



**International Association of  
Consultants, Valuers and  
Analysts**

707 Eglinton Avenue West, Suite 501  
Toronto, Ontario M5N 1C8, Canada

March 20, 2007



LETTER OF COMMENT NO. 69

Mr. Robert H. Herz FCA, CPA,  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116  
U.S.A.

Dear Mr. Herz,

This letter is a response to The Invitation to Comment ("Invitation,") on "Valuation Guidance for Financial Reporting", issued January 15, 2007 by the Financial Accounting Standards Board ("FASB"). As an international organization, with Charter Members in China, Ghana, Germany, Lebanon, South Korea and Taiwan, IACVA, like you and FASB, reflects practice and experience in many jurisdictions.

In general, we are pleased that FASB and the International Accounting Standards Board ("IASB") are working towards a single set of consistently applied global standards for measuring and reporting entities' financial results. In particular we appreciate that FASB is requesting public comment on the problems that will surely arise across the globe as Fair Value measurements for financial reporting are more broadly adopted.

Our detailed comments are as follows:

**Question 1 - Is There a Need for Valuation Guidance Specifically for Financial Reporting?**

We believe the answer is "no". IACVA further believes that a substantial foundation already exists for valuation guidance needed for any purpose including financial reporting; any additional guidance offered specifically by FASB in this area will be merely duplicate existing professional standards.

According to SFAS 157, the Fair Value of an asset or liability is a market oriented, rather than an entity specific, figure, based on the real estate concept of "highest and best use". The definition generated by FASB in SFAS 157 still needs expansion and clarification especially with respect to certain details such as tax affecting and "Level of Value", if it is to be universal.

However, this new definition finally fits into the framework developed by the valuation community, which, through the world, covers a wide range of disciplines; those include, but are not limited to, Certified Public Accountants and Chartered Accountants. IACVA believes the current conceptual framework of the valuation community is adequate for determining the Fair Value of a particular security, asset or liability.

The creation of specific valuation guidance for financial reporting purpose would, in our view, serve to widen the cleavage between members of the financial community that deal in assets and those that record transactions. In the United States there are four credentialing organizations for business valuations (AICPA, American Society of Appraisers, Institute of Business Appraisers, and our US Charter – National Association of Certified Valuation Analysts (NACVA). There is also the Canadian Institute of Certified Business Appraisers (CICBV). As you are aware, the result of the existence of these various professional organizations is multiple sets of roughly similar valuation standards, relating to various definitions (notably Fair Market Value for the IRS) each with its own issues and problems.

Outside our continent the International Valuation Standards Committee ("IVSC") is working to create a substantial degree of uniformity. Other than NACVA - our American Charter - which had to develop its own standards, IACVA strongly recommends the adoption of those of the IVSC. Specifically we do not intend to create a competing set of professional standards for our over 7,000 associate members who specialize in valuing business and intangible assets.

**Question 1(a) -Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implemented Guidance or a Combination of Both?**

Both FASB and IASB are working towards principles-based accounting standards; the same concept should apply in the valuation field. However in considering valuation guidance it must be realized that *public accounting* and the *valuation discipline* are two very different professions: the former look backwards to what has happened; the latter's focus is forward to what is most likely to occur. The training and mind-sets of these professions are different, even though the same individuals often (especially in the US), practice in both areas.

It is an axiom that the value of an asset or liability varies with the applicable facts and circumstances. Therefore in our view, there cannot be just rules-based guidance or a set of cookbook like checklists. The objective of Fair Value measurements is to obtain a figure as close as possible to that which an entity could obtain in the marketplace (exit price). Therefore it is essential that the necessary conceptual guidance is supported by numerous examples of how buying and selling decisions are actually made; those will enable evidence from real markets to be applied to the notional markets from which many Fair Values will be determined.

In addition such availability of real life examples would serve to reduce the diversity now frequently found in applying valuation principles to particular fact patterns. Conclusions reached solely on a theoretical level may result in uniformity but not necessarily reality.

**Question 1(b) - What Should Be the Duration of Any Valuation Guidance Setting Activities?**

Valuation, like Accounting, is an ancient profession dating back at least to the lending organizations (banks) of Mesopotamia in the second millennium BCE. Since then all professions' techniques have totally changed. In my over fifty years of plying both trades, new methodologies such as statistical analyses and mathematical modeling have come to be of great significance. The generally accepted principles for both accounting and valuation in 1955 were significantly different from those of today.

Therefore we are certain in our belief that the guidance process should be constantly upgraded. This is especially significant when capabilities improve, such as the introduction of the now ubiquitous Personal Computer. In particular, it is essential to devote efforts to improving the appropriate tools. This is particularly important when there is evidence that the same principles are being applied differently to similar fact patterns in various areas; therefore the organization and change process should be permanent.

**Question 2 - What level of Participants Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?**

As previously mentioned, IACVA does not believe that Valuations for Financial Reporting are conceptually different from valuations for any other purpose. The US definition of Fair Value, unfortunately, is different from that of the well-known Fair Market Value and, unless a convergence is soon reached with IASB, will vary from that in the rest of the World. However the application of the four Approaches: Market, Cost, Income and Formula are likely to be very similar by experienced individuals irrespective of the country.

The only organizations with knowledge bases in the valuation of securities, assets and liabilities are those serving the valuation and financial communities. In our view, groups oriented to *public accounting* should have a seat at the table representing preparers and auditors, in the same way regulators and investors must participate. But the main players in the FASB proposal should be those who have "served in the trenches", thereby gaining the training, knowledge and experience necessary to reach supportable uniform conclusions of value.

The Invitation (paragraph 13) listed three potential roles for existing appraisal organizations:

*"(a) not having a unique role, (b) serving as an adviser to any standard setter, or (c) serving as the principal standard setter."*

Our view is that the last (c) is preferable, based on a pooling of their considerable skills in a "ministry of all the talents." The obvious vehicle to form the foundation for such an activity is IVSC, which already has two US members (which number under a current proposed reorganization could be expanded).

The concern about conflicts of interest is valid, however if the objective is to obtain market-based values, those with knowledge of the marketplace must play a major role. Perhaps part of the solution is to appoint one or two members of the valuation profession to each of FASB and IASB. With such suitable in-house knowledge included in the process, both Boards could jointly ratify decisions of the IVSC; surely balkanization is to be avoided at all costs.

### **Question 3 - What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?**

Paragraph 16 of the Invitation sets out for four potential processes:

- a. *The FASB could issue valuation guidance without assistance from any external individuals or organizations.*
- b. *The FASB could issue valuation guidance with the assistance from resource groups for specific issues.*
- c. *The FASB could issue valuation guidance with the assistance, from an organization structured similar to the FASB's EITF.*
- d. *A separate permanent standard setter could issue valuation guidance under the oversight of the FASB and the SEC.*

As has been previously pointed out, valuation is a discipline with its own expertise. The accounting and valuation professions, although often practiced by the same individuals are conceptually diametrically opposed; one looks backward, the other forward into the unknown, based on reasonable expectations.

Because of this immense difference in outlook it is essential that valuation guidance and standards are prepared, endorsed and followed by all its practitioners. IACVA recommends the adoption of process (d) building on IVSC, a suitable organization legally incorporated in the United States and supported by the United Nations. Such a choice would accelerate the issues of valuation guidelines at the international level to ensure constancy. We accept, as with GAAP, various details of the guidance and standards may have to be localized.

*IVSC is independent and in the process of representing all parties interested in establishing valuation guidance and standards. It is composed of members with both suitable educational backgrounds and industry experience in performing valuations. In our view it is therefore better suited than an accounting based body to establish conceptual and implementation guidance related to the determination of value in accordance with applicable measurement attributes. IACVA agrees that at the very least, FASB, IASB and the SEC should have a major voice in such deliberations, but not direct oversight. We believe any necessary approvals could best be undertaken by ratifying any consensus reached, with staff of all three regulators being observers at the standard setter's meetings.*

uch an approach could avoid outside the United States the unfortunate situation that has occurred in that country with respect to Business Valuation Standards. Various attempts have been made to reach a consensus on such matters, but turf wars, especially between CPAs and others seem to have prevented that essential conclusion. This situation will be assisted if FASB, together with IASB and the SEC, accept that valuation is an independent discipline on its own and not merely a part of the accounting profession, although many practitioners offer both sets of services.

#### **Question 4 - Should the Process of Valuation Guidance Be on an International or National Level?**

Members of IACVA practice in numerous countries and our board hopes that the valuation profession can avoid creation of national standards that occurred with respect to nationalizing GAAP in the past. Convergence between FASB and IASB will help as will inclusion in the process of truly international organizations: the CFA Institute, IVSC, and IACVA. From a users standpoint, international guidance and standards would be more helpful than those that are U.S.-only, especially as a suitable entity already exists.

#### **Other Particular Issues**

Our comments on other listed potential issues are:

1. The entity authority in setting guidance and standards of valuers for financial reporting purposes should be granted by the Overseers FASB, IASB and the SEC;
2. The due process procedures established by IASB relating to the many countries adopting International Financial Reporting Standards, seem suitable and would need little modification.
3. The funding of an expanded IVSC should, like that of FASB and IASB, be through a foundation. Such funding should come from a mixture of public and private sources such as the United Nations, national government, various foundations, financial institutions (especially) and major corporations.

Yours Very Truly,



James P. Catty, MA, CA-CBV, CPA/ABV, CFA, CFE.  
Chairman

Tel: (416) 865-9665  
Fax: (416) 865-1249  
e-mail: [jimc@iacva.org](mailto:jimc@iacva.org)  
IACVA FASB.017