VALUE MANAGEMENT & OPTIONS CORPORATION

COMMENTS TO THE IVS AGENDA CONSULTATION 2017

Sender:  **MS. CHARITO COLE-ALFARO, CPA, CVA, ICVS, ETA CPP®**  
Managing Director  
VALUE MANAGEMENT & OPTIONS CORPORATION  
1002A 10th Floor, West Tower, Philippine Stock Exchange Center  
Exchange Road, Ortigas Center, Pasig City  
Metro Manila, Philippines 1605

Date submitted: August 15, 2017

Gentlemen:

In relation to the above subject, kindly refer to my comments in attached Feedback Form which are designed to directly render appropriate and concise responses to the focused questions and requests you have enumerated. My comments are based on my professional experience and training on the relevant areas. I hope the committee will find these helpful.

I congratulate the Board for this work and the consistent as well as patient labor on the subject of valuation, which impacts directly on how all perceive the reality about the power of value.

Best regards.

(The author is the Managing Director of Value Management & Options Corporation, a management consulting firm based in Manila, Philippines. She is a Certified Public Accountant and graduated with honors from the University of the Philippines. Ms. Alfaro is the first and only Filipino today who is a CVA (Certified Valuation Analyst) and ICVS (International Certified Valuation Specialist) charterholder. The CVA/ICVS is administered by the IACVA (International Association of Consultants, Valuators and Analysts) headquartered in Toronto, Canada with chapters all over the world. Ms. Alfaro belongs to the China Chapter. The ICVS credential is the highest standard for professional performance in valuation of intangible assets such as businesses, patents, formula, natural resources, among others.

Ms. Alfaro is the first and only Filipino today who has been granted the professional designation as ETA CPP® (Electronic Transactions Association Certified Payments Professional). ETA is headquartered in Washington DC, USA. By successfully meeting the ETA’s rigorous certification examination requirements, Ms. Alfaro has joined an exclusive community of electronic transactions professionals with the knowledge and skills required to perform competently in today’s complex electronic payments environment. The ETA CPP credential is the standard for professional performance in the payments industry and a symbol of excellence.)

We invite you to see [www.valueman.com.ph](http://www.valueman.com.ph).
### IVSC Agenda Consultation 2017 Feedback form

<table>
<thead>
<tr>
<th>4. IVS Gap Analysis -Questions for Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Question 1:</strong> Do you agree with the current categorization and timings of the topics contained in the gap analysis and if not why?</td>
</tr>
<tr>
<td><strong>Question 2:</strong> 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).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Chapter 1 – Non-Financial Liabilities -Questions for Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Question 1.1:</strong> Is the valuation of non-financial liabilities a critical area that should be addressed by the IVSC? Please explain why.</td>
</tr>
<tr>
<td><strong>Question 1.2:</strong> 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?</td>
</tr>
<tr>
<td>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?</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>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?</td>
</tr>
<tr>
<td>Question 1.5: Do you think IVSC should add financial instruments, pension liabilities, and insurance liabilities as a possible project(s) in the future?</td>
</tr>
<tr>
<td>Question 1.6: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

### 6. Chapter 2 – Discount Rates -Questions for Respondents

<p>| 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. | I think performance standards that relate to the derivation of discount rates should be addressed by IVSC as a critical area. IVSC should be able to set best practice technical guidance, without having to define extensive details, because there are multiple literature in place and still developing, about 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. | I think IVSC should issue new standards to encourage diversity in practice related to discount rate derivation. Since there are in fact, already a multiplicity of approaches and research made on the same subject, each valuer would be in the best position, given the respective specific circumstance, to determine which approach should apply. Further, it may also be worth working on more than one derivation for a valuer to have a better grasp of a suitable approach. |</p>
<table>
<thead>
<tr>
<th>Question 2.3: Which inputs have you observed to have diversity in practice that would benefit from additional guidance in IVS and why?</th>
<th>Cost of Debt, Capital Structure and Beta inputs can be more easily the subjects of additional guidance in IVS. These 3 inputs have less external “noise” factors that need vary from one country or industry to another. A guidance in order to set clearer definitions will be a good immediate output for IVSC.</th>
</tr>
</thead>
<tbody>
<tr>
<td>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?</td>
<td>There are discount tables that have been developed by some Universities and have been published. These materials are the result of extensive research done by said institutions. Those tables define also the parameters within which the table are usable.</td>
</tr>
<tr>
<td>Question 2.5: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?</td>
<td>Alternative C is the most realistic among the Alternatives. I agree that the depth and detail involved in the task of writing a standard, and to make such standard applicable in all markets globally is too huge.</td>
</tr>
<tr>
<td>7. Chapter 3 – Early Stage Company Valuation -Questions for Respondents</td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>I believe that IVSC should develop additional standards for the valuation of early-stage companies as a critical project area. This is because we have observed quite a multiple of divestments and acquisitions of even early-stage companies. While this is already rapidly happening in the market today, the benchmarks that are being used for said acquisition transactions are devoid of recognizable objective and quantitative bases. This constant exchange of hands can establish a valuation standard that may not be realistic.</td>
</tr>
</tbody>
</table>
**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.

There is greatest valuation diversity in Stages 1,2 & 3.

**Question 3.3:** Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?

I believe that Alternative B will be the best approach for IVSC to take. Valuation of early-stage companies should be an entirely separate project because there is much detail that require understanding. Moreover, a lot of transactions that had taken place should be studied in order to determine the benchmarks and approaches that were used in valuation.

### 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?

IVSC should provide a standard of Biological Assets. The definition provided by the FASB and IASB of Biological Assets and Agricultural Produce are clear and quite distinct as is.

**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

I have personally not seen significant variations in valuation practice for Biological Assets.
| 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? | I have personally not seen significant variations in valuation practice for Agricultural Produce. I believe this is because there is much market information available that can be used are references for valuation. |
| Question 4.4 Is the valuation of Biological Assets critical area that should be addressed by the IVSC? Please explain why. | Valuation of Biological Assets should be addressed by IVSC as a critical area. Many of these Biological Assets also belong to critically essential industries. |
| Question 4.5: Does the separation of value between the agricultural produce and its bearer plants cause issues within your market? Please explain why. | No, the value of the agricultural produce is and should be distinct and separate. This is a generally understood case at least in the Philippines. Hence, the value of the coconut fruit is recognized different from the value of the tree itself. |
| 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. | There may indeed be some conceptual issues in allocating components of Fair Value. The most common issue is that of the value of the alternative use of the agricultural property. In some cases, the alternative use value of the agricultural property is much greater than the value of the Agricultural produce over the years subject of the valuation. In cases like these, value is still allocated to the agricultural produce at the expected market price over the years subject of the valuation. It is essential in cases like these, to determine the purpose for which the valuation is intended. As an agricultural going concern, the above approach is to be executed. |
**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.

*The answer to this depends on the case. Potential alternative uses may not be useful references if land is being valued as a going concern agricultural asset. If a valuation of a Biological Asset is being pursued specifically to convert its use into something else, then a potential alternative use value should be considered.*

**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.

*There could actually be more measurement techniques that can be observed being used in the market. Much material on this subject has been written as well.*

**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?

**9. Chapter 5 – Extractive Industries - Questions for Respondents**

**Question 5.1:** Should IVSC produce combined standards and guidance for Extractive Industries

*It will be best for IVSC to come up with separate pronouncements for mining and for oil & gas. These two have quite distinct valuation requirements, and the resources and assets involved also have very different alternative uses, or none at all.*
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.

<table>
<thead>
<tr>
<th><strong>Question 5.2</strong>: 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.</th>
<th>The standards should just focus on the valuation of reserves and resources. The valuation of other assets employed can already be addressed by the existing standards.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Question 5.3</strong>: 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.</td>
<td>The Philippines had adopted the JORC (Joint Ore Reserves Committee) standards.</td>
</tr>
<tr>
<td>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?</td>
<td>That is generally the practice.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>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?</td>
<td></td>
</tr>
<tr>
<td>Question 5.6: Please identify any intangible assets that are normally separately identified and valued; i. In transactions between</td>
<td></td>
</tr>
</tbody>
</table>

**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.

**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.

**10. Chapter 6 – Inventory - Questions for Respondents**
**Question 6.1:** Should IVS provide separate standards for valuing inventory? Please explain why

*It will be best of IVSC can provide separate standards for valuing inventory.*

**Question 6.2:** What methods for the valuation of inventory do you most commonly see used in practice?

*The Replacement cost method is the more commonly observable inventory valuation method.*

**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.

*I agree that at this stage the focus should just be on the application of the comparative Sales Method.*

**Contributed by:**

MS. CHARITO COLE – ALFARO, CPA, CVA, ICVS, ETA CPP
Managing Director
VALUE MANAGEMENT & OPTIONS CORPORATION
Manila, Philippines