

September 2, 2016

International Valuation Standards Council
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commentletters@ivsc.org

Dear Board Members:

This letter is in response to the International Valuation Standards Council's exposure drafts for IVS 101 Scope of Work, IVS 102 Investigation and Compliance, IVS 103 Reporting, IVS 200 Businesses and Business Interests, and IVS 500 Financial Instruments.

The American Institute of Certified Public Accountants ("AICPA") is a professional organization of approximately 410,000 certified public accountant ("CPA") members. Our constituency actually exceeds that number. That is because, under various state accountancy laws, AICPA professional standards also encompass practicing CPAs who are not AICPA members.

The Forensic and Valuation Services Executive Committee ("FVSEC") is a senior technical committee of the AICPA. The FVSEC is empowered to issue valuation standards for our members and to comment on valuation-related topics on behalf of the AICPA. In 2007, the AICPA issued Statement on Standards for Valuation Services No. 1, currently referred to as VS section 100 in the AICPA Professional Library.

This letter presents the FVSEC's comments and responses to certain questions for respondents raised in the exposure drafts for IVS 2017.

FOR IVS 101 SCOPE OF WORK

Question (a)

Do you agree that it is the valuer's responsibility to communicate the scope of the assignment to all parties to the valuation engagement? If not, why?

The FVSEC agrees that it is the valuer's responsibility to communicate the scope of the assignment.

Question (b)

Do you agree that a written scope of work for each valuation engagement is not always possible or necessary? If not, why?

FVSEC agrees that written scope of work is not always possible. Under certain circumstances, the scope of work may be communicated verbally. For example, the scope of work in valuation for litigation purposes frequently changes due to the nature of the work which makes written scope of work not practical.

IVS 102 INVESTIGATION AND COMPLIANCE

Question (c)

Do you agree that a valuer must perform sufficient investigations and procedures to assess the appropriateness of all inputs and assumptions? If not, why?

The FVSEC agrees that a valuer should perform sufficient investigations to assess the appropriateness of all inputs and assumptions.

Question (d)

Do you agree that significant limitations that impair a valuer's ability to assess the appropriateness of the inputs and assumptions should result in a valuation not being in compliance with IVS? If not, why??

The FVSEC does not believe that significant limitations that impair a valuer's ability to assess the appropriateness of the inputs and assumptions should result in a valuation not being in compliance with IVS. The FVSEC believes that the valuer should have the ability to document the limitations in the report, if there are any, and remain in compliance with IVS.

IVS 103 REPORTING

Question (e)

Do you agree with moving from a prescriptive to a principle-based reporting format? If not, why?

The FVSEC believes the standards should support uniformity of content without being too prescriptive.

Question (f)

Do you accept that a report can take any form providing it sets out a clear and accurate description of the scope of the assignment, its purpose and intended use and discloses of significant inputs assumptions? If not, why?

The FVSEC believes this would be useful in a litigation setting. The FVSEC also believes the standards should allow for some format flexibility for reports.

IVS 200 BUSINESSES AND BUSINESS INTERESTS

Question (a)

In IVS 2013, all substantive portions of IVS 200 Business and Business Interests 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?

The FVSEC agrees with the removal of the "commentary" label. Possible alternatives might be "explanation" or "implication". The FVSEC believes the use of the word "commentary" might lead to a conclusion of such

descriptions being voluntary rather than mandatory, though we nonetheless believe the chances for such a misinterpretation to be remote.

Question (b)

The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of business and business interests regardless of the purpose of the valuation (acquisitions, mergers and sales of businesses, taxation, litigation, insolvency proceedings and financial reporting). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?

The FVSEC agrees that the standard presented in the Exposure Draft can be applied in the valuation of business and business interests regardless of the purpose of the valuation provided that the standard of value is clearly defined.

Question (c)

Are there any further topics or special considerations that you feel the Board should add or remove from IVS 200 Business and Business Interests? If so, what are they and what is your rationale??

The FVSEC does not feel that any further topics or special considerations should be added or removed from IVS 200 Business and Business Interests.

IVS 500 FINANCIAL INSTRUMENTS

Question (a)

In IVS 2013, all substantive portions of IVS 500 Financial Instruments 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??

The FVSEC agrees with the removal of the “commentary” label. Possible alternatives might be “explanation” or “implication”. The FVSEC believes the use of the word “commentary” might lead to a conclusion of such descriptions being voluntary rather than mandatory, though we nonetheless believe the chances for such a misinterpretation to be remote.

Question (b)

The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of financial instruments regardless of the purpose of the valuation (acquisitions, mergers and sales of businesses or parts of businesses, financial reporting, regulatory requirements, internal risk and compliance procedures and regulatory requirements). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?

The FVSEC does not believe that the standard presented in this exposure draft can be applied in the valuation of financial instruments regardless of the purpose of the valuation. The FVSEC challenges the idea that a model used for one security should be applied to all similar securities. The material issue is the use of the term “similar”. It is the FVSEC’s view that the use of the word “similar” can be too readily misapplied. For example, one could argue that a Japanese CDS is similar to a US CDS. However, using a one-size-fits-all model to both may yield different valuations of same where implied risk is used as an input.

In short, the FVSEC recommends that the statement be rewritten to indicate:

“Where observable prices of, or market inputs from, similar financial instruments are available, any model used to estimate value should also be calibrated to the similar, comparable financial instruments, provided each falls under the firm’s same valuation perspective.”

“if different valuation approaches are taken and that disparity is known, such a disparity in valuation approaches must be explained.”

The FVSEC does not believe that the standard cannot be applied for the following purposes:

- 1) Broker versus consensus – section 90: The real question is achievable price versus theoretical quote. The question of being able to execute the price quoted is the real question. If there is an open quote for which the security may be cleared – or for which securities whose prices are used as inputs for a model for the determination of a security’s value – then this may indeed constitute a robust price. If, however, market quotes exist which are either unavailable or impractical to achieve, then this lack of marketability must become a factor, and either this price omitted or adjusted in the valuation methodology.
- 2) Section 70.1: I strongly support the practice of valuation of financial instruments against a replicating portfolio. It currently is mentioned as a subsection of the cost approach. I believe that the idea of valuation by replicating portfolio rather deserves to stand on its own. Valuation by replicating portfolio combines elements of each of the Market-Income-Cost dichotomy of basis of value, and can justifiably be done within each or several of those categories (defined in 40.1).
- 3) 20.6 (c) – The FVSEC does not agree that the inductive application of valuation should be applied as suggested here. The standard states: “... any model used to estimate value should be calibrated to the similar, comparable, financial instruments”. I believe that this misses a material point: the purpose of the held security. If a model is developed for security A, and security B is prima facie similar. However, security A is held as a speculative purchase, while security B is held as a hedging transaction. These two securities would necessarily need to be valued using alternative methodologies. Further, one must consider the practicality of such a statement – it could be that a firm performs valuations on securities in different markets, by different valuation professionals. In such a case, attempting to impose the same model across lines of business would be unwieldy and may result in a representation different from the economic reality of the instrument.

Question (c)

Are there any further topics that you feel the Board should add or remove from IVS 500 *Financial Instruments*? If so, what are they and what is your rationale?

- 1) The FVSEC proposes for 20.5 (c): the underlying purpose or environment of the valuation (e.g. intended to be held to maturity, for trading, for regulatory purposes, to offset another transaction / hedging, anticipated taxable event, liquidation, etc.) would be an expansion of the concept of whether the instrument is for an individual or portfolio security.
- 2) Following on the above, and consistent with other valuation practices, the effect of liquidity on the security, and the nature of environment at liquidation, are material. Are the valuations performed under an orderly process of willing buyer and willing seller, or under forced transaction? If the latter, typical models for valuation may not be used. This effect is implied in several of the statements (q.v. 110), but the FVSEC does not believe this warrants discussion of inclusion as an item.

Finally, we thank the Board for its consideration of our comments and for its continued service to the valuation profession.

Very truly yours,

A handwritten signature in cursive script that reads "Carol Carden". The letters are fluid and connected, with a prominent loop at the end of the word "Carden".

Carol Carden, CPA/ABV, ASA, CFE
Chair, AICPA Forensic and Valuation Services Executive Committee