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International Valuation Standards Council
1 King Street,
London,
EC2V 8AU, United Kingdom

Comment on the IVS Agenda Consultation 2017

Dear Sir / Madam:

We, Plutus Consulting Co., Ltd. appreciates the continued efforts of the International Valuation Standards Council and the opportunity to comment on the IVS Agenda Consultation 2017.

The following are our comments on the questions we consider necessary to be discussed by the International Valuation Standards Council.

Chapter 2 – Discount Rates

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.
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Comment:

Additional standards related to the derivation of discount rates are considered to be a critical area that should be addressed by the IVSC.

The discount rate is an important factor in the income approach, and there is no practical or operational guidelines. Therefore, the discount rate has been applied in various ways.

Although we think that there is no need to request practical uniformity, we suggest that IVSC should formulate a guidance to promote theoretically consistent in operation.

Chapter 2 – Discount Rates

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.
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Comment:

In terms of the extensive use of the CAPM in practice, we agree with the Boards proposal to issue new standards to target diversity in practice related to the discount rate derivation on the premise that CAPM is widely used.

Chapter 2 – Discount Rates

Question 2.3: Which inputs have you observed to have diversity in practice that would benefit from additional guidance in IVS and why?
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Comment:

As there are various practices and inappropriate application might be done, we think that additional guidance should be set for the following as well as the items mentioned in the agenda consultation.

- Guidance on application related to equity risk premium, not only historical risk premium, and also implied risk premium
- Guidance on the selection of similar companies in estimating β (especially, the difference of the concept from the selection of comparable companies in comparable company analysis of market approach)

Although it is already mentioned in the agenda consultation, we consider that in addition to the above, additional guidance should be set for the following items in view of the fact that various practices exist.

- Country risk premium
- Size risk premium

Chapter 2 – Discount Rates

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?

Comment:

In evaluating early stage venture companies in the phase of growing, which have not had sales results yet or in the progress of product development, etc., it is difficult to apply the normal DCF method and comparable company comparison method because of the uncertainty of earnings assumed under the business plan and the absence of appropriate similar company.

Therefore, there are various methods used in practice of evaluating such venture companies, such as referring to the “Valuation of Privately-Held-Company Equity Securities Issued as Compensation - Accounting and Valuation Guide” published by AICPA .

Chapter 2 – Discount Rates

Question 2.5: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?

Comment:

We prefer C.

Given the use of CAPM in practice, the usefulness of IVS for market participants shall increase by referring to best practice technical guidance that helps the readers to understand the content specifically.