INTERNATIONAL VALUATION STANDARDS COUNCIL

IVSC Agenda Consultation 2017 Feedback form

4. IVS Gap Analysis -Questions for Respondents	
Question 1: Do you agree with the current categorisation and timings of the topics contained in the gap analysis and if not why?	Yes, though we believe that some approaches should be extended. As for exemple, even if the IASB do have a straightforward understanding of the notion of assets, the actual vision seems to be quite concentric, specifically in the context of the rising importance of CSR.
Question 2: Are there any other topics which you believe should be included or deleted from the IVS gap analysis and if so why? (Please state the relevant specialism, categorisation and timing for any proposed additional topics).	No.
5. Chapter 1 – Non-Financial Liabilities -Questions for Respondents	
Question 1.1: Is the valuation of non-financial liabilities a critical area that should be addressed by the IVSC? Please explain why.	Both the valuation of non-financial assets (and of course liabilities) are critical. Non-financial assets could be valuated through models and tools focusing on best practices, occupational fraud and risks avoidances which are undoubtly beneficials to organisations.It isa striking fact that potential risks are negatively considerd while existing risks avoidances policies and efforts are not valuated.
Question 1.2: Should IVS provide a separate definition of liabilities? If yes, do you agree with the definitions provided by the FASB and IASB, please explain why?	Yes, definitely, in light of what is said above. Both the FASB and IASB approaches could be broaden to cover not only costs but also as an asset potential costs avoidances.

Question 1.3: What non-financial liabilities do you observe in practice? For each liability, what valuation methods do you most commonly see used? Which of the non-financial liabilities you listed have the greatest diversity of valuation in practice?	The absence of risks mitigations policies or best practices (compliance with business ethics principles). On the whole, the absence of CSR policies. Indeed, this impacts organisations and projects value in a non-financial way (e.g : turnover, attractivity) which in the end become financial issues (companies exposed on research fraud issues have difficulties to hire the best in class engineers which impacts their innovation capabilities, companies exposed on research fraud are de facto excluded from the bond markets....). One of the objective of the DEFORM project was to devise innovative valuation methodologies, which are available on an open acces basis.
Question 1.4: Do you agree with the decision to exclude financial liabilities from this ITC? If yes, do you think IVSC should add financial liabilities as a possible project(s) in the future?	The issue seems to be not the financial or non-financial liabilities per se, but how do you link both topics in terms of value.
Question 1.5: Do you think IVSC should add financial instruments, pension liabilities, and insurance liabilities as a possible project(s) in the future?	Yes.

Question 1.6: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?	The most efficient approach in "pricing" a potential liability would be the hybride appraoch. Indeed, as demonstrated in the DEFORM model, the focus on pure market value (aka investment in the context of research) does not cover the risks related to (lack off) productivity. As such, methodes based upon excluding approaches (and this whatever the motives) appear to be biased, even though they seem to better match the expectations of given stakeholders at a given time.
Question 1.7: Are there methodologies and best practices utilised by the insurance industry that the Boards should consider for inclusion in future standards? If so, please discuss.	Yes definitely. Actuaries are risks anticipation and valuation most acute professionals. As such, their methodologies, though more econometric than financial, can offer an adequate insight of risks potential "appearance" in a given economic context. Furthermore, insurances (and re) organisations have collected massive volume of incidents related data that would be welcomed as statistical supports to future valuation models validation.
6. Chapter 2 – Discount Rates -Questions for Respondents	
Question 2.1: Are additional standards related to the derivation of discount rates a critical area that should be addressed by the IVSC? Please explain why.	This is a tricky question that has been widely discussed. Indeed, the need for discount rate is even questionned by research (Patel, Daykin 2010). It could thus be of interest to benchmark during the revision process the different methodologies as put into practices by actors in the field of insurance, innovation, etc...in order to try a design tools than are not exclusively based on project finance essentials.
Question 2.2: Given the extensive use of the CAPM for derivation of discount rates used in business enterprise and asset valuations, do you agree with the Boards proposal to issue new standards to target diversity in practice related to discount rate derivation? Please explain why.	Yes as this has been again an ongoing discussion (Damodaran, 2011). Even is CAPM still has a future, it is a well known fact that it has major flaws (risk not being symmetric). As such, a number of alternates (Accounting, Market price based, BY+RP, multi beta, arbitrage pricing, heuristic optimisation : Maringer 2006...) need to be taken into account.

Question 2.3: Which inputs have you observed to have diversity in practice that would benefit from additional guidance in IVS and why?	Further documentation on the structure of the greeks and clarification on how volatility is taken into consideration would benefit from IVS guidance to enhance transparency and common market usage.
Question 2.4: What other methods of deriving discount rates for business enterprise valuation do you commonly observe in practice? For each method, do you commonly observe diversity in practice in its application?	This has been quite extensivey discussed by Fletcher et al. (2005): An examination of alternative CAPM-based models in UK stock returns, and it has been a topics of academic controversies for more than a decade. Research make it clear that each sector has its appraoch, based on specific market practices (the health sector, for exemple, has issues related to pipes valuation and risk assessments) though it remains to demonstrate that this reading enhances the models efficiency.
Question 2.5: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?	The B Alternative appears to be the most open solution given the differences in methodologies and expected outputs. Indeed, including prescriptives guidances could leed to methodes exclusion, which in the end could limit the valuation spectre and thus efficienccy.
7. Chapter 3 – Early Stage Company Valuation -Questions for Respondents	
Question 3.1: Are additional standards for the valuation of early-stage companies a critical area that should be addressed by the IVSC? Please explain why.	# Not applicable.

Question 3.2: In which areas of the valuation of early-stage companies do you see the greatest diversity in practice? Are there additional areas of concern not noted above in this ITC? If so, please discuss.	## Not applicable.
Question 3.3: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?	# Not applicable.
8. Chapter 4 – Biological Assets - Questions for Respondents	
Question 4.1: Should IVS provide a standard of Biological Assets? If yes, do you agree with the title of this standard and the distinction provided by the FASB and IASB between Biological Assets and Agricultural Produce, please explain why?	This question raises a number of ethical issues that need to be considered by IVS. As such, it is a very risky position that must be carefuly weighted. Indeed, not all biological production can be patented, that is protected for the benefit of a for profit organisation. On the other hand, valuation of biological assets to include such measurements in environmental risks premium are indeed needed. The standard should thus better explain the purpose of such process, as a limit to "business" valuation could be quite contreversial.
Question 4.2: Do you observe a significant variation in valuation practice for Biological Assets? For each type of Biological Asset, what methods do you most commonly see used? Which type of the Biological Asset you listed	As explain above, the objective of the valuation (who is undertaing such valuation of for which reason/obective) is paramount to the methodology which thus greatly differ from one stakeholder to another.

have the greatest diversity in practice?	
Question 4.3: Do you observe a significant variation in valuation practice for Agricultural produce? For each type of Agricultural Produce, what methods do you most commonly see used? Which type of the Agricultural Produce you listed have the greatest diversity in practice?	Not applicable.
Question 4.4 Is the valuation of Biological Assets critical area that should be addressed by the IVSC? Please explain why.	Yes, see above.
Question 4.5: Does the separation of value between the agricultural produce and its bearer plants cause issues within your market? Please explain why.	Not applicable.
Question 4.6: Do you feel that there is conceptual Issue in allocating components of Fair Value? Please explain why together with your recommendations for resolving these issues.	Yes, please see above. The ethical aspects of the topic must be solved prior to any "business" approach in such fields. The implication of an independant ethics board in order to monitor the issues raised by such questions could be of interest. The board could thus provide guidances while taking into consideration the brodest stakeholders visions possiible.

Question 4.7: Do you think that potential alternative uses should be considered when valuing land as part of a Biological Asset valuation? Please explain why.	Yes, please see 4.1 & 4.6 above.
Question 4.8: Do you think that there are four basic sampling and measurement techniques for the valuation of Biological Assets? If not, please explain what sampling techniques have seen used in practice.	Not applicable
Question 4.9: Do you think that there are four basic sampling and measurement techniques for the valuation of Biological Assets? Do you think that the inclusion of information on generally accepted sampling and measurement techniques would substantially reduce diversity of valuation practice and if so, how?	Not applicable
9. Chapter 5 – Extractive Industries - Questions for Respondents	
Question 5.1: Should IVSC produce combined standards and guidance for Extractive Industries	Not applicable

or produce separate pronouncements for mining and for oil and gas? If you believe the latter, please indicate the reasons why you consider separate guidance is appropriate.	Not Applicable.
Question 5.2: Should the standards focus just on the valuation of reserves and resources or should it extend to other assets employed in the industry and to entire businesses in the sector? Please provide reasons for your answer.	Not Applicable.
Question 5.3: Which classification code or codes are most commonly used in your industry / sector? Which code do you normally use or rely on? Are you aware of differences across your / industry sector on the classification codes used? If so please indicate whether these differences cause problems in undertaking or understanding valuations.	Not Applicable.

Question 5.4: When valuing with a discounted cashflow do you use internal production forecasts developed by the entity's own geological and engineering specialists, external forecasts, or a combination of both and you adjust the production forecasts for risk by reserve category?	Not Applicable
Question 5.5: Please indicate what methods you use or are familiar with that fall under the Cost Approach and that are used in valuing assets in the Extractive Industries. Please indicate in your experience how the cost of an equivalent asset is determined and please indicate the three most common adjustments that are made in your experience to reflect physical, functional or economic obsolescence, and what metrics are used to determine these adjustments?	Not Applicable
Question 5.6: Please identify any intangible assets that are normally separately identified and valued; i. In transactions between	Not Applicable.

entities in the Extractive Industries and ii. When accounting for the acquisition of a business in the Extractive Industries.	
Question 5.7: In your experience what, if any, value is attributed to components of goodwill, eg an assembled skilled workforce, in corporate transactions in the Extractive Industries. Please briefly indicate any valuation techniques used to establish the value of goodwill in such circumstances.	Not Applicable.
Question 5.8: Please provide any examples of which you are aware of significant differences between the value of otherwise similar resources arising solely from different Governmental policies. Please indicate how "country risk" factors are reflected in the way in which you price or value extractive assets.	Not Applicable.
10. Chapter 6 – Inventory - Questions for Respondents	

Question 6.1: Should IVS provide separate standards for valuing inventory? Please explain why	Inventory valuation is more focused on an organisation activity than on its global value in time. It's thus a snapshot at a given time of an ongoing present activity while only providing a short time vision. Being different in nature, it appears to be convenient to provide separate valuing standards.
Question 6.2: What methods for the valuation of inventory do you most commonly see used in practice?	The three basic IRS accepted approaches (Cost, CSM and revenue/Income) are seen depending on the objectives of the concerned organisations : taxation, valuation, financing..
Question 6.3: Do you agree with the decision to focus on the application of the Comparative Sales Method? If not, please discuss the other methods that should be included in the performance framework.	Yes as this approach leads to an indication of the most probable selling price for the assets being appraised.

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