

Globalview Advisors

Financial Valuation and Advisory Services

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June 17, 2016

Via email: mpf@appraisers.org

Mr. Richard Siladi
c/o American Society of Appraisers
11107 Sunset Hills Rd, Suite 310
Reston, VA 20190

Re: Proposed Mandatory Performance Framework Documents for Fair Value Quality Initiative

Comments from Globalview Advisors LLC

Dear Mr. Siladi:

The valuation professionals at Globalview Advisors LLC appreciate the efforts of the many individuals participating in the development of: 1) *Proposed Mandatory Performance Framework for the Fair Value Quality Initiative* (MPF Draft) and 2) *Proposed Application of the Mandatory Performance Framework for the Fair Value Quality Initiative* (MPF Application Draft). The preparation of these documents and the numerous other efforts pertaining to the Fair Value Quality Initiative (FVQI) are important endeavors in the continuing evolution of the valuation profession in the public interest. We believe the MPF Document and MPF Application Document meaningfully advance the quality of fair value estimates and that divergence in practice in developing valuations and the resulting valuation estimates will be reduced.

Globalview Advisors is pleased to provide comments on the MPF Draft and the MPF Application Draft.

General

While the MPF Draft and MPF Application Draft are the first major step in standardizing FV for public registrants, it does not address the broader need for professionalization of all practitioners, as it does not apply to those individuals not having a certification (e.g., management and non-credentialed practitioners). Other steps (mandatory certification for all individuals performing valuations) will be necessary before the industry achieves professional standing similar to accountants, lawyers, M.D.s (you cannot practice medicine unless you are an M.D. as an example).

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MPF Draft Responses to Specific Questions

1. *Are the objectives of the documentation guidance clearly stated?* Globalview Response – As noted on page 5 of the MPF Draft, the purpose of the MPF is to provide guidance on “how much” documentation is required. Separately on page 9 the MPF indicates “the primary goal of the MPF is to provide . . . how much work should be performed . . .” Revision of the MPF Draft to include a header indicating Objective(s) and/or Purpose would allow users to more easily identify the goals of the MPF. Clarification of the “how to” and “how much” would be helpful. Also, presenting these in bullets would be helpful.
2. *Are there any topics or subtopics that should be included that are not currently in the document?* Globalview Response – Further discussion on the valuation of liabilities may be in order. This could include the need to consider fair values of liabilities in an ASC 805 context. This could include the fair value of any assumed debt and existing supply contracts which might have contract rates that differ from market rates.
3. *Would illustrative examples be helpful in providing instructive guidance for the application of the MPF?* Globalview Response – Illustrative examples would be very helpful for valuation professionals to better comply with the MPF. While examples across all topics and subtopics are probably not feasible, selected examples in selected areas could be helpful. These areas could include areas that are frequently applied and divergence in practice is noted. Given the greater frequency of business and securities interest related valuations, examples in the business valuation area would seem to be preferred. Examples on the selection of pricing multiples to apply such as revenue, EBITDA and/or EBIT as well as the selection of specific multiples would seem to be one key area where an example(s) would be helpful.

Proposed Mandatory Performance Framework Draft Comments

1. *Page 4 – In the Performance Framework paragraph, we suggest deletion of the word “both”. The MPF discusses documentation requirements for supporting work paper files and reports in detail subsequently and notes potentially separate documentation requirements for reports and work paper files.*
2. *Page 4 – Consider adding “independence and” in front of “professional skepticism” to further clarify the requirement.*

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3. Page 4 – In the last paragraph suggest changing “non-membership organizations” to non-membership valuation organizations” to be consistent with the term in the glossary.
4. Page 9 – Suggest revision to delete the term “parameter”.
5. Page 9, 1.2 – Consider changing “disclosures” to “filings with”.
6. Page 9, 1.3 – Overall, the language in this section could be simplified to enhance comprehension. Consider changing “changing needs of clients” to “financial reporting requirements”.
7. Page 9, 1.3 – Consider deletion of “interrelated and interacting”.
8. Page 9, 1.3 – Consider changing “document sound decision making” to “document fair value estimates used in financial reporting”. This language could possibly be eliminated given prior suggestion on clarity.
9. Page 9, 1.3 – In the last sentence suggest changing “it” to “The MPF”.
10. Page 9, 1.5 – Should the sentence be revised to indicate “Valuation professionals that hold the fair value credential”? (We note that Valuation Professional is defined as such in the Performance Framework Glossary but this is at the very end of the document rather than in a more prominent position.)
11. Page 10, 1.8.2 – Should “minimal” be changed to “insufficient”?
12. Page 12, 1.12 – To avoid any confusion, may want to note that written includes either hard copy or electronic deliverables (although included in the glossary, the definition of what written constitutes is not easily located). May want to note this at an appropriate point for global use throughout the document.
13. Page 13, 2.4 – May wish to change “a conclusion of value or a range of values” to “a valuation conclusion”.
14. Page 13, 2.5 – Rather than “planned, performed and reviewed” why not simply “completed”. Also, the term “reviewed” is somewhat ambiguous, some may think review pertains to the valuation firm’s review, while others may think of this as the auditors review.
15. Page 15, 2.10.2 – Consider replacing “commonly used” to “potentially relevant”.

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Page 4

16. *Page 15, 2.11.3* – Consider replacing “misunderstood” with “erroneous”.
17. *Page 15, 2.11.5* – Delete word “to”.
18. *Page 16, 2.12.2* – Add “.” at end of sentence.
19. *Page 16, 2.13* – While “Subject interest expertise” could be shortened to simply “expertise” leaving subject interest in will help remind people that expertise in a specific industry and type of subject interest appraisal are important considerations.
20. *Page 17, 2.15* – Is it necessary to indicate that each person has complied with the MPF? Shouldn't the engagement and work paper files overall comply with the MPF?
21. *Page 17, 2.18* – May want to provide further discussion, explanation and examples on consideration and implementation of professional skepticism.
22. *Page 18, 2.20* – Consider changing “must include” to “must reflect”.
23. *Page 20, 2.21.3* – As it is possible that some fair value credential holders may not have significant experience in intangible asset valuations, suggest changing the word “mortality” to pricing multiple development or discount rate development or another more common business valuation related procedure. This suggestion would also relate to the reference to “not including or considering certain assets that may exist”. Could change the example to explain why a guideline transaction method was not employed or another BV specific example.
24. *Page 21, 2.21.10* – In many cases, the appraiser may not know the intangible assets that will ultimately be appraised until the engagement is under way. Might consider changing “intangible assets that will be valued” to “potential intangible assets that will be valued”.
25. *Page 22, 2.22.2* – May want to expand discussion to include Limiting Conditions and Assumptions that govern the valuation analysis and conclusion of value in addition to the Terms and Conditions which govern the overall valuation engagement.
26. *Page 22, 2.23(vi)* – Consider changing “impressions formed” to “observations”. If “impressions formed” is left in, may want to clarify the rationale for this.

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27. *Page 23, 2.24 and 2.25* – Paragraph 24 refers to work file and paragraph 25 refers to work papers. May want to use consistent terms. Also, further discussion on how an overall work file is assembled may be appropriate. This could be important as some materials may be hard copy while others are electronic in nature.
28. *Page 23, 2, 27.1* – Suggest changing “Client information” to “Client identification”.
29. *Page 23, 2.27.2* – Suggest adding language to refer to a specific ASC section such as 350, 360, 718 or 805.
30. *Page 25, 2.27.12* – Consistent with an earlier suggestion, inclusion of a more frequently observed BV related concern rather than an inventory valuation example may be more informative to readers.
31. *Page 26, 2.27.15* – May wish to add “enterprise resource planning” in front of ERP systems for clarity.
32. *Page 26, 2.27.16(i)* – Consider changing “dollar amount or proportional” to “dollar amount and/or proportional”.
33. *Page 26, 2.27.17* – May wish to define/describe what a “significant assumption” represents.
34. *Page 26, 2.27.17* – In many or most cases, all of the significant assumptions and estimates would either be developed by an individual or the responsibility of a single reviewing individual (or committee in some cases). As written, this paragraph suggests that each item would require each significant assumption be tied to a person, persons or firm. To reduce any burdens, suggest revision to reflect any assumptions that are not the responsibility of the primary preparer be sourced.
35. *Page 26, 2.27.17* – May wish to clarify point d – “how it supports the conclusion of value”.
36. *Page 28* – Under Calculation Engagement may wish to replace “minimal or no professional judgment” to “reduced professional judgment”. As a point of clarification, wouldn’t a calculation potentially include professional judgment but a specific area for judgment has been provided by the client, hence, the engagement becomes a “calculation engagement”? (Alternatively, this might possibly be viewed as a “hypothetical appraisal”.)

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37. *Page 28* – Under Comprehensive Valuation Report, “understanding of engagement’s” should be “understanding of the engagement’s”.
38. *Page 29* – Under Evidential Skepticism, this could possibly be expanded to refer to third party prepared material whether provided by Management or obtained directly through the efforts of the appraiser. An example might include an overly optimistic or pessimistic securities analyst opinion regarding an industry or firm.
39. *Page 29* – Under Mandatory Performance Framework, consider elimination of “interrelated and interacting”.
40. *Page 29* – Under Professional Judgment, consider revising “making appropriate decisions” to “making reasonable decisions”.
41. *Page 30* – Under Self Skepticism, consider changing “client-based presuppositions” to simply “presuppositions”. Alternatively could change to “client-based and other presuppositions”.
42. *Page 30* – Under Technical Standards, consider reordering list of items to present application of methods and techniques first followed by considering appropriate input factors followed by disclosure guidelines.
43. *Page 30* – Under Work File, the term engagement file is not defined. May wish to add a definition of engagement file to the glossary or otherwise clarify this term with work file, work papers and any other related terms.
44. *Page 32* – In the paragraph that describes the audit standards, suggest inclusion of a reference that these are auditing standards developed by the Public Company Accounting Oversight Board (PCAOB).

Proposed Application of Mandatory Performance Framework Draft Comments

45. *Page 10, A1.2.1* – Consider clarification of “management’s assessment of fair value at the initial transaction”. Overall the intent of this paragraph is not clear – expansion of language is suggested.
46. *Page 10, A1.2.1* – Consider adding further discussion to clarify the reference to “calibrated inputs”.
47. *Page 10, A1.2.2* – “. . . based on market participant . . .” seems to be missing some words.

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48. *Page 11, A1.2.3.* – Expanded language and/or an example might help clarify.
49. *Page 11, A.1.2.4* – Suggest inclusion of a sentence that defines calibration.
50. *Page 11, A1.2.4* – The quote from ASC 820-10-35-24C contains quite a bit of information. It might make sense to shorten the extract, paraphrase key elements or break out specific elements for individual discussion.
51. *Page 11, A.1.2.5 (iv)* – Most business, security and intangible asset valuations are level 3 estimates. Consider clarification of purpose for this point.
52. *Page 11, A.1.2.5* – Examples to clarify the rationale for items i. through v would be helpful to readers. As noted previously, Section A1.2 is somewhat hard to follow.
53. *Page 12, A1.3.2* – Suggest changing Guideline Company Method to Guideline Public Company Method. This is consistent with terminology included in the IGBVT.
54. *Page 12, A1.3.2* – Suggest inclusion of the Prior Transactions Method. This method would involve prior transactions in the securities of the subject entity.
55. *Page 12, A1.3.2* – Suggest elimination of the Direct Sales Comparison Method. From a business valuation perspective, this would seem to map most directly to the Guideline Transaction Method. Also, DSCM is not included as a term in the IGBVT.
56. *Page 13* – Suggest revision of Replacement Cost Method to Depreciated Replacement Cost Method. Inclusion of the term depreciated may reduce risk of appraisers not considering obsolescence in their valuation calculations.
57. *Page 13, A1.3.3* – Suggest deletion of “good reason why they would be significantly different”. Value is based on market participant expectations of future cash flows and a related market required rate of return. As the expectations and risk will not vary between the different approaches / methods, any significant differences would presumably related to adjustments to the valuation metrics that are inconsistent for the different approaches / methods. While modest differences in value indications are to be expected, large differences would relate to difficulties and resulting inconsistencies in appropriately adjusting data.
58. *Page 13, A1.3.4 (i)* – Add “the” in front of “process”.

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59. *Page 13, A1.3.4 (i)* – Suggest replacing “common” with “potentially relevant”.
60. *Page 13, A1.3.4 (iii) (b)* – Suggest replacing “probative” with “reliable”.
61. *Page 15, A1.4.4* – Suggest adding “market participant” in front of “expected cash flows” in the last sentence. (May wish to add a parenthetical to note that certain items such as cash flows for contingent consideration valuations may reflect buyer specific amounts.)
62. *Page 15, A1.4.5* – It would be helpful to add “(book and tax)” after annual depreciation and amortization. This could help appraisers recognize the important differences in these amounts on future cash flows.
63. *Page 16, A1.4.6* – Under fifth bullet suggest adding “information and” after the word “historical” in the first sentence.
64. *Page 17* – In the first bullet (continuing from prior page) add the word “is” in between “but not”.
65. *Page 18* – Bullet ix notes components of the prospective balance sheet. It isn’t clear if this relates to projections or another context. In the case of projections, many early stage development firms may not develop prospective balance sheets. Suggest this bullet be modified and the term “if available” be added in front of “components of prospective balance sheets”.
66. *Page 19, A2.1.1* – Suggest changing “Comparable Company Transactions” to “Guideline Transactions”.
67. *Page 19, A2.1.1* – Suggest addition of “Application and Estimation of” in front of “Discounts and Premiums”.
68. *Page 19, A2.2.2* – Under point i suggest change to “selection of a discount rate model or models”.
69. *Page 19, A2.2.2* – Under point iv suggest addition of “(or other industry risk adjustment)” after the word “companies”.
70. *Page 20* – Under point viii there is a “)” after the word adjustment that should be deleted.

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71. *Page 21* – Add a “.” at the end of the sentence under point d.
72. *Page 22, A2.4.2 (e)* – Suggest adding language to note that a terminal multiple based on guideline public companies or guideline transactions should reflect an adjustment for differences in expected growth rates between the date for the multiple and the date for the terminal calculation.
73. *Page 23, A2.5.3 (ii)* – The word “be” should be added after “not”.
74. *Page 23, A2.5.3 (ii)* – “. . . *how it*” should be added after “how they”.
75. *Page 23, A2.6* – Suggest replacing “Comparable Company Transactions” with “Guideline Transactions” at several points.
76. *Page 23, A2.6.2* – Suggest replacement of “comparable information” with “meaningful information”. Also, suggest replacement of “similar” with guideline and “comparable/comparative” with guideline. Suggest similar changes at A2.6.3.
77. *Page 24* – Suggest replacement of Guideline Company Transaction Method with Guideline Transaction Method.
78. *Page 26, A3.1* – Suggest replacement of “core” with “essential”.
79. *Page 28, A3.3.1* – Suggest adding Federal Communication Commission in front of “FCC”.
80. *Page 28, A3.3.3* – Suggest rewriting the sentence to eliminate “tempered”.
81. *Page 28, A3.3.3* – Suggest inclusion of a reference to tax amortization benefit at the end of this paragraph.
82. *Page 28, A3.3.4* – Suggest minor expansions to clarify the Greenfield Method description.
83. *Page 30, A3.4.4* – While we agree that appraisers should not make accounting estimates, we believe that suitably informed appraisers may be able to provide assistance in the process of determining an amortization pattern and life. There is limited guidance in this area and intangible appraisers may have familiarity with the limited guidance. A modest expansion of the paragraph to note the above may be helpful. Also, consider revising “determining the economic life of the

- subject interest is management's responsibility" to "determining the amortization pattern and life of the subject interest is management's responsibility".
84. *Page 31, A.3.5.2* – Might consider adding a note that attrition should reflect a market participant assumption. Many buyers may have an expectation of different (frequently lower) attrition rates than those observed historically from the target entity. Given the limited availability of detailed attrition information from other market participants, this may be the attrition expectations of the buyer if viewed as consistent with other market participants.
 85. *Page 31, A3.5.2* – May wish to note that buyer's attrition estimates can also be considered and compared to subject, industry and competitor information.
 86. *Page 31, A3.5.2* – Suggest elimination of word "surrogate".
 87. *Page 32, A3.5.3(i)* – Suggest addition of word expected in front of "future attrition"
 88. *Page 32, A3.5.3 (i)* – Suggest deletion of "applied to the attrition analysis".
 89. *Page 32, A3.5.3* – Might wish to expand documentation to include consideration of whether customers should be stratified into possible smaller groupings
 90. *Page 32, A3.6.1* – Presumably the "rules-of-thumb rates" reference relates to the "Profit Split Method". Suggest expansion to include specific reference to the PSM and that this could be considered a rule-of-thumb. If a profit split that differs from the 25 to 33 percent shares included in the "traditional" rule-of-thumb, conceptually, the PSM might not be considered a RoT.
 91. *Page 33, A3.7.3* – For the very last bullet suggest changing "projected" to "projection".
 92. *Page 36* – Suggest brief expansion of discussion of "interaction with the WARA analyses" either in bullet iv or previously in this section.
 93. *Page 36 A.3.9.1* – Immediately after this section, the word "reconciliation" should have an initial cap.
 94. *Page 36, A3.9.1* – May wish to expand discussion slightly to explain why the reconciliation of individual asset values with the business enterprise and what should be noted / documented.

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95. *Page 37* – For the paragraph beginning with “Important” suggest adding “including the WACC and asset specific discount rates” could be added immediately after “estimated returns”.
96. *Page 37, A3.9.3 (v)* – Suggest deletion of “compelling commentary” and replacement with “explanation”.
97. *Page 38, A3.10.1* – Suggest changing “all assets” to “net assets”. Conceptually, WARA’s are typically based on net assets rather than total assets.
98. *Page 38, 3.10.2* – For the fourth bullet suggest adding the word “individual” in front of “intangible assets”.
99. *Page 38, A3.10.2* – Suggest deletion of the suggestion that the return on workforce is typically equal to the WACC.
100. *Page 39, A3.10.3* – Suggest adding “from amortization of the stepped-up tax basis of acquired assets” after “tax benefits”.
101. *Page 39, A3.10.4 (iv)* – Suggest replacing “under” with “in the event of”.
102. *Page 40, A3.11* – May wish to further clarify the definition of “contract liabilities”. This seems to solely refer to deferred revenue. Our experience suggests different terms for deferred revenue including unearned revenue among others. Suggest inclusion of these alternative terms for clarity. It would seem that contract liabilities could include unfavorable facility or other leases with contract terms that exceed market rates as well. Should this be discussed and clarified?
103. *Page 41, A3.12* – May wish to expand discussion briefly to note different types of inventory including raw materials, work-in-process and finished goods and valuation methods for each.

Thank you for the opportunity to provide these comments.

Sincerely,
GLOBALVIEW ADVISORS LLC



Raymond Rath, ASA, CFA
Managing Director