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Ladies and Gentlemen:

Issue 1. The definition of Fair Value ("FV") in the Exposure Draft ("ED") is fully in line with that used by valuation specialists. While slightly different in wording, it encompasses the major concepts used by appraisers and the courts for many years.

Issue 2. The explanation in Appendix A for the Income Approach to valuation is far from clear. Concepts Statement 7 seemed to require a risk-free rate, with no adjustment for risk in the rate. Now the ED seems to have adopted, *in addition*, a risk-adjusted discount rate. A clear explanation as to which method should be used when, and how the risk-adjusted discount rate should be derived (in practice, not in theory) would be helpful both for practitioners and for auditors reviewing that work. ¶A12 discusses certainty-equivalent cash flow. Similarly, systematic and nondiversifiable risk are also discussed. These concepts are not universally understood. These concepts are also far from clear in terms of practical application. Perhaps a clearer explanation could be given for practitioners, as contrasted with the academic finance theory specialists for whom they appear to have been written.

Issue 3. If prices in active markets are readily and regularly available, we agree that they should be used, at least to the extent that the subject asset (liability) is closely comparable. Inasmuch as this is a basic *principle* we do not need further *rules* on how to determine active markets.

Issue 4. The concepts of value in-use and value in-exchange are thoroughly understood by valuation practitioners, and the Board is correct in the distinctions made in the ED.

Issue 5. We are totally opposed to the FV 'hierarchy'. In the first place we are unaware of any assets that fit into your Level 2. Interestingly, you provide no examples, probably because there aren't any. Secondly, appraisers should utilize all the *applicable* approaches to value (Market, Cost and Income) in every valuation assignment. To put primacy on the market approach (level 1) is going to call into question by auditors and the SEC when values are primarily determined by the Cost and Income (level 3) approaches. If a good market exists, then appraisers will utilize it. If a good market does not exist then other approaches have to be explored. Eliminating Level 2, leaves just two levels. In turn, this implied lack of confidence in so-called Level 3, which in many cases is the only way to value assets, will put appraisers at a disadvantage *vis a vis* auditors who will question "why isn't a level 1 approach used?" We strongly suggest eliminating the hierarchy and simply state that the principle of valuation, in determining FV, should be to utilize all applicable valuation approaches. Going to your Levels and hierarchy is a rules-based approach that in practice may in fact give an incorrect answer.

Issue 6 and Issue 8. These appear to deal with blockage discounts, and the market in which transactions are likely. We would assert that if a company, or a dealer, holds a large block of an infrequently traded security, the true Fair Value of that asset is less than $p \cdot q$ because in the real world the securities could only be sold at a discount. The Board can arbitrarily define markets, or market participants, any way it wishes; nonetheless the true FV is going to be affected by a blockage discount if the owner ever tries to sell. Offsetting this, there will be occasions where a large block actually can command a premium because of control factors. Thus, in our judgment, making a 'rule' in the ED and subsequent SFAS, that bears little relationship to underlying economics does not provide users of financial reports with a true picture of Fair Value.

Issue 7. This is a very narrow issue, of interest only to banks and dealers with huge portfolios. In terms of materiality it is hard to see how using bid and asked prices, instead of closing prices, is much of an issue. While this is an issue discussed in the ED, we notice there is zero discussion of Real Estate, which is for almost all companies a much larger asset than the differential between bid and asked prices and closing prices. The Board is putting way too much emphasis in the ED on financial instruments and virtually no emphasis on intangible assets or Real Estate, which in practice are far harder to value. Your priorities are hard to understand.

Issue 9. This is an instance where principles are better than rules. Multiple valuation techniques, and the correlation of the results, are what professional valuation specialists do every day; they are required by generally accepted valuation principles. While we disagree that a separate Level 1 is desirable (and there are no Level 2 assets that we are

familiar with), for all assets wherever possible multiple valuation approaches are desirable, if not mandatory. The issue then becomes one of correlating the answers from more than one approach, and this ultimately requires professional judgment.

Issue 10. There are many studies of restricted securities, but there are enough differences both among the studies and within the studies, that we are totally unfamiliar with "using the quoted price of an otherwise identical unrestricted security, adjusted for the effect of the restriction". There are innumerable court cases dealing with lack of marketability as well as restricted stock, and in no instance that we are familiar with can one ever find an "otherwise identical unrestricted security, adjusted for the effect of the restriction". If such comparables existed, there would be virtually no disputes on this topic! Your guidance should incorporate the lack of marketability discount that is standard in the valuation community.

Issue 11. The amount of 'disclosure' seems to increase with every new SFAS. On a stand-alone basis the disclosure requirements in this ED appear reasonable, but they should be tested in conjunction with all the disclosure requirements now mandatory. Put a different way, this ED simply adds to disclosure overload. If the intended audience for general purpose financial statements is an informed investor, not a professional security analyst, then a reasonable question can be raised as to whether your disclosure requirements here are too detailed. What will users do with this information?

Issue 12. Inasmuch as this ED does not change basic valuation principles, the proposed effective date is satisfactory. We would like to see, however, how the recommendations here interact with the purchase price procedures ED coming out in a few months. Originally the Board promised them at the same time. It would be helpful to have them side by side and test the operability of this ED with the requirements of the new SFAS 141 and 142.

Issue 13. We should be careful what we ask for, because we might get it. Perhaps the less the better! Having said that, the ED is strangely silent on the entire topic of the valuation and pricing of intangibles; it would be helpful to valuation specialists, both those working for corporate clients, and those in audit firms, to get the Board's thinking on this most difficult of issues. Such thinking might not provide better valuations. It would help eliminate second-guessing by auditors who strain to find "authoritative support in the accounting literature" to approve or disapprove of valuations (and lives) of intangibles prepared by valuation specialists.

General comment: "Users of financial statements generally have agreed that fair value information is relevant"[¶C3] While recognizing that the Board does not like to use the intent of preparers, nonetheless you have not demonstrated that users want, or need, the

Fair Value of assets that can not and will not be sold or exchanged. As an example, an integrated oil company owns many thousands of service stations. Any, and all, of the stations can be sold and determining the FV of each is feasible. But of what use would that information be to shareholders or creditors if the company had no plans to exit the retail petroleum business? And if circumstances did dictate such an abrupt shift in business strategy, at that point the FV of the stations would undoubtedly be adversely affected.

A second example could be the value of a brand name intangible. General Motors recently discontinued the Oldsmobile line. What is the value of the Oldsmobile brand today? What was it five years ago, the day after the announcement of discontinuance? GM certainly won't sell the brand to Kia, who might like to buy it. But by the same token GM itself won't use it. So who are the "market participants"? As a shareholder in GM how do I evaluate any impairment in the value of the Oldsmobile brand? The reason for bringing up this example is that in many business combinations the buyer won't use the acquired brand but neither will he sell it. We have had interminable arguments about what is the "true" Fair Value. Putting a "Market Participant" FV on a brand which is neither going to be used, nor sold, provides limited cash flow information to creditors and shareholders.

The reason for bringing up this point is that while the current ED only deals with "how" to determine FV, undoubtedly once it is issued there will be further pressure to "use" these tools. It is easy for the Board, and security analysts (users), to say that FV information is relevant and that they would like FV information, particularly at zero cost to them; it is another to demonstrate what types of decisions could, or would, be made if the information were prepared and disclosed. The Board dropped its project on disclosing the FV of self-developed intangibles. Perhaps this was done because of a lack of interest on the part of users. If this was the reason, support should be provided by the Board in this ED and SFAS as to why they believe that FV information is desired, or used in real-life situations, by so-called users. A simple assertion that FV is desirable or relevant is not persuasive, particularly given the high costs of developing and presenting FV information.

The issuance of this ED as a formal SFAS should not be the prelude to further encroachment of FV financial reporting. While ¶C12 explicitly states that "This Statement does not establish requirements for when to measure assets and liabilities at fair value" neutral observers see FV becoming embedded in such forthcoming Board projects as Revenue Recognition.

The current ED does not give much guidance on valuing the types of liabilities that would arise if Revenue Recognition were to be measured on the basis of the FV of unperformed liabilities. There have been 40 or more years of practice in valuing assets in financial statements, as per APB 16, but very little experience in valuing the types of liabilities that the Board is now considering putting on financial statements. Maybe in theory the FV of assets and liabilities should be developed on a symmetric basis. In practice this has yet to be shown.

Finally, we do not understand why the Board scoped out share-based payments transactions, leasing transactions, as well as inventories. There are three, and only three, approaches to valuation; one would imagine that FV should be developed the same way for all assets and liabilities, including leases, inventories and options.

Finally, we have comments below about the specific examples in Appendix B.

Example 1. [B3] We quote from the ED: "The "winning" bid would include a premium over the other bids. That premium would not necessarily reflect the value of the synergies. Rather that premium would reflect the amount that the particular buyer is willing to pay over the other bids to acquire those synergies." This is far from clear. The premium "would not reflect the value of the synergies", but would reflect the amount that the buyer "is willing to pay over the other bids to acquire those synergies." If the amount of the final bid is to pay for the synergies to that buyer, then why is the winning bid not reflective of the value of the synergies?

What you are really saying is that the FV, based on market participants, is not the winning bid but the *losing* bid because that is the only market participant left. Another way of looking at this is if the day after the winning bid is made an appraiser has to come in and determine the FV. Looking at market participants, there would have to be an immediate write down to the level of the losing bidder! Please explain this more clearly in the final Standard.

Example 2. [B5] Please indicate that the example relates only to the unit of account and is not dispositive of how to value customer relationships. Otherwise auditors will refer to this portion of the Standard and not allow customer relationships to be valued individually, even if that is appropriate.

Example 3. [B7] Valuation practice has been to value Machinery and Equipment (M&E) in a purchase price allocation based on replacement-cost new, adjusted for physical, functional and economic depreciation. Those values are then *tested* by going to the used-equipment market for certain large items. It is impractical to attempt to go to the market and obtain dealer prices for every piece of equipment in a facility. Please discuss in the final Standard whether or not a target company's own fixed asset record, (date of acquisition and original cost) can in practice be trended through the use of appropriate cost indexes. If the Board truly means for all PP&E allocations to be based on market participants, i.e., used equipment dealers, this should be made clear because the cost implications to buyers will be very large. If you do not address this issue, then auditors are likely to require it and the SEC may insist on pricing out all PP&E in the market; buyers of companies will incur tremendous expense for little increase in relevance or reliability.

Example 5. [B9] The requirement for choosing the active market to which an entity has access needs to be clarified. Take a Real Estate developer who buys and sells development tracts. A major tract has been subdivided and a few lot sales have been made, e.g., at a retail price. Should the remaining unsold land be valued at the number of lots times the unit price, or at what another developer would pay for the tract? Both are relevant markets. But without looking at the 'intent' of the owner, which is correct? The Board does not like 'intent' to be used, so clarification or guidance should be provided.

Example 6. [B12] This example seems to contradict Example 3. Here you require both a market and a cost approach for allocation of purchase price for M&E. You disregard the cost approach because "they require fewer and less subjective adjustments". In practice how is a valuation specialist to determine 'required adjustments' for condition from dealers and auction prices? In a real-life situation the appraiser sees the equipment on the factory floor and makes all necessary adjustments right there. Without extraordinary travel all over the country to visit numerous dealers [keep in mind that dealers specialize by type of asset, not by industry in which the assets are used] how can one make appropriate adjustments for age, condition and functional obsolescence? Trying to do this over the phone is not realistic, and the economics of traveling are equally unrealistic. Your example 6 starts with an incorrect premise - that dealer prices for used equipment are going to be better, more relevant and reliable, than indexed original cost. You can assert this, but without evidence to support that assertion tens of thousands of appraisals of M&E for allocation of purchase price over the last 34 years must be wrong. Audit firms, and the SEC, have virtually never challenged allocations of purchase price for M&E as performed under both APB 16 and SFAS 141 and SFAS 142. Virtually 100% of those allocations used the cost approach as the basis, testing certain major items in the market. The Board should explain why such a major change in practice is beneficial.

Example 7. [B14] This seems to put the Board's imprimatur on the income approach to valuing revenue-producing software, and disallows the cost approach on the grounds that it is hard to estimate indirect costs. Our experience contradicts the difficulty of obtaining relevant and reliable costs. Further, your preferred methodology will probably overstate the FV of software, leading to future impairment charges. In your example, it is hard to believe that any 'market participant' would pay \$15 million on a cost or value buildup in determining the FV of the business as a whole. Again, you seem to have a bias against the cost approach. Effectively, through your examples, you are going to make it hard for valuation specialists to stand up to future audit challenges on cost-based values. What you do not appreciate is that your examples are often taken out of context by auditors and used as 'audit evidence' by 'analogy'. Either get better examples, or explicitly state that the examples are referring only to broad concepts and do not represent preferred practice in the given situations.

Respectfully submitted,

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