AICPA® Forensic and Valuation Services Section

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International Valuation Standards Council
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Dear Board Members:

This letter is in response to the International Valuation Standards Council's exposure draft of *Illustrative Examples Chapter 1 – Bases of Value*.

The American Institute of Certified Public Accountants (AICPA) is the professional organization of over 395,000 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 AICPA's 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 valuation standards, Statement on Standards for Valuation Services No. 1: *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*.

We are concerned with inconsistent terminology between the International Valuation Standards (IVS) Framework and existing terminology used in International Financial Reporting Standards (IFRS), US Generally Accepted Accounting Principles (US GAAP), and the International Glossary of Business Valuation Terms (IGBVT). Please see our response to question 2 for details.

This letter presents the FVSEC's comments and responses to certain questions for respondents raised in the first chapter of a rolling project to provide Illustrative Examples for many of the valuation concepts and principles discussed in the International Valuation Standards (IVS) Framework: Chapter 1 – Bases of Value.

Question 1
Do you consider the differences among the IVS bases of value have been adequately illustrated? If not, what additional illustrations might be helpful?

The FVSEC believes the examples offer an effective illustration of the application of the IVS Framework. We do note that the examples represent a "bottoms up" approach (starts with standalone business value and building up IVS Fair Value when specific synergies are identified). We recommend additional examples be provided illustrating a "top down" approach, especially when applying the Guideline Company Transactions method under the Market Approach. Such an example would illustrate how to properly reconcile IVS Fair Value back to Standalone Business Value when the appraiser is not aware of the motivation for the transaction nor are the synergies specifically identified and quantified.

Question 2
Do you perceive any issues or unintended consequences arising from any of the illustrations? If you do, please explain what these are.

The FVSEC is supportive of providing ***Illustrative Examples*** to highlight the differences among the bases of value presented within the IVS Framework and to assist practitioners with selecting the appropriate basis. We believe that clarity is important in developing any measurement of value. We also understand the reasoning behind using the term “Fair Value (IVS),” which is to differentiate it from the definition of Fair Value used in International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP). While we agree with the desire to further define the value being measured, we are concerned that the use of the “Fair Value (IVS)” term may cause confusion and inappropriate interpretations of this basis of value. An alternative term may be “Total Value” or “Negotiated Value.”

Furthermore, the definitions provided differ from the International Glossary of Business Valuation Terms (IGBVT) that has been in place since 2001 and has been adopted by a number of professional societies and organizations, including the AICPA. Specifically, what is referred to as “Market Value” in the IVS Framework is referred to as “Fair Market Value” in the IGBVT. The FVSEC believes this will create confusion and recommends conforming the terminology to IGBVT.

Question 3
Do you consider that there are any other differences between Market Value and IFRS 13 Fair Value that should be discussed and illustrated?

FVSEC does not believe market participants, as defined by IFRS 13 Fair Value, are adequately defined and differentiated from regular willing buyer / willing sellers. The IVS Framework states that market participants are to be addressed in a later publication. FVSEC believes that the market participant discussion should be included in this publication.

Question 4
Does the term “arm’s length” in the Market Value definition need explanation?

The FVSEC does believe further explanation as to what constitutes an arm’s length transaction as well as the term “proper marketing” should be added. Specific examples should be provided to add clarity. As an example, would a sale in a bankruptcy/reorganization constitute an arm’s length transaction even when it is widely marketed in a formal auction process and extensively negotiated between multiple bidders or would this transaction not meet the criteria stated in paragraph 7 because of the “without compulsion” criteria?

Question 5
Do you find the graphics in the document helpful in understanding the relationships between the bases of value and other pertinent concepts?

We believe the graphics are effective.

Question 6
Please indicate the perceived priorities from this list and if there are any additional concepts or issues within the IVS Framework that you believe it would be helpful to address.

The FVSEC believes other topics within the scope of the Illustrative Examples project should be addressed in the following priority.

1. Proper Marketing

2. Forced Sales
3. Aggregation and Unit of Account[1]
4. Highest and Best Use
5. Potential Obsolescence (this topic is not listed in Question 6 but the FVSEC believes it should be added to the list of top priorities)
6. Market Participants
7. Market
8. Transaction Costs
9. Assumptions and Special Assumptions
10. Valuation Date

Other Comments

1. Page 3 – The exposure draft does not differentiate between an "exit price" versus and "entrance price".

2. Example 1 – The example gives the impression that the valuer gathers market data that it can use to estimate the Market Value but fails to mention the use of an income and/or asset approach.

3. Paragraph 6 –"*Further, the examples in this chapter are focused on assets only*". Are liabilities excluded? Will they be addressed later in other chapters?

4. Paragraph 11 – Figure 1 - This illustration may be misleading because it suggests that Investment Value is always greater than the other values presented. It would be prudent to highlight that Investment Value is not necessarily always greater than the other value measures shown.

5. Paragraph 12 – *"Note that this analysis and related concepts are relevant for the application of both the income and the market approach."* It is our observation that this statement would also be applicable to the cost approach.

6. Paragraph 15 – Illustration of a financial buyer may not be accurate because a financial buyer may realize revenue synergies with other companies held with the financial buyer's portfolio.

7. Paragraph 20 definition of Special Value
    a. The FVSEC is not aware of any "professional" definition or application of the term "Special Value" which we believe is rather broad and may create a higher level of confusion.
    b. The FVSEC would suggest changing the term "special" purchaser to either "specific" or "unique" purchaser.

8. Paragraph 25 – "Synergistic Value" requires the combination of two or more assets. Paragraph 25 states that "Synergistic Value can also be a component of Investment Value, which does not involve a hypothetical exchange." FVSEC questions how an exchange would take place without combining assets, and therefore believes this is an inconsistency in the exposure draft.

9. Paragraph 26 – *"As noted in IVS 300 Valuations For Financial Reporting IFRS 13 Fair Value is generally consistent with Market Value".* FVSEC believes this is very broad and may be misleading.

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[1] Unit of Account is an accounting concept which is defined by FASB/IASB as *[emphasis added]*:

The level at which an asset or a liability is aggregated or disaggregated in a Topic/Standard *for recognition purposes*. Therefore, FVSEC believes that future Illustrative Examples should not provide any guidance on unit of account but could address how unit of account would impact valuation conclusions. To further clarify what would be addressed under this topic, FVSEC recommends referring to it as "Aggregation for Valuation Purposes" without including reference to the "Unit of Account."

10. Paragraph 28 – Footnote 5 is unnecessary.

11. Paragraph 29 -
    a. First bullet is unclear.
    b. Third bullet does not clearly illustrate why a defensive asset does not have market value. The FVSEC suggests expanding the example to explain why a difference may be appropriate.

12. Paragraph 30 – The FVSEC believes the last sentence, *"Consequently, the fact that IFRS 13 Fair Value defines and prioritises different inputs should not be a reason for a different valuation conclusion to one reached when applying the Market Value Definition in accordance with the IVS Framework"* is misleading.

13. Paragraph 31 –
    a. The last sentence states, "*Just as IFRS 13 Fair Value is closely aligned with Market Value, Value in Use bears some similarities to Investment Value*." We suggest illustrating how the two are similar. However, we do not see how ***synergies*** that maybe included in Investment Value would be considered in a Value in Use measurement.
    b. We recommend replacing "and" with "or" as follows
    (IFRS 13 Fair Value) less costs of disposal ~~and~~ <u>or</u> its Value in Use.

14. Paragraph 32 last sentence in first box reads, "*In all the examples there is a presumption, that in the absence of evidence to the contrary, the price paid in an arm's length transaction is Market Value*" We recommend adding "in practice, the appraiser should confirm that the price paid was in fact an arm's length transaction."
15. Paragraph 33
    a. We recommend adding examples of dis-synergies including examples when dis-synergies are not acquirer specific.

16. Paragraph 35 – FVSEC believes this paragraph may be better placed earlier in the document rather than the back.

17. Paragraph 37 – The FVSEC does not believe Level 1 inputs are intended to represent an opinion.

We thank the IVSC for its consideration of our comments and for its continued service to the valuation profession.

Very truly yours,

Carol Carden

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