October 27, 2005

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

To the attention of:
Messrs. Robert Herz, FCA, CPA, Chairman and Jan Engström, IASB

Ladies and Gentlemen,

This submission is made on behalf of both, the National Association of Certified Valuation Analysts ("NACVA"), the largest accrediting and educational organization in the U.S. for business valuation professionals, as well as its affiliate, the International Association of Consultants, Valuers and Analysts ("IACVA"), which has eight Country Chapters in Europe, Africa and Asia. This document contains our response to the Exposure Draft ("ED") relating to "Business Combinations", issued jointly in June 2005 by the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB"). In it, NACVA and IACVA are sometimes collectively referred to as the "Associations", while FASB and IASB may be called the "Boards".

This presentation has been prepared by a Special Committee of the Associations, whose members have been involved, since June 2001, in reviewing, analyzing, teaching and implementing Statements of Financial Accounting Standards ("SFAS") 141, 142, and 144.

The Committee and Association members also have experience with the related pronouncements, International Financial Reporting Standard ("IFRS") 3, and International Accounting Standards ("IAS") 36 and 38. We have also taken into account the analogous standards (sections 1581 and 3062) in the Canadian Institute of Chartered Accountants ("CICA") Handbook, FASB's exposure draft relating to Fair Value (the "Fair Value Document") issued in June 2004, and its Project Update: "Fair Value Measurement", of July 14, 2005.
GENERAL COMMENTS

To begin with, the Association hereby reiterates and expresses its support of the Boards' efforts to improve and bring into convergence their Standards with respect to Business Combinations. This activity, as well as the Fair Value Document is of great importance to all practitioners and regulators.

On October 9, 2004, Mr. Scott A. Taub, Deputy Chief Accountant of the SEC, made a presentation to the American Society of Appraisers' Advanced Business Valuation Conference in San Antonio, Texas; the topic was "Valuation Professionals and Financial Reporting".

He generally supported the Boards' trend to: "Accounting standards [that] require more and more use of fair value [in] balance sheets and footnotes", and went on to say that this was "likely to continue". Mr. Taub's view is that, in many cases, Fair Value is more relevant than historical cost, which is not really meaningful for certain items. In addition, it "helps to prevent some transactions structuring". He raised five areas of concern:

1. "Relevance
   • For assets to be used versus sold
   • Own credit risk in liability measurement

2. Reliability
   • Too much judgment
   • Not verifiable/repeatable
   • Auditability
   • May represent 'hypothetical' transactions instead of real ones

3. Abuse and Bias
   • Can management be trusted?
   • Who can check these estimates?

4. Difficulty/Expense
   • Internal expertise lacking
   • Hiring valuation professionals expensive

5. Second Guessing
   • Civil litigation
   • Regulators
   • Auditors
   • Compounded by certifications."

Many of those still have to be addressed by the Boards. For that reason as well as our comments elsewhere in this letter, the Associations feel that basing a new Standard on the ED at this time is premature; in particular:

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While there are many improvements from the original SFAS 141, *Business Combinations*, and IFRS 3, *Business Combinations*, certain difficulties remain. The most significant of those is that a number of assets and liabilities continue to be recorded at designated amounts rather than at Fair Values.

In several respects, in particular in regard to acquisition costs, Business Combinations are treated differently from the purchase of single, or group of, assets, thereby creating a distinction that does not really exist.

Although the matter is partially covered in Appendix E of the draft amendments to IFRS3, IASB has not issued an exposure draft with respect to Fair Value. The ED adopts the definition of that term as it appears in the Fair Value Document; this differs from that of SFAS 141 and has since been changed. It is important that there is global unanimity as to the definition of Fair Value, and that its relationship with Fair Market Value (a North American description which is different in the US and Canada) and Market Value (the accepted term in the rest of the world) be clarified.

Our views on each of these areas are covered in our responses to the nineteen questions posed in the ED, as well as by our comments on the first thirteen of the issues set out at the beginning of the Fair Value Document.

**RESPONSES TO EXPOSURE DRAFT QUESTIONS**

The following are our comments on and responses to the nineteen questions set out in the ED; Paragraph references are to the FASB version.

**Question 1:** Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

(a) **Objective**

The Associations concur that all Business Combinations be accounted for by the Purchase Method, whose well established name we see no need to change. However, we believe that there should be a partial exception for two mutual organizations merging into one.

(b) **Definition**

We believe that to separate the purchase of shares, or a group of assets and liabilities operating as a Business (Business Combination), from that of a group of assets not operating as a Business, creates an
artificial distinction. Other standard setting bodies concur; for example the Canadian Accounting Standards Board ("AcSB"), in its exposure document, is:

"... of the view that asset acquisition transactions are similar to business combination transactions, and that in principle they should be accounted for similarly, regardless of whether the asset acquired is a separate asset or a group of assets that may or may not meet the definition of a business."

Therefore, we recommend that the definition of Business Combination be modified to read:

"A Business Combination is a transaction or other event in which an acquirer obtains control of assets being, or to be, actively used in a Business."

The addition of the word "active" is intended to exclude cash, marketable securities and other similar items; the definition of Business is dealt with under Question 2.

(c) Mutual Entities

As business valuation professionals, members of the Associations strongly believe that accounting transactions should reflect economic reality. With respect to transactions between mutual or cooperative entities, where effectively each member has one vote and returns are distributed based on activity rather than ownership, we recommend that, unless cash is involved, the former "pooling of interests" accounting continues to be allowed, when this best reflects the economic reality.

(d) Step Acquisitions

With respect to Step Acquisitions, the Associations agree with the Boards that a remeasurement event takes place when de jure control is acquired. We concur that all assets and liabilities of the Target (the term we prefer to "acquiree" and which appears to underlay the names AC and TC in the examples) should then be restated to Fair Values.

However, where the previous holdings gave de facto control, we question if such an unrealized gain should be included in the Other Comprehensive Income in the Equity section of the Acquirer's Balance Sheet.

Based on our experience, we hold the view that, preferably, any such remeasurement gains should be applied to reduce Goodwill; if that becomes zero, the balance should be carried as a deferred credit in the Liabilities rather than the Equity section.

Question 2: Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?

As set out in our answer to Question 1, the Associations recommend that the concept of Asset Purchases be integrated into that of Business Combinations. In light of this, and that "a return to investors" is merely one form of the economic benefits available to owners, we recommend that the definition of a Business be
simplified as follows:

"A Business is an integrated set of activities and assets that is capable of being conducted for the purpose of providing economic benefits directly or indirectly to owners, members, or participants."

Question 3: In a business combination in which the acquirer holds less than 100 percent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 percent of the acquisition-date fair value of the acquiree, including 100 percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which would include the goodwill attributable to the non-controlling interest? If not, what alternative do you propose and why?

The Associations concur with the Boards that:

"in a business combination that is an exchange of equal values, the acquirer should measure and recognize 100 percent of the fair value of the acquiree as of the acquisition date. This applies even in business combinations in which the acquirer holds less than 100 percent of the equity interests in the acquiree at that date."

However, we have some problems with the next sentence:

"In those business combinations, the acquirer would measure and recognize the non-controlling interest as the sum of the non-controlling interest's proportional interest in the acquisition-date values of the identifiable assets acquired and liabilities assumed plus the goodwill attributable to the non-controlling interest."

In most cases, the Fair Value of a holding of a Non-Controlling Interest ("NCI") is subject to a discount from its pro rata portion of the Fair Value due to lack of control. While there is debate in the valuation community about the size of such discounts, there is substantial agreement that they increase with the expected holding periods of the investments. This situation should be reflected in a carrying amount for the NCI on the Acquirer's Balance Sheet.

Therefore, to reflect economic realities, we recommend that the Boards consider the following three scenarios, which represent the most common situations, and should adopt different accounting treatments for their NCIs:

(a) Marketable Minorities
(b) Management or Strategic Minorities
(c) Stranded Minorities

(a) Marketable Minorities

In this situation, the Target was a publicly quoted company before the transaction; subsequent to it, the shares representing the NCI continue to trade. As all Fair Values can be relatively easily obtained, the Boards' method in this case is satisfactory.
(b) **Management or Strategic Minorities**

Often either management or a strategic investor, such as a customer, retains an interest in the Target and is actively involved in the business. If this is the case, we do not believe the Boards' proposed method is appropriate, as the NCI is in effect held by a related party and believe that the Boards should allow the use of alternative (b) in Paragraph B154:

"... allocated goodwill for the controlling and non controlling interests based on their relative ownership interests in the fair value of the acquiree."

(c) **Stranded Minorities**

When an Acquirer obtains less than 100% of a Target (in the United States it will likely hold at least 80% for tax advantages), the NCI may be stranded with no marketability or ability to participate in the business. In these circumstances, very little Goodwill relates to those holdings, and alternative (c) of Paragraph B154 would appear to be the most appropriate.

If the Boards decide for whatever reason only a single method may be applied, we would reluctantly accept their choice.

**Question 4:** Do paragraphs A8-A26 provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

The ED, in the first half of Paragraph 20, states:

"Business combinations are usually arm's-length exchange transactions in which knowledgeable, unrelated parties exchange equal values. Therefore, in the absence of evidence to the contrary, the exchange price (referred to as the consideration transferred in this Statement) paid by the acquirer on the acquisition date is presumed to be the best evidence of the acquisition-date fair value of the acquirer's interest in the acquiree ...."

From this, the Boards draw the conclusion that the Fair Value of the consideration transferred by the Acquirer should be used as the basis to measure the Fair Value of the item acquired. We concur with this in general, but, if the transaction is for less than a 100%, we do not believe it should be the only, or even the principal technique for determining the Fair Value of the Target, especially outside the United States where the tax benefits of an 80% ownership rarely exist.

**Measuring Fair Values**

Business Valuation is a profession that is separate from, but related to, that of pure accounting. It is carried on by trained individuals known as valuation analysts, most of whom, in North America, are also professional accountants; in the rest of the world, this is not always the case. Business valuation obviously involves skills in accounting, but also knowledge of economics, corporate finance, financial forecasting, management systems and often engineering. Experience in observation is a not insignificant factor in reaching appropriate conclusions.
As the Associations are heavily involved in business valuation training and accreditation, we are concerned with the nature of the Boards' guidance. A major problem is that it may be seen by some participants as "how to" instructions for establishing the Fair Values of the various entities, assets and liabilities involved in a Business Combination. We therefore recommend that the Boards do not get involved in supplying valuation guidance, but subcontract such activities to two umbrella professional groups, the North American Valuation Standards Committee and the International Valuation Standards Committee.

Subject to this recommendation, the following are our comments on the particular Paragraphs referred to in the Question. Paragraphs A8 to A26 do not supply sufficient guidelines for measuring the Fair Value of a Target. In particular, we have problems with Paragraphs A19, A22 and A26.

Paragraph A19 makes reference to "multiple techniques". As the phrase "multiple" is commonly used in a number of English speaking countries to refer to a "valuation multiple", such as the "Price/Earnings Ratio", we recommend that the phrase be replaced by "a number of appropriate techniques".

We find Paragraph A22 overly simplistic with respect to the Income Approach. Under this, two types of methods - Capitalization and Discounting - are used to convert Net Income, various Cash Flows and other established valuation measures into capital sums. While a "present value" technique is theoretically considered to be the best, it is extremely sensitive to variations in the Financial Forecasts and Projections adopted.

Therefore, among the Mergers & Acquisitions ("M&A") community, capitalizing Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is probably the most common method under the Income Approach. If the Boards decide that the Fair Value Document will continue to deal with valuation methodologies, we suggest they should establish formal definitions of the various forms of Cash Flows and EBITDA that are used to determine Fair Values.

Paragraph 26 deals with the valuation of mutual entities, for whom the relationship to a member as an owner is less important than that as a customer. Benefits are usually allocated based on activity rather than investment, and are sometimes in forms other than cash. Forcing mutual entities into the Fair Value mode to ensure that no vestige of "poolings of interests" survive is akin to throwing the baby out with the bath water.

Question 5: Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

The Associations concur with the Boards' change from SFAS 141, Business Combinations, in adopting the Transaction Date for all measurements.

Question 6: Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

In Paragraph 26 the ED proposes that, after initial recognition, contingent consideration classified as Equity
would not be remeasured. On the other hand, contingencies considered Liabilities are to be remeasured periodically; any changes in their Fair Values will be recognized as income at that time. This would not apply if those liabilities are within the scope of SFAS 133, Accounting for Derivative Instruments and Hedging Activities. Such liabilities would be accounted for after the Transaction Date in accordance with that Statement.

The Associations finds the Boards' differentiation between Equity and Liabilities with respect to contingent consideration puzzling. The crucial factor is "does the payment have the characteristic of a derivative or not". Any contingency that is not by its nature a derivative (and hence subject to SFAS 133, Accounting for Derivatives and Hedging Activities), whether classified as Equity or Liability, should be remeasured not periodically, but only when the contingency is resolved, either in part or in whole, and a payment or share issue made or cancelled. At that time, any net change should be applied to the related Goodwill; an increase would immediately lead to an Impairment Test, while any reduction that resulted in negative Goodwill would be applied to appropriately reduce other purchased assets.

The application of the Fair Values of the contingent payments to the various assets acquired, including Goodwill, and the liabilities assumed, is part of the Purchase Price Allocation.

Question 7: Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

The Associations strongly disagree with the ED's proposal that:

"... the costs that the acquirer incurs in connection with a business combination (also called acquisition-related costs) should be excluded from the measurement of the consideration transferred for the acquiree because those costs are not part of the fair value of the acquiree and are not assets."

This concept is contrary to 500 years of accounting practice, which is reflected in the treatment of every other acquired asset. Unless the Boards intend to change the practice of all Asset Purchases, they are falling into the trap of accounting differently for things that are basically the same, depending on how they are described. If the transaction costs in a Business Combination are not assets, then neither are those of every other purchase, such as commissions on marketable securities. The Boards' logic leads to the conclusion that they must also be expensed or written off as incurred.

In negotiating any transaction, both parties are aware of the costs involved; those may be relatively small, such as a simple filing fee, or large, as for instance auctioneers' or investment bankers' charges. In general, the greater portion of them is paid by the buyer, with some being absorbed the seller partly in cash and partly through a price reduction.

Question 8: Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

The changes on which we are asked to comment are:

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(a) Receivables (including loans) are to be measured at Fair Value as of the Acquisition Date rather than at face amount, less a valuation allowance for uncollectible amounts.

(b) Assets and liabilities arising from contingencies that are acquired or assumed as part of a Business Combination would be measured and recognized at Fair Values at the Acquisition Date if the contingency meets the definition of either an asset or a liability in FASB Concepts Statement No. 6, Elements of Financial Statements; this would apply even if it does not meet the recognition criteria in SFAS 5, Accounting for Contingencies, from which they would be excluded.

After initial recognition, contingencies would be dealt with in accordance with applicable GAAP, except for those that would otherwise be accounted for in accordance with SFAS 5, Recognition and Measurement in Financial Statements of Business Enterprises, if acquired or incurred other than in a business combination. Such items would continue to be measured at Fair Values, with any changes in such amounts recognized as income for each reporting period.

(c) Costs associated with restructuring or exit activities that do not meet the recognition criteria in SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would be recorded by the combined entity as expenses when they are incurred.

(d) Research & Development assets that previously were written off in accordance with FASB Interpretation (FIN) No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method-an Interpretation of FASB Statement No. 2, would be recognized at Fair Values and amortized over their useful lives.

Our comments on those four proposed changes are as follows:

(a) Receivables

We agree with the concept of measuring receivables at Fair Values. In the "real world", however, accounting for each individual item on that basis can be complex, as its Fair Value depends not only on the likelihood of payment, but also on the expected timing of its receipt.

We therefore recommend that the present procedures be continued, with the provision that the valuation allowance be adjusted so that the net amount is equal to the overall Fair Value of the receivables portfolio.

(b) Contingencies

Recognizing contingencies that do not meet the requirements of SFAS 5, Recognition and Measurement in Financial Statements of Business Enterprises, is the first step in sliding down a slippery slope. While we understand the Boards' desire to record acquired contingent assets and liabilities (that meet the definition of Concepts Statement No. 6, Elements of Financial Statements) so as to include all consideration, we believe that the ED goes too far. In line with our views on Contingent Consideration, set out under Question 6, we recommend that SFAS 5, continue to be applied, and that other contingent items will, as before, not be recorded until or unless they are resolved.

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(c) **Restructuring Costs**

In nearly all Business Combinations, some restructuring is involved; for example, offices may be combined, systems integrated and staff terminated. These costs, which will not be incurred until after the Transaction, are in effect part of it. We therefore recommend that there be no change in the present practice whereby costs, that are to be directly incurred as a result of the Transaction, be treated as part of the Acquisition Cost, provided that they are documented before the closing in an integration plan. The reason is that they are in effect capital expenditures intended to lower future costs and increase profits.

(d) **R&D Assets**

With respect to R & D assets, we concur with the Boards' conclusion and recommend that, in keeping with Paragraph B142, the proposed treatment be applied to all acquired Projects as defined by SFAS No. 2, *Accounting for Research and Development Costs*, rather than all In-process Research & Development ("IPR&D").

**Question 9:** Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

The I/D continues the practice of SFAS 141, *Business Combinations*, that all assets acquired and liabilities assumed are to be measured at Fair Value, except for the following items, whose bases are shown below:

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<th>Item</th>
<th>Basis</th>
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<tr>
<td>(a) Assets held for sale</td>
<td>SFAS 144</td>
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<tr>
<td>(b) Employee Benefit Plans</td>
<td>SFAS 87 and 106</td>
</tr>
<tr>
<td>(c) Deferred Taxes</td>
<td>SFAS 109</td>
</tr>
<tr>
<td>(d) Operating Leases</td>
<td>No Standard</td>
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<tr>
<td>(e) Intangibles that do not meet the criteria of Paragraph 39 of SFAS 141</td>
<td>In Goodwill</td>
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<tr>
<td>(f) Goodwill</td>
<td>As a Residual</td>
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Unless there are overwhelming practical difficulties, all the Target's assets acquired and liabilities assumed should be restated to Fair Values. Our comments on the particular items (a) to (f) are set out below.
(a) **Assets Held for Sale**

We concur with the Boards' intention to continue following SFAS 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, and record assets held for sale at Fair Values less costs to sell.

(b) **Employee Benefit Plans**

Accounting for future employee benefits has been a source of difficulties for a number of years. However, the Associations believe that, in a Business Combination, the Fair Values of both the assets and the liabilities of the Target's various plans should be shown on the consolidated Financial Statements. This would apply even if those of other consolidated entities are recorded according to existing GAAP (SFAS 87, *Employers' Accounting for Pensions*, and 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions, in the United States*). Preferably, a Fair Value option should also be available for the Acquirer and its other affiliates. We believe that significant, useful information is given to investors by stating separately on the Balance Sheet the Fair Values of the assets and liabilities of pension and other benefit plans.

(c) **Deferred Taxes**

As previously set out, the Associations believe it is preferable to record all assets acquired and liabilities assumed at Fair Values. Therefore, they recommend that the future tax assets and liabilities of the Target be recalculated based on the new Carrying Amounts (initially Fair Values) of the related assets and liabilities, and that they be adjusted to their Fair Values, taking into account the expected timing of their utilization. SFAS 109 should be amended to reflect this practice. We concur that no benefits should arise in the immediate post-acquisition period.

(d) **Operating Leases**

The proposed creation of an Intangible Asset or liability for the difference between the face amount and the market levels for Operating Leases is satisfactory, as it approximates their Fair Values.

(e) **Non Qualifying Intangibles**

The definition of Intangible Assets other than Goodwill, which is set out in Paragraph 39 of SFAS 141, has proven satisfactory. However, one anomaly continues with the prohibition to include "assembled workforces", even if they meet one of the criteria. Due to how they are normally measured, they are not allowed to be Intangible Assets in Business Combinations, but can be recorded as such in Asset Purchases where no Goodwill is recorded.

As stated previously (see Question 1), in our view, Business Combinations and Asset Purchases are conceptually the same; we therefore recommend that the prohibition against "assembled workforces" being an Intangible Asset is removed, and that the Business Combination provisions also apply to Asset Purchases. This would allow recording Goodwill in all transactions to cover unidentified, non-qualifying intangible items.

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Goodwill

We concur with the Boards that the Fair Value of Goodwill cannot be measured directly and can therefore only be recorded as a residual "balancing" item.

Question 10: Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

The Associations are concerned with the concept of immediately reporting an unrealized gain on closing an acquisition. We recommend that any gain or loss on the previous holding, as a result of a Step Acquisition, should be applied to reduce Goodwill on the basis that the benefits or detriments of the previous purchase form part of the Transaction. To the extent that the gain exceeds the Goodwill, the balance should be carried forward as a deferred credit in the Liabilities section of the Balance Sheet. In particular, there should be no reclassification of items previously forming part of Other Comprehensive Income.

Question 11: Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

Once again we must voice our reluctance to allow an immediate profit to be booked on a Business Combination. There are no Bargain Purchases, not even in distress sales; in such circumstances, losses are usually incurred or anticipated, and a rationalization of the business is normally required. In many cases, the Fair Value of the Acquirer's holding is obtained by reference to comparable entities not "in distress", or from Financial Forecasts and Projections that give effect to the planned reorganization.

During the purchase negotiations, the costs of this process would be split between the buyer and seller; often the "bargain" amount represents a portion of the future losses/costs. Therefore we suggest that any "bargain amount" be applied to reduce Goodwill, with the remaining balance, after it reaches zero, carried forward as a deferred credit and applied against reorganization costs and future losses.

Question 12: Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?

We concur with the Boards' conclusion that "it is not possible to measure such an overpayment [for the Target] reliably at the acquisition date." However, in a limited number of circumstances, the overpayment can be reasonably estimated. Examples are a rapid drop in interest rates between the announcement and closing of an acquisition, or a run up in the relevant sector of the stock markets. In such cases, the change in the Fair Value of the securities forming part of the consideration can be reliably determined and the overpayment estimated.
Question 13: Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

The past should not be rewritten merely for the sake of something new. Employing experienced valuation analysts should result in a relatively short measurement period. Therefore, while we understand the Boards' position (set out in Paragraph B167), we believe that the results of any changes should be made in post combination reporting, as has been satisfactory practice under SFAS 141.

Question 14: Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

While the guidance in Paragraphs 67 & 70, A87 to A109 and B111 to B117 is fairly complete, we disagree with the provision of Paragraphs 41 and A93, which will result in the recording and amortizing of an "imaginary asset". On the acquisition of a franchise by a franchiser, the franchise agreement disappears on a consolidated basis; the accounting treatment must reflect this.

Question 15: Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?

The disclosure objectives and requirements set out in Paragraphs 71 to 81 and B184 to B191 are satisfactory, but we would amend Paragraph 74 to apply to all entities rather than just to "public business enterprises".

Question 16: Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognized separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises [sic] from legal or contractual rights and has both of the following characteristics:

a. The intangible asset cannot be sold, transferred, licensed, rented or exchanged individually or in combination with a related contract, asset, or liability

b. Cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

There are certain wholesale distribution agreements in which need the supplier's consent to transfer that might be such an Intangible Asset. However, we are also aware of a number of cases such as whiskey brand names and aged inventories where the combination of the assets has a higher Fair Value than those of the total of the individual figures.
Question 17: Do you agree that any changes in acquirer's deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

As set out in our answer to Question 9 (item c), we believe that the future tax assets and liabilities of a Target should be recalculated as a result of the Purchase Price Allocation and then recorded at their Fair Values. Tax benefits are often an integral part of acquisitions and are a component of a Target's Fair Value. To account for them separately is once again creating a distinction without there being a difference.

Question 18: Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences would be eliminated, if any, and how should this be achieved?

All possible disclosure differences should be eliminated, especially the following:

(a) **Paragraph 74** - Should apply to all entities (IASB) and both the current and comparable prior period (FASB).

(b) **Paragraph 76(d)** - The IASB wording should apply everywhere.

(c) **Paragraph 78(g)** - The FASB wording should apply everywhere.

(d) **Paragraph 80** - The IASB wording should apply everywhere.

(e) **Paragraph A49(d)** - The insurance disclosure should be not merely permitted but required by IASB.

(f) **Footnote A52(i)** - The FASB wording should apply everywhere.

(g) **Paragraphs A102 to A102** - The IASB wording is preferable, as the vesting period is that over which effectively payment is made.

(h) **Appendix F** - As set out in our subsequent comments on the Fair Value Document, the Associations believe that Business Valuation is a profession distinct from but related to accounting. Therefore we suggest the Boards obtain assistance from valuation accreditation organizations in giving guidance in this field.

Question 19: Do you find stating the principles in bold type helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?

We have significant problems with the Boards' style of stating with a brief "statement" (for the ED 21 pages containing 88 paragraphs) expanded by several much longer appendices: "Implementation Guidance" (38 pages with 136 paragraphs); "Background Information, Reasons for Conclusions, and Alternate View" (69 pages with 212 paragraphs); and "Continuing Authoritative Guidance" (9 pages for 31 paragraph).

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NACVA and IACVA Response to SFAS 141R
We prefer the approach taken in the CICA Handbook, which integrates all the material into a continuous, more useful whole. We also believe that defined terms, such as Fair Value, or Acquirer, should always be capitalized.

**COMMENTS ON ISSUES IN THE FAIR VALUE DOCUMENT**

As accounting for Business Combinations is intertwined with the concept of Fair Value, we believe it essential to comment on the first thirteen of the fourteen issues set out by FASB at the start of the Fair Value Document, and do so in this section; the last issue relates to a round table that took place at FASB in 2004.

In principle, NACVA and IACVA support the Fair Value Document, as there is significant need for improved guidance in developing the Fair Value measurements required by a large number of FASB's pronouncements as well as some of those of the previous Accounting Principles' Board. However, the Associations strongly feel that before FASB (and IASB) issue formal guidance on how to measure Fair Value, they must first address the conceptual issues relating to the use of that measure as the basis of accounting and concerns raised by the SEC.

1. **Definition of Fair Value**

The Fair Value Document (Paragraph 4) states:

"Fair value is the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties."

This is followed in Paragraph 5 by an explanation:

"The objective of a fair value measurement is to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability.* Thus, the estimate is determined by reference to a current hypothetical transaction between willing parties. Willing parties are presumed to be marketplace participants representing unrelated buyers and sellers that are (a) knowledgeable, having a common level of understanding about factors relevant to the asset or liability and the transaction, and (b) willing and able to transact in the same market(s), having the legal and financial ability to do so. Fair value presumes the absence of compulsion (duress). Accordingly, the amount that forms the basis for the estimate is the price that would be observed in a transaction other than a forced liquidation transaction or distress sale. In all cases, that price shall be estimated without regard to an entity's intent to currently enter into such a transaction.

* For a liability, the estimate of fair value should consider the effect of the entity's credit standing so that the estimate reflects the amount that would be observed in an exchange between willing parties of the same credit quality."

This is a change from the definition used in SFAS 141:

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"The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale."

Other than the simplification, the major differences, with which we agree, are the addition of the words "knowledgeable" and "unrelated" to the phrase "willing parties", and the omission of "other than in a forced or liquidation sale".

**Fair Market Value**

This new wording should be compared with the North American term "Fair Market Value", where the adjective "fair" has been considered to apply to "market" rather than to "value". This phrase is defined by "The International Glossary of Business Valuation Terms" as follows:

"The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. (Note: In Canada, the term 'price' should be replaced with the term 'highest price')."

**Market Value**

The phrase "Market Value", commonly used in Europe and much of the rest of the world, must also be considered. The International Valuation Standards ("IVS") define it as:

"The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion."

"The concept of market value reflects the collective perceptions and actions of a market place and is the basis for valuing most resources in market based economies. The professionally derived market value is an objective valuation of identified ownership rights to specific property as of a given date."

The Boards' definition of Fair Value appears to have a broader, more general meaning than either Fair Market Value or Market Value. When using the Market Approach (see Issue 2), Fair Value will be best represented by Fair Market Value or Market Value. However, there can be significant differences between the three, when there is no evidenced market, and methods under either the Income or the Cost Approaches are applied. This is due to the fact that Fair Value includes the benefits of synergies that would be obtained by marketplace participants (SFAS 142, Paragraph 23, footnote 16), while the other two measures do not.

Two other points must be covered in the ultimate definition. The first is that in many cases, particularly real estate, reference to a "current" transaction is ambiguous, in that it suggests an immediate sale; this may be appropriate for securities, but not for other assets or most liabilities. Therefore, something like the phrase "after proper marketing" from the IVS definition of Market Value should be included.

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This position is supported by the Uniform Standards of Professional Appraisal Practice ("USPAP"), which refer to the exchange of property after a reasonable exposure time in an open competitive market, and by the SEC's Accounting Series Release ("ASR"), Numbers 113 "Accounting for and Valuation of Restricted Securities", and 118 "Accounting for Investment Securities by Registered Investment Companies". The latter uses the term "current transaction" with respect to realization in an orderly disposition over a reasonable period.

The second is that Liabilities are not exchanged, but settled or transferred, as described in the original SFAS 141 definition.

**Hindsight**

It is desirable for the Boards to offer guidance as to the use of "hindsight". In particular, the Valuation Date must be defined as the time of the legal transfer, and the only information that may be taken into account in establishing Fair Value are the facts in existence at that time, even if obtained subsequently.

**Recent Revision**

The proposed definition of Fair Value has recently been revised by FASB in its "Project Update: Fair Value Measurements" of July 14, 2005; the new wording is:

"... an estimate of the price that could be received for an asset or paid to settle a liability in a current transaction between marketplace participants that are both able and willing to transact in the reference market for the asset or liability".

FASB continues:

"A fair value measure presumes that the reporting entity is a going concern without intention or need to liquidate (that is, the absence of compulsion/duress). Accordingly, a current transaction is not a forced or liquidation transaction or distress sale. Rather, it is an orderly transaction at the measurement date (motivated by normal business considerations) that reflects economic (market) conditions existing at that date. In its redeliberation, the Board clarified that consistent with other similar definitions used in many valuation situations, the definition allows for (1) sufficient marketing (exposure to the open market) prior to the measurement date (a willing buyer/seller having been identified in that period) and (2) a period within which to complete the transaction following the measurement date that is usual and customary for transactions involving such assets or liabilities."

This is an improvement, but a definition should stand on its own rather than needing a longer explanation. We suggest that the umbrella valuation bodies be enrolled to assist in the drafting of a "universal" definition.

**2. Valuation Techniques**

The Fair Value Document (Appendix A) amends the present value guidance of FASB Concepts Statements
No. 7. Using Cash Flow Information and Present Value in Accounting Measurements ("CON 7"). As a result, this part of CON 7, as amended, becomes Level A GAAP, while the remainder does not.

As referred to in the response to Question 4, the business valuation profession is distinct from, though related to that of accounting. Therefore, we believe that the Boards should not attempt to supply guidance on specific valuation techniques, but merely set out the objectives and definition of Fair Value, leaving the choice of appropriate techniques to experienced valuation professionals and the umbrella valuation bodies acting jointly.

In this respect, USPAP Standards Rule 9-1 states:

"(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a business or intangible asset appraisal, an appraiser must:

(a) be aware of, understand, and correctly employ those recognized methods and procedures [techniques] that are necessary to produce a credible appraisal;

Comment: Changes and developments in the economy and in investment theory have a substantial impact on the business appraisal profession. Important changes in the financial arena, securities regulation, and tax law and major new court decisions may result in corresponding changes in business appraisal practice.

(b) not commit a substantial error of omission or commission that significantly affects an appraisal; and

Comment: In performing appraisal services, an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 9-2(3), to reasonably ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, when necessary, analyzed. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions.

(c) not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.

Comment: Perfection is impossible to attain and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This Rule requires an appraiser to use diligence and care."

In our view, the Boards should limit their guidance to a similar rule.
Applying Standards Rule 9-1 would in most cases require the application of two or more methods in establishing the Fair Value of a Reporting Unit, but allow the use of generally accepted industry practices, such as models, for "pricing" certain derivative securities with limited liquidity.

3. Active Markets

The Fair Value Document (Paragraph 9) states that:

"... valuation techniques used to estimate fair value should emphasize market inputs, including those derived from active markets."

For this purpose, active markets are those in which quoted prices are readily and regularly available; readily available means that pricing information is currently accessible, while regularly available means that there is sufficient activity to provide pricing information on an ongoing basis.

In this sense, the guidance in Paragraphs 10 to 12 is useful, but not sufficient; for example, it omits any discussion of the relevance of prices from less active or "thin" markets, such as the "bulletin board" or "pink sheets" for securities, or supplier catalogues for physical items. It would be helpful to discuss the use of moving averages or other techniques to draw useful information from such data.

4. Valuation Premises

There are two commonly accepted valuation premises; the first is "in exchange", the second "going-concern" or "in-use". Others that may be relevant for Fair Value are "investment value" and "liquidation value". With respect to the latter, USPAP Standards Rule 9-3 states:

"(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a business or intangible asset appraisal relating to an equity interest with the ability to cause the liquidation of the enterprise, an appraiser must investigate the possibility that the business enterprise may have a higher value by liquidation of all or part of the enterprise than by continued operation as is. If liquidation of all or part of the enterprise is the indicated basis of valuation, an appraisal of any real estate or personal property to be liquidated may be appropriate.

Comment: This Rule requires the appraiser to recognize that continued operation of a business is not always the best premise of value because liquidation of all or part of the enterprise may result in a higher value. However, this typically applies only when the business equity being appraised is in a position to cause liquidation. If liquidation of all or part of the enterprise is the appropriate premise of value, competency in the appraisal of assets such as real estate (STANDARD 1) and tangible personal property (STANDARD 7) may be required to complete the business appraisal assignment."

NACVA and IACVA Response to SFAS 141R
Going-Concern Value

All markets, by their nature, are based on the in-exchange premise. Prices in those will, by definition, almost always be below the in-use Fair Value. The latter (Paragraph B7) would use quoted market prices for equivalent used machines that are not installed (on the loading dock), adjusted for installation costs (to reflect prices for similar equipment that is installed).

Paragraph B6 states:

"A going-concern or in-use valuation premise (which includes installation costs) is generally appropriate if (a) a business is a going-concern or (b) an asset is configured for use by an entity."

This is unduly simplistic, as the Going Concern value of a plant reflects the ability of the complete system, of which the particular asset being valued is only a part, to generate revenues and profits. The difference in the two figures will likely be greater than merely installation costs.

An in-use Fair Value can also be obtained under the Depreciated Replacement Cost ("DRC") methodology by adjusting the Replacement Cost of a new item for the following four factors:

Functional Deterioration - The loss in value resulting from an asset’s relative inability to fulfil its intended purpose. For a telephone system to continue to be efficient, it might become necessary to add new features; this lessens its ability to satisfy users' requirements, even though the installation remains in first class condition.

Technological Obsolescence - Occurs when a new process is introduced that significantly lowers operating expenses or improves quality. For example, while printing presses remain functional for half a century or more, new machines that accept direct digital inputs made them obsolete by skipping part of the production stage.

Physical Decline - Reflects the fact that, for older equipment, even if well maintained and retaining full functionality, spare parts and trained technicians may not only be difficult to obtain, but also expensive. An example is the DC 3 aircraft, also known as the Dakota, which about eight decades after it was introduced is still flying in some parts of the world only because a sufficient number was built to allow cannibalization.

Economic Depreciation - Could be caused by a major drop-off in a market; for instance, in spite of temporary fashion blips and seasonal upsurges, demand for women's and men's hats virtually disappeared during the sixties. Subsequently assets previously needed to make them dropped drastically in value.

For a Reporting Unit, there is also the Going Concern element, which reflects the ability of an established business to realize a higher rate of return than a newly formed entity. To paraphrase the Judge in Pennsylvania divorce case, any long-standing business has a Going Concern value over and above its Intangible Assets related to the fact that it is already organized, rather than a start-up.

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The Going Concern element of an entity’s Fair Value may relate to its assembled workforce and thus, under SFAS 141, form part of its Goodwill. However, it may also relate to the efficiency of its “Property, Plant and Equipment”, which are referred to as Fixed or Capital Assets by IASB.

**Views on Market Value**

According to John Highe, Chairman of the International Valuation Standards Committee ("IVSC") writing in "Global Valuation Issues", September 2004, IASB does not accept the "in-use" premise of value:

"Historically, in some parts of the world (eg, in the UK and Commonwealth countries), for owner occupied properties, an existing use or deprivation value model was favoured. In 1998, the IASB abandoned Market Value for the Existing Use, requiring all real estate assets to be valued at Market Value where an identifiable market existed."

"However, the deprivation value lobby will not go away. There is support in some quarters for a "valuation management measurement" approach which proposes that a property can have more than one value depending on whether the owner wishes to retain the property as operational within the business or to treat it as surplus. One variation on this theme proposes that a property can have an "entry price" and an "exit price", which may differ."

"During 2003, the IVSC issued a Consultation Paper on the valuation approach to owner occupied property, with particular examination of DRC methodology. The Editorial Group of the IVSC Standards Board subsequently issued a Position Paper which proposed consideration of the adoption of a second valuation basis (the other being Market Value) called Continuing Use Value (CUV). A number of responses were received, some critical, and the IVSC Standards Board concluded at its meeting in Vancouver in March 2004, that CUV was not appropriate under existing accounting requirements. The Position Paper is effectively ‘pulled’ pending the outcome of the IASB measurement project."

"A second issue of continuing concern - the assumption to be made when valuing owner occupied property - should also be resolved once the accounting concepts are clarified. One school of thought is that these should be valued on the basis of their exit price (ie, as if vacant). The other school holds that owner occupied properties should be valued to reflect the benefit of occupation. How the latter is measured is open to debate. Some consider that a capitalised rental value, without discount for void period, leasing up costs, etc., is an appropriate methodology.""

It is essential that these matters be resolved before final Statements either relating to Fair Value or replacing SFAS 141 and IFAS 3 are issued. In our view, the "in-use" premise should be the default position, where there is no active market (a matter of judgement), with the "in-exchange" premise adopted only for transactions when there is. With respect to "owner-occupied property" (real estate), our position is that the in-use premise applies and capitalizing rentals may be one technique that gives a reasonable estimate of the property’s Fair Value.

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5. **Fair Value Hierarchy**

The Fair Value Document (Paragraphs 14 to 24) sets out a three-tiered hierarchy:

<table>
<thead>
<tr>
<th>Level</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Quoted prices for identified assets or liabilities in active markets.</td>
</tr>
<tr>
<td>2</td>
<td>Quoted prices for similar assets or liabilities adjusted &quot;as appropriate&quot; for differences, whenever that information is available.</td>
</tr>
<tr>
<td>3</td>
<td>Multiple valuation techniques consistent with the Market, Income and Cost Approach.</td>
</tr>
</tbody>
</table>

By June 2005, FASB had expanded its Fair Value hierarchy to five levels:

<table>
<thead>
<tr>
<th>Level</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Quoted prices for identified assets or liabilities in active markets.</td>
</tr>
<tr>
<td>2</td>
<td>Quoted prices for similar assets or liabilities.</td>
</tr>
<tr>
<td>3</td>
<td>Direct market inputs other than quoted prices.</td>
</tr>
<tr>
<td>4</td>
<td>Indirect market inputs.</td>
</tr>
<tr>
<td>5</td>
<td>Entity inputs.</td>
</tr>
</tbody>
</table>

FASB goes on to state that while this five-level hierarchy should be applied to estimate Fair Value, the original three-level hierarchy should be used for the related disclosure to segregate those estimates that fall within level 1, levels 2 & 3, and levels 4 & 5.

The rankings given by this hierarchy may be misleading, as level 1 estimates are actually only available for marketable securities, some derivatives such as commodity futures, and many raw materials. In nearly all applications of the Market Approach, the selected "guideline" (comparable) transactions need to be adjusted to obtain a supportable estimate of Fair Value. The guidance in Paragraph B8 is helpful, but should be expanded for level 1 and 2 estimates.

As mentioned previously (Answer to Question 4), the word "multiple" has a definite meaning with respect to business valuations. Therefore, the phrase "multiple valuation techniques" in Paragraph 21 should be replaced by "a number of appropriate valuation techniques".

**Our Recommendation**

Even though in late 2005, in most developed countries inflation appears insignificant, FASB and IASB
Standards will eventually apply on a global basis; therefore, we recommend that the Boards expand their Fair Value hierarchy to seven levels:

<table>
<thead>
<tr>
<th>Level</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Active Market prices for identical items adjusted for transaction costs (see our comments on Issue 6).</td>
</tr>
<tr>
<td>2</td>
<td>Active Market prices for similar items adjusted for differences considering appropriate costs. This level needs significant additional guidance and examples illustrated by meaningful figures; none accompany the existing Example 4.</td>
</tr>
<tr>
<td>3</td>
<td>Other methods under the Market Approach that involve the selection of guideline transactions. Examples would be commercial real estate sales or quoted share prices; each require significant and detailed commentary on the nature and reasons for any adjustments for differences.</td>
</tr>
<tr>
<td>4</td>
<td>Discounting methods under the Income Approach. This covers not only Cash Flows but also relief-from-royalties amounts.</td>
</tr>
<tr>
<td>5</td>
<td>Capitalization Methods under the Income Approach considering appropriate levels of revenues, benefits and Cash Flows. As previously mentioned (Answer to Question 4), it would be very helpful for the Boards to establish in the Fair Value Document formal definitions of the various forms of Cash Flows and EBITDA used by practitioners.</td>
</tr>
<tr>
<td>6</td>
<td>Methods under the Cost Approach, such as DRC.</td>
</tr>
<tr>
<td>7</td>
<td>All other valuation techniques, including financial mathematical models such as Black-Scholes.</td>
</tr>
</tbody>
</table>

Levels 4 to 7 should be subdivided into those using (A) market based and (B) entity specific parameters. This hierarchy with effectively thirteen categories reasonably ranks the reliability of various estimates.

6. **Level 1 - Reference Markets**

Paragraph B9 defines a Level 1 reference market as:

"..... the active market to which an entity has immediate access or, if the entity has immediate access to multiple active markets, the most advantageous market".

However, the guidance in Paragraph B9 (Example 5) is confusing. It states that an entity has access to two markets, A and B; between them it must select its most advantageous as its level 1 reference market. At the Transaction Date, the price in market A is $25, and the costs for a trade are $5, giving a net amount of $20. The price in market B is higher at $35, as are its costs to trade ($20) for a net amount of $15. Based on the
net proceeds, the most advantageous is market A; its price ($25) would be the estimate of Fair Value, as FASB stipulates that level 1 prices are not to be adjusted.

As shown in our expansion of FASB’s example as set out below, using Fair Value obtained in this way to "mark to market" tradeable securities may result in a greater profit or smaller loss being recorded than if an actual transaction had taken place.

<table>
<thead>
<tr>
<th>(Dollars Per Unit)</th>
<th>Mark to Market</th>
<th>Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying Amount</td>
<td>18 32</td>
<td>18 32</td>
</tr>
<tr>
<td>Fair Value (Market A)</td>
<td>25 25</td>
<td>20 20</td>
</tr>
<tr>
<td>Net Proceeds (after costs)</td>
<td>7 (7)</td>
<td>2 (12)</td>
</tr>
</tbody>
</table>

It is therefore strongly recommend that all level 1 estimates take into account transaction and other costs, so that the reported profits and losses are the same, whether the item has been "marked to market", or an actual transaction was undertaken.

7. Pricing in Active Dealer Markets

Continuing our comments on Issue 6 that estimates of the Fair Value of an item should be the same as the Net Proceeds of a Transaction, we concur with FASB’s guidance that:

"... the fair value of financial instruments traded in active dealer markets where bid and asked prices are more readily and regularly available than closing prices be estimated using bid prices for long positions (assets) and asked prices for short positions (liabilities), except as otherwise specified for offsetting positions."

However, we recommend that any transaction costs in dealer markets, such as commissions on stock exchanges, be considered for both long and short positions.

8. Measurement of Blocks

The problems relating to blockage discounts for relatively large positions in traded securities are complex. We concur with the Boards' position set out below:

"For unrestricted securities with quoted prices in active markets, many FASB pronouncements (including FASB Statement No. 107 "Disclosures about Fair Value of Financial Instruments") require that fair value be estimated as the product of a quoted price for an individual trading unit times the quantity held. In all cases, the unit of account is the individual trading unit. For large positions of such securities (blocks) held by broker-dealers and certain investment companies, the AICPA Audit and Accounting Guides for those industries (the Guides) permit fair value to be
Exercise 9

Fair Value Disposals

Under prepaid expenses and other current assets, in the year 1969, there were $13,120,000,000 of approximate present value, which is approximately 10% of the total value. The calculation was based on the concept of present value, which was developed initially by the Securities and Exchange Commission (SEC) in 1969. The calculation was based on the concept of present value, which was developed initially by the SEC in 1969, and it was refined by the SEC in 1978. The calculation was based on the concept of present value, which was developed initially by the SEC in 1969, and it was refined by the SEC in 1978. The calculation was based on the concept of present value, which was developed initially by the SEC in 1969, and it was refined by the SEC in 1978.
issuance of a "joint revised Fair Value Exposure Draft" early in 2006, with an effective date of September 15. This should be accompanied by a modified Exposure Draft of the replacement SFAS 141 and IAS 3; to allow sufficient time for review and further comments, an appropriate effective date of the final replacement SFAS 141 and IFRS 3 would be around the beginning of 2007.

13. Other Issues

We believe that the Boards should only exercise "one kick at the can", and that issues such as the relevance and reliability of Fair Value measurements, with which we now have a number of years' experience (four for SFAS 141, 142 and 144), should not be postponed, but dealt with at this time. The concept of "Unit of Account" should also be covered.

CONCLUDING REMARKS

The Associations support recognizing and measuring all assets and liabilities of a Target at Fair Values in a Business Combination rather than at historical cost or some other measurement basis. We do not support FASB or IASB giving options to entities in their recognition or measurement of particular assets.

We appreciate the opportunity to comment on this Exposure Draft. If any members of the Boards or their staff have any questions or require further elaboration of our views, please do not hesitate to contact James Philip Catty.

On behalf of the National Association of Certified Valuation Analysts ("NACVA"), and

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