



Reporting Standards Update: What all BV Analysts Must Know

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By Donald P. Wisehart, ASA, CPA/ABV, CVA and David Anderson, ASA

The past two years have witnessed a good deal of activity regarding professional business valuation standards. How can busy BV professionals keep up with the changes? In the United States, professional business valuation standards are promulgated¹ by the following organizations and most have made noteworthy changes to their standards:

- **The American Institute of Certified Public Accountants (AICPA).** In June 2007, the AICPA released its newly developed standards, the *Statement on Standards for Valuation Services—Valuation of a Business, Business Ownership Interest, or Intangible Assets (SSVS1)*, effective for all valuation engagements accepted on or after January 1, 2008.
- **The American Society of Appraisers (ASA).** In July 2008, the ASA updated and revised its *Business Valuation Standards*. These revisions significantly expanded the ASA's required reporting and assignment disclosures. Section BVS-IX was added, which deals with "Intangible Asset Valuation" and includes an appendix of intellectual property examples. The ASA standards include "Statements on ASA Business Valuation Standards," which have the full weight of the standards; these also were expanded in 2008.

- **The Institute of Business Appraisers (IBA).** Page one of The IBA Business Appraisal Standards notes that the organization has not changed its standards since October 25, 2001.
- **The National Association of Certified Valuation Analysts (NACVA).** In November 2007, NACVA released its revised *NACVA Professional Standards* with the same effective date as SSVS1.
- **The Appraisal Foundation (TAF).** Authorized by Congress in 1989, TAF issues standards, often referred to as *USPAP*,² an acronym for the *Uniform Standards of Professional Appraisal Practice*. "Uniform" here refers to a structure providing separate standards for several disciplines (real estate, personal property, and business appraisals) within a single uniform framework. The 2008-2009 Edition of USPAP was released in 2007; it is effective January 1, 2008 through December 31, 2009.

Adding to the list of newly issued and revised business valuation standards was the Internal Revenue Service, which released its "IRM 4.48, Engineering Program, Business Valuation Guidelines" in July 2006. These guidelines "are applicable to all IRS personnel that are engaged in valuation practice relating to the development, resolutions, and reporting of issues involving intangible property valuations and similar valuation issues."

For an overview of these documents, see the accompanying tables "Permitted Engagements and Reports" (on page 3) and "Comparative Chart of BV Report Writing Standards," (on pages 4 and 5) which identify the permitted written

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report type of each promulgating organization and detail the reporting disclosures and requirements of each. (We have, however, excluded the IRS standards from our comparative tables and review because their reporting guidelines are rather broad and because they are applicable only to IRS personnel.)

What do these six sets of standards have in common? Three significant features are immediately apparent: **1)** All of these standards

are considered by their authors to be minimum standards or requirements; the authors intend that, in many cases, the appraiser should expand his/her report and/or his/her analysis. **2)** All of the standards address both the development of a valuation analysis and its presentation in a written report. **3)** All of these standards address ethics, either directly in the body of the standards or by reference to ethical standards printed elsewhere.

There is much more commonality as well. Most prominently, the developmental sections of the standards, while differing in verbal form, are fundamentally similar. All require the consideration of: the asset, market and income approaches; marketability or lack thereof; control or lack thereof; and all require understanding the applicable standard and premise of value.

The reporting standards, which are the focus of this article, on first appearance present some diversity, but here, too, fundamental principles are shared. Significantly, all standards recognize a "full" or "comprehensive" valuation report as the point of departure for defining other report forms. And the reporting requirements for full reports are remarkably similar across all organizations. At the other end of the spectrum of report types, there is general agreement that a "valuation" engagement should be clearly distinguished from a "calculation" engagement (if a "calculation" engagement is permitted at all). In the middle of the spectrum there is some diversity. All of the standards permit the valuation expert to prepare "other" report types which summarize or otherwise reduce the "verbiage" describing the development steps relative to the "full" report. However, the definitions and the requirements associated with these other forms vary.

In the accompanying table, the names of the various "full reports" and "other reports" are identified for each promulgating organization.

The "calculation report" is now permitted by the reporting standards of NACVA and AICPA and has been permitted for some time by the

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ASA. This type of report, which generally requires many fewer reporting disclosures, is appropriate for calculation engagements only. Moreover, a report for a calculation engagement must identify itself as such; that is, these reports

disclose that they are not presenting opinions of value. NACVA and the AICPA provide reporting standards for the “calculation” report. The

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Permitted Engagements and Reports					
Organization	Litigation Exception	Engagements Permitted	Permitted Reports	WP ²	Supporting Detailed Reporting Standards ⁴
NACVA	Yes	Valuation	A Detailed Report		Yes -Section 4.3.b
			Summary Report		Yes - Section 4.3.a
			Oral Report		No - ¶ 4.2
		Calculation	Calculation Report		Yes - Section 4.3.c
			Oral Report		No (See ¶ 4.2)
AICPA	Yes	Valuation	A Detailed Report		Yes - ¶51
			Summary Report		Yes - ¶71
			Oral Report	WP	Limited - See ¶78
		Calculation	Calculation Report		Yes - ¶73
			Oral Report	WP	Limited - See ¶ 78
USPAP	No	Valuation	Appraisal Report		Yes - Section 10-2(a)
			Restricted Use Report		Yes - Section 10-2(b)
			Oral Report	WP	Limited - Section 10-4
IBA	Yes	Valuation	Comprehensive Written Business Appraisal Report		Yes - Standard 5
			Letter Form Written Appraisal Report ³		Yes - Standard 4
			Oral Report	WP	Yes - Standard 2
		Limited Opinion	Preliminary Report (Identified as “Limited”)		Yes - Standard 6
			Oral Report	WP	Yes - Standard 2
ASA	No ¹	Appraisal	Comprehensive Written Business Valuation Report		BVS - VIII and USPAP 10-2(a)
			“Less” Comprehensive Written Business Valuation Report		BVS - VIII and USPAP 10-2(b)
			Oral Report	WP	No, but USPAP 10-4 applies
		Limited Appraisal	Written		None
			Oral Report		No BVS-I-VI
		Calculation	Written		None
			Oral		No BVS-I-VI

¹ ASA provides “Procedural Guidelines: PG-1 Litigation Support: Role of the Independent Financial Expert,” which is non-authoritative.

² “WP” means that working papers of the analyst should document the substance of the oral report communicated to the client.

³ A letter report of a formal report is often referred to as a short-form report, letter opinion, or an informal report.

⁴ “No” means permitted, but no guidance; “Limited” means permitted with some guidance; “Yes” means permitted and well defined in the standards.

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Comparative Chart of BV Report Writing Standards

Part 1 of 2

Comparative Chart of BV Report Writing Standards By Donald P. Wisehart, ASA, CPA/ABV, CVA, MST

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	REPORTING ON CONCLUSIONS OF VALUE										SUMMARY				
	(D) DETAIL (G) COMPREHENSIVE (F) FORMAL (A) APPRAISAL										AICPA ¶71	NACVA ¶4.3.a	IBACPA ¶76 (2)	NACVA (Calc) ¶4.3.c	IBA (Ltr) Standard 4
Item was considered a reporting requirement if "shall" or "should" was used in the reporting standard sections	AICPA (D) ¶ 51; 68	ASA (C) BVS-VIII	USPAP(1) (A) Std 10(2)	NACVA (D) ¶4.3.b	IBA (F) Standard 5						AICPA ¶71	NACVA ¶4.3.a	IBACPA ¶76 (2)	NACVA (Calc) ¶4.3.c	IBA (Ltr) Standard 4
Engagement identification requirements															
Transmittal letter	51				5.6										
Table of contents	51														
Introduction	52 a - r														
Client	52.a	VIII-IV-G	(a) (i)		5.3.a						71.a				4.3.a
Identification, Description of Subject being valued	52.d.e; 68.a	VIII-IV-G	(a) (iii)	4.3.a.1	5.3.a						71.d.e	4.3.a.1	76.a.e	4.3.a.1	4.3.a (10)
Interest being valued	52.d.e; 68.b	VIII-IV-G	(a) (iii)	4.3.a.2	5.3.b						71.f	4.3.a.2	76.e	4.3.a.2	4.3.a
Valuation (or Effective) or Calculation Date	52.g	VIII-IV-G	(a) (vii)	4.3.a.4	5.3.f						71.g	4.3.a.4	76.a	4.3.a.4	4.3.f
Intended use and/or users of the valuation	52.c; 65.d	VIII-IV-G	(a) (i)		5.4						71.c		76.j	4.3.a.5	4.3.d; 4.4
Report Date	52.h	VIII-IV-G	(a) (vii)	4.3.a.5	5.3.g						71.h	4.3.a.5	76.j	4.3.a.5	4.3.g
Type of report	52.i	USPAP	Section 10-2	4.3							71.i	4.3	73; 77;	4.3	
Premise of value	52.j	VIII-IV-G	(a) (vi) (3)	4.3.a.8	5.3.c						71.j	4.3.a.8		4.3.a.8	4.3.c
Standard of value defined	52.k	VIII-IV-G	(a) (vi) (3)	4.3.a.7	5.3.e						71.k	4.3.a.7		4.3.a.7	4.3.e
Purpose and intended use of the engagement/report	52.b; 68.b	VIII-IV-G	(a) (ii)	4.3.a.6	5.3						71.b	4.3.a.6	76.c	4.3.a.6	4.3.d
Sources of information disclosed	51; 53.a - j	VIII-V	(a) (ix)	4.3.a.15	5.3.i						71.l	4.3.a.15		4.3.a.15	
Interviewees	53.c				1.19.b										1.19.b
Site visit disclosure or lack of	53.a (4)				1.19.a										1.19.a
Analysis and development of value requirements															
Nature and history of business	57; 27 (9)	VIII-V (8)	(a) (iii)		5.3.j,i (10)										
Economic conditions, present and outlook	57; 65.b	VIII-V	(a) (ix)		5.3.j,ii										
Past, current and future prospects of business/industry	53; 58; 29	VIII-V	(a) (ix)		5.3.j,iii										
Financial Analysis of earnings/dividend capacity	58; 30	VIII-VI	(a) (ix)												
Past sales of interest in the business being appraised	61.c	VIII-V	(a) (ix)		5.3.j,iv										
Market prices of similar businesses publicly traded	61.c	VIII-VII	(a) (ix)		5.3.j,v										
Similar business/interest sales	61.c	VIII-VII	(a) (ix)		5.3.j,iv										
Ownership, Size, nature, restrictions and agreements	52.f; 59-62	p20 VII	(a) (ix)		5.3.j,vii								76.e	4.3.b.i	
Extent the interest appraised contains control	52.f	VIII-IV	(a) (iv)		5.3.j,viii						71		76.e	4.3.b	
Extent interest has or lacks elements of marketability	52.f	VIII-IV	(a) (v)		5.3.j,viii						71		76.e	4.3.b	
Nonoperating/excess operating assets	64	Major Assets			4.3.b.1(6)										
Valuation approaches and methods considered	59; 31	USPAP	(a) (ix)		4.3.b.5 (6)										1.16
Valuation approaches and methods used (or procedures)	60 - 62	VIII-VII	(a) (ix)		4.3.0.9 (5)						71.q	4.3.a.9 (5)	76.a	4.3.a.9 (5)	
Valuation approaches and methods rejected	58.a; 63	USPAP	(a) (ix)		5.3.j,vi										
Valuation adjustments (DLOC, DLOM etc.)	58.a; 63	VIII-IV-G	(a) (ix)		5.3.j,viii										4.3.j
Calculation procedures purpose / performed															
Conclusion of value and signature															
Reconciliation of estimates	68.d;f	VIII-II	(a) (ix);10-3	4.3	5.5						71	4.3	76	4.3	4.5
Estimate, calculation or opinion disclosure	68	VIII-VII	(a) (ix)								71.v				
Signature of primary appraiser	68.d,f	I-VI	10-3 (1)	4.3							71.v	4.3	76.h	4.3.c.2	
	68.g	VIII-II	(a) (xi)	4.3.a.20	1.30						71.u	4.3.a.20	76.i	4.3.a.20	1.30

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ASA, however, does not provide any guidance for reports of what it calls a “limited appraisal” or “calculation.”

A Catch-22 for ASA designated appraisers?

Members of the ASA continue to be conflicted on whether they can accept, pursuant to their standards, a calculation or limited appraisal assignment. Although the ASA standards clearly permit such engagements, these same standards also require conformance with USPAP; and many ASAs interpret USPAP to prohibit these and other engagements that are not properly “valuations.” Others believe that such engagements can be performed, arguing that such engagements simply fall outside the purview of USPAP.

The reporting standards under review here all require BV professionals to communicate the valuation process and conclusion in a manner that is clear and not misleading. With the exception of USPAP and IBA, the remaining standards also agree in effectively requiring the use of a basic technical lexicon published in 2001 as the “International Glossary of Business Valuation Terms.”

This Glossary is a list of 123 words and phrases, 104 of which are provided with brief definitions, 16 are identified as synonymous with otherwise defined terms, and 3 are marked with the note “we discourage the use of this term.” The Glossary was issued in 2001 by ASA, AICPA, NACVA, and IBA as well as the Canadian Institute of Chartered Business Valuators, with a headnote recommending that, “if, in the opinion of the business valuation professional, one or more” of the terms listed in the Glossary is used “in a manner that materially departs from the enclosed definitions..., the term be defined as used within that valuation engagement.”

The ASA elevates this recommendation to a requirement, stating that if usage “materially departs” from these definitions, “the appraiser should fully explain the reason for departure and the implications it may have on the valuation assignment.” Both the ASA and AICPA standards supplement the Glossary, the first adding 17 terms and the second 27 terms. Finally, the Internal Revenue Service’s “Business Valuation Guidelines,” noted above, also includes as an appendix both the Glossary and its headnote. (The accompanying table on page 3, “Permitted Engagements and Reports,” summarizes the permitted engagements and permitted report types using the terms of the respective business valuation standards.)

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1. This is the more precise term; “to announce a new law or system officially or publicly: The new constitution was promulgated in 1990.”

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