

## **Guidance on Types of Valuation Reports**

**March 2012**

*Comments Must Be Received By: April 15, 2012*

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This Discussion Paper concerning a proposed Practice Bulletin giving Guidance on Types of Valuation Reports is re-issued by the Board of Directors of The Canadian Institute of Chartered Business Valuators for comment. The proposed Practice Bulletin may be modified in light of the comments received before being issued.

Individuals and organizations are invited to send written comments on the Practice Bulletin proposed by this Discussion Paper. Comments are requested from those who agree with the Discussion Paper as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs and when expressing disagreement with the Discussion Paper, they clearly explain the issue, and include a suggested alternative supported by specific reasoning.

**To be considered, comments must be received by April 15, 2012, addressed to:**

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## Introduction

The Board of Directors of the CICBV has re-issued this discussion paper to solicit comments on a Practice Bulletin that it is proposing to issue for the purpose of assisting a Valuator in:

- (i) determining the extent of review, analysis and corroboration that is appropriate for each of the three types of Valuation Reports;
- (ii) determining the suitability of the three types of Valuation Reports for various purposes;
- (iii) assessing the impact of the availability of information on the type of Valuation Report; and
- (iv) determining whether it is appropriate to provide a lower level of assurance where a higher level of assurance could be provided based on the extent of review, analysis and corroboration of relevant information.

Practice Bulletins are issued by the Board of Directors and are intended to provide guidance on the application of Practice Standards and to assist Members in the exercise of their professional judgment.

In March 2011 the Board of Directors issued a discussion paper on this matter and comments were received from sixteen organizations and individuals. These comments were considered by the CICBV Professional Practice and Standards Committee (PPSC) and a Task Force comprised of nine CBVs, many of whom had provided comment.

The comment letters were diverse but generally indicated that there was a need for this type of guidance and that the proposed Practice Bulletin provided guidance that was useful. There was a concern expressed by some respondents that the discussion paper would benefit from the addition of further illustrative examples and that the guidance should more definitively state that illustrative examples are only illustrative and are not intended to be prescriptive of what needs to be undertaken on any particular engagement.

A work group comprised of four members of the PPSC Task Force drafted revisions to the Practice Bulletin and these revisions were reviewed and considered by PPSC Task Force, the PPSC and the Board of Directors.

This version of the proposed Practice Bulletin is presented with the changes from the March 2011 version highlighted.

## Questions for Respondents

Responses are particularly invited to the following questions. Not all questions need be answered. Please indicate the question to which any answer relates.

1. Does the section added on the extent of review and analysis at paragraphs 5 through 7 help to illustrate a typical continuum of the scope of work for different types of reports?
2. Does the proposed Practice Bulletin make it sufficiently clear that the examples of review, analysis and corroboration provided in paragraph 11 are only to illustrate the continuum of the types of review, analysis and corroboration that might be undertaken and are not intended to be prescriptive of what needs to be undertaken in any particular engagement?
3. Does the proposed Practice Bulletin make it sufficiently clear that the examples provided in paragraph 16 to assist in assessing the suitability of a Valuation Report within various contexts are illustrative only and are not intended to be prescriptive of what type of Valuation Report should be issued in any particular engagement?
4. Are there additional matters that the proposed Practice Bulletin should encompass? If so, please state what they are and why they should be included.

## PROPOSED PRACTICE BULLETIN

### GUIDANCE ON TYPES OF VALUATION REPORTS

1. Practice Standard No. 110 applies to Valuation Reports that provide a conclusion as to the value of shares, assets or an interest in a business. This Standard No. 110 provides for three types of Valuation Reports (Comprehensive Valuation Reports, Estimate Valuation Reports and Calculation Valuation Reports) that are distinguished by their scope of workreview, the amount of disclosure provided and the level of assurance provided by the conclusion. Scope of Work Practice Standard No. 120 is also relevant to this guidance.
2. The purpose of this Practice Bulletin is to assist the Valuator in (i) determining the extent of review, analysis and corroboration ~~scope of review~~ that is normally appropriate for each of the three types of Valuation Reports; (ii) determining the suitability of the three types of Valuation Reports for various purposes; (iii) assessing the impact of the availability of information on the type of Valuation Report; and (iv) determining whether it is appropriate to provide a lower level of assurance where a higher level of assurance could be provided based on the extent of review, analysis and corroboration of relevant information.
3. This Practice Bulletin does not address matters concerning report disclosure as such matters are explicitly set out in the Practice Standards.

#### **Scope of WorkReview**

4. Below is a summary of the extent of review, analysis and corroboration of significant relevant information that is indicated in Practice Standard No. 110 as being the basis of conclusions in each of the three types of Valuation Reports.

Type of Valuation Report	Extent of <del>Scope of</del> Review and Analysis	Extent of Corroboration
<b>Comprehensive</b>	Comprehensive review and analysis of business and industry and all other relevant information and factors.	Corroboration of <u>significant</u> relevant information and factors.
<b>Estimate</b>	Limited review and analysis of relevant information.	Limited corroboration <u>of significant relevant information.</u>
<b>Calculation</b>	Minimal review and analysis of relevant information.	Little or no corroboration <u>of significant relevant information.</u>

## Extent of Review and Analysis

5. During the course of a valuation mandate, valuers will consider and address six categories of areas of work, as follows:

- (i) Economic environment;
- (ii) Industry in which the business operates;
- (iii) Company-specific non-financial information;
- (iv) Company-specific financial information (e.g. historical and future-orientated financial statements);
- (v) Valuation context (e.g. precedent valuations and transactions for the subject business/interest, comparable transactions, and public market prices of comparable companies); and
- (vi) Valuation assessments (e.g., performing valuation calculations using various valuation techniques and methodologies).

6. Of the foregoing six categories of areas of work, valuers bring their unique expertise and professional judgement, in particular, to the last two categories (i.e., consideration of the valuation context and performing valuation assessments). Therefore, while valuers and clients may agree to a more limited report than a Comprehensive Valuation Report, there will generally be a lesser reduction in the scope of work related to the valuation context and the valuation assessments, than for other work areas, as illustrated by the table below.

<u>Type of Valuation Report</u>	<u>Economic Environm't</u>	<u>Industry Context</u>	<u>Company Specific Non-Financial Information</u>	<u>Company Specific Financial Information</u>	<u>Valuation Context</u>	<u>Valuation Assessments</u>
<u>Comprehensive</u>	<u>High</u>	<u>High</u>	<u>High</u>	<u>High</u>	<u>High</u>	<u>High</u>
<u>Estimate</u>	<u>Moderate</u>	<u>Moderate</u>	<u>Moderate</u>	<u>Moderate</u>	<u>High to Moderate</u>	<u>High to Moderate</u>
<u>Calculation</u>	<u>Low</u>	<u>Low</u>	<u>Low</u>	<u>Low</u>	<u>Low to Moderate</u>	<u>Low to Moderate</u>

7. The foregoing table is provided only to illustrate a typical continuum of scope of work for different types of reports, and is not intended to be prescriptive of what needs to be undertaken in any particular valuation engagement. A determination of the extent of the scope of work to be performed in each particular situation is necessarily a matter of professional judgement that takes into account all of the relevant facts and circumstances including the level of assurance agreed to between the client and the valuator.



## Extent of Corroboration

5.8. *Comprehensive* – In completing a valuation analysis that is suitable for a Comprehensive Valuation Report, the Valuator must seek out (using reasonable efforts), review, analyse and consider all available information and factors that could have a significant material effect on the conclusions reached. Further, this information should be corroborated using reasonable efforts ~~reasonably be corroborated~~ to determine whether it can be relied upon for purposes of arriving at a valuation conclusion. Comprehensive Valuation Reports provide the highest level of assurance.

6.9. *Estimate* – Estimate Valuation Reports require limited review, analysis and corroboration of economic, industry and company-specific information and factors giving consideration to the purpose of the valuation engagement, taking into consideration the cost of expanding the extent of such review, analysis and corroboration in comparison to the added assurance that will be achieved and the need for such assurance. ~~However, it~~ is important that valuations performed to support the conclusions of Estimate Valuation Reports ~~address~~ be focused on the critical economic, industry and company specific information and factors that could significantly affect the conclusions reached. In addition, clear disclosure should be made of the information that has been reviewed, analyzed and corroborated to enable those placing reliance on such Valuation Reports to appropriately assess the extent of their reliance on the conclusions contained therein. An Estimate Valuation Report, similar to a Comprehensive Valuation Report, should reasonably address all valuation calculations and considerations that could significantly affect the conclusions reached.

7.10. *Calculation* – The required extent of review, analysis and corroboration of economic, industry and company-specific information and factors in respect of a Calculation Valuation Report is often very limited or non-existent. In essence these types of engagements require the gathering of critical valuation research, the application of critical valuation techniques and methodologies, and the application of professional judgement that is based on information that may be very limited and that may not have been corroborated by the Valuator. Valuators in such circumstances may not be aware of information or factors that could affect the conclusions reached to an extent that may be material. Calculation Valuation Reports provide the lowest level of assurance.

**8-11.** The following table provides illustrative examples of the continuum of the types of review, analysis and corroboration that might be undertaken. Generally this continuum goes from the types of review, analysis and corroboration that entail the highest extent of review, analysis and corroboration of information and factors to that which entails the lowest extent of review, analysis and corroboration. Generally, this continuum corresponds to the type of report being issued with the highest extent of review, analysis and corroboration of information and factors being appropriate to comprehensive reports.

Information	Extent of Review, Analysis and Corroboration	Illustrative Examples of Review, Analysis and Corroboration
Cash Flow Projections	Highest	In-depth analysis of assumptions, interviews of management, review and assessment of supporting documentation, research of industry benchmarks.
	 Lowest	High level review of assumptions and reliance on management representations without in-depth analysis, review, and/or assessment.
Real Property Market Value	Highest	Property appraisal report by qualified appraiser
	 Lowest	Management estimate or property tax assessment without in-depth analysis, review, and/or assessment.

**9-12.** The foregoing examples of review, analysis and corroboration are provided only to illustrate the continuum of the types of review, analysis and corroboration that might be undertaken and are not intended to be prescriptive of what needs to be undertaken in any particular valuation engagement. A determination of the extent of review, analysis and corroboration to be performed in each particular situation is necessarily a matter of professional judgement that takes into account all of the relevant facts and circumstances including the level of assurance agreed to between the client and the valuator required.

### ***Suitability of Valuation Report for Purpose Prepared***

**10-13.** Practice Standard No. 110 states *“The type of Valuation Report required is a matter to be discussed and agreed on by the Valuator and the client, and then reflected in the terms of engagement. In arriving at this agreement, the Valuator and the client should consider the purpose for which the Valuation Report is being prepared, the availability of information on which to base a*

conclusion, and the client's need for assurance. The Valuator should also consider whether the type of Valuation Report will be credible for the purpose intended ...”

**11.14.** In reaching agreement with the client on the type of Valuation Report that is required, the Valuator should consider whether the type of Valuation Report issued will be suitable for the purpose for which it was prepared. The suitability of a Valuation Report to a particular purpose is dependent on the nature of the assurance provided in connection with the conclusion expressed. In making such assessments, fee and time constraints related to an engagement should be viewed with caution and an engagement should not be accepted for which the level of assurance to be provided by the Valuation Report is not suitable for the purpose for which the engagement is to be undertaken.

**12.15.** In arriving at a determination as to the type of Valuation Report that is suitable to the need for assurance in a particular circumstance, the context for which the Valuation Report is being prepared and the extent of reliance that the reader of such report will likely place on the conclusions expressed in making a decision or taking a course of action should be taken into account. The extent to which such decisions or actions cannot be changed will also likely influence the level of assurance that is indicated.

**13.16.** The following table provides illustrative examples to assist in assessing the suitability of a Valuation Report within various contexts.

Context	Type of Valuation Report		
	Comprehensive	Estimate	Calculation
Evidence in litigation	Suitable	May be suitable	<del>Likely n</del> Not Suitable
Assessment of litigation	Suitable	May be suitable	May be suitable
Tax election in a corporate reorganization	Suitable	May be suitable	May be suitable
Shareholder agreement	Suitable	May be suitable (also dependent on any requirements of the shareholder agreement)	<del>May be</del> Likely not suitable (also dependent on any requirements of the shareholder agreement)
Estate planning	Suitable	May be suitable	May be suitable
Estate settlement	Suitable	May be suitable	Likely not suitable
Market transaction	Suitable	May be suitable	May be suitable
Financial reporting (giving consideration to accounting materiality)	Suitable	May be suitable	<del>May be</del> Likely not suitable
Securities Regulations or Policies	Suitable	May be suitable	<del>Likely n</del> Not suitable



~~14-17.~~ The foregoing examples are illustrative only and are provided only to assist in assessing the suitability of a Valuation Report within various contexts. The examples are not intended to be prescriptive of what type of Valuation Report should be issued in any particular engagement. A determination as to whether the type of Valuation Report to be issued will be credible for the purpose for which it was prepared is necessarily a matter of professional judgement that takes into account all of the relevant facts and circumstances including the level of assurance required.

### ***Impact of Availability of Information on Type of Valuation Report***

~~15-18.~~ One of the considerations in determining the type of Valuation Report that is to be prepared is the availability of information on which to base a conclusion. Information that the Valuator might wish to consider in some detail in preparing ~~consider to be essential to~~ a Comprehensive Valuation Report might not be viewed as necessary ~~considered to be required~~ for an Estimate or Calculation Valuation Report. A lack of particular information could lead the Valuator to determine that it is not possible to prepare an unqualified Valuation Report at one level of assurance but that the Valuator could still prepare an unqualified Valuation Report at a lower level of assurance.

~~16-19.~~ In such situations, ~~making assessments of this nature,~~ the Valuator should consider whether a Valuation Report of a higher assurance level that expresses a conclusion that is qualified by a scope limitation best serves the users of the Valuation Report. ~~the importance of unavailable and/or missing information to the conclusion. Consideration should also be given to whether a Valuation Report of a higher assurance level that expresses a conclusion that is qualified by a scope limitation best serves the client's requirements for assurance.~~

~~17-20.~~ A determination of the impact of the availability of information on the type of Valuation Report to be issued is a matter of professional judgement that takes into account all of the relevant facts and circumstances including the purpose of the Valuation Report, the level of assurance agreed to between the client and the valuator ~~required and the importance of the unavailable and/or missing information to the conclusion.~~

### ***Providing a Lower Level of Assurance where a Higher Level of Assurance could be Provided Based on the Extent of Review, Analysis and Corroboration***

~~18-21.~~ This section of the Practice Bulletin considers whether it is appropriate for a Valuator to report on a conclusion as to the value of shares, assets or an interest in a business using a report identified as an Estimate Valuation Report or a Calculation Valuation Report when the extent of review, analysis and corroboration of relevant information performed could otherwise be sufficient to support the issuance of a type of Valuation Report that would provide a higher level of assurance as to the conclusion expressed.

| 19-22. The type of Valuation Report (Comprehensive, Estimate or Calculation Report) issued is based on agreement between the Valuator and the client. A Valuation Report must meet the minimum level of disclosures and scope of ~~work~~review required by Practice Standards. However, the extent of review, analysis and corroboration that may be appropriate for a type of Valuation Report that provides a higher level of assurance than which is being provided does not necessitate that such a Valuation Report be issued unless agreed to by the Valuator and the client.

DATE