

December 7, 2006

Ms. Janice Fredericks  
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California  
Society  
Certified  
Public  
Accountants

Sent via e-mail to: [bvstds@aicpa.org](mailto:bvstds@aicpa.org)

Re: Exposure Draft – Proposed Statement on Standards for Valuation Services

Dear Ms. Fredericks:

I am writing on behalf of the California Society of Certified Public Accountants Litigation Sections to submit comments to the Exposure Draft of the Proposed Statement on Standards for Valuation Services. Our comments below address the specific four issues set forth in the letter dated October 16, 2006 and certain other issues which we believe require attention.

**Issue 1 - Oral Valuation Reports:** We believe the referenced paragraphs require no change.

**Issue 2 – Scope of Applicable Services:** We believe Appendix D is appropriate for inclusion in the standard. We suggest the following corrections:

1. The second bullet refers to paragraph 6 but it should refer to paragraph 5.
2. The third bullet refers to paragraph 7 but it should refer to paragraph 6.
3. The fifth bullet is duplicative of the second bullet.

**Issue 3 – Use of Specialists:** We believe it is reasonable to conduct some level of due diligence on the qualifications of a specialist. However, we disagree with certain language in paragraphs 21 and 22.

1. Paragraph 22 calls for the valuation analyst to evaluate the qualifications of the specialist. We support this level of due diligence.
2. The last two sentences of paragraph 21 require the valuation analyst to read the report of the specialist and determine its reasonableness. We do not believe the valuation analyst should be responsible for evaluating the reasonableness of a work product that falls outside the scope of his or her expertise, particularly in matters such as litigation engagements wherein the outside experts are retained by an attorney. Thus, we recommend that the last two sentences of paragraph 21 be deleted. Alternatively, we recommend a more definitive sentence such as, “If the results appear unreasonable within the context of the valuation analyst’s knowledge of the facts or is inconsistent with the valuation analyst’s report, the analyst should not rely on the third party specialist’s report.”

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**Issue 4 – Valuation vs. Calculation Engagement:** With the exception noted below pertaining to Paragraph 23, we believe the Exposure Draft adequately distinguishes valuation engagements and calculation engagements.

**Additional Comments:**

Page 12: Decision Tree: We believe this exhibit is a practice aid. We believe such an exhibit, which attempts to summarize adherence to a complex professional standard, should not be included within the body of the standard.

Paragraph 19: We believe the word “known” should be inserted prior to the words “assumptions and limiting conditions.” The heading should also include “known”.

Paragraph 23: Paragraph 23 formally defines a Valuation Engagement and a Calculation Engagement. In contrast, Paragraph 2 describes a “valuation engagement” as one that culminates in *either* a conclusion of value or a calculation of value. Paragraph 23 and Paragraph 2 may be viewed as contradictory and may confuse the reader. The generic term “valuation engagement” is also used in Paragraph 80. We recommend that the standards clearly and consistently use these terms to avoid confusion.

Paragraph 33: We believe the language “(used for businesses, business ownership interests, and securities) or cost approach (used for intangible assets)” should be deleted. Each approach is, or should be, adequately described in the sections that follow paragraph 33. We believe this language adds confusion, is redundant, is restrictive, and is potentially misleading.

Paragraph 43:

1. The word “controlling” should be deleted. It is potentially confusing and contradicts the balance of paragraph 43. The consideration of nonoperating items in the valuation of a minority interest requires competence and informed professional judgment.
2. The phrase “income approach” should be deleted. The issue of nonoperating assets and liabilities may be relevant to valuation approaches other than just the income approach.
3. The paragraph addresses nonoperating or excess assets. It should also address nonoperating or excess liabilities.
4. The paragraph addresses only excess nonoperating assets. It should also address nonoperating asset shortages (e.g., working capital).

Paragraph 46: Documentation. This paragraph needs to be reviewed for what is meant by minimum requirements for written documentation, and inconsistencies with oral reports, and the litigation exemption and discovery rules.

Paragraph 53: The eighth bullet of this paragraph addresses nonoperating assets and excess operating assets. It should also address nonoperating liabilities and the shortage of operating assets.

Paragraph 66. The title to this paragraph, and the paragraph itself, refer to nonoperating assets and excess operating assets. It should also address nonoperating liabilities and the shortage of operating assets.

Should you have any questions regarding or comments and suggestions, I may be contacted at [mluttrell@cbiz.com](mailto:mluttrell@cbiz.com) or you may contact Maria Nazario, CalCPA Associate Program Director at [maria.nazario@calcpa.org](mailto:maria.nazario@calcpa.org).

Sincerely,

Mark Luttrell, CPA, ABV  
Chair, Litigation Sections  
California Society of CPAs

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