

ASA Advanced Business Conference

Raising the Bar for the Valuation Profession

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Ernst & Young LLP

Board of Trustees, The Appraisal Foundation

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Agenda

- Challenges facing the valuation profession
- The regulatory environment
- Organizational landscape
- The International Valuation Standards Council
- The Appraisal Foundation
- The way forward



Challenges Facing the Valuation Profession

- The crisis of 2008/09 shined the spotlight on appraisers
- Banking, real estate and other sectors experienced material losses. Appraisal issues were viewed as part of the problem
- Accounting standards setters and regulators raised concerns regarding inconsistent application and review of valuations
- Appraisals/Valuations performed for Collateral, Taxation, Litigation and other purposes also face challenges regarding standards, qualifications/training and oversight

Regulators Continue to Weigh In: Comments from the SEC Illustrate the Concern (from Dec 2011)

- *“The broadening application of fair value ...and the 2008 financial crisis have cast the spotlight on valuation professionals. At last count, valuation professionals in the US can choose among five business valuation credentials available from four different organizations, each with its own set of criteria for attainment..... Risks created by the differences in valuation credentials that exist today range from the seemingly innocuous concerns of market confusionto the more overt concerns of objectivity of the valuator and analytical inconsistency.*

Comments from the SEC Illustrate the Concern (continued)

- *“One potential solution to consider is whether there should be, similar to other professions, a single set of qualifications with respect to education level and work experience, a continuing education curriculum, standards of practice and ethics, and a code of conduct. One could also contemplate whether a comprehensive inspection program and a fair disciplinary mechanism should be established to encourage proper behavior and enforce the rules of the profession in the public interest.”*

Board of Trustees – Chairman Elect

On 26 September it was announced that the Trustees had nominated a new Chairman elect.

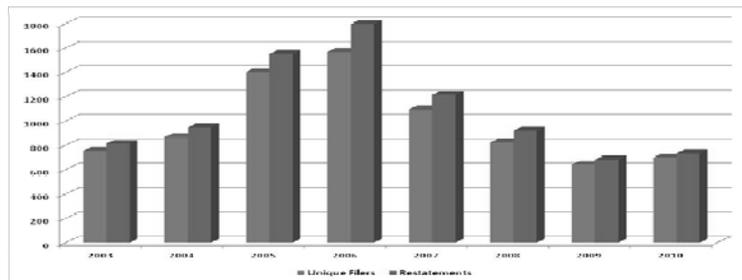
Sir David Tweedie

Former Chair of the International Accounting Standards Board

Assumes role after AGM on 27 October.



Restatements of Public Companies in the US



- Over 50% of restatements in certain years may have involved FV measurements
- Nearly one-third of Goodwill written off in 2008/09 (over \$700B)
- Regulatory reviews: greater focus on audit evidence supporting FV measurements

SEC Comment Letters: Sample questions/requests

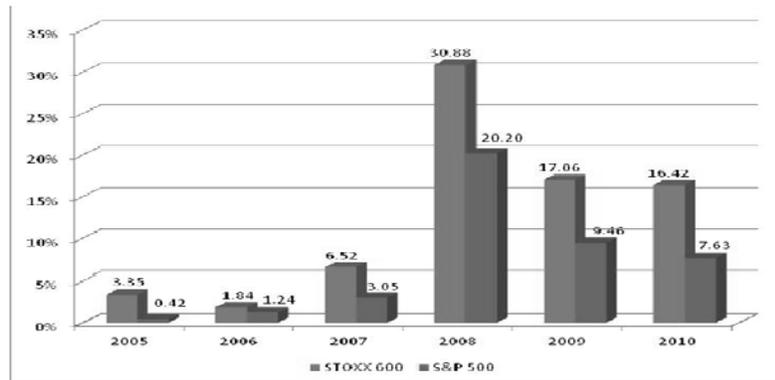
- Reconcile reporting unit values with market capitalization
- Provide examples of market comparables and multiples used
- Explain changes in valuation methodology from prior years
- Reconcile differences in value between income and market approach value indications
- Did you engage an independent valuation firm?
 - Rationale for weighting applied to each valuation method
 - Support key assumptions and provide a sensitivity analysis

PCAOB 2009/10 Inspection Reports: Fair Value Deficiencies

Breakdown of Deficiencies by Topic Area in 2009:	
Financial Instruments	11
Goodwill and Intangible Asset Impairment	8
Long-Lived Asset Impairment Analysis	3
Inventory Valuation	2
Other	2
Total	26

- Inspection of the Big 4 in 2009 resulted in 37 audits containing a “deficiency”
- Of these, 26 (70%) involved fair value measurements
- 54/77 in 2010 = 70%
- Foreign regulators increasingly in contact with the PCAOB

Percentage of Public Companies with MV<BV Europe versus the U.S.



The Regulatory Environment

- Appraisals are being scrutinized more than ever
- Requirements expanding for valuation measurements to comply with accounting standards
- Greater oversight of financial institutions triggers valuations of financial instruments and impacts capital requirements
- Real estate, hedge, venture, and private equity funds require more independent valuations or valuation reviews of their assets/investees (some as often as quarterly)
- Pension Plans may require at least annual valuations of their alternative investments

Organizational Landscape Valuation Professional Organizations (“VPOs”)

- Business Valuation:
 - AICPA/ABV
 - ASA
 - CICBV (Canada)
 - IIBV (JV between ASA-BV and CICBV)
 - NACVA/IBA/IACVA
 - RICS
- Real Estate Appraisal:
 - ASFMRA
 - NAIFA
 - RICS
 - The Appraisal Institute
- Personal Property/Gems and Jewelry/Machinery and Equipment:
 - AAA
 - ASA
 - GIA
 - ISA
 - RICS
- Non (Individual) Member Standard Setters and Qualification/Technical Guidance Issuers:
 - IVSC
 - TAF

Valuation Professional Organizations Standards, Qualifications, Oversight

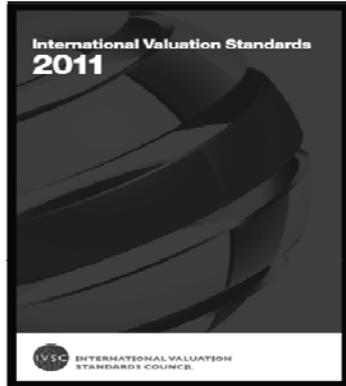
- **Standards:** Vary by organization and by level of detail. Codes of Ethics and Standards of Professional Conduct are often included. USPAP (TAF) and IVS (IVSC) are accepted/endorsed by some organizations.
- **Qualifications:** Education, training, experience and continuing education requirements vary.
- **Oversight:** Most organizations are “reactive” (i.e. investigations performed in response to a complaint). Some are “proactive”, (i.e. may require periodic VPO inspection activity)

Convergence in the World of Standard Setting

As standards and Best Practices converge, diversity decreases, resulting in greater consistency of appraisals

- Continuing dialogue on convergence between the IVSC, TAF, the ASA, the AICPA, the CFA Institute (i.e., GIPS), IPEV, RICS and others
- Strong relationships between appraisers and the IASB and FASB resulting in collaboration on fair value guidance
- Regular dialogue with securities and exchange regulators (e.g. IOSCO and the SEC)
- CFA and IVSC are members of G20 Private Sector Task Force on Regulatory Convergence in Financial Professions and Industries

The International Valuation Standards Council



- Develops high quality international standards and supports their adoption and use;
- Facilitates collaboration and cooperation among member organizations; and
- Serves as the international voice for the valuation profession

Hard copy may be purchased from www.ivsc.org

Online subscription service coming soon

Current IVSC Standards Board Projects

- Valuation Uncertainty
- Extractive Industries
- Forestry
- Liabilities
- Investment Property
- Trade Related Property
- Valuer's use of Information
- Valuation of Derivatives

Current IVSC Professional Board Projects

- Code of Ethical Principles for Professional Valuers
- Guidance for Valuers on Audit process
- Guidelines on Fairness Opinions
- Competency Framework for Professional Valuers

The Appraisal Foundation History

- The Savings & Loan crisis of the 1980s led to the creation of The Appraisal Foundation (TAF)
- In 1986, the Ad Hoc Committee on the Uniform Standards of Professional Appraisal Practice (USPAP) was formed by nine leading valuation professional organizations from the US and Canada
- TAF was established in 1987 to implement USPAP which was adopted in 1989
- FIRREA was enacted by Congress in 1989 mandating state licensing of real estate appraisers
- TAF has a Valuations in Financial Reporting™ (“VFR”) Task Force with four working groups: Contributory Assets (Valuation Advisory #1 issued May, 2010), Customer-Related Intangible Assets (Discussion Draft issued June, 2012), Control Premiums in Financial Reporting and Contingent Consideration

The Appraisal Foundation Evolution to Today

- USPAP has always covered all three major disciplines of valuation/appraisal (real property, personal property, businesses/intangibles)
- TAF hosted a roundtable in May focused on Business Valuation, Intangibles and Financial Instruments in response to topics raised in speeches by SEC staff
- Key areas addressed:
 - Qualifications
 - Standards (including “best practices”)
 - Oversight
- TAF staff is preparing a “whitepaper”, documenting the roundtable proceedings

The Way Forward

- Demonstrate that the profession has a common voice and platform
- Converge standards across geographies and sectors (e.g. converge or develop consistency between USPAP , IVS and other standards)
- Develop a common repository of technical guidance (e.g. the “electronic library” project of the IVSC)
- Share and develop tools to advance professionalism (e.g., Codes of Ethics, training guidance, Best Practices materials)
- Enhance public awareness of professional practice efforts
- Encourage oversight efforts by professional bodies and regulators
- GOAL: Encourage consistency and professionalism and enhance the public’s trust in the valuation profession!

Anthony V. Aaron, ASA, CFA, FRICS Valuation and Business Modeling Principal



Profile

- Tony Aaron serves as Americas Leader of Quality and Risk Management ("QRM") for the Ernst & Young LLP ("EY") Valuation and Business Modeling ("VBM") practice, acting as a key liaison between EY's National Office Accounting and Auditing Groups, EY's National Tax Practice and the EY VBM Practice. Tony has also recently concluded a three year term as a member of EY's Americas Ethics Oversight Board.
- Prior to his tenure at EY, Tony served several years as Director of Research for an Investment Advisory Firm in the Southern California area, providing securities analysis in support of portfolio management activities.
- As of January 2011, Tony has relocated from the Southern California area where he has served clients for EY for over 25 years, to EY's McLean Virginia office, where he will be serving as Valuation Leader for the Greater Washington DC Metropolitan area, Virginia and Maryland. His primary industry focus includes working with companies in the Aerospace, Defense, Government Services and Technology sectors.

Professional Practice Experience

- Tony is currently serving a three year term as an at-large member of the Appraisal Foundation's Board of Trustees. As part of his Board of Trustees duties, he serves as audit committee chair, and is a member of the strategic planning task force, business planning committee, valuations for financial reporting task force and the outreach to non-real estate disciplines task force.
- He has served, and continues to serve on a number of different task forces, committees, and working groups profession-wide, involved with best practices in Fair Value measurements for financial reporting.
- He currently co-chairs the AICPA task force which is updating the so-called "IPR&D Practice Aid" and also recently concluded a three year role as chair of the Appraisal Foundation's Working Group focused on developing best practices for calculating "Contributory Asset Charges" as they are used in fair value measurements for financial reporting.

Education and Memberships

- Tony holds an undergraduate degree in Business Administration from the University of Southern California, and a Masters of Business Administration from the University of California at Los Angeles. He is a Chartered Financial Analyst (CFA), an Accredited Senior Appraiser (ASA) in Business Valuation with the American Society of Appraisers and a Fellow of the Royal Institute of Chartered Surveyors (FRICS). He has recently finished a second term as a member of the Business Valuation Committee of the ASA and continues to serve on the ASA's Business Valuation Standards sub-committee and as the ASA's representative to the International Valuation Standards Council ("IVSC").

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Position	<ul style="list-style-type: none"> • Partner, Valuation Services • Chair, KPMG's Global Valuations Committee • Chair of the Standards Board of the International Valuations Standards Council
Education and Qualifications	<ul style="list-style-type: none"> • MBA from the Kellogg Graduate School of Management at Northwestern University • BBA in accounting from Ohio University • Senior member of the ASA and a CPA • Author of numerous articles on topics ranging from valuation theory and trends to mergers and acquisitions in the marketplace • Frequent lecturer for various organizations, including the American Society of Appraisers and the AICPA • Interviewed by various publications worldwide (e.g., in Abu Dhabi, Argentina, Brazil, China, and the UK). Appeared on CNBC Australia.
Experience	<ul style="list-style-type: none"> • Nearly 30 years of valuation experience (thousands of projects) related to acquisitions, divestitures, tax planning, and expert testimony. Steve specializes in KPMG's largest industry segment: Consumer and Industrial Markets. His scope of practice is heavily weighted toward multinational transactions. • Purchase price allocation experience on hundreds of engagements, including SFAS 141, 142, 144, and IFRS/U.S. GAAP conversions. • Valuation and assessment of many types of intangible assets including patents, tradenames, franchises, customer relationships, and non-compete agreements.
Sector experience	<p>Representative clients include Arcelor/Mittal, Boeing, Dow Chemical, General Motors, Kraft/Cadbury, Mars/Wrigley, SPX and Whirlpool.</p>

