



QUOTE FOR THE QUARTER

“Values change all the time depending on the context.”

Neil Beaton, International Valuator (1958-)

VALUATION NEWS

This has been a banner year for accounting changes in our profession and it isn't over yet. To the end of June 2010, a total of 16 Exposure Drafts (EDs) relating to amended provisions were issued by either the Financial Accounting Standards Board (FASB) for US Generally Accepted Accounting Principles (GAAP), or the International Accounting Standards Board (IASB) for International Financial Reporting Standards (IFRS). A further 10 or so are expected by the end of the year with likely major effects on how businesses report in the future.

CHANGES

Three of the EDs, relating to Leases, Revenues and Financial Instruments, may have a significant impact on many firms' timing of reported sales and cash flows. They could affect reported ratios such as Debt/Equity and Debt/EBITDA.

OPPORTUNITIES

The adoption in Canada of IFRS, as well as the proposed new leasing Standard will require all privately held and public companies in the US and Canada, to review their banking covenants. If consulted in advance, with a rational explanation, most banks will likely be amenable to any necessary changes. If, in early 2011, they are told a business is non-compliant, serious repercussions may arise. Both the finance department and corporate counsel should consider this matter. CVS is ready, willing and able to help.

GUIDANCE

James P. Catty, Principle Valuator of CVS, is Chair of the International Association of Consultants, Valuators and Analysts (IACVA), an 8,000 member organization with designation granting authority in 14 countries. He recently edited “Guide to Fair Value under IFRS”, published by Wiley, NY. With contributors from 13 countries, it deals with international requirements concerning all aspects of valuation. Jim is also the leader of a joint ED review committee established by IACVA, the National Association of Certified Valuation Analysts (IACVA's US charter), and the (US) Institute of Business Appraisers. Completely current with the requirements of the changing standards, he is delighted to assist with any professional problem you may encounter. He can be reached at 416 865 9766 or value@istar.ca.

THE TERM VALUE

It is essential to realize there are many definitions of value. The differences are not merely semantics, they are important. FASB adopted the phrase “fair value” for financial reporting in 2002. The phrase already has at least two meanings in the US and there are several more for IFRS; this year, many are finally being combined into one.

At the same time, AICPA has redefined previous industry terminology, such as estimate, conclusion, and calculation of value which now differ in the US and Canada. Various courts adhered to their individual definitions, while the IRS and Revenue Canada each insist on their own understanding of fair market value; professional acumen and interpretation are essential.

With otherwise identical facts, each interpretation may result in a different amount. If in doubt, call CVS as an expert, to ensure your clients' situation and activities are correctly appraised.