

IVSC Standards Board
1 King Street
LONDON
EC2V 8AU

By email to: commentletters@ivsc.org

2 June 2016

Dear Sirs

Response to Exposure Draft

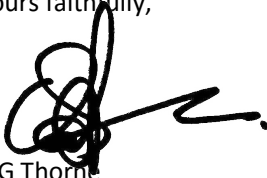
IVS 2017: IVS 210 Intangible Assets

Please find attached our comments on the above exposure draft.

The directors of Valuology have considerable experience of valuation standard setting generally and knowledge of the existing IVSs and their evolution.

If you would like any additional information in relation to our responses or comments, please do not hesitate to contact us

Yours faithfully,



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Comments on Exposure Draft of IVS 2017

IVS 210 Intangible Assets

Answers to Questions in ED

- (a) **In IVS 2013, all substantive portions of IVS 210 *Intangible Assets* were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was mandatory. The Board’s position is that all aspects of IVS 2017 should be mandatory and this Exposure Draft has removed the “commentary” label for clarity. Do you agree with the removal of the commentary label?**

We agree with the proposal to relabel the Commentary. This change was also proposed in the 2015 ED. However, it is incorrect to say that “all substantive portions of the existing standard” are labelled as Commentary. The Requirements in the existing standard are mandatory and are obviously “substantive”. The Commentary contains information and guidance to support the application of the Requirements.

We do not support the proposal that the whole standard, including the merged commentary and TIP 3 guidance can be deemed mandatory. Much of the content is in the nature of guidance as to what is normally considered best practice in selecting or applying a given method, and uses permissive language. The most appropriate method to use will always depend on the facts of each case, and it is unrealistic to expect any standard to cover every possible scenario. Accordingly, any suggestion that the use of a particular method in a particular way is compulsory is inappropriate. Such guidance should be clearly distinguished from the Requirements, or rules, in a standard which are clear statements of actions that HAVE to be taken in order to comply with the standard. See General Comments on this draft standard, lines 2-41.

- (b) **Do you agree with the decision to incorporate relevant portions of TIP 3 into IVS 210 and to eliminate TIP 3 as a standalone document? Are there any other elements of TIP 3 that you believe should be incorporated into IVS 210?**

Yes. This was proposed by the Board in the 2015 ED. We have highlighted some important omissions from the ED in the General Comments.

- (c) **In addition to the contents of IVS 105, this Exposure Draft includes criteria that should be used by an appraiser in selecting an appropriate valuation approach and method for the valuation of intangible assets. Do you agree with the criteria presented under each approach? If no, what changes would you make? Why?**

No. While the existing TIP gives guidance on situations where use of a particular method may be appropriate it does not pretend to be mandatory. Standards should not prescribe or limit methods. They may go as far as requiring certain matters to be considered in selecting a method but no further. As indicated in the General Comments the premise that discussion of methods and information about intangible assets can be deemed mandatory is seriously flawed.



- (d) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of intangible assets regardless of the purpose of the valuation (financial reporting, tax, transactions, litigation, etc.). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?**

We agree with the Board's objective of "purpose neutrality". However, we note that in at least one case, the description of goodwill, the existing neutral wording has been replaced by the criteria for recognition in financial statements under IFRS which undermines this. See General Comments, lines 71-87.



1 **General Comments**

2 This is the first “Asset Standard” in the current 200 series that has been revised and released for
3 comment. It is presumed that the style adopted in this ED is indicative of the changes that are being
4 made to other standards in this series.

5 The existing Asset Standards all start with a clear list of Requirements which, as the word implies,
6 are mandatory. This is followed by a “Commentary” that provides supporting information and
7 guidance on how the principles and concepts in the Framework and the Requirements in the
8 standard are applied in practice when valuing that class of asset. In 2014 the Board had concluded
9 that while this structure enabled the clear distinction between mandatory requirements and
10 supporting guidance requested by most users, there was confusion as to the respective status of the
11 guidance in the commentaries and that appearing in any related TIPs. This was reinforced by
12 comments received during the Structure and Scope Review. Consequently, at its meeting in October
13 2014 the Board agreed that any TIP content that was in the nature of supporting guidance should
14 be brought into the relevant standard and identified as Application Guidance.

15 Accordingly, the 2015 ED included the following proposals:

- 16 • To include the contents of the current TIP 4 *Valuation Uncertainty* as Application Guidance
17 for IVS 103 *Reporting*.
- 18 • To merge the contents of TIP 3 *Intangible Assets* with the Commentary for IVS 210 *Intangible*
19 *Assets* in order to create a single source of guidance on this subject.
- 20 • To include the guidance on CVA and DVA approved in October 2014 as Application Guidance
21 for IVS 250 *Financial Instruments*.

22 This latest draft has in essence, merged TIP 3 with the Commentary in IVS 210, in line with the
23 Board’s earlier decision, although some changes have been made. However, under the heading
24 Requirements there is simply the following sentence:

25 *The principles contained in the General Standards apply to valuations of intangible assets*
26 *and valuations with an intangible assets component.*

27 This does not even refer to the Requirements in the General Standards. Neither does it give any
28 indication of the status of the remaining 99.5% of the standard. This is not identified as Application
29 Guidance or any alternative term to indicate its status. It includes a mixture of information about
30 what an intangible asset is, reasons why a valuation of an intangible asset may be required, a brief
31 mention of accounting requirements, and methods that may be used, including the history of some
32 methods. The content and language used generally does suggest the bulk of the content is neither
33 capable of nor intended to be mandatory, although occasionally a statement is made that suggests
34 the contrary. For example, in paragraph 30.2 it states that a “*valuer must follow the requirements of*
35 *IVS 105 Valuation Approaches, including paragraph 10.3.*” A Requirement to consider the relevant
36 and appropriate valuation approaches is in the current IVS 102 so should be the more appropriate
37 reference because 10.3 of the proposed IVS 105 includes no clear requirement. Setting aside the
38 specific problems with this reference, the conflation of mandatory requirements and guidance
39 material that is exemplified in not only this draft standard but in the changes being proposed to the
40 IVSs generally is contrary to the consistently repeated requests of most constituents that where the
41 standards contain both elements, a clear distinction between the two is necessary.



42 While the detailed text of the proposed draft covers many of the same topics as the existing TIP 3 we
43 have noted a number of changes. Some of these are positive, but elsewhere existing guidance has
44 been omitted or changed for no apparent reason. The existing guidance for discount rates and
45 remaining useful lives has been extended, which some will find helpful, although the more limited
46 detail in TIP 3 was a reflection of the opposition expressed by many to the IVSC issuing guidance on
47 the use and application of methods that could be deemed too prescriptive.

48 TIP 3 was effectively a republication of the last of the old style Guidance Notes (GN 16) published in
49 2010 following a three-year project that involved engagement and input with the global firms
50 involved in the valuation of businesses and intangible assets. While some updating may be
51 necessary, eg if different methods have been developed, practice has evolved or cross references
52 have changed, caution should be exercised before changes are made given the extensive scrutiny
53 there has been of the current material.

54 The changes include:

55 **Categories of Asset**

56 The current TIP identifies marketing, customer, artistic and technology as the main types of
57 Intangible asset, with a note that any of these may be contractual or non-contractual. The ED
58 identifies contractual assets as a separate category alongside the other four. The wording in the TIP
59 followed the categories described in the guidance to IFRS 3 *Business Combinations* that was current
60 when GN16 was being finalised. This point was the subject of specific consultation in the 2009 ED
61 that preceded GN16. Of those who expressed a view, the preference was for consistency with the
62 IFRS categories. However, IFRS no longer refers to categories in the revised application guidance in
63 Appendix B of IFRS 3. The need for consistency with IFRS is therefore no longer relevant, but the fact
64 remains that most types of intangible asset can be either contractual or non-contractual.

65 **Identifying the Asset**

66 Paragraphs 3.7 and 3.8 of TIP 3 refer to the need to consider the statutory framework and the
67 protection this affords to intellectual property. There is no equivalent in the proposed revision, and
68 no reason is provided for the omission. Establishing the rights that a party has to an intangible asset
69 is fundamental to any valuation and therefore excluding this guidance diminishes the usefulness of
70 the standard.

71 **Goodwill**

72 Goodwill is defined in TIP 3 as *Any future economic benefit arising from a business, an interest in a*
73 *business or from the use of a group of assets which is not separable.* In 3.12 it further explains that it
74 is an unidentifiable intangible asset because it is not separable from the business to which it
75 relates. The current ED does not contain definitions for the terms used in the document. In
76 paragraph 20.6 it explains that goodwill is any future economic benefit arising from a business, an
77 interest in a business or from the use of a group of assets which has not been separately recognised
78 in another asset. This is a quite different meaning to that in TIP 3. It appears from the following
79 paragraph 20.7 that the word “recognised” is used in an accounting context. In other contexts, the
80 proposed wording implies a less precise definition of goodwill, as the test is not whether it cannot be
81 separately identified but whether it has been, which may be a matter of choice.

82 TIP 3 does not discuss the recognition criteria for goodwill in accounting standards for the reason
83 that the Board has made a conscious effort not to imply that accounting conventions apply to



84 valuations for every purpose. Where a valuation is required for financial reporting, IVS 300
85 describes any specific accounting criteria that define what is to be valued and how it is to be valued.

86 The definition and explanation of goodwill in GN16/TIP3 was the subject of significant consultation
87 and debate and no reasons have been given to justify the change implicit in the revised wording.

88 **Prospective Financial Information**

89 TIP 3 includes guidance in paragraphs 6.2 -6.11 on matters that should be considered in developing
90 and using prospective financial information (PFI) in applications of the Income Approach. The ED
91 does not include equivalent guidance, which seems a significant omission. PFI is a principal input to
92 the valuation of many types of intangible assets which involves the consideration of issues that do
93 not arise when developing cash flows for other asset types.

94 **Distributor Method**

95 This is added to the list of methods under the Income Approach in the current TIP. This is an
96 example of a comparatively recent variation of the MPEE method and if it has become widely
97 accepted as a valid method for valuing customer relationships then there is a case for its inclusion.

98 **Discount Rates**

99 The discussion in section 8 of TIP 3 has been extended in the ED section 160. The current TIP only
100 mentions WACC, although it acknowledges that this may not always be appropriate if the subject
101 intangible asset has a distinct risk profile from the rest of the assets and liabilities utilised in the
102 business or if there is other evidence that indicates an alternative discount rate. The extended
103 discussion and examples of other discount rate sources that may be appropriate is helpful.
104 However, it is illogical to improve and extend the guidance on discount rates while excluding the
105 current guidance on PFI.

106 **Economic Life**

107 The discussion on remaining useful life in TIP 3 (paragraph 8.4) has been extended by the ED section
108 170 on "Intangible Asset Economic Lives". This additional guidance ensures that another important
109 valuation consideration is dealt with in greater depth, but not all constituents of the IVSC will
110 welcome this, given previous resistance to material that could be deemed "educational" being
111 included in the standards.