

QUOTE FOR THE QUARTER

"The problems of the economy are not just problems of economics. They are also problems of ecology and social justice and politics and so on. So we really need systemic thinking today. And this has been emerging in science in the last few decades."

Dr. Leonardo Capra

VALUATION NEWS

As you are all no doubt aware, Canadian GAAP is on its way to the scrapheap. Effective 1 January 2011, International Financial Reporting Standards (IFRS) replaces it for public companies and a condensed version will be applied to private entities.

IFRS is complex and involves much more use of Fair Values than GAAP, as I found in preparing "A Guide to Fair Value under IFRS" (Wiley 2010). For a firm applying these new standards must be concerned as to the correct values of underlying assets. Not only may there be considerable difficulties in auditing management's figures but an owner may have their own views.

That is where an experienced, objective outsider, not obligated to any party, can be of immense assistance. Our firm has been engaged in valuations for over twenty years in Austria, Bahamas, Canada, China, Czech Republic, France, Germany, Hong Kong, Israel, Norway, Puerto Rico, Romania, Taiwan, Turkey, Turks & Caicos, UK and the USA; I personally have over 50 years experience in the field.

Although CVS specializes in intangible assets and technology based industries, we have also valued more tangible entities ranging from a cheese factory to a furniture manufacturer, from a clothing retailer to corn burning stoves producer.

Goodwill Impairment Testing

Under the United States GAAP, goodwill is tested for impairment using a two-step methodology. This is also true under Canadian GAAP until 31 December 2010. In Step 1, the Fair Value of a Reporting Unit is compared to its carrying amount. If it is less, then Step 2 is used to measure the amount, if any, of the goodwill impairment. Practitioners currently use both equity and enterprise based values in Step 1. An equity based amount relates to outstanding shares or similar securities. Enterprise based figures generally refer all funding, including interest-bearing debt.

The methodology selected for Step 1 may affect whether a Reporting Unit passes or fails. In particular, the outcome may be altered when the carrying amount of the equity is negative and there are differences between the Fair Value and the carrying amount of any debt. The US Emerging Issues Task Force has decided the Step 1 test should be equity based and that a Step 2 test be performed when a Reporting Unit has a zero or negative carrying amount.

This decision will be effective for annual reporting periods beginning after December 15, 2010 for public companies and, a year later, for privately owned entities.

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

CHANGES OPPORTUNITIES 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.