

December 15, 2006

Janice Fredericks, Manager  
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201 Plaza Three  
Jersey City, NJ 07311-3881

Re: Comments on Proposed Statement on Standards for Valuation Services – Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset

Dear Ms. Fredericks:

On behalf of the members of the Appraisal Institute, the Appraisal Standards Committee of the Appraisal Institute thanks you for this opportunity to provide comments concerning the Proposed Statement on Standards for Valuation Services – Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset.

The Appraisal Institute is an international membership association of professional real estate appraisers, with more than 21,000 members and 99 chapters throughout the United States, Canada and abroad. Its mission is to support and advance its members as the choice for real estate solutions and uphold professional credentials, standards of professional practice and ethics consistent with the public good.

**Oral Valuation Reports:**

**Do you believe the minimum requirements (to address the material substantive matters noted above) for oral reports are appropriate and in the public interest?**

By their very nature “Oral Reports” are closer in substance to “Summary Reports” than to “Detailed Reports” yet the reporting requirements cited in Paragraph 79 for Oral Reports (substantive matters from 54, 55, 61, 63, 69, and 77) pertain to the requirements for “Detailed” and “Calculation” Reports. The reference to these requirements may indicate a level of detail that is not possible for the majority of Oral Reports.

Understandability and enforceability may be increased if the requirements for “Oral Reports” were tied to the reporting requirements for Summary Reports.

In addition, to protect the public interest it is necessary to ensure that there is proper support for an oral report at the time that it is given. Therefore the work paper requirement should specify that the work papers must be in existence prior to and contemporaneous with the issuance of an oral report.

Following are some proposed revision to Paragraph 79 based on these observations:

79. An oral report may be used in a valuation engagement or a calculation engagement. An oral report **given for a valuation engagement** should at a minimum address the material, substantive matters contained in ~~paragraphs 54, 55, 61, 63, 69 and 77~~ **paragraph 72. An oral report given for a calculation engagement should at a minimum address the material, substantive matters contained in paragraph 77. Work papers sufficient to evidence that the engagement was performed in accordance with the American Institute of Certified Public Accountants SSVS must be in existence prior to and contemporaneous with the issuance of the oral report.** If an oral report is given, the member ~~should document in the work papers the substance of the oral communication and affirm that the reporting elements were orally communicated to the client~~ **must prepare a written summary of the oral report for the engagement's work papers within a reasonable amount of time after the issuance of the oral report.**

#### **Using the Work of Specialists – Paragraph 21**

We would recommend adding the following sentence at the end of paragraph 21:

**If the work of a specialist is used in the valuation engagement, a description of how the specialist's work was relied upon must be disclosed in the valuation report (see paragraphs 46, 54(o), 67(f), 72(p), 75,**

#### **“Estimate” vs. “Opinion”**

The word “estimate” is used through out the Exposure Draft. Dictionary definitions of this word emphasize that “estimates” are often subjective and somewhat inexact judgments or preliminary calculations. The use of this term may act to weaken the client’s and the public’s perception of the reliability of the valuer’s work product.

The word “Opinion” on the other hand has a more authoritative and professional connotation. An “opinion” is “the formal expression of a professional judgment” (Random House, unabridged) or “a belief or conclusion held with confidence”.

Following are some proposed revisions to the Exposure Draft based on these observations:

2. As described in this Statement, the term *engagement to estimate* **develop an opinion of value** refers to an engagement, or any part of an engagement (for example, a tax, litigation, or acquisition-related engagement), that involves ~~determining~~ **developing an opinion of** the value of a subject interest. A valuation engagement culminates in the expression of either a ~~conclusion~~ **opinion** of value or a calculated value (see paragraph 23). A member who performs an engagement to estimate **develop an opinion of** value is referred to in this Statement as a *valuation analyst*.

3. In the process of ~~determining~~ **developing an opinion of** value as part of an engagement, the valuation analyst applies valuation approaches and valuation methods, as described in this Statement, and uses professional judgment. The use of professional judgment is an essential component of ~~determining~~ **developing an opinion of** value ~~because value determinations are, by their nature, estimates of value.~~

**Changes would also be made to paragraphs 8, 12, 23, 45, 69, 70, 77, 78, Appendix C and Appendix D.**

**“Independence” and “Objectivity” – Paragraph 67**

Add a “representation” that the report has been prepared with “independence” and “objectivity” for detailed, summary and calculation reports.

**“Determining value”**

There are numerous references to “determining value” and “determining the value” throughout the Exposure Draft. The term “value” expresses an economic concept. As such, it is never a fact but always an opinion of worth at a given time in accordance with a specific definition of value. Revising references to “determining value” and “determining the value” to “developing an opinion of value” may provide the individuals who develop, use and rely on valuation reports with a clearer understanding of the nature of the valuation analyst’s work product.

Consider revisions to paragraphs 1, 2, 3, 23, 41, 42, 45, Appendix B and Appendix D.

**Definition of Business Valuation**

Appendix B – International Glossary of Business Valuation Terms

For the reasons noted above we would recommend modifying the definition of “business valuation” as follows: The act or process of ~~determining~~ **developing an opinion of** the value of a business enterprise or ownership interest therein.

Thank you for considering our comments and recommendations. Should you have any questions, please contact the Appraisal Standards Committee’s staff liaison, Brendan Donnelly, at 312-335-4409 or [bdonnelly@appraisalinstitute.org](mailto:bdonnelly@appraisalinstitute.org).

Best regards,

Sherryl Andrus, SRA  
Chair, Appraisal Standards Committee