

August 31, 2015

International Valuation Standards Council
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Dear Board Members:

This letter is in response to the International Valuation Standards Council's (IVSC) Review Group Report Engagement Paper.

The American Institute of Certified Public Accountants (AICPA) is the professional organization of over 410,000 Certified Public Accountant (CPA) members. Our constituency actually exceeds that number. That is because, under various state accountancy laws, AICPA professional standards also encompass practicing CPAs who are not AICPA members.

The AICPA's Forensic and Valuation Services Executive Committee (FVSEC) is a senior technical committee of the AICPA. The FVSEC is empowered to issue valuation standards for our members and to comment on valuation-related topics on behalf of the AICPA. In 2007, the AICPA issued valuation standards, Statement on Standards for Valuation Services (SSVS) No. 1: *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* which all AICPA members as well as CPAs in states that have adopted AICPA professional standards are required follow.

This letter presents the FVSEC's comments and responses to certain engagement questions for respondents raised in response to the International Valuation Standards Review Group Report (Report).

Question 1:

Recommendation 3 states that; “The IVSC should refocus on its core stakeholders and reexamine the current level and purpose of the standards around Business Valuation and Real Property to ensure that the standards put forth by the IVSC are high quality and converged with existing standards from around the world.”

The IVSC Trustees broadly agree with this Recommendation to focus on Business Valuation and Real Property, and with the convergence and adoption strategy recommended within the Report.

- a) To what extent has the adoption of IVSs changed your national or local practice? Are IVSs incorporated into your national standards?

The FVSEC does not believe that the IVSs have changed national or local practice in the U.S. In the U.S., the AICPA is a leader in the development of Business Valuation standards (SSVS). Many (but not all) Business Valuation analysts are licensed under state accounting laws that have adopted SSVS because they are CPAs. These Business Valuation analysts are regulated with regard to SSVS compliance.

There are also inconsistencies in the language/definitions included in the IVSs and existing U.S. GAAP, SSVS and the *International Glossary of Business Valuation Terms* (see Question 1(b) below). The FVSEC agrees that the idea of converged international standards is a good idea, but convergence is unlikely until such inconsistencies are resolved.

Due to the existence of high quality, accepted Business Valuation standards (SSVS), related compliance requirements at the U.S. national and state levels, and the inconsistencies in definitions mentioned above, the AICPA has neither adopted nor incorporated the IVSs into its standards.

Do you consider that:

- b) In your jurisdiction are IVSs of sufficient quality and relevance to be used by relevant stakeholders for a range of purposes (e.g., Business Valuation and Real Property)?**

The FVSEC does not believe that the IVSs are of sufficient quality and relevance to be used by AICPA members for Business Valuation purposes. AICPA's SSVS and U.S. GAAP are of the nature that are more detailed than the IVSs. Also, convergence of U.S. GAAP and IFRS related to fair value accounting is not yet complete. As a result, U.S. GAAP will continue to prevail as the financial reporting standard in the U.S.

Additionally, we are concerned about inconsistent terminology between the IVSs and existing terminology used in U.S. GAAP, SSVS and the *International Glossary of Business Valuation Terms* (e.g., differences in the definition of "fair value"). The *International Glossary of Business Valuation Terms* has been in place since 2001 and has been adopted by a number of valuation professional organizations, including the AICPA. These inconsistencies will need to be resolved in order for the IVSs to become relevant and accepted in the U.S.

- c) IVSC needs to clearly define the purpose of its standards and, specifically, should the standards emphasise a public interest mission?**

The FVSEC believes that the IVSs are most relevant for valuations in financial reporting in cross border business combinations, and that the IVSC should limit its focus on setting standards for valuations in public interest financial reporting. IVSC needs to clearly define the purpose of its standards and to emphasize that its mission as the public interest purpose is critical in setting valuation standards for financial reporting purposes.

- d) IVSC needs to re-examine the current level and purpose of the standards around Business Valuation? If so what changes would you recommend?**

The FVSEC believes that IVSC needs to re-examine the current level and purpose of the standards around Business Valuation, because Business Valuation and Real Estate appraisal are distinctly different disciplines. Material differences between Business Valuation and Real Estate appraisal exist in the following areas:

- Valuation analysis;
- Uses and users of the valuation/appraisal services;
- Training and experience requirements for Business Valuation practitioners and Real Estate appraisers;
- Professional licensing and regulation of Business Valuation practitioners and Real Estate appraisers; and

- Jurisdictional requirements.

As a result of these material differences, FVSEC recommends different professional standards for Business Valuation and Real Estate appraisal.

Also, the IVSs are typically not relevant in valuations performed for tax reporting requirements or in litigation since both are jurisdictionally dependent. The FVSEC recommends that IVSC incorporate a Jurisdictional Exception to the IVSs, similar to paragraph 10 of SSVS. Paragraph 10 of SSVS states:

If any part of this Statement differs from published governmental, judicial, or accounting authority, or such authority specifies development procedures or valuation reporting procedures, then the valuation analyst should follow the applicable published authority or stated procedures with respect to that part applicable to the valuation in which the member is engaged...

Question 2:

Recommendation 4 states that; “The IVSC should withdraw current proposals and exposure drafts related to Financial Instruments and work to first bring key stakeholders together to agree on solutions that serve the public interest and fulfil a market need.”

The IVSC Trustees are proposing to set up a series of round tables of key stakeholders to review the existing Financial Instruments papers and ensure that they serve the public interest and fulfil a market need.

Do you consider that:

- IVSC should discontinue work on its current Financial Instruments projects and withdraw any existing proposals or exposure drafts? If not, what would you suggest?**

The FVSEC believes that the IVSC should continue work on its Financial Instruments projects by bringing key stakeholders together to gain consensus on the nature of the issues and potential solutions in Financial Instrument valuations for financial accounting purposes.

- IVSC should seek to bring the various Financial Instruments stakeholders together in a series of roundtables to seek broad support on a direction to address issues regarding the development of Financial Instruments standards and potential solutions?**

The FVSEC agrees that IVSC should bring the various Financial Instruments stakeholders together in a series of roundtables to seek broad support on a direction to address issues regarding the development of Financial Instruments standards. The AICPA is the ideal partner to introduce IVSC to U.S. GAAP, U.S. securities regulations, and U.S. financial instruments valuation practices developed for U.S. GAAP fair value compliance purposes.

FVSEC recommends that the series of roundtables take place after the IVSC clarifies its mission as it relates to valuations for financial reporting as discussed in Question 1(c) above.

- c) IVSC should develop a conceptual framework for Financial Instruments valuation standards along with a detailed work plan to implement this initiative that reflect the input of the proposed stakeholder roundtable meetings?

The FVSEC is supportive of the IVSC developing a conceptual framework for Financial Instruments valuation standards (related to financial accounting) along with a detailed work plan that reflects the input of the proposed stakeholder roundtable meetings.

Question 3:

Recommendation 5 states that; “The IVSC should clearly designate in its revised standards what IVSC documents should be deemed as a standard (mandatory) and what output should serve solely as guidance (non-mandatory).”

The IVSC Trustees and Standards Board support the idea of an improvements project in this area and have begun to have initial consultations with stakeholders to further understand market needs.

Do you consider that:

- a) The structure of the standards and supporting documents should be changed to clearly differentiate "standards" (mandatory) from "guidance" (explanatory to be applied based on the circumstances)? If so, what changes would you recommend? If not, what would you suggest?

The FVSEC believes that the IVSC could best serve its global constituents by promulgating non-binding professional guidance. We believe that it is difficult to establish mandatory global standards due to: the existence of well-developed, high quality accounting and Business Valuation standards in some countries (i.e., U.S. GAAP and SSVS); conflicting jurisdictional and regulatory requirements (i.e., Internal Revenue Service and U.S. Department of Labor); and the lack of convergence of standards as mentioned in Question 1 above. Additionally, IVSC is not an individual membership-based organization and does not have sufficient processes in place to enforce mandatory standards. The FVSEC believes that promulgating a one-size-fits-all Business Valuation standard for every valuation purpose in every country is unrealistic.

To the extent that IVSC wants to focus on fair value accounting-related valuation guidance, the AICPA stands ready to cooperate and coordinate in the goal of Business Valuation standards convergence. With SSVS—and its decades of experience in professional standards development—the IVSC would benefit from the AICPA’s experience and expertise regarding standard setting for accounting- and Business Valuation-related standards.

- b) It would be useful to have a bi-annual meeting between the Standards Board, Working Groups and standard setters to discuss issues facing the various disciplines, the technical content of standards and proposed agenda items for the forthcoming year?

The FVSEC believes that it is premature to determine if bi-annual meetings should be set with the Standards Board, Working Groups and standard setters for the forthcoming year.

Question 4:

Recommendation 6 states that; “The IVSC should develop and adopt a robust process in its determination of projects and the standard development process. The IVSC should consider looking to other standard setters, such as the IASB or FASB, to adopt best practices in relation to the due process associated with standard setting.”

The IVSC Trustees broadly agree with this recommendation and accept that its processes could be improved.

- a) What are your observations of the current due process in its ability to gather broad input and thus strengthen the quality of the ultimate product? What suggestions/ key aspects would you hope to see in any improved due process?**

FVSEC believes that the IVSC has failed to engage key U.S. stakeholder organizations with existing high quality, accepted Business Valuation standards already in place. The AICPA is a U.S.-based membership organization with over 410,000 individual members. By not engaging the AICPA, IVSC is missing a significant opportunity to gather input in the U.S. which could strengthen the quality and acceptance of the IVSs.

FVSEC believes that the AICPA’s standards development processes should be leveraged to encourage broader participation and acceptance of the IVSs and considered to be best practices in relation to due process associated with standard setting.

- b) The Report makes a number of suggestions including improving key stakeholder communication; project cost/benefit analysis; standard setting process improvement and post standard implementation review? Would you add or delete any of the suggestions made in this section of the Report?**

FVSEC agrees with these suggestions. As discussed in Question 4(a) above, the FVSEC believes that the AICPA should be more heavily involved in the standard setting process in order to gain broader acceptance of the IVSs.

- c) Are there any examples of best practices in relation to the due process associated with standard setting employed by other standard setters that you would recommend? What are their due processes? What are the key principles that should guide the IVSC’s due process?**

FVSEC believes that the AICPA has a rigorous and robust procedure of promulgating professional standards—related to both its 410,000 or so members and the entire U.S. accounting profession. The AICPA has a well-developed and time-proven process of involving its members in the standards development process—including in the development of the well-recognized SSVS. The AICPA also has a proven track record of working with regulatory agencies and other standards-setting authorities in its own standards-setting processes.

FVSEC strongly encourages IVSC to take advantage of the experience and expertise of the AICPA with regard to (a) the standards-setting process, and (b) procedures for coordinating with other standards-setting bodies. IVSC could benefit from working with the AICPA in this regard.

Question 5:

Recommendation 7 states that; “The IVSC should further develop a plan that ensures the number of projects undertaken reflects an appropriate level of available resources and that adequate time is given to each project.”

The Standards Board consulted in 2014 on future agenda topics and the Professional Board consulted on professional standards through a discussion paper.

Do you consider that:

- a) **The initial consultations undertaken by the Standards Board and Professional Board were sufficient to develop a firm understanding of the relative priorities of key users of IVSs? If not, what should the boards do differently to ensure greater input from stakeholders?**

The FVSEC does not believe that initial consultations undertaken by the Standards Board and Professional Board were sufficient to develop a firm understanding of the relative priorities of key users of IVSs. Generally speaking, the AICPA has not been consulted directly by the Standards and Professional Boards.

We believe that the AICPA staff and volunteer members have substantial experience with regard to the management of major projects— including the development of professional standards, including valuation standards (e.g., SSVS). The AICPA is prepared to share its experience and expertise with regard to large-scale project management. Proactive engagement of the AICPA will be essential to enhanced participation and acceptance by key stakeholders of the IVSs.

- b) **A roundtable discussion with stakeholders on these matters would be useful?**

The FVSEC believes that if financing is limited, the IVSC should consider resources available from key stakeholders and make sure those stakeholders and Board members are engaged. The AICPA staff and volunteer members have substantial experience with regard to the development of professional standards, including valuation standards (e.g., SSVS). If the IVSC would allow the AICPA to participate in roundtable discussions and assist in standards-setting activities, the AICPA would be willing to share its experience and resources (including its volunteer member base).

- c) **IVSC could provide more information on the pipeline of future projects? If so what information would you expect to be provided?**

The FVSEC believes that matching the resources of the IVSC to the commitments is key to its success. If resources are limited, the IVSC should only take on future projects for which it feels it can be successful.

Question 6:

Recommendation 8 states that; “The IVSC should conduct a review of the qualifications and make up of its Board of Trustees to ensure that the board has the necessary skill set and the right individuals to ensure that it meets its purpose, primarily around sustaining the financial viability of the IVSC.”

The IVSC Trustees are looking to conduct a review over the coming months. The current bylaws state under clause 18 that; “The Board of Trustees shall seek to populate the Board of Trustees with individuals who are committed to achieving the Objectives of the IVSC as described herein; have a global perspective and understanding of how the IVSC can best operate in the world economy, business and financial reporting environments; have a demonstrated ability to analyse issues and formulate strategic initiatives to be undertaken by the IVSC; possess integrity and objectivity in order to render impartial, reasoned decisions and policy; have effective communication skills in dealing with the public and IVSC Members; are drawn from geographically diverse areas.”

Do you consider that:

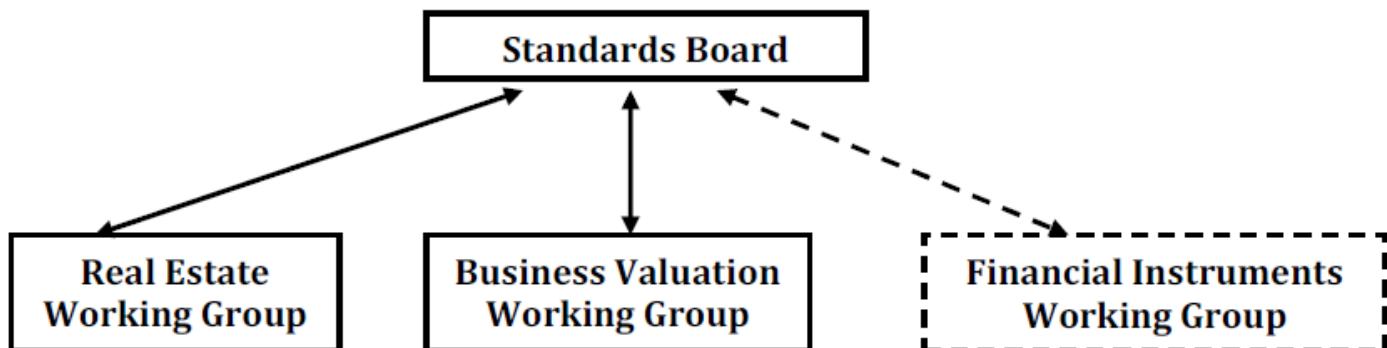
- a) There are skills or attributes that should be added or removed from this list. If so, what are they?

The FVSEC believes that the skills and attributes for the Board of Trustees seem general enough to allow the IVSC to fill in the Board with the needed expertise. It appears that the members of the Board of Trustees must have broad global business influence and an ability to attract resources (including monetary resources).

- b) How representative of the public interest or specific stakeholder interests should the Trustees be? Please be specific on a proposed composition of the Trustees, including the relative distribution of skill sets and demographic backgrounds.

The FVSEC believes that if the IVSC wants to be a valuation standards-setting organization, the Board of Trustees should include both (a) valuation specialists and (b) representatives of valuation user groups. In particular, the Board of Trustees should include members with some professional standards-setting experience.

Question 7:
Proposed Standards Board Structure



Recommendation 9 states that; “The IVSC should reconstitute the Standards Board by reducing its size and creating permanent working groups with asset specific technical expertise for business valuation and real estate working groups.”

Do you consider that:

- a) **The approach suggested would be an improvement to the existing model? Please comment on the ability of the existing structure to develop standards for the three disciplines described above and its ability to engage stakeholders.**

For many reasons, professional standards related to Business Valuation are fundamentally different than professional standards related to Real Estate appraisal. Therefore, the FVSEC agrees that it is appropriate and necessary to have at least two permanent working groups for the Standards Board: one related to the Business Valuation standards and one related to Real Estate appraisal standards. We believe that IVSC Standards Board could be the structure where the IVSC could benefit from the experience and expertise of other standards-setting (particularly valuation standards-setting) entities such as the AICPA.

There are other alternatives to improve the effectiveness of the Board and aid greater stakeholder engagement?

The FVSEC believes that the AICPA should be engaged to assist and participate on the Standards Board, particularly with regard to Business Valuation standards. The AICPA is currently responsible for promulgating Business Valuation standards for its 410,000 or so members and for the U.S. certified public accounting profession generally. Accordingly, the AICPA has the experience and expertise—not to mention the prominence and eminence—to work with the IVSC in the development of Business Valuation standards through its participation on the Standards Board. Active engagement of the AICPA by IVSC will encourage enhanced due process which will result in broader acceptance.

Question 8:

Recommendation 10 states that; “The IVSC should review the current membership of the Standards Board and establish clear bylaws that speak to the qualifications of the individuals required. The Review Group particularly recommends ensuring that all individuals understand the valuation theory underlying all asset classes covered by the IVSC, primarily real property, business valuations, and financial instruments.”

Currently the bylaws state under “qualifications” that; “the Board of Trustees shall appoint members of the IVSB who: are committed to achieving the Objectives of the IVSC as described herein, demonstrate a high level of professional knowledge and technical competency in the principles of valuation, valuation standards and valuation reporting, concurrent with valuation acumen, offer professional and geographical diversity, have effective communication skills in dealing with the public and IVSB members, will liaise with national standard-setters and other official bodies responsible for domestic standard setting, commit to act in the public interest.

Do you consider that:

- a) **The qualification section in the bylaws are fit for purpose or too generic and non-specific? If the latter, what would you add to the bylaws?**

The FVSEC believes that the IVSC Board of Trustees members should have broad and general backgrounds consistent with achieving the objectives of the IVSC. In contrast, the Standards Board members should have deep and narrow technical backgrounds related to their specific working group. Such backgrounds would better suit

Standards Board members who are more involved in the technical issues of Business Valuation standards development, respective to each Board.

- b) IVSC Standards Board should comprise entirely of cross asset class valuation specialists? If not, what would you recommend?**

The FVSEC believes that the IVSC should engage the U.S. organizations that have already developed professional standards. Such engagement would contribute to executing the IVSC's goals. The Standards Board should include professionals from all impacted constituencies to ensure broad participation in due process and acceptance. These professionals include Business Valuation specialists, financial statement preparers/management, users of financial statements, auditors, and regulators.

Through its staff and through its volunteer membership, the AICPA has both broad valuation generalists and deep valuation specialists, particularly in the Business Valuation discipline. In particular, the AICPA has prodigious experience with regard to its liaison "with national standard-setters and other official bodies responsible for domestic standard setting." Accordingly, the IVSC would benefit through technical assistance from and/or a closer association with the AICPA in its standard-setting process.

- c) Is the answer to 8b dependent on the creation of working groups as per 7b? Is this dependent on any other factors?**

Yes. Due to the fundamental differences between Business Valuation and Real Estate appraisal, there should be separate Standards Boards for the separate permanent working groups. There are relatively few valuation specialists who are both broad generalists and deep specialists. The IVSC may best utilize broad generalists for service on its Board of Trustees and deep specialists for service on its separate Standards Boards.

Question 9:

Recommendation 11 states that; "The IVSC should wind down the Professional Board once it completes its current agenda, and look to foster an environment where stakeholders can come together to focus on Professional Standards over the longer term. "

Do you consider that:

- a) The current agenda focusing on establishing the core criteria for a national professional infrastructure is appropriate? If not, what agenda would you suggest or which items would you remove from the current agenda?**

The FVSEC does not believe that the core criteria for a national professional infrastructure is appropriate. Professional standards are developed/issued/enforced by the various membership organizations and Valuation Professional Organizations that license and issue credentials to individual members. IVSC does not have individual members and, consequently, should not be in a position to mandate or enforce professional standards at the individual practitioner level.

Alternative considerations might include offering a "best practices" document for countries/organizations/ Valuation Professional Organizations that want to develop professional standards for their individual members.

b) IVSC Professional Board should be wound down, once it completes its current agenda?

The FVSEC does not believe that the current IVSC Professional Board has been effective in completing the goals of the organization. Since the IVSC will not license individual Business Valuation analysts, there would appear to be little necessity for a Professional Board.

In addition, the issue of Business Valuation analyst professional qualifications is both discipline-specific and jurisdiction-specific. For example, in the U.S., the Internal Revenue Service and the Department of Labor each have their own requirements for who qualifies as a “qualified appraiser” to perform tax-related or ESOP-related valuations, respectively. We agree that it make sense to wind down current activities once the IVSC Professional Board completes its current agenda.

Question 10:

Recommendation 12 states that; “The IVSC should consider revising the purpose of the Advisory Forum to be more focused on the ultimate users of the standards rather than the VPOs.”

Do you consider that:

a) The current composition and purpose of the Advisory Forum should be retained?

The FVSEC believes that the current composition and purpose of the Advisory Forum should be retained since the IVSC does not have individual members.

In conclusion, to the extent that IVSC wants to directly connect with other standard setters in order to become more effective and credible in the market, the organization should engage the AICPA on a more significant level. The AICPA is a leader in the development of Business Valuation standards in the U.S. and has rigorous and robust procedures in place for promulgating professional standards. The AICPA has a well-developed and time-proven process of involving its members in the standards development process and a proven track record of working with regulatory agencies and other standards-setting authorities in its own standards-setting processes.

With decades of experience in professional standards development, we strongly feel that the IVSC would benefit from the AICPA’s experience and expertise regarding standard setting for accounting- and Business Valuation-related standards. IVSC can use this opportunity to rebrand itself by actively collaborating with the brand of a globally recognized, prestigious standard-setting organization – the AICPA. Active engagement of the AICPA by IVSC will encourage enhanced due process which will result in broader acceptance of future IVSs.

Finally, we thank the IVSC for its consideration of our comments, and for its continued service to the valuation profession.

Very truly yours,



Carol Carden, CPA/ABV, ASA, CFE
Chair, AICPA Forensic and Valuation Services Executive Committee