



LETTER OF COMMENT NO. (?)

Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

By email to: director@fasb.org

April 13, 2007

Dear Sirs:

Re: Invitation to Comment: Valuation Guidance for Financial Reporting

File Reference: 1520-100

Summary Statement

The Business Valuation Committee of the American Society of Appraisers (ASA), an international organization of appraisal professionals and others interested in the appraisal profession, is pleased to respond to your Invitation to Comment (ITC) on valuation guidance for financial reporting. International in structure, the ASA is self-supporting and independent. The oldest and only major appraisal organization representing all of the disciplines of appraisal specialists, the ASA originated in 1936 and incorporated in 1952. ASA is headquartered in the metropolitan Washington, D.C. area. The ASA is one of eight major appraisal societies that, twenty years ago, founded The Appraisal Foundation (TAF), a nonprofit organization authorized by Congress as the source of appraisal standards and appraiser qualifications.

It is the position of the Business Valuation Committee of the ASA that TAF has provided the appraisal profession with a sound framework for valuing assets and liabilities for financial reporting, and we recommend that any continued development of guidelines for valuation, including for financial reporting purposes, be developed within its framework. Specifically, we believe that the best approach for establishing any further valuation guidance for financial reporting is through a separate, independent committee devoted to this topic, under the auspices of TAF. This independent committee would be composed of representatives of all appropriate constituents.

In the letter to follow we will set forth some of the details of our suggestions, summarize potential ramifications for your consideration, and answer the questions in the ITC specifically. Representative(s) from ASA would be pleased to answer questions and participate in the public discussion during your planned roundtable forum in April.

General Comments

It may be tempting for some constituents to consider that valuation for financial reporting is a different kind of valuation than the valuation of assets and liabilities in other contexts. Few constituents would disagree with these definitions of the value of any asset or liability:

Asset. The value of an asset, today, is the present value of all expected future benefits accruing from that asset discounted to the present at an appropriate discount rate.

Liability. The value of a liability, today, is the present value of all expected future obligations attributable to the liability, discounted to the present at an appropriate discount rate.

We include the definition of liability to illustrate that the concept of valuation is the same on either side of the balance sheet. A liability on one balance sheet is a reflection of an asset on another balance sheet.

There are three broad approaches to valuation, the cost approach, the income approach, and the market approach. These approaches are employed by valuation professionals and market participants in the process of determining the value of assets and liabilities. Within the broad approaches to valuation, valuation professionals and market participants employ various valuation *methods* in the process of determining value indications. For example, the discounted cash flow method is a commonly used valuation method within the income approach. Finally, within individual valuation methods, valuation professionals and market participants employ valuation *procedures* (or techniques) in the process of determining indications of value.

TAF is a congressionally mandated body created to develop and promulgate valuation standards for appraisals involving federally-related transactions in the United States. To this end, TAF has created the *Uniform Standards of Professional Appraisal Practice* (USPAP) which has evolved and matured over the last twenty years.

USPAP is promulgated by the Appraisal Standards Board (ASB) of The Appraisal Foundation. USPAP is published, interpreted and amended "on behalf of appraisers and users of appraisal services." The Preamble of *USPAP 2006* states the following:

The purpose of the *Uniform Standards of Appraisal Practice* (USPAP) is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.

USPAP is designed to provide minimum standards for the conduct and reporting of appraisals. Some constituents might suggest that these standards apply only to lending or tax valuation assignments, or to other specialized assignments. However, these standards are valuation standards, not standards relating to a particular kind of valuation, whether tax, litigation, or financial reporting. USPAP provides an umbrella set of standards for the conduct and reporting of all types of appraisals.

To professionals in the appraisal field, valuation for financial reporting (VFR) is a type of valuation, just like tax, and falls within the broad umbrella of valuation concepts. This is not to suggest that fair market value and fair value for financial reporting purposes are identical standards of value, but that the interpretations of each are accomplished within the broad approaches to valuation, employing the same or similar methods of valuation, and procedures within methods appropriate to the required standard of value.

What is needed for valuation for financial reporting is valuation guidance at the procedural level, i.e., in interpreting what are the best practices for particular kinds of valuations. What is not needed is another broad set of valuation standards for one type of valuation, i.e., for financial reporting.

With this background, we proceed to the specific responses of the Business Valuation Committee of the ASA regarding the ITC.

Question 1

Is There a Need for Valuation Guidance Specifically for Financial Reporting?

USPAP provides an overall framework within which valuations of businesses, business interests, securities, assets, intangible assets, or liabilities are conducted. The purpose of USPAP, as stated in its Preamble, is "to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers." USPAP's guidelines are broad and general. They are intended to encourage appraisers to "develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading." The themes of "meaningful and not misleading" are also hallmarks of financial reporting.

As noted above, there are three generally recognized valuation approaches, the income approach, the cost (or asset) approach, and the market approach. Valuation methods have been developed within each approach. For example, the discounted cash flow (or future benefits) method is a valuation method within the income approach. Each valuation method is conducted by the application or one or more valuation procedures.

It is the position of the Business Valuation Committee of the ASA that there is a need for valuation guidance for financial reporting. However, that guidance should come in the form of procedural guidance in response to specific needs of VFR, for example, in the form of practice aids. In other words, existing appraisal standards provide an adequate conceptual framework to determine the price or value for particular assets or liabilities.

Question 1(a)

<u>Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?</u>

It is not possible to develop valuation guidance that eliminates the need for appraisal judgment. There are far too many different fact patterns for far too many different assets and liabilities that are subject to valuation for VFR. The need for valuation guidance is at the procedural level, or on valuation practices and techniques. The conceptual framework for valuation is already in place with USPAP. Accordingly, valuation guidance for VFR should be in the form of procedural guidelines or practice guidelines in specific areas where there are divergences in practices.

Question 1(b)

What Should be the Duration of Any Valuation-Guidance-Setting Activities?

The valuation standards framework provided by USPAP has no time limits or specific duration of existence. USPAP is updated annually to harmonize the standards with evolving circumstances in the broad field of appraisal. Likewise, valuation guidance for VFR should have no specific duration or time limits, but should be established in a manner whereby the guidance can be modified with evolving circumstances.

Question 2

What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?

Three potential roles for existing appraisal organizations were noted in the ITC: (a) not having a unique role; (b) serving as an adviser to any standard setters, or (c) serving as the principal standard setter.

The Appraisal Foundation (TAF) is an umbrella organization for the promulgation of valuation standards. It makes sense that TAF, or an appropriate organization operating under its auspices, should be the focal point for valuation guidance for VFR (VGVFR Committee). Under the auspices of such an organization, the various constituents of VFR, ranging from appropriate representatives of financial statement preparers, auditors, regulators, investors, and appraisers, and perhaps, academics, should be active participants in the creation of valuation guidance.

Unless the VGVFR Committee is perceived as representing such a diverse group of interests, it may be perceived as advocating the interests of particular constituents, thereby undermining its credibility and effectiveness.

In any event, the Business Valuation Committee of the ASA is highly interested in acting as a participant in the context of a broadly composed standard setting organization.

Question 3

What Process Should be Used for Issuing Guidance for Financial Reporting?

Four alternative processes are noted in the ITC. The first three call for leadership by the FASB without external assistance, with assistance from appropriate resource groups, and under the auspices of a FASB-sponsored organization like the EITF. The fourth process suggests that a separate, permanent standard setting organization be established to issue valuation guidance under the oversight of the FASB and the SEC.

The Business Valuation Committee of the ASA believes that a separate standard setting organization should be established as indicated in the response to Question 2 (the VGVFR Committee). As such, the appropriate roles of the SEC and the FASB should be as noted in Paragraph 20 of the ITC as "being participating members of the standard setter, or being observers at the standard setter's meetings."

Question 4

Should the Process of Valuation Guidance be on an International or National Level?

Quite clearly, the process of providing valuation guidance should be undertaken on an international level without geographic boundaries. Given the current movement to develop harmonized international appraisal standards and harmonized international reporting, it only makes sense that valuation guidance for VFR should be international in scope. In this regard, a TAF work group and an International Valuation Standards Committee (IVSC) work group are coordinating efforts and participating in each other's intangible asset/intellectual property best practices projects as a starting point for international harmonization of valuation guidance.

Other Potential Issues (a) Who Should Grant Authority to Issue the Valuation Guidance?

The FASB will clearly have to endorse the work product of the VGVFR Committee, however it is constituted, in order to insure that it has credibility and acceptance in the broad marketplace and among the various constituencies.

Other Potential Issues (b)

What Due Process Procedures Should the Standard Setter Follow in Issuing Valuation Guidance?

The process of standard setting should have the same transparency that currently exists with the development of USPAP. TAF has such a process already in place such that any VGVFR Committee could utilize the process, including exposure drafts, public discussions, and any other forms of appropriate exposure of guidance prior to finalization.

Other Potential Issues (c) How Should Any Organization That Issues Valuation Guidance be Funded?

The funding question can best be addressed once the structural decisions have been made.

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We thank you for this opportunity to respond to the ITC. Feel free to contact us if you have any questions regarding this response.

Sincerely,

J. Michael Hill, Jr., ASA, CPA/ABV

Chair, ASA Business Valuation Committee

Z. Christopher Mercer, ASA, CFA

Chair, BV Standards Subcommittee of the ASA Business Valuation Committee

cc: Les H. Miles, Jr., ASA

International President, American Society of Appraisers

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