

DUFF & PHELPS

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International Valuation Standards Committee
12 Great George Street, Parliament Square
London SW1P 3AD
United Kingdom

Comment on IVSC Discussion Paper: Determination
of Fair Value of Intangible Assets for IFRS Reporting Purposes
Paragraph 6.81

The statement “Under the expected value approach, the discount rate does not need to reflect potential variations in the cash flows as these are captured by using the expected value of the cash flows” is incorrect.

“...calculating a measure of central tendency (expected value for example) by probability weighting the expected cash flows does not eliminate the risk of the distributions. The appropriate discount rate is not a risk-free rate of return. Would the market only demand the risk-free rate of return for taking on the variability of the cash flows? The answer is “no”. The market will demand compensation (added return) for accepting the risk that the actual cash flows will differ from the expected cash flows in future periods and the added return will increase depending on the amount of expected dispersion that could occur.” (from Chapter 5 of the upcoming *Cost of Capital: Estimation and Applications* 3rd ed by Shannon Pratt and Roger Grabowski, Wiley, 2008)

The greater the dispersion around the expected value, the greater the risk and therefore the greater the return that the market will require.

I believe you need to rethink Paragraph 6.81. I will be happy to assist in better explaining the relationship of risk and return.

Yours very truly,



Roger J. Grabowski

cc: Shannon Pratt, Shannon Pratt Valuation s, LLC.
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