

April 27, 2020

[Via email: jrussell@appraisers.org](mailto:jrussell@appraisers.org)
schoi@rics.org

Mr. John Russell
American Society of Appraisers

Mr. Steve Choi
Royal Institute of Chartered Surveyors

Re: Consultation questions – Consideration of performance requirements for machinery and equipment valuations for financial reporting
Comments from Globalview Advisors LLC

Dear Messrs. Russell and Choi:

The valuation professionals at Globalview Advisors LLC (“GVA”) appreciate the efforts of the American Society of Appraisers (“ASA”) and Royal Institute of Chartered Surveyors (“RICS”) and their staff and others participating in the development of the document “Consultation questions – Consideration of performance requirements for machinery and equipment valuations for financial reporting” dated February 27, 2020 (“MPF Consultation Questions”).

Consultation Questions

Globalview Advisors is pleased to provide responses to the questions included in the MPF Consultation Questions.

1. As the MPF continues to be applied in practice for valuations of entities and intangible assets to US GAAP reporting entities and international SEC filers, do you believe it would be helpful for ASA and RICS to develop, with input from the broader valuation and user community, an MPF designed for machinery and equipment assets and their valuation for financial reporting purposes? Why or why not?

GVA – Yes, an MPF covering machinery and equipment would reduce divergence in practice and enhance the quality of valuations. Consistent with developments impacting the quality of business, security, intangible asset, liability and financial instruments valuations, the development of performance standards for machinery and equipment will further advance the valuation profession.

2. If you believe an MPF would be helpful, and given the information provided previously about how an MPF works, which persistent or general financial reporting issues do you feel are most critical to be addressed in an MPF to reduce variations/inconsistencies in

April 27, 2020

Page 2

auditors' requirements? If you wish to provide examples illustrating why a topic is important, feel free to do so. We would ask that specific recommendations about how they should be addressed be left for a formal development process.

GVA – An MPF would provide greater awareness of challenging issues associated with fixed asset valuations. This increased awareness would lead to enhanced disclosure and documentation of procedures associated with these areas of concern. A few of these include:

- a. Appropriate valuation premise – when to use value in use vs. value in exchange as the premise of value.
- b. Obsolescence – There is divergence in practice in the measurement of obsolescence from physical, functional and/or economic sources.
- c. Unit of account – The term unit of account represents the level at which an asset or a liability is aggregated or disaggregated for reporting purposes. Determination of the unit of account in situations such as process plants, assembly lines and other similar situations can be challenging.

3. Conversely, are there topics you believe do not need to be addressed by an MPF? This may be for myriad reasons: you may feel they are adequately dealt with currently; they may fall more into a question of standards (e.g. USPAP, IVS or Red Book); they may fall into the area of general knowledge (e.g. something currently taught through ASA's Principles of Valuation courses or promulgated through adherence to the RICS Valuer Registration program).

GVA – We believe the primary focus of an MPF should be on developing appropriate standards for the performance of a valuation assignment and the appropriate documentation of the valuation process and results. The MPF for business valuation includes significant guidance on engagement related matters. While this information is useful, performance and documentation issues are of the greatest concern and should be the focus of an MPF for machinery and equipment.

4. How important is it that the proposed machinery and equipment MPF tracks closely to the existing MPF for business valuation and intangible assets? Why or why not?

GVA – The BV MPF consists of two documents, the "Mandatory Performance Framework" and the "Application of Mandatory Performance Framework" ("AMPF") documents. A similar structure would be appropriate. The technical valuation issues in a possible AMPF document for M&E would differ significantly from those developed for BV.

5. While the present consultation deals with the question of an MPF for financial reporting, are there other applications where an MPF could be helpful to practitioners,

April 27, 2020

Page 3

users or other parties who rely on valuations in specific contexts? If so, please discuss additional possible uses and, if different from above, topics that would and would not be appropriate to address in these additional applications.

GVA – Appraisals of machinery and equipment are regularly used for lending purposes and for property tax assessments. An MPF document for M&E could substantially enhance the performance and documentation of these valuations. Improved valuations in both areas would reduce risk at lending institutions and help insure more equitable property assessments.

6. Are there potential unintended consequences – good or bad – from the adoption of an MPF dealing with machinery and equipment for financial reporting purposes? What steps, if any, could be taken to avoid these unintended consequences? Do you believe that any unintended consequence has the potential to undermine the intended effects of an MPF?

GVA – We do not believe there would be significant unintended consequences associated with a possible MPF for M&E. Appraisers that adhere to the MPF incur additional time and effort in preparing appraisals. This added time may lower the profitability of firms that choose to comply with the MPF if they are not able to pass the costs along to other clients. Higher fees could also result in reduced project flows to firms that choose to comply with an MPF.

7. Is there any additional guidance needed for machinery and equipment valuations over and above the existing standards/best practice documents? If so, please specify with as much detail as possible.

GVA – The market for machinery and equipment valuation services is relatively small when compared to the size of the business valuation market. Given the modest size, there is limited published guidance on machinery and equipment valuation. The ASA has published several textbooks and offers a variety of courses as well as conference and webinar presentations addressing M&E valuation topics of interest.

8. At this time, we are not contemplating a specialist designation like the business valuation CEIV credential for professionals performing valuations of machinery and equipment assets. However, do you think a credential like CEIV in respect of machinery and equipment valuations, which would require certain credential maintenance requirements such as continuing experience and education, would benefit the public (for example, users of valuations, auditors and regulators)?

April 27, 2020

Page 4

GVA – Conceptually, granting a credential would have merit. Given the modest size of the M&E valuation market, the costs of developing and maintaining a credential should be weighed against the possible market size which we believe to be small.

9. We would appreciate, where possible, answers to the following self-reporting questions so we can assess representation by a range of stakeholders in this consultation. We will accept your comments without these responses; however, we wish to ensure feedback across a wide range of participants. Please tell us:

a. your current position, either within the valuation profession, as a user of valuation services or some other related stakeholder group

GVA – Globalview Advisors is a valuation firm with a focus on business, security, intangible asset and financial instrument valuations. The primary author of this document is accredited in Appraiser Review and Management and has presented at machinery and equipment conferences on topics where business valuation and fixed asset valuation overlap.

b. how long you have served in your current position, and how long you have worked in or around the valuation profession (including as a user of valuation services)

GVA – Most of the individual valuation professionals at Globalview Advisors each have at least several decades of experience. Our most junior staff person has in excess of five years of valuation experience.

c. any professional designations you may have, regardless of whether they directly apply to valuation (such as an ASA or MRICS)

GVA – Globalview professionals hold ASA, CEIV, CFA, CVA and other valuation and technical designations relevant to the business valuation profession.

d. the approximate percentage of your machinery and equipment work that relates to the reporting or review of values for financial statements and

GVA – We perform and review a limited volume of machinery and equipment valuation work. Substantially all this work is for financial reporting purposes.

e. the size of your current employer (or if you are self-employed, the number of additional professionals you may contract with or refer to as needed).

GVA – Globalview Advisors employs approximately 20 professionals.

April 27, 2020

Page 5

10. Development of an MPF, while supported by the ASA and RICS, requires a substantial amount of volunteer support from the practitioner community. Would you be interested in contributing to the development of an MPF? If so, please discuss the specific aspects of an MPF you feel most equipped to contribute to. We would also appreciate input as to other key stakeholders you believe the MPF development team could include or consult with as part of the process (e.g. auditors). (The selection of working group members will be based on the thoughtfulness of the responses received.)

GVA – We would be pleased to respond to any inquiries by members of a possible MPF for ME task force. As our valuation professionals are primarily focused on businesses, securities, intangible assets and financial instruments, we believe others could better serve as task force members.

Thank you for the opportunity to provide these comments.

Sincerely,

GLOBALVIEW ADVISORS LLC



Raymond Rath, ASA, CEIV, CFA
Managing Director