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Mr. Mark O. Smith, Lead Technical Manager – Forensic and Valuation Services
American Institute of Certified Public Accountants
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Re: Proposed Mandatory Performance Framework for the Fair Value Quality Initiative and Proposed Application

Dear Mr. Smith:

The Business Valuation Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the Proposed Mandatory Performance Framework for the Fair Value Quality Initiative (Framework ED) and the accompanying Proposed Application (Application ED). The PICPA is a professional association of more than 22,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes CPAs in public accounting, education, and industry. The committee is composed of practitioners from both regional and small public accounting firms. The committee developed the following points of consensus.

1. The Pennsylvania valuation community involved in fair value measurement reporting of public companies strongly supports the concept of coordination among various valuation professional organizations to develop guidance for documenting compliance with fair value reporting standards, as set forth in the two exposure drafts (ED). The documentation guidance expressed in the two exposure documents is generally appropriate for large fair value assignments for public reporting companies, and will likely become the de facto standards for all fair value reporting engagements. Accordingly, we suggest a tiered approach to some of the documentation requirements, based upon the size of the acquisition. The proposed ED guidance (subject to our comments below) appear reasonable for fair value engagements of a billion dollar acquisition, but may be cost prohibitive and overly burdensome for smaller public companies or for an acquisition of a target at the $100 million level. Accordingly, we suggest additional language that makes clear that less extensive documentation and auditability of fair value measurement requirements would be appropriate in smaller engagements.

2. We believe that the objectives of the documentation guidance are clearly stated in the Framework ED and the Application ED.

3. We believe that illustrative examples of documentation wording and explanations would be helpful.
4. Regarding section 2.8, page 14, of the Framework ED, we suggest adding language to make clear that links to websites would satisfy the source document requirement.

5. Regarding section 2.8, paragraph two, page 14, of the Framework ED, we strongly encourage removing the requirement of retention of contrary valuation indications as it relates to preparers of fair value statements. This requirement is overreaching if applied to any information considered, but not relied upon. As an example, if a valuation analyst considered 40 companies as potential peers, and rejected 20, documenting the reasons why each of the 20 was rejected serves no meaningful purpose and would dramatically increase the cost of the engagement without adding any benefit to the registrant. This requirement, if retained, should only apply to auditors.

6. Regarding section 2.12.2, page 16, of the Framework ED, we strongly encourage removing the requirement of prior specific industry experience before accepting an engagement. Nowhere in the canon of auditing guidance, in a non-fair-value setting, is there a comparable principle. We question how any valuation professionals, working for a preparer, prior to accepting an engagement, can possibly anticipate “a problem to be addressed.” Accordingly, we encourage the deletion of that language. Technology is changing frequently and innovation is accelerating. If a valuation analyst has experience valuing an assembled workforce, and Uber acquires a group of Uber-type drivers from a competitor, but the analyst has no specific taxi experience, is the analyst unqualified strictly as a result of a lack of specific industry experience? We submit that the analyst is qualified, and encourage removal of this section.

   a. Further, if you hire a credentialed valuation specialist, understanding the nuances of a specific industry is something a valuation specialist would investigate and research before doing the assignment.

7. Regarding sections 2.14 and 2.15, pages 16 and 17, of the Framework ED, we suggest removing the requirement that written notice and written approval from the client should be obtained if the fair value specialist hire a subcontractor at least to the extent it relates to subcontracting with specialized individuals who can assist the fair value specialist with an appropriate specific expertise, such as Monte Carlo simulations, derivatives, etc.

   a. Further, we strongly encourage removing the requirement that a confirmation be obtained from each person hired as a subcontractor that they have complied with the MPF. Such subcontractors may specialize solely in a specific value analysis, such as Monte Carlo simulations, and do not prepare valuations for fair value reporting and, as such, would not be required to be familiar with, or comply with, the MPF.

8. We suggest section 2.18 be removed, as section 2.15 requires documenting each analyst’s compliance with meeting the MPF requirement, which includes professional skepticism. It is unclear how one documents professional skepticism, as it is fundamentally a state of mind.
Certified fraud examiners are not permitted to opine on intent, and we think documenting professional skepticism ought to follow that corollary. There is no requirement to document in work papers ethical behavior, honesty, and integrity; all equally important hallmarks of our profession.

9. Regarding section 2.20.3, page 19, of the Framework ED, we strongly encourage removing the requirement of evaluation of work product as it relates to other preparers of fair value statements. Valuation analysts, assisting preparers of fair value statements, relying on equipment appraisers, are not in a position to evaluate conclusions reached by other experts, nor should they be required to.

10. Regarding section 2.23, page 24, of the Framework ED, we strongly encourage removing the requirement of site visits as it relates to intangible asset fair value statements. There is nothing meaningful to be observed in connection with most intangible asset engagements, so those site visits would be unnecessary and therefore cost burdensome.

11. Regarding section 2.27.17, page 26, of the Framework ED, we strongly encourage removing this requirement as it relates to fair value specialists of intangible assets, but retaining it for auditors.

12. Regarding section 2.27.21, page 27, second paragraph of the Framework ED, we suggest making this section more consistent with Section 2.15. If the valuation report issuer uses the results of a specialized real estate appraiser or a machinery and equipment appraiser and does not assume full responsibility for their specific expert findings (since fair value specialists are not experts in areas other than fair value intangibles, which is why the real estate or machinery and equipment appraiser was hired), we do not understand why the representation or certification should only be signed by those taking full responsibility for the subcontract’s report?

13. Regarding section A1.3.3, page 13, of the Application ED, we strongly encourage changing the requirement for two market methods of evaluation to one market method, or changing many to some in the opening sentence.

14. Regarding section A1.4.2, page 14, of the Application ED, we strongly encourage removing the requirement for multiple PFI estimates, as it relates to preparers of fair value statements, on smaller engagements. Preparing probability-weighted scenarios of management’s PFI would be cost burdensome.

15. Regarding section A2.2.2, section vii, page 20, of the Application ED, we strongly encourage removing the requirement for quantitative support for a company-specific risk adjustment, as we believe that well documented qualitative support should be sufficient. Ultimately, judgment is involved in any company-specific risk adjustment, and using a numerical number to weight the risks is still subjective.
16. Regarding section A2.5.3, page 23, of the Application ED, we strongly encourage removing the requirement for quantitative support for a company-specific risk adjustment, as we believe that well documented qualitative support should be sufficient. Ultimately, judgment is involved in any company-specific risk adjustment and using a numerical number to weight the risks is still subjective.

17. Regarding section A3.9.3, page 37, of the Application ED, we strongly suggest that a level of an accepted difference when reconciling a WARA and a WACC be noted. For example, differences no greater than/no less than 1.0 percent.

In summary, the proposal to the question “how much” is a little too much, in some limited circumstances. We would be remiss if we failed to acknowledge the multitude of fair value guidance contained in the exposure documents with which we agree. We recognize the vast efforts of those involved in the process of moving the valuation profession forward, and we applaud their hard work. We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Respectfully submitted,

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Pennsylvania Institute of Certified Public Accountants

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