Building a better
working world

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International Valuation Standards Council
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7 July 2016

Dear IVSC Members

Invitation to comment - Introduction and Framework

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the International Valuation Standards Council (IVSC) issuing an Exposure Draft (ED) on "Introduction and Framework".

Please find in the attached appendix our responses to the specific questions raised in the ED.

Should you wish to discuss the contents of this letter with us further information, please contact Sven Schieszl (sven.schieszl@de.ey.com) or Philipp Lindenmayer (philipp.lindenmayer@de.ey.com).

Yours faithfully

Ernst & Young Global Limited

Appendix: Responses to the specific questions in the ED

Q1: 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?

We believe this helps to clarify that all text is mandatory.

Q2: 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 believe this helps to clarify the mandatory nature of this section.

Q3: 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 believe this helps to clarify the mandatory nature of this section.

Q4: Do you agree with the IVS definition of Exceptions and Departures? If not, why?

We generally agree with the IVS definitions of Exceptions and Departures.

But we want to point out that valuations for financial reporting purposes could potentially result in exceptions and departures from IVS requirements. That is, we think that valuations performed for specific purposes may need to comply with other requirements and those requirements should take precedence if there is any conflict between the two.

Other comments

As written, the ED provides a high level summary of considerations. While we understand this approach, if the requirements are intended to cover valuations for financial reporting purposes, we believe further clarification will be needed.

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7 July 2016

Dear IVSC Members

Invitation to comment – IVS 104: Bases of Value

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the International Valuation Standards Council (IVSC) issuing an Exposure Draft (ED) on "IVS 104: Bases of Value".

Please find in the attached appendix our responses to the specific questions raised in the ED.

Should you wish to discuss the contents of this letter with us further information, please contact Sven Schieszl (sven.schieszl@de.ey.com) or Philipp Lindenmayer (philipp.lindenmayer@de.ey.com).

Yours faithfully

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Appendix: Responses to the specific questions in the ED

Q1: 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?

We partially agree. We agree that valuers should be responsible for selecting the appropriate bases of value. We note that Paragraph 20.2 refers to "sole" responsibility. We would encourage further clarification of this. For example, the party for whom the valuer is working may also have responsibilities in respect of the valuation (e.g., an entity may have financial reporting responsibilities) and, while a valuer should take responsibility for any valuations performed, we would not expect the valuer's responsibility to remove the entity's responsibilities.

Furthermore, we believe it would be more appropriate for valuers to provide technical guidance on the selection of the appropriate basis of value but in some cases the basis of value may be legislated or determined by a third party (e.g. in legal proceedings, under a contract, etc.) and may not be a basis of value defined by the IVSC. In some cases it may be possible to identify an IVSC defined basis of value that is based on the same valuation premise and concepts as that required (i.e., the use of different names to describe the same premise or concept).

We believe valuers have an important role in helping clients understand those connections, with the ultimate objective of grounding the valuation on an IVSC defined basis. Therefore we further agree that the bases of value may not be defined by these standards. For example, from a financial reporting perspective, it may be the basis/bases of value is/are defined by the applicable financial reporting standard(s).

Q2: 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 believe it was helpful to have a specific basis of value defined by the IVSC for situations where normal definitions such as Market Value or Fair Value do not apply and the basis of value required is unclear.

Q3: 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?

Yes. We believe that having two different bases of value with the same name caused confusion as noted in our 3 September 2010 comment letter, "…where the same terms are used in both IFRS and IVS but with different meanings… it will inevitably lead to confusion." and it is better to have different names for each basis of value (notwithstanding the term Fair Value may be used to define various disparate bases of value in practice around the world).

Q4: Liquidation Value has been added as an additional basis of value. Do you agree with its inclusion within IVS 2017 and are you in accordance with the definition used? If not, why not?

We believe this is a commonly used term for tangible assets and therefore it is useful to include a definition.

Q5: 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?

Valuations for insurance purposes are commonly provided by valuation practitioners however the basis of value is typically defined in the insurance policy, so whatever basis of value is defined in the insurance policy or is common usage in that jurisdiction is the basis that should be adopted. There are, however, situations where valuers will not have access to the relevant insurance policy and will therefore need to adopt an appropriate basis of value so it is helpful to have a defined basis of value to which valuers can refer.

Our concern is that the term Replacement Value is used in a variety of situations to mean different things. For example, there are methods used that refer to replacement cost or value for determining fair value. Therefore, it may be more helpful to change the name to Reinstatement Cost or Insurance Replacement Value.

Otherwise, if this term is retained, we would encourage the Board to clearly distinguish between replacement value as a basis of value and methods that might use similar terminology, but be used to determine a different basis of value.

Q6: Are there other bases of value defined by other entities/organisations that should be mentioned in IVS 104? Which ones? Why?

While we agree with the inclusion of the above two additional bases of value we believe the IVSC should avoid trying to capture numerous bases of value, especially those that may be country-specific or unique to a localised use. Financial reporting standards, such as IFRS and US GAAP, may use other measurement bases but we do not believe that IVS 104 should mention these in detail; rather it may be helpful to acknowledge that fact.

An alternative might be to provide guidance on which IVS definitions are equivalent to third party definitions. However, any attempt to include or reference country-specific or even region-specific bases of value effectively requires the IVSC to capture an endless list of definitions adopted around the world, a task that it probably does not have the resources to complete. Furthermore, as noted in our 3 September 2010 comment letter, to the extent that this relates to valuations prepared for financial reporting purposes under IFRS, we would "[e]ncourage the development of technical notes to bridge the differences between valuation standards and measurement requirements under IFRS, preferably developed in conjunction with the IASB".

Other comments: Para 180.1.

If "Forced Sale" is assumed to be a premise of value which is inconsistent with the definition of Market Value, what is the basis of value the valuer should adopt when asked to address a valuation under a "Forced Sale" premise? Would it be a liquidation value? We think it would be helpful to link the relevant bases of value that should be adopted in conjunction with each of the premises defined.

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Dear IVSC Members

Invitation to comment – IVS 105: Valuation Approaches and Methods

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the International Valuation Standards Council (IVSC) issuing an Exposure Draft (ED) on "IVS 105: Valuation Approaches and Methods".

Please find in the attached appendix our responses to the specific questions raised in the ED.

Should you wish to discuss the contents of this letter with us further information, please contact Sven Schieszl (sven.schieszl@de.ey.com) or Philipp Lindenmayer (philipp.lindenmayer@de.ey.com).

Yours faithfully

Ernst & Young Global Limited

Appendix: Responses to the specific questions in the ED

Q1: 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,

Yes.

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

Yes.

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.

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

Yes.

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

Not applicable.

Q2: 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?

We agree with the criteria presented under each approach with the exception of the following:

Para 70.2 (b): We recommend this to be deleted as it may cause confusion where different assets work in concert to derive business income (such as real property, plant & equipment, intangible assets and goodwill). In such circumstances, because it is typically not possible to attribute income to the various assets in a manner consistent with their unit of account, the market approach or cost approach would typically be used, notwithstanding the assets are either directly or indirectly income generating.

Furthermore, as currently written, the ED only provides a high level overview of considerations. While we understand the need to provide broadly applicable guidance, we are concerned that the guidance may not be sufficient to help valuers use their judgement to select the most appropriate valuation approaches without addressing the specific nuances for financial, tax and strategic valuations.

Q3: Are there areas of this chapter that you feel should be expanded upon in future board projects (eg, discount rates, discounts/premiums, etc)?

No, except for our remark to Q2.

Other comments:

We note that the IVSC currently has two TIPS (TIP 1: *Discounted Cash Flow* and TIP 2: *The Cost Approach for Tangible Assets*) covering much of the material now proposed to be included in IVS 105. The text included in IVS 105 is not in all cases consistent with that included in the TIPS including defined terms. The IVSC has previously taken the view that this material was “guidance” rather than “standards” material. Whilst this is a matter of judgement a consistent approach is needed to maintain credibility.

We believe that by incorporating this material into the IVS, defined terms and text from the existing TIPs should be incorporated into the IVS with only minimal changes given the TIPs were developed through a rigorous ED process.

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Dear IVSC Members

Invitation to comment – IVS 210: Intangible Assets

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the International Valuation Standards Council (IVSC) issuing an Exposure Draft (ED) on "IVS 210: Intangible Assets".

Please find in the attached appendix our responses to the specific questions raised in the ED.

Should you wish to discuss the contents of this letter with us further information, please contact Sven Schieszl (sven.schieszl@de.ey.com) or Philipp Lindenmayer (philipp.lindenmayer@de.ey.com).

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Ernst & Young Global Limited

Appendix: Responses to the specific questions in the ED

Q1: 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 deem the removal of the commentary label appropriate since it might lead to potential misinterpretations. We share the Board's position that all aspects in IVS 2017 should be mandatory – as far as applicable in the respective valuation case.

Q2: 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, we agree with the decision since we deem one focused document more appropriate in comparison to a situation with several documents containing relevant information. By this focus, IVS 210 gains in importance.

The IVSC has previously taken the view that this material was "guidance" rather than "standards" material. Whilst this is a matter of judgement a consistent approach is needed to maintain credibility.

We believe that by incorporating this material into the IVS defined terms and text from the existing TIPs should be incorporated into the IVS with only minimal changes given the TIP was developed through a rigorous ED process.

Q3: 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?

Yes, partly. With regard to the different approaches we deem the given criteria appropriate. However, we note the following:

- Paragraph 130.2 does not make it clear whether a valuer can use one or more of the possible approaches. We believe this should be made clear. In particular, the paragraph indicates that the cost approach should be the primary approach "only if" certain criteria are met. This could be read to imply that, if the criteria are met, either:
  (a) this approach is the only approach that could be used; or
  (b) this approach would need to be the primary approach, but several approaches could be used (i.e., other approaches would be supplementary to this approach).

- Clear criteria for the selection of the valuation method following the Income Approach are given for the different Excess Earnings Methods but not for the Relief-from-Royalty method. The hypothetical possibility of licensing of the asset might be one criterion for the application of the Relief-from-Royalty method (e.g. not the case for customer relationships).

- No criteria are proposed for the application of the Premium Profit Method. One possible criterion might be the availability of data for both situations – with and without the intangible asset to be valued – in order to be able to quantify the difference on a profound basis. In this respect, an example might be the availability of a business case for a certain product component that relies on a specific technology and for which the value added amount in terms of a price premium is available.

Q4: 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?

Generally, yes. As currently written, the ED provides a high level overview of considerations when valuing intangible assets. However, while we understand the need to provide broadly applicable guidance, we are concerned that the guidance may not be sufficient without addressing the specific nuances for financial, tax and strategic valuations.

Since the criteria are not exclusively for a particular purpose (e.g., financial reporting), it is difficult to assess how application of the requirements would result in a measure that is consistent with the intended purpose. For example, the guidance does not address whether to select inputs that are entity-specific or market participant inputs if the objective was to measure fair value in accordance with IFRS 13 *Fair Value Measurement*. Nor does it point to where further guidance could be obtained. While this may be beyond the scope of this ED, we believe further guidance would be needed to ensure use of these requirements result in valuations that meet the purpose for which they were intended.