

April 13, 2007



Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

LETTER OF COMMENT NO.

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Re: File Reference No. 1520-100 – Invitation to Comment: Valuation Guidance for Financial Reporting

Dear Ms. Bielstein:

PricewaterhouseCoopers (PwC) appreciates the opportunity to respond to the Financial Accounting Standards Board's (the FASB or the Board) Invitation to Comment (the ITC) on Valuation Guidance for Financial Reporting. This response summarizes the views of certain members of the PwC network that were consulted with in developing these views. We recognize the importance of the topic and commend the FASB and staff for raising awareness about this significant matter.

Summary of Our Point of View (Question 1a)

Valuation measures for financial reporting¹ continue to gain importance given their use in recent accounting standards and the reliance placed on them by the capital markets. Because the capital markets rely on objective, reliable and sound information to efficiently allocate capital, the emphasis placed on these measures has increased as well. Further, given the unique nature of such measures due to, in part, the interaction with the accounting standards that mandate their use, there is limited guidance available when preparing a valuation for financial reporting purposes.

In considering these points, we believe there is a current need for accounting standard setters to address the development of valuation guidance for financial reporting purposes. Although we recognize that the ITC has been issued by the FASB, in our view, this matter is best addressed from a global perspective given the continuing trend toward developing high-quality, global accounting standards. As a result, we recommend both the FASB and the International Accounting Standards Board (IASB) (herein referred to as the "global standard setters") jointly address this matter.

¹ For purposes of this letter, we use the term *valuation measures for financial reporting* broadly to encompass those measures defined by FASB Statement No. 157, *Fair Value Measurements*, as well as other valuation measures which may be considered similar to fair value measures but outside the scope of FAS 157.

As the global standard setters have the responsibility to issue accounting standards which may require the use of valuation measures, we believe the IASB and FASB are best positioned to lead the efforts to establish principles-based valuation guidance for financial reporting. Furthermore, we note that the existing accounting standard setting process serves the public interest and brings the credibility necessary to gain global acceptance of such valuation guidance. In considering the future, we would envision a process in which the global standard setters establish principles-based accounting standards which not only provide the appropriate recognition and disclosure guidance, but also articulate the measurement objective and the underlying economic thinking to support the measurement objective. Such principles-based guidance would allow for appropriate subjectivity and judgment that is necessary in a valuation.

We recognize that our view requires a fundamental shift in the standard setting process by incorporating principles-based valuation guidance directly into the accounting standards themselves and acknowledge that our solution will be a significant undertaking. However, we believe the benefits associated with providing principles-based valuation guidance by reducing the practice issues associated with determining valuation measures while improving consistency and comparability of such measures will justify the increased efforts expected of the global standard setters.

Need for Valuation Guidance (Question 1)

Our view regarding the need for principles-based valuation guidance for financial reporting is articulated above. We have included some additional thoughts in response to this question to expand on our point of view.

With the continuing use of valuation measures in financial reporting, practice issues associated determining those measures have increased. In our view, these practice issues result from three primary sources: (1) lack of clarity in the measurement objective of the accounting standards that call for valuation measures; (2) lack of technical valuation guidance that support the specific needs of financial reporting; and (3) lack of a professional framework that supports the valuation profession. We believe the accounting standard setters are best positioned to address the first two sources, while the various valuation professional organizations need to focus their efforts on addressing the professional framework challenges that exist.

We acknowledge that varying ranges of outcomes are expected from a valuation process given the judgment inherent in the application of valuation techniques. However, we note that many of the existing practice issues are characterized by wide ranges in valuation outcomes that appear to go beyond a range of reasonable professional judgment. This in turn has caused unnecessary complexity in the valuation process as preparers, auditors and valuation professionals attempt to resolve practice issues with inconsistent and incomplete guidance. The process of resolving these practice issues has made the financial reporting process unnecessarily complicated and has increased the cost of financial statement preparation. Further, the risk of second guessing by others, such as the regulators, is exacerbated by the inconsistencies embedded in the existing accounting guidance. All of these factors taken together increases costs, direct and indirect, and adds to the risk and uncertainty of the financial statement preparation process.

To highlight the practice issues that currently exist, the Appraisal Issues Task Force (AITF) recently prepared a summary of certain of those issues that it considered most prevalent. One example relates to the valuation of customer-related intangible assets when the acquirer had previously established relationships with the same customers. A number of preparers, auditors, and valuation professionals supported valuation models which attributed little or no value to these intangible assets, while others believed such intangible assets should be measured independent of the acquirer's existing relationships. The impact of these customer-related intangible assets could be significant, thus causing a material difference in the valuation measure if one preparer placed value on such relationships while another considered the relationships to have little or no value. This example and certain other issues raised by the AITF are illustrative of the fact that

there are unclear valuation principles in the underlying accounting standards and therefore insufficient valuation guidance on which to resolve such issues.

Role of the Global Standard Setters (Questions 1b, 2, 3 and 4)

In order for the global standard setters to take on the responsibility of developing valuation guidance, we believe the skill sets of those organizations should be enhanced. Because the financial reporting model continues to employ valuation measures, the need to blend accounting and corporate finance knowledge continues to grow. As a result, the preparation of valuations for financial reporting will be increasingly challenging for preparers. As we look to the future we expect that the global standard setting bodies and their staff be well versed in both accounting and corporate finance theory. We recognize that the need to expand the knowledge base of the global standard setters will be challenging but also note that this is an issue facing the entire accounting profession.

We acknowledge that certain valuation professional bodies, such as the International Valuation Standards Committee (IVSC), the Appraisal Foundation, and the AITF, have begun to address some of these issues. In fact, the IVSC recently issued an Invitation to Comment to solicit views and feedback as to how that organization may reconstitute itself as a "non-member" organization to enable independent decision making and adequate due process. While we applaud those efforts, we are concerned that those organizations may not possess the necessary experience, *credibility and authority in the capital markets to assume the role of promulgating valuation guidance for financial reporting.* Further, as noted above, many of the practice issues and ongoing debates result from differing interpretations of the intent of accounting standards rather than debate over general valuation theory. Finally, we believe the need to develop a professional framework (which clearly falls within the purview of these and other existing national professional bodies) is a substantial undertaking in its own right and is where those bodies should invest their efforts.

As a first step, we recommend the formation of a strategic working group, jointly sponsored by the FASB and IASB, to consider the needs and requirements associated with addressing this matter. In our view, this group should focus on evaluating the current state of valuation guidance and propose a path forward to develop global, high-quality principles-based valuation guidance for financial reporting. The responsibility for implementing the proposals of the strategic working group would then be assumed by the respective boards. We suggest the strategic working group be comprised of representatives of the financial reporting community, including preparers, users, auditors, and valuation professionals. Moreover, the working group should be given a clear set of objectives and a reasonable time frame to complete those objectives.

We believe that the Boards should view their responsibility for providing valuation guidance as a long-term commitment which will become an integral part of the accounting standard setting process. Although there is an immediate need to address those fundamental technical issues that have been currently identified in practice, accounting standards will continue to evolve and converge, and additional financial reporting valuation issues will continue to emerge. Therefore, we believe standard-setting activity related to these developments will be ongoing.

Need for Professional Practice Standards

While the topic is not specifically addressed in the ITC, we believe it is important that valuation standards be supplemented by the development of a professional framework that would improve the overall quality of valuations performed for financial reporting purposes. We suggest a framework similar to that which supports the accounting profession be considered. The framework should include (1) developing professional practice standards to be followed by financial reporting valuation professionals; (2) creating quality review and related disciplinary processes; and (3) addressing liability issues associated with work performed by valuation professionals.

As noted above, the IVSC is contemplating a significant reorganization intended to achieve its independence from national "member organizations." Subsequent to a successful reorganization, we believe it should be considered as a potential organization to lead global efforts in this regard. While many of the professional issues must by necessity be addressed at a national level (e.g., disciplinary processes), having a single body focused on developing consistently high quality professional practice standards on a global basis should enable significant progress.

Whatever organization ultimately assumes responsibility for establishing professional practice standards, quality review and disciplinary processes; we would expect that organization (or those organizations) to work closely with the standard-setting bodies to ensure that their objectives are closely aligned.

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We appreciate the opportunity to express our views on the ITC, and we look forward to presenting our perspective in greater detail at the upcoming roundtable. If you have any questions regarding our comments, please contact Ray Beier at (973) 236-7440 or Ian Wright at (44) 207-804-3300.

Sincerely,

PricewaterhouseCoopers

cc: Sir David Tweedie, Chairman, International Accounting Standards Board