Corporate Valuation Services Limited

707 Eglinton Avenue West
Suite 501
Toronto, Ontario
M5N 1C8

Telephone: 416.865.9766
Facsimile: 416.865.1249
e-mail: value@istar.ca

QUOTE FOR THE QUARTER

"Knowledge is knowing a tomato is a fruit; wisdom is not putting it in a fruit salad." anon

VALUATION NEWS

International Financial Reporting Standards (IPRS) are now in effect for all public companies in Canada and will likely appear soon in the US. As well, a wave of proposed new and complex accounting changes (currently seeking comments from practitioners) is threatening to overwhelm us all. While, fortunately, many have deferred dates, most involve valuations. Ranked by expected complexity of implementation, they are:

Leases

The Exposure Draft (ED) was issued in August 2010; nearly 1,000 comment letters were received. Though most practitioners are against it, the proposal to reflect all leases as liabilities on a firm's balance sheet is likely to go through. This will have a significant bearing on almost every business.

Revenue Recognition

This ED appeared in June 2010, also receiving many comment letters. It proposes a significant conceptual change: revenue will now be recognized only when an entity satisfies a performance obligation to a customer. Identifying and analyzing those obligations, either individually or combined, will be difficult. This too affects every business.

Financial Instruments

Here the GAAP proposals and IFRS (FASB's ED in June 2010, IFRS 9 in November 2009) totally diverge. Only one will be adopted. FASB wants nearly all financial instruments to be carried at Fair Values (more work for us). IASB chose a mixture of amortized costs and Fair Values driven by the business model. This too will have an impact on all businesses, more so for financial institutions.

Impairment

This ED was published in November 2009, with an IFRS to come in the second quarter of 2011. In this, impairment would be based on expected, rather than realized losses. The impact on businesses, especially financial institutions, will be considerable.

Hedge Accounting

The ED came out in December 2010 and the IFRS is expected in late 2011. This is of considerable importance, as it will reduce many of the distortions of profits from firms' efforts to limit (hedge) risks, such as commodity price changes. The new rules attempt to align a company's accounting with its risk management practices. They also increase the required disclosure.

THE TERM VALUE

There are many definitions of value. The differences are not merely semantics. FASB adopted the "fair value" for financial reporting in 2002. The phrase already has at least two meanings in US GAAP and there are several more for IFRS; this year, nearly all are finally becoming one.

In the US, the AICPA has redefined industry terminology. Terms such as estimate, conclusion, and calculation of value now differ in the US and Canada. Various courts adhered to their individual definitions; the IRS and Revenue Canada each insist on their own view of fair market value. Professional acumen and interpretation are essential.

With otherwise identical facts, each interpretations may vary. If in doubt, call CVS to appraise your clients' situation and activities correct.

James P. Catty, Principal 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. The "Guide to Fair Value under IFRS" which he edited, was published by Wiley, NY in April 2010, with contributors from 13 countries. It deals with international requirements concerning all aspects of valuation. Jim is leader of a joint IASB/FASB 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 changing standards, he would be delighted to assist with any professional problem you may encounter and can be reached at 416 865 9766 or value@istar.ca.