

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

Düsseldorf, 31 October 2007

Dear Sirs

Re.: Discussion Paper – Determination of Fair Value of Intangible Assets for IFRS Reporting Purposes

We appreciate the opportunity to comment on the above mentioned Discussion Paper issued by the IVSC in July 2007. The Institut der Wirtschaftsprüfer (IDW) establishes standards and issues practice statements on a wide range of accounting issues for application in Germany, including matters relating to valuation. The IDW represents approximately 85 % of the German Wirtschaftsprüfer (German Public Auditor) profession. The German Wirtschaftsprüfer profession seeks to comment on the above-mentioned Discussion Paper since the issue of fair value for intangible assets is of interest to both those Wirtschaftsprüfer who perform valuations and those who audit such valuations. In this context, the IDW has issued *IDW Standard 5 "Principles for the Valuation of intangible Assets"* in July 2007.

General Matters

Section I of the Discussion Paper deals with the scope and purpose of this publication. However, it is unclear to us which objective the IVSC actually intends to achieve. We wonder whether the final stage of this project should result in a summary of existing authoritative literature on valuation of intangible assets, some kind of handbook on valuation techniques, general guidance on the methodology of fair value measurement or an International Valuation Standard or Guidance Note.

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Based on the practical experiences of certain of our members who prepare valuations, we believe that various key valuation issues were either not considered, or considered only to an insufficient extent in the Discussion Paper. For example, the identification of intangible assets is only addressed in Section VIII very briefly. Furthermore, the predominance of the income approach in practice is not reflected adequately.

We do not understand why the Discussion Paper introduces “new” definitions of terms already defined in other standards issued by other bodies (e.g. active market) or of terms that, at least in our opinion, do not need to be defined (e.g. inactive market). Similarly, we question the necessity of introducing new wording to denoting different valuation methods/approaches in place of established, generally accepted terms (e.g. market transactions method, income capitalisation approach etc.).

In our opinion the Discussion Paper, in its current version, does not provide a useful contribution of constructive new guidance on the determination of fair values of intangible assets.

We refer to our detailed comments on the questions raised in the Discussion Paper below.

General approach adopted in Discussion Paper

Q 2.1.1 Do you consider that there is a need for guidance in respect of the valuation of intangible assets for IFRS purposes?

We agree that guidance regarding the valuation of intangible assets for IFRS purposes is needed. If the objective of the IVSC is to develop an International Valuation Standard, the committee should consider whether the timing for such guidance is appropriate, given that the IASB itself is still in the process of developing guidance relating to this issue based on its Discussion Paper entitled “Fair Value Measurement” issued in November 2006. The IVSC itself acknowledges this fact in paragraphs 1.3 and 1.4. We would prefer to wait for the final results of the IASB’s project before assessing the need for additional guidance from other international standard setters.

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Q 2.1.2 *Do you consider that the guidance given in this Paper is at the right level of detail or should there be additional or less detail?*

The Discussion Paper currently provides users with a helpful overview or summary of existing announcements and guidance in this area. However we doubt, whether this overview is complete and whether it appropriately reflects existing guidance developed in practice. Furthermore, a more structured approach considering principles based guidance is needed if the document is to serve as basis for a standard. Such a principles based approach would need to be more balanced in terms of reflecting valuation practice, e.g. the significance of the respective methods under the income approach.

Q 2.1.3 *Do you consider that the Paper achieves the intentions set out in paragraph 1.4?*

In our opinion, the Paper achieves the intentions. However, on this basis the Discussion Paper can provide only little additional guidance for the IASB.

Q 2.1.4 *Do you agree that any future guidance issued by IVSC on this topic should be principles based, with detailed discussion of different methods and illustrative examples clearly distinguished in a Technical Paper?*

We strongly agree with the notion that any future guidance (not limited to the valuation of intangible assets) should be principles based, as the IASB aims for a principles based framework. Each individual standard or guidance must be compatible with this orientation. Nevertheless, additional application material, such as examples, would be helpful in some cases.

Technical valuation issues

Q 2.8.1 *Do you agree with the approach taken as regards each of the issues set out in paragraphs 2.6-2.8 above?*

It is not clear why certain important points from SFAS 157 have been excluded from the Discussion Paper. In particular, scoping out the most crucial and important provisions of SFAS 157 (i.e., observable/unobservable inputs, hierarchy of valuation inputs) is questionable. We do not believe there is any justification for

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scoping out these issues. We note that Section IV of the Discussion Paper does not provide any rationale for this.

Furthermore, it is unclear why paragraph 2.4 asserts that SFAS 157 does not contain a definition of the term “active market”, as SFAS 157.24 apparently provides such a definition.

Q 2.8.2 *In particular, do you consider that “inactive market” is a suitable term? If not, which other term would you use for an “inactive market”?*

As we have commented above, we do not see any need to introduce the new term “inactive market”, since this term is merely a negative definition of “active market”. As the term “active market” is clearly defined, we believe any additional definition is redundant and also adds needlessly to the complexity of the document.

Q 2.8.3 *Do you agree with the guidance in respect of entity-specific factors in paragraphs 4.25 et seq.? Do you consider that any additional guidance is required in respect of entity-specific factors?*

The guidance provided by paragraphs 4.25 et seq. largely summarises existing guidance on entity-specific factors in various IFRS pronouncements. In our opinion, additional guidance would be helpful, e.g. to provide a definition of market-participant synergies vs. entity-specific synergies. In particular, we believe that a clearer concept to achieve a precise differentiation between those entity-specific factors to be excluded from the valuation and other factors to be included in the valuation needs to be provided.

Q 2.8.4 *Do you agree with the approach taken in this Paper, paragraph 4.32 with regard to the aggregation of identical and similar assets that form a portfolio?*

Since we consider the existing guidance in IAS 38 regarding the aggregation of identical or similar assets for mere practical reasons to be sufficient, we do not see any need for further guidance in this respect. If, however, the intention of the Discussion Paper is to provide guidance for aggregation in terms of defining the relevant unit of account, this Paper is not an appropriate place to address this topic. The determination of the relevant unit of account is not a valuation issue; it has to be raised within each relevant accounting standard.

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Intangible asset valuation methods

Q 2.17.1 Do you agree that these are the five most regularly used methods for valuing intangible assets?

In principle, we agree that the five methods named are the most regularly used methods. However, in the vast majority of cases intangible assets are valued using the income approach, which comprises the relief-from-royalty-method, the incremental cash-flow method and the multi-period excess earnings method. In our experience, the cost approach (e.g. software) and the market approach (e.g. taxi licenses) are seldom applied in practice.

As we agree with the structure of valuation approaches adopted by SFAS 157, i.e. market approach, income approach and cost approach, we also support retaining these established terms without amending the wording.

Q 2.17.2 Do you think that there are any other valuation methods that should be covered?

In addition to the valuation methods already addressed, we believe that the IVSC should consider addressing a real option based valuation approach that could be combined with the income approach. Such an approach would reflect the value of the flexibility that some intangible assets convey on their owner. Whereas an income approach in isolation may only measure the value of an asset as a 'now or never' transaction, combination of the income approach with a real option based approach would enable to reflect in the valuation the benefits which stem from the opportunity of the asset's owner to react in a favourable manner depending on the development of the particular environment.

Q 2.17.3 Do you think that the description of each method is sufficient or do you think that further details are required for any of the methods?

We agree that principles based descriptions of the relevant valuation approaches and underlying valuation methods are helpful. However, the level of detail provided in the Discussion Paper bears no correlation to the relevance of the respective methods in practice. The fact that almost the same space is devoted to the descriptions of each method appears to erroneously imply each of the methods is of similar relevance in practice.

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Q 2.17.4 Some simple examples regarding the intangible asset valuation methods are included. Do you consider that these examples are sufficient or do you think that more detailed examples should be included?

Examples are often helpful to illustrate the intention when provided with general and abstract guidance. However, in our opinion, the examples provided in the Discussion Paper largely tend to oversimplify the complexity of the underlying valuation procedures.

Q 2.17.5 Do you agree with the approach taken in this Paper with regard to the tax amortisation benefit, as set out in paragraphs 5.25-5.28?

We agree that the description of the tax amortisation benefit is helpful to understand its nature. However, for non-technical readers the structuring of the numeric example is likely to be more confusing than instructive. Furthermore, the methodology presented does not reflect the procedures currently performed in practice.

In addition, we are not sure whether the guidance for considering tax effects within the valuation is consistent, i.e. paragraph 4.29.2 (generally to be excluded) vs. paragraph 5.25 et seq. (usually to be considered).

Q 2.17.6 Section V includes an assessment of the possible ways in which reliability might be restricted for each of the valuation methods. Do you agree with this assessment? Do you think that any other factors should be included in this assessment?

We agree with the statement that each valuation method selected must be based on reliable and reasonable assumptions. In particular, we agree with the assessment relating to the market approach. However, we were unable to find the corresponding assessments in respect of the income approach and the cost approach. Furthermore, the assessment needs to encompass other factors, which are not addressed in the Discussion Paper (e.g. economic useful life).

Determination and benchmarking of valuation inputs

Q 2.19.1 Do you agree that each of these eight key valuation inputs should be addressed?

We agree, in principle, that the key valuation parameters have to be addressed. However, as the market approach is only applicable in very rare cases, any valuation inputs in this regard should only be cursorily addressed. We recommend any discussion of valuation inputs be linked as part of the description of the respective valuation approach/method.

In any case, we suggest the IVSC consider deleting the descriptions of the valuation multiples since, in essence, they only represent the reciprocal of discount rates.

Q 2.19.2 Do you think that any additional valuation inputs should be addressed?

As stated in paragraph 6.2 of the Discussion Paper it is not possible to provide an exhaustive list of all valuation inputs that may become relevant in practical valuation cases. Any consideration of additional valuation inputs is based on the facts and circumstances of the individual case and should not be addressed in the Discussion Paper.

Nevertheless, we propose some (separate) guidance concerning the appropriate determination of growth rates of income, cash flows or cost savings be included, as these factors may have a significant effect on the valuation results.

Q 2.19.3 Do you think that sufficient guidance is provided in respect of each of the eight valuation inputs?

The discussion highlights some key issues that need to be considered during the valuation procedure. It is crucial that users understand that the catalogue of valuation inputs depends on the valuation method selected. Furthermore, the discussion as presented could easily be misinterpreted as constituting an exhaustive list. Because the valuation inputs are discussed in detachment from the description of the valuation methods the guidance may be viewed by some as a kind of working list to be annotated in the course of every valuation.

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Q 2.19.4 *Do you think that there are any additional benchmarking processes that should be included?*

We refer to our responses to Q2.19.1-Q2.19.3. Since the question as to which benchmarking process might be appropriate to assess the suitability of valuation inputs usually has to be answered on a case-by-case basis anyway, we believe that no additional processes should be included.

Comparison of different approaches and proposed hierarchy for selection of valuation methods

Q 2.21.1 & *Do you agree with the approach regarding selection of appropriate methods that follows an assessment of the relative reliability of data available in respect of eight key valuation inputs as set out in paragraph 7.34 of this Paper?*
Q 2.21.2

We do not understand the rationale underlying the guidance provided in paragraph 7.34. We do not believe there is any justification that this approach is better suited to the valuation of intangible assets than the three level input hierarchy set out in SFAS 157.

As in the vast majority of cases an active market for the intangible asset to be valued will not exist, we cannot identify any benefit to be achieved in following the proposed approach. In our opinion it is illogical to view the sales comparison method as an equal alternative together with the two other methods at the second level of the Paper's approach (paragraph 7.34.2), since, if that same method cannot be applied at the first level, it would not normally be the next best method at the second level. In contrast, SFAS 157.32(b) obliges the valuer to disclose the (lowest) level of the fair value hierarchy attaching to the significant input data used for the determination of the respective fair value. This disclosure enables a (potential) investor or other stakeholder to identify the source of the input data and thus to form their own opinion as to the reliability of the presented values. In our opinion, the approach taken by SFAS 157 is more appropriate in the public interest.

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Q 2.21.3 *Do you agree that valuers should always seek to support the results from application of a primary valuation method with those obtainable from a secondary valuation method?*

If the input data needed to apply a secondary method are reliable, we believe that it should be considered. However, in our view this will often not be the case.

Q 2.21.4 *Do you agree with the proposal in paragraph 7.35 that whenever a valuation method is available without undue cost and effort that such method should be applied as either a primary or supporting valuation method?*

Whenever such an available valuation method is reliable, we totally agree that such a method should be applied.

Valuation process

Q 2.23.1 *In the light of guidance earlier in the Paper, do you think that additional guidance is required in Section VIII?*

The valuation process as outlined in Section VIII seems to be overly simplified. Furthermore, we believe that the selection of the valuation method should be predominately based on the appropriateness of the method rather than on the availability of input data.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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