS 105 Valuation Approaches and Methods” and “IVS 210 Intangible Assets”.

Our responses to the indicated questions in the Exposure Draft “IVS 210: Intangible Assets” are set out below, followed by detailed comments on certain lines of the text.

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?

We agree with the removal of the commentary label and believe that any commentary in past versions should now be integrated into the text.

(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?

We do not see why the whole of Technical Information Paper (TIP) 3 Intangible Assets was not integrated into IVS 210.

(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 presented under each approach? If no, what changes would you make? Why?

We do not agree with the criteria especially for the application of the Market and Cost Approaches which, in general, are not suitable for valuing Intangible Assets.

(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?

While we believe the Standard needs considerable revision, we see no reason why it cannot have general application.
Detailed Comments

Lines
4  “20 Overview” should be in bold on a separate line.

11-29  There is a sixth category “Government Granted”. Those differ in nature from “contract-related”. Common items nearly everywhere are broadcast licences, taxi medallions, etc. most jurisdictions have specific examples.

48-57  Under US GAAP and IFRS, an assembled workforce is specifically excluded for being an intangible asset even though it may be transferred on a merger. However, it is often essential to value it as a contributory asset in the valuation of other recognized intangibles.

63-64  The comment under 48-57 should be cross referenced here.

68-74  This comment could also be extended to inventories of wine or spirits where the brand name has a lower value if no suitable blended product is available. The brand and inventory together are worth more than the sum of their individual parts.

94-95  As set out in our comments to IVS 105, we believe there are four Valuation Approaches: Cost (asset based), Income, Market and Formulae. Of those, only the Cost (occasionally), Income (usually) and Market (seldom) apply to intangible assets.

96-98  The reference should be to this Standard not this chapter.

103-107  We disagree. Most intangible assets are valued by a method such as relief-from-royalty under the Income Approach. The text of this paragraph 40.2 is too restrictive In our view, the Income Approach should always be the default position.

137-140  The words “production and sales” should be inserted at the end of the paragraph, after “alcohol”.

187-214  Regarding Contributory Assets reference should be made to the Appraisal Foundation’s document “Identification of Contributory Assets and Calculation of Economic Rents”.

232-238  In developing an appropriate royalty rate databases of actual transactions are much more supportable than trying to estimate a profit split, especially that the long established 25% rule has been abolished by the US Supreme Court.
In our experience, only method (a) is used in practice. We suggest removing all references to method (b).

We recommend that the application of the Market Approach to Intangible Assets be discouraged, except for those items listed in paragraph 110.6 (lines 421-426.)

Again, we suggest that the application of the Cost Approach be discouraged except to those items covered by paragraph 130.3 (lines 448-452).

As mentioned previously, to reduce confusion and increase accuracy, we prefer “duplicate cost” to “reproduction cost”.

The reference should be to the RUL (Remaining Useful Life) not just to the life of the asset.

In our members’ experience, there are no situations where cash flows from an intangible asset would be discounted at the risk free rate, especially considering it is now close to zero if not negative in many countries. It and the cost of debt for maturities similar to the RUL are not suitable discount rates for Intangible Assets. It should also be pointed out that the WARA is a pre-tax rate while WACC is after tax.

The heading should be “170 Remaining Useful Lives of Intangible Assets”.

We disagree that the economic life of an Intangible Asset for valuation purposes is different from its RUL. The number developed for valuation purposes is usually the basis for the accounting amortization period while the tax figure is usually established by regulations.

The last sentence is misleading. It should read “While the figure used for attrition in estimating the RUL of customer related intangibles and their corresponding cash flows is forward looking, it is frequently estimated based on the levels that have occurred in the past.

Again, this is confusing. Point (a) refers to the age of the customer relationships while point (b) discusses the age of the customer herself. We would prefer the following wording: (a) a constant rate of loss (as a percentage of the previous periods balance) over the RUL of the customer relationships may be assumed if the customer losses do not appear to be dependent on either (i) the length of the customer relationship or (ii) the calendar age of the customer(s).
**Missing Section**

The Standard does not have a section on valuing Brands which are an important example of a group of related Intangible Assets. We suggest creating one based on the work done for the article “ISO 10668 Brand Valuation”. Should you wish a copy, the writer would be delighted to assist.

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Submitted on behalf of IACVA

James P. Catty, MA, CA•CBV, CPA/ABV, CFA, ICVS, CGMA, CFE
Chairman Emeritus
## Appendix

### IACVA List of Countries

#### Americas
- Bahamas
- Canada
- Grenadine Islands
- Guatemala
- United States
- Mexico
- Puerto Rico
- Argentina
- Brazil

#### Africa
- Ghana
- Kenya
- Nigeria
- South Africa
- Uganda

#### Europe
- Austria
- Germany
- Netherlands
- Switzerland
- Romania
- Ireland
- United Kingdom

#### Asia/Pacifica
- China
- Taiwan
- Japan
- South Korea
- Hong Kong
- Singapore
- Malaysia
- Thailand
- Australia
- India

#### Middle East
- Lebanon
- Egypt
- Syria
- Jordan
- Kuwait
- United Arab Emirates
- Saudi Arabia
- Israel
- Bahrain

#### Commonwealth of Independent States
- Armenia
- Azerbaijan
- The Republic of Belarus
- Kazakhstan
- Kyrgyzstan
- Moldova
- Russia
- Tajikistan
- Turkmenistan
- Ukraine
- Uzbekistan
- Georgia
- Estonia
- Latvia
- Lithuania