31 August 2016

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

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 on the last page 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 Exposure Draft, we wish to put on record that IACVA, like nearly all Valuation Professional Organizations (VPOs), has long-established standards dealing with ethics and professional competencies, a copy of which was attached to our 30 June 2016 comments. As well, we require a case study and examinations for our credential ICVS; we also insist on Continuing Professional Development (CPD) and participation in the Quality Control program (which is missing from the Framework).

It appears to us that the proposed definition of Professional Valuator seems to be the possible precursor to a new designation. This would only be desirable if it were to enfold all or nearly all, of the numerous existing valuation qualifications (including Chartered Financial Analyst), with full grandfathering provisions.

On 7 July we issued separate letters of comment on four exposure drafts: IVS 2017: Introduction & Framework; IVS 104 Bases of Value; IVS 105 Valuation Approaches & Methods and IVS 210 Intangible Assets. This comment letter covering IVS 200, is part of a set of six dealing with the remaining published IVS exposure drafts.
Our responses to the indicated questions in the Exposure Draft “IVS 200: BUSINESS AND BUSINESS INTERESTS” are set out below, followed by a Background section and detailed comments on certain areas of the text.

Questions

(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?

We agree that the term commentary be removed and the material integrated in the text.

(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?

We consider that the standards applicable to a supportable conclusion of value are the same irrespective of the purpose of the valuation, even though the approaches, methods and techniques involved may be different.

(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?


1. Definition of a Business
We recommend that the definition of a business established by FASB (Financial Accounting Standards Board) in 2016, as the most appropriate for valuers. This differentiates a business from a Set (assemblage) of assets and liabilities without functioning processes or output. FASB’s definition can be summarized as follows:

A business is an integrated Set of activities and assets that is capable of being conducted and managed for the purpose of providing economic benefits to its owner. To be considered a business, a Set of inputs, and processes applied to them, must have the ability to create outputs. Although businesses usually have outputs, they are not required for a Set to qualify.

An input is any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include long-lived assets (such as intangibles or rights to use them), intellectual property, the ability to obtain access to necessary materials or rights, and employees.
Processes are any system, standard, protocol, convention, or rule that when applied to an input(s), creates or has the ability to create outputs. Examples include strategic management processes, operational processes, and resource management processes. These typically are documented, but an organized (assembled) workforce having the necessary skills and experience following rules and conventions may provide the necessary processes. Accounting, billing, payroll, and other administrative systems are typically not processes.

Outputs are the result of inputs and processes applied to them that create goods or services for customers, other revenues or income, such as dividends or interest. When a Set does not have outputs (for example, an early stage company without revenues), it would be a business if it has both an input and a substantive process that together contribute to the ability to create outputs. Such a process could include an organized workforce with the necessary skills, knowledge, or experience to perform an acquired process (or group of processes) that, when applied to another acquired input or inputs, has the ability to develop or convert such acquired input(s) into outputs.

A process (or group of processes) is not critical if, for example, it is considered ancillary in the context of all the processes required to create outputs. Inputs that the organized workforce could develop (or is developing) to convert into outputs may include:

- Intellectual property that could be used to develop a good or service
- Resources that could be developed to create outputs
- Access to necessary materials or rights that enable the creation of future outputs such as technology, mineral interests, real estate, or in-process R&D

Most values of a business such as US tax Fair Market Value and accounting Fair Value are from an outsider’s point of view. However, two: "value in use" (the present value of the cash flows an entity expects from the continuing use and ultimate disposal of an asset or CGU) and “fulfilment value” (the present value of the cash flows an entity expects to incur as it fulfills an obligation) are entity specific and cannot be directly observed; neither of them is discussed.

2. Lives of Firms
When calculating a terminal amount (value) for a DCF valuation method it is common to capitalize some metric such as net income or EBITDA. This technique implicitly assumes that the entity has an infinite life. This is not necessarily appropriate as, based on census data, the firm survival rates in the US for those formed in 2000, are:

<table>
<thead>
<tr>
<th>More than x years</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>69</td>
</tr>
<tr>
<td>5</td>
<td>51</td>
</tr>
<tr>
<td>10</td>
<td>34</td>
</tr>
<tr>
<td>15</td>
<td>26</td>
</tr>
</tbody>
</table>

It is essential that there be a Section on how a valuer should consider the potential life of a business in its particular area in adopting a capitalization method in determining a terminal amount.

3. Value allocation methods

There are two generally accepted methods of allocating values of an entity between its different classes of securities. They are OPM (Option Pricing Model) and PWERM (Probability Weighted Expected Return Method). In addition, Monte Carlo simulations are often used. All of them are based on scenarios of a firm’s progress to a liquidity event (such as when or if, it will be a viable sale target). The valuer must determine the probability of such events, their timing and the likelihood of failure. For example:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Action</th>
<th>Probability (%)</th>
<th>Time (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete Success</td>
<td>IPO</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Partial Success</td>
<td>Merger</td>
<td>35</td>
<td>4</td>
</tr>
<tr>
<td>Partial Failure</td>
<td>Sale</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td>Complete Failure</td>
<td>Liquidation</td>
<td>20</td>
<td>2</td>
</tr>
</tbody>
</table>

Based on those scenarios, the valuer identifies publicly tracked guideline companies of comparable transaction, projects, cash flows including future M&A needs and develops a discount rate.

OPM

In this method, the valuer develops a present value for each scenario individually and allocates that to the various classes of securities through an OPM. There is no ability to vary the rate of return by class and it is difficult to deal with the terms of further financing. The most common OPM is the Black Scholes which is widely available on the Internet.

PWERM

With this method, the values are allocated between the different classes at the time of each anticipated liquidity event, with each class having a different rate of return. Every outcome will have a different capitalization based on the estimated future financing required.
4. **Differences between markets**
IVS 200 is intended to apply to all valuations of business both those with securities that have liquidity by being traded in an organized frequently dealing (public) market (Wall Street in the USA) – known as public companies – and those whose securities have limited liquidity because they rely on unorganized (private) markets for any sales of shares – private companies Main Street). The characteristics of each are very different and it is desirable that a Section be added on the impact on supportable valuation conclusions of the nature of the local or national market in which the Subject business might be sold.

5. **Discounts & premiums**
It is well establish that in M&A transactions, a buyer will pay a premium over the current trading price of a public company’s shares to gain control. From this has arisen the concept of control premiums and minority discounts, as well as DLOMs (Discounts for Lack of Marketability, see 4. above). Those are commonly applied in valuations for tax filings but are not usually adopted for other purposes. We recommend a discussion of this tope be added.

6. **Zero/negative risk-free rates**
Many countries in Europe as well as Japan have zero (less than 50 basis points) or negative yields on much of their traded government debt and that of some major corporations. As this reflects deflationary conditions there is no evidence that this situation is likely to change before IVS 2017 is issued. We strongly recommend that the IVSC introduce an additional Section dealing with a “practical expedient” for this situation. In addition it might deal with the other end of the spectrum, hyper-inflation which is starting to occur in Venezuela. On possible solution is the long term (10 years +) average real (after inflation) yield on 10 year government bonds +/- the current (year-over-year) change in the local CPI (consumer Price Index).

7. **Early Stage Entity Valuations**
Just as Development Properties have their own standard (IVS 410) a completely new standard (IVS220) is needed on valuing early stage (start-up) entities. Various methods are in general use and several books have been written on the subject. We recommend Professor Aswath Damodaran’s May 2009 paper “Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges” for an exhaustive, although partly dated, 67 page overview. McKinsey issued a brief article on the subject in March 2016. It would be desirable for IVS 200 to take into account the provisions of the “International Private Equity and Venture Capital Valuation Guidelines” updated 2015.

**Detailed Comments**
Our detailed comments on IVS 200 by Section, are as follows.

20.3(a) It is important to differentiate between Total Enterprise Value (TEV) and Business Enterprise Value (BEV). TEV (market based invested capital) is the total of the market values of a firm’s interest bearing debt, all debt (non-interest bearing or not) from related parties, preferred and common (ordinary) shares. The BEV is the TEV less redundant assets such as excess cash, investments or other items not directly used in the business.
20.3(b) With respect to the Equity Value, it is essential to consider the actual level of value involved: Strategic, Financial Control, Marketable Minority or Illiquid Minority.

50/60/70 This material appears to belong in IVS 105 rather than IVS 200.

50.3 If using the Comparable Transactions method, it is essential to compare the degree of financial leverage of the Subject with the selected targets. This is not dealt with in IVS 105 Valuation Approaches & Methods.

60.5 In determining a discount or capitalization rate (obtained by deducting the expected growth rate) it is important if it is to be market-determined or (less frequently) entity-specific; the latter may include the benefits from the grouping of assets (such as a portfolio of income properties) and synergies with other items. In addition the risk-free rate includes a liquidity discount because of an implicit marketability option.

60.8 Seven potential adjustments to future cash flows are discussed mainly relating to amounts, but uncertainties also relate to their timing. It is important to discuss (but not to recommend) the use of Scenarios or a Monte Carlo technique. As means of dealing with such problems.

60.8(g) Most firms use either FIFO or the retail method for inventory accounting as LIFO, which is acceptable under US GAAP, is not allowed by IFRS. We do not know of another method of inventory accounting that will “more accurately reflect economic reality”.

90.4 In reviewing comparable capital structures and ownership rights, reference should be made to common (ordinary) shares that are in effect options on future performance and are often valued by an OPM or PWERM. Those methods are only briefly mentioned in section 130.3. See part 3 of our answer to question (c).

Should a Board or staff member wish to discuss this matter further, you may contact James Horvath (416.233.2233) or James Catty (416.865.9766) during normal business hours (Eastern Time).

Submitted on behalf of IACVA

Jim Horvath, ICVS, FCBV, ASA, CPA, CA, CFD, MBA, B. Math Chair, IACVA
IACVA List of Countries

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

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Syria
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Saudi Arabia
Israel
Bahrain

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Kenya
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South Africa
Uganda

**Commonwealth of Independent States**
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The Republic of Belarus
Kazakhstan
Kyrgyzstan
Moldova
Russia
Tajikistan
Turkmenistan
Ukraine
Uzbekistan
Georgia
Estonia
Latvia
Lithuania

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Netherlands
Switzerland
Romania
Ireland
United Kingdom

**Asia/Pacifica**
China
Taiwan
Japan
South Korea
Hong Kong
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Malaysia
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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 Exposure Draft, we wish to put on record that IACVA, like nearly all Valuation Professional Organizations (VPOs), has long-established standards dealing with ethics and professional competencies, a copy of which was attached to our 30 June 2016 comments. As well, we require a case study and examinations for our credential ICVS; we also insist on Continuing Professional Development (CPD) and participation in the Quality Control program (which is missing from the Framework).

It appears to us that the proposed definition of Professional Valuators seems to be the possible precursor to a new designation. This would only be desirable if it were to enfold all or nearly all, of the numerous existing valuation qualifications (including Chartered Financial Analyst), with full grandfathering provisions.

On 7 July we issued separate letters of comment on four exposure drafts: IVS 2017: Introduction & Framework; IVS 104 Bases of Value; IVS 105 Valuation Approaches & Methods and IVS 210 Intangible Assets. This comment letter, covering IVS 400, is part of a set of six dealing with the remaining published exposure drafts.
Our responses to the indicated questions in the Exposure Draft “IVS 400: REAL PROPERTY INTERESTS” are set out below, followed by a Background section and detailed comments on certain areas of the text.

Questions
(a) In IVS 2013, all substantive portions of IVS 230 Real Property 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?

We agree that the term commentary be removed and the material integrated in the text.

(b) Do you agree with Section 20.5, which states it is the valuers responsibility to state the extent of the investigation and source of the information to be relied on? If not, why not?

We concur with Section 20.5.

(c) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of real property interests regardless of the purpose of the valuation (secured lending, sales of real property, taxation, litigation, insolvency proceedings and financial reporting, etc). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?

In our view, the nature of the real property interest will determine the amount of work required. In general, the Standards should be adopted for all proposed uses but we find it difficult to apply all the individual requirements to a small partial interest (less than 5%) in a piece of real property.

(d) Are there any further topics that you feel the Board should add or remove from IVS 400 Real Property Interests? If so, what are they and what is your rationale?

We are aware of none.

Detailed Comments
Our detailed comments on IVS 300 by Section, are as follows.

20.4 We suggest that rather than Section 30.3, a clause (i) be added to 20.4:

(i) A determination of the highest and best use (H&BU) of the property. This is defined by The Appraisal Institute as: the reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible and that result in the highest value.
This section needs expansion with respect to the intangible assets directly related to a real property interest. The most common examples are owned brand names for a specialised real property interest such as a golf course, hotel or shopping centre.

This should also refer to the use of market determined OCRs (Overall Capitalization Rates) based on property level NOI (Net Operating Income – before depreciation, interest and taxes). In the United States PwC publishes quarterly Real Estate Investor Surveys which covers numerous categories of commercial properties retail, office, warehouse, flex/R&D, apartment, medical office, lodging & development land) in national, suburban & regional markets. It sets out a discount rate for each is the Internal Rate of Return (IRR) using unlevered cash flows. This is similar to the WACC (Weighted Average Cost of Capital) used in business valuations. These important relationships are not discussed.

This should also refer to capitalization rates.

An additional section (70.8) should be added in the use of the Cost Approach to allocate the value of a real property interest, determined by the Market Approach or the Income Approach, between the various elements involved: land, structure, elevators, HVAC, other equipment, carpeting etc., required for financial depreciation purposes.

An additional section (90.5) is needed to cover the valuation of buildings on ultra-long term land lease (in some cases over 100 years).

Should a Board or staff member wish to discuss this matter further, you may contact James Horvath (416.233.2233) or James Catty (416.865.9766) during normal business hours (Eastern Time).

Submitted on behalf of IACVA

Jim Horvath, ICVS, FCBV, ASA, CPA, CA, CFD, MBA, B. Math
Chair, IACVA
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- Guatemala
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- 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
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- Russia
- Tajikistan
- Turkmenistan
- Ukraine
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- Latvia
- Lithuania
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It appears to us that the proposed definition of Professional Valuator seems to be the possible precursor to a new designation. This would only be desirable if it were to enfold all or nearly all, of the numerous existing valuation qualifications (including Chartered Financial Analyst), with full grandfathering provisions.

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Our responses to the indicated questions in the Exposure Draft “IVS 500: FINANCIAL INSTRUMENTS” are set out below, followed by a Background section and detailed comments on certain areas of the text.

Questions

(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?

We agree that the term commentary be removed and the material integrated in the text.

(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?

In our view, the nature of the particular financial instrument (simple, complex or derivative) will determine the nature & amount of work required. In general, the Standard should be adopted for all proposed uses but we find it difficult to apply all the individual requirements to simple short term items such as accounts receivable.

(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?

IACVA has been concerned in its training for more than 10 years with the quality of the valuation of financial instruments, especially with respect to financial reporting. This asset class is by far the largest in the world amounting to many trillions of US dollars and its valuation is of great importance in all of the countries where we have members.

Earlier this year, in the United States, the AICPA (American Institute of Certified Public Accountants), the ASA (American Society of Appraisers) and RICS (Royal Institution of Chartered Surveyors) jointly established a Fair Value Quality Initiative. In May they issued two exposure drafts relating to it: “Proposed Mandatory Performance Framework for the Fair Value Quality Initiative” (MPF) and “Proposed Application of the Mandatory Performance Framework for the Fair Value Quality Initiative” (Guidance). These are intended to apply to all valuation work undertaken for financial reporting of public companies subject to the SEC. Neither of them directly deals with financial instruments but as US financial markets are among the largest in the world, provisions of the MPF are likely to affect every valuation of financial instrument anywhere; therefore, IVS 2017 should reflect them.
In our view it is essential that the participants in the FII (IVSC Financial Instruments Initiative) include not only the listed participants but also representative of VPOs (such as IACVA) from locations other than the major financial centers (London, New York & Hong Kong). Valuers in those communities will have the most to lose if they are forced to adopt Standards that do not reflect their reality. While we appreciate being asked to comment on this “placeholder” version of IVS 500 we hope we will have an opportunity to contribute to the final IVS 500 which we suggest should be split into two; one for simple & complex and the other for derivatives.

**Detailed Comments**

Our detailed comments on the IVS 500 by Section, are as follows.

20.1 This Section should indicate that, while there are many types of financial instrument they can be divide into three basic classes:

1. **Simple:** (generate specific cash flows & have a maturity, even if this is not directly disenable, but no embedded options - examples range from accounts receivable to government bonds).
2. **Complex:** (have the ability to generate cash flows, even if they are not doing so, and may contain embedded options – examples range from CoCo, catastrophe, callable or convertible bonds to various classes of corporate shares.
3. **Derivatives:** (whose value depends on something else – examples include futures, forwards, swaps, options & warrants.

40.4 When market condition undergo major change a valuer has several alternatives:

1. Change the valuation model to a more suitable one.
2. Modify the existing model & recalibrate it.
3. Make additional adjustments (usually certain parameters) to the selected valuation inputs.
4. Make adjustment to the outputs.

The one choice will depend on the facts and circumstances of the valuation. In general, we consider number 2. the most suitable.

50/60/70 Much of this material belongs in IVS 105 “Valuation Approaches and Methods”

50.1 There are a number of different types of markets for financial instruments. The most common are:

- Exchange markets where trading is continuous.
- Auction markets where trading takes place at specified times.
- Dealer markets where bid & asked prices are quoted.
- Broker markets where an intermediary knows of a buyer.
- M&A markets where an intermediary aggressively seeks a buyer.
- Buyback markets where the supplier is the only available buyer.

The degree of confidence in a quoted price and the available Marketability (ability to find a buyer) and Liquidity (the speed at which an item can be converted into cash without affecting its value) vary greatly between the different types. For accounting Fair Value, valuers must be aware of which market is the most advantageous and who the participants might be. For tax Fair Market Value, which involves willing buyers and sellers, the choice of market is also significant.

60.2 It should be borne in mind that quoted prices for financial instruments, especially in markets that are very volatile or not particularly active, efficient or well-functioning, often include a degree of noise (sometimes reflecting the current degree of investor enthusiasm or disenchantment). Therefore they do not necessarily reflect the cash flow generating ability of the issuer; and may need to be smoothed by a VWAP (Volume Weighted Average Price) or otherwise adjusted. For that reason a simple P (unit price) X Q (quantity) does not necessarily give a supportable value, especially for a large or control block. A cross reference to Section 100 should also be added.

In establishing discount rates, such as IRR (Internal Rate of Return) WACC (Weighted Average Cost of Capital) or WARA (Weighted Average Return on Assets) it is necessary to look at the objective of the measurement, as well as the time value of money (currently very low at zero or negative risk-free rates – see our comments on IVS 200) this will usually involve the addition of a number of risk premiums.

Those should relate to the type & quality of the issuer (government, corporate or individual, each with specific characteristics), the nature of the instrument (secured debt, unsecured debt, equity or derivative) and available marketability & liquidity. In applying these premiums it is important to: use internally consistent assumptions, include everything pertinent, avoid double-counting, consider potential inflation take into account taxes and use a sensitivity analyses. We suggest the International Actuarial Association publication “Discount Rates in Financial Reporting, A Practical Guide” as a useful reference.

70.1 The concept of Portfolio Replication must be explained as it will be new to many valuers because it is unique to financial instruments. Therefore, the Section needs considerable expansion and several illustrative examples.

90.5 A more complete description of the impact of liquidity on the value of financial instruments is needed than is found in Section 110 and should be cross-referenced here.
100.1 This Section should enable a valuer to understand that: for a simple or complex financial instrument the most important credit risk is that of the issuer. For a derivative those of both counter parties are significant as some derivatives (such as swaps) can shift from being an asset of a particular party to a liability overnight. In addition, the text of the Interim Guidance on “Credit & Debit Valuation Adjustments” should be integrated into IVS 500.

100.1(a) The subsection should differentiate between the various types of markets listed in our comments on Section 50.1 as well as the means of settlement (clearing house or individual counterparties).

Should a Board or staff member wish to discuss this matter further, you may contact James Horvath (416.233.2233) or James Catty (416.865.9766) during normal business hours (Eastern Time).

Submitted on behalf of IACVA

Jim Horvath, ICVS, FCBV, ASA, CPA, CA, CFD, MBA, B. Math
Chair, IACVA
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- Bahamas
- Canada
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- Mexico
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- Argentina
- Brazil

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- South Africa
- Uganda

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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 Exposure Draft, we wish to put on record that IACVA, like nearly all Valuation Professional Organizations (VPOs), has long-established standards dealing with ethics and professional competencies, a copy of which was attached to our 30 June 2016 comments. As well, we require a case study and examinations for our credential ICVS; we also insist on Continuing Professional Development (CPD) and participation in the Quality Control program (which is missing from the Framework).

It appears to us that the proposed definition of Professional Valuator seems to be the possible precursor to a new designation. This would only be desirable if it were to enfold all or nearly all, of the numerous existing valuation qualifications (including Chartered Financial Analyst), with full grandfathering provisions.

On 7 July we issued separate letters of comment on four exposure drafts: IVS 2017: Introduction & Framework; IVS 104 Bases of Value; IVS 105 Valuation Approaches & Methods and IVS 210 Intangible Assets. This comment letter, covering IVS 300 is part of a set of six dealing with the remaining published exposure drafts.
Our responses to the indicated questions in the Exposure Draft “IVS 300: PLANT AND EQUIPMENT” are set out below, followed by a Background section and detailed comments on certain areas of the text.

**Questions**

In IVS 2013, all substantive portions of IVS 220 Plant and Equipment 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 that the term commentary be removed and the material integrated in the text.

(b) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of plant and equipment regardless of the purpose of the valuation (secured lending, sales of plant and equipment, taxation, litigation, insolvency proceedings and financial reporting etc.). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?

We consider that the standards applicable to a supportable conclusion of value are the same irrespective of the purpose of the valuation, even though the approaches, methods and techniques involved may be different.

(c) Are there any further topics that you feel the Board should add or remove from IVS 300 Plant and Equipment? If so, what are they and what is your rationale?

The assets comprising the Property, Plant & Equipment section of a firm’s balance sheet are often grouped together under various names. For valuation purposes we suggest standardized definitions of: property (land & buildings), plant (structures & machinery attached to land), machinery (items required to undertake a production process), equipment (moveable items necessary to the business) vehicles, ships, aircraft and other physical assets (tools, dies, moulds & jigs).

In addition, as set out in our comments on Section 20.2 we believe that to the extent that software is essential for the operation of an item of machinery it should be valued as part of it and not as a separate intangible asset.

**Detailed Comments**

Our detailed comments on the IVS 300 by Section, are as follows.

20.2 Intangible assets such as software are an integral part of much plant & equipment (P&E) including vehicles. In addition, we believe that many physical assets such as tools, dies, moulds & jigs should be considered as a manifestation of an intangible asset (often intellectual property) and subject to be sold as such unless the licence for the software or other intangible prevents the sale as a unit. Each is of less value without the
other. The situation is one of the few we are aware of in the real work when 1+1 equals more than 2.

20.3(c) The concept of highest & best use (H&BU) as compared with the existing application is as important with P&E it is with real estate. This needs to be discussed.

20.4 In our view, an integrated product line, when valued on a going concern basis, will have a higher Fair Value or Fair Market Value than the sum of the individual items due to its superior cash generating capability. In general, the unit of account that makes up a P&E Subject to be valued should be the integrated whole that forms a Cash Generating Unit.

20.5 For accounting depreciation purposes, many significant elements of a building (for example elevators and HVAC units) are treated as equipment. On a Business Combination, each of their Fair Values has to be separately determined.

20.6 A further category “in place but not yet in production” is needed. This would apply to a large scale long lived plant such as a paper making machine or steel rolling mill, whose construction period is spread over two or more fiscal years. This category may also be considered as Work in Progress (“WIP”)

90.3 There is no discussion of the fact some items of P&E subject to a capital or operating leases may have a significant “right to use” value in excess of the related liability.

Should a Board or staff member wish to discuss this matter further, you may contact James Horvath (416.233.2233) or James Catty (416.865.9766) during normal business hours (Eastern Time).

Submitted on behalf of IACVA

Jim Horvath, ICVS, FCBV, ASA, CPA, CA, CFD, MBA, B. Math
Chair, IACVA
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
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On 7 July we issued separate letters of comment on four exposure drafts: IVS 2017: Introduction & Framework; IVS 104 Bases of Value; IVS 105 Valuation Approaches & Methods and IVS 210 Intangible Assets. This comment letter, covering IVS 410, is part of a set of six dealing with the remaining published exposure drafts.

Our responses to the indicated questions in the Exposure Draft “IVS 410: DEVELOPMENT PROPERTY” are set out below, followed by a Background section and detailed comments on certain areas of the text.
Questions
(a) In IVS 2013, all substantive portions of IVS 233 Investment Property Under Construction 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 that the term commentary be removed and the material integrated in the text.

(b) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of both commercial and residential development property regardless of the purpose of the valuation (ie. establishing whether proposed projects are economically viable, loan security, acquisition, taxation, litigation, financial reporting etc.). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?

In our view, the nature of the real property interest will determine the amount of work required. In general, the Standards should be adopted for all proposed uses but we find it difficult to apply all the individual requirements to a small partial interest (less than 5%) in a piece of development property when the value depends on the distribution of profits when the project is fully completed.

(c) Are there any further topics that you feel the Board should add or remove from IVS 410 Development Property? If so, what are they and what is your rationale?

We are aware of none other than disclosed in the detailed comments.

Detailed Comments
Our detailed comments on the IVS 410 by Section, are as follows.

20.1 This Section should also include a subsection (g) “any property that has not achieved its highest and best use (H&BU)”. See our comments on IVS 400

20.3 The use of brackets is confusing; we recommend [ ] inside ( ).

20.4 Line 2 needs the word “appropriate” between “additional” and “information” The Section also needs an extra subsection (f) “an indication whether or not the project is the H&BU for the development property” This is particularly relevant for accounting Fair Value

20.6 We recommend the phrase “may be necessary” be replaced by “a valuer should”.

20.7 Again the phrase “it may be appropriate to” in line five should be replaced by “it is essential to”
50.1 The Section should include examples of such development properties such as warehouses.

90 This segment is extremely detailed as it deals with a complex method in a large (37) group of Sections. Therefore a set of illustrative examples is essential for an ordinary mortal to fully understand it.

90.3 This Section should include reference to the desirability of separate sensitivity analyses for each significant factor and the need for disclosing their results if they would have a material on the conclusions of value. In general, under such circumstances, we believe it is better to express the final result as a range, rather than a point amount.

90.4 This Section should include references (descriptions, benefits & problems) to any appropriate commercial available models.

90.9 The beginning should read “Regardless of the methods adopted under either the Market or Income Approach the valuer has to select one of two basic underlying assumptions: …”

90.16 Reference should be made to the fact that market participants (which should be given a definition [based on that in IFRS 13] somewhere in IVS 2017) will be aware that cost overruns (often substantial) and completion delays occur in most construction projects. Those may be extreme in certain locations where a great deal of activity is underway. Sensitivity analyses are essential to estimate of the potential impact of such overruns & delays and their potential impact should always be disclosed.

90.36 Is any particular technique recommended for obtaining a suitable discount rate for the Residual Method?

90.37 The “may” in line one is redundant.

110.1 At the end of the Section the following words are needed “before selecting an appropriate valuation method”

Should a Board or staff member wish to discuss this matter further, you may contact James Horvath (416.233.2233) or James Catty (416.865.9766) during normal business hours (Eastern Time).

Submitted on behalf of IACVA

Jim Horvath, ICVS, FCBV, ASA, CPA, CA, CFD, MBA, B. Math
Chair, IACVA
### IACVA List of Countries

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