



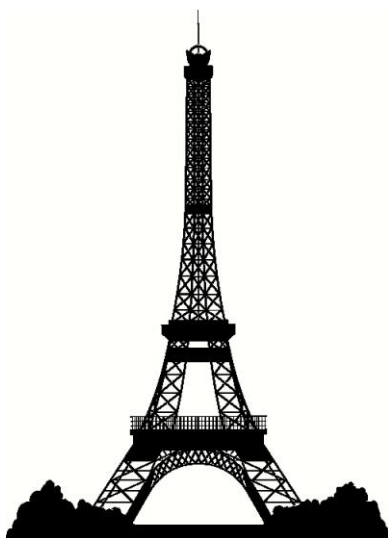
## **AROUND THE WORLD IN EIGHTY VALUATIONS:**

**A Research Study of Differences in the Approach to  
and Application of Business Valuation Theory and  
Methodology from Different Regions Around the  
World**

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## **Around the World in Eighty Valuations:**

### **A Research Study of Differences in the Approach to and Application of Business Valuation Theory and Methodology from Different Regions Around the World.**

Prepared for the 2014 Ian R. Campbell Research Initiative of The Canadian Institute of Chartered Business Valuators<sup>1</sup>

Prem M. Lobo and Matt Bottomley<sup>2</sup>

*"It's really useful to travel, if you want to see new things."*  
*Jules Verne, Around the World in Eighty Days*

*"...there is a logic to everything on this earth and nothing is done without a reason..."*  
*Jules Verne, The Adventures of Captain Hatteras*

*"No matter what people tell you, words and ideas can change the world."*  
*Robin Williams, from Dead Poets Society*

## **1.0 PROLOGUE**

In Jules Verne's book *Around the World in Eighty Days*, the characters Phileas Fogg, an Englishman, and Passepartout, his French Valet, set out from London by train, aiming to circumnavigate the globe in eighty days or less. Fogg had wagered 20,000 pounds with his acquaintances at the Reform Club that this could be done. During the ensuing journey, Fogg and Passepartout encounter many adventures and obstacles, from rescuing a woman in India, to being chased by a detective who mistakes Fogg for a bank robber, to missing travel connections and having to improvise new plans. In the end, Fogg and Passepartout somehow make it back to London just in time, having gained a day because they travelled eastwards. Fogg wins his wager, but, more importantly, gains a wealth of knowledge about the world from his travels.

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<sup>1</sup> The views expressed herein are those of the authors and do not necessarily reflect those of the Canadian Institute of Chartered Business Valuators.

<sup>2</sup> Brief biographies are set out in Appendices B and C, respectively.

In the spring of 2014, two Canadian Chartered Business Valuators embarked on a similar journey of discovery. While perhaps not quite as eventful as Fogg’s travels, our field research took us to Paris, New York, Montreal, and of course our home town of Toronto, while our office research touched on various countries around the world. Our objective was to identify and understand material differences that may exist in the approach to and application of business valuation theory and methodology around the world, and, if so, what some of these differences were, and the reasons for the same. Our objective was not motivated by a wager, but by a curiosity to explore differences in international valuations, so that Canadian CBVs, counsel, clients and adjudicators could perhaps better understand the reasons for differing approaches, positions and methodologies taken by business valuers from around the world. The results of our research are set out herein. We certainly enjoyed conducting and synthesizing our research in support of the observations, recommendations and conclusions which follow. We hope the result adds to the canon of valuation knowledge in this very important area of international valuations, as we ourselves certainly gained a wealth of knowledge from this process.

## **2.0 INTRODUCTION**

In recent years, we as Canadian CBVs and as an Institute have seen a trend towards the “internationalization” of business valuations. As Canadian businesses continue to expand internationally, there have been more cross-border purchase and sale transactions, mergers and acquisitions, corporate reorganizations as well as cross-border income tax disputes and other kinds of litigation involving Canadian entities, which often result in Canadian CBVs reading non-Canadian business valuation reports and having to work with, negotiate with or otherwise deal with non-Canadian business valuers. For example, international arbitrations (cross-border legal or trade disputes which are adjudicated in a “neutral” jurisdiction such as London, Geneva, Paris or Toronto) have proliferated, and valuers from different countries have been called as expert witnesses to assist the arbitrators in such cases.

In the course of our practice, we, the authors, have had the opportunity to review non-Canadian business valuation reports. We have occasionally noted that there are differences in the content of and manner in which the reports are set out, the professional standards that are required to be adhered to, the methodologies employed and the data used for valuation calculations. We were curious as to whether such differences were systemic, based on geography (which we refer to as “geo-professional differences” herein), or based on the facts and circumstances of each valuation context.

This research paper offers our observations as to the extent, if any, of systemic geo-professional differences in the approach to and application of business valuation theory and methodology around the world, and, if so, what some of these differences are, and the reasons for the same.

### 3.0 RESEARCH QUESTIONS & RELEVANCE: DO GEO-PROFESSIONAL ORIGINS MATTER?

Stated in more detail, our research aimed to explore the following questions:

- i. Are there geo-professional differences in the **approach to valuations** – i.e., in the valuation theory and standards employed by valuers? What are the relevant valuation standards that govern the preparation of valuation reports in different countries? How do these standards differ and how are they similar? What contribution do the standards have toward creating or reducing differences in the application of business valuation theory and methodology around the world?
- ii. Are there geo-professional differences in the **application of business valuation theory and methodology**? If so, what are some of these differences? For instance, do business valuers from one country or economic region have different criteria or rationales to determine if a capitalized cash flow approach versus a discounted cash flow approach is more appropriate? Do valuers from one country or economic region tend towards using empirical research data when setting discount rates, or do they prefer to use more professional judgment? What level of detail do valuers from different countries or economic regions go into when preparing their valuations? Are there particular nuances as to how calculations are undertaken by valuers from different countries?
- iii. To the extent identifiable, what are the **reasons** for any identified differences in the professional approach between jurisdictions? What are the implications of these differences (or lack thereof) to business valuers, the counsel and clients that retain them, and the adjudicators that hear their testimony?

### 3.1 Relevance

In our view, understanding geo-professional differences in the approach to and application of business valuation theory and methodology will be useful to Canadian CBVs who review non-Canadian valuation reports and negotiate with or otherwise deal with non-Canadian valuers. Understanding geo-professional differences will result in a greater appreciation of the context behind why a non-Canadian valuator may have selected a particular methodology over another seemingly plausible one, why professional judgment was exercised in a particular manner, why a particular level of detail was utilized or why a calculation was undertaken in a particular fashion. This will enable Canadian CBVs to potentially “bridge the geographic gap” between opposing valuation reports and potentially lead to more efficient purchase and sale transactions or more amicable or diplomatic interactions between valuers in litigation disputes.

Understanding geo-professional differences in business valuation would also be relevant to litigation counsel and clients that retain CBVs, as well as adjudicators (judges, arbitrators) who have to review valuation reports and hear valuation testimony. Understanding the geo-professional context behind the choice of approach and methodology used by a Canadian versus a non-Canadian valuator would help develop a better appreciation of the respective positions of the different valuers.

### 4.0 RESEARCH METHODOLOGY

In order to address our research questions, we focused on particular countries with significant economic ties to Canada (the “Identified Countries”, as explained in Section 4.1 below). Our methodology incorporated the following elements:

- i. With respect to the **approach to** valuations, we obtained, analyzed and compared the valuation standards governing the preparation of valuation reports in each of the Identified Countries.
- ii. With respect to the **application of** business valuation theory and methodology, we:
  - (a) Obtained, analyzed and compared valuation reports (where available) from these countries; and,

- (b) Conducted interviews with litigation counsel and adjudicators wherein we discussed, from their experiences, specific examples of differences (or lack thereof, as the case may be) in valuation reports from the Identified Countries.
- iii. We summarized our findings based on the above procedures.

#### 4.1 Identified Countries

In order to maximize the depth of our analysis, we chose to focus on a smaller rather than larger group of countries. We chose countries that had significant economic ties to Canada and which ranked in the top 10 of Canada’s export partners. Due to language differences, we did not include countries from Asia (we were able to obtain English valuations for all of the other countries). The countries we chose were as follows:<sup>3</sup>

**Table 1**

<b>Country</b>	<b>\$ CDN Exports in Millions (2013)</b>	<b>Rank in Terms of Value of Canadian Exports to Country (2013)</b>
Canada	N/A	N/A
United States	358,535	1
United Kingdom	14,752	3
Germany	4,073	7
Netherlands	3,677	8
France	3,321	10

#### 4.2 Methodology Notes

We focused our research on valuations of business interests and intellectual property as opposed to quantifications of financial loss. However, where a loss quantification included a valuation as part of the loss calculation, we included the report in our analysis.

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<sup>3</sup> Source: Statistics Canada, Canadian International Merchandise Trade, 2004 to 2013.  
[http://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/h\\_00029.html](http://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/h_00029.html)



We did not include equipment or real estate appraisals. While these sometimes have similar valuation methodologies to business interests and intellectual property, the valuation methodologies are sufficiently different as to warrant separate treatment and we therefore chose to exclude them.

The valuation reports we analyzed were prepared in various contexts, including the quantification of business value in domestic proceedings and international arbitration matters, tax purposes, purchase and sale transactions and matrimonial disputes.

Given our focus on geographical differences in the approach to and application of valuation theory and methodology, a number of the business valuation reports we analyzed involved international arbitration matters, and a number of the interviews we conducted involved international arbitration counsel and arbitrators.

## **5.0 SCOPE OF REVIEW AND ACKNOWLEDGEMENTS**

In preparing this paper, we have reviewed and relied upon the documents, information and interviews as set out in Appendix A.

In addition to the many individuals we interviewed in the course of preparing this paper, we are particularly grateful to the following individuals for their valuable insights, guidance and feedback with respect to our research:

- i. Mr. H. Scott Fairley, Partner, WeirFoulds LLP, Toronto, Canada.
- ii. Ms. Michelle Levac, Transfer Pricing Specialist, Canada Revenue Agency, Ottawa, Canada, Chair of the CICBV Research Committee and Member of the Board of Directors of The Canadian Institute of Chartered Business Valuators.
- iii. Ms. Mary Jane Andrews, Partner, Advisory Services, KPMG, Halifax, Canada, Chair of the Board of Directors of the International Institute of Chartered Business Valuers and past chair of the Board of Directors of the Canadian Institute of Chartered Business Valuators.
- iv. Mr. Michael Badham, Executive Director, International Institute of Business Valuers, Toronto, Canada.
- v. Ms. Jutta Menninger, Head of Taxes, Brose Group, Munich, Germany.
- vi. Mr. Andrew Pike, Managing Director, AN Valuations, Leiden, The Netherlands.

## 6.0 SUMMARY OF SIGNIFICANT FINDINGS

With respect to the reports and standards we reviewed and the interviews we conducted, and pursuant to our research methodology, scope of review, caveats and limitations as set out herein, our significant research findings are as follows:

**Table 2**

<b>Summary of Significant Findings</b>	
<b>i)</b>	There are geo-professional differences in the approach to and application of business valuation theory and methodology from around the world.
<b>ii)</b>	There do not appear to be significant differences with respect to the structure of valuation reports and the choice of methodologies used.
<b>iii)</b>	Differences do exist with respect to the level of detail employed in valuation reports, the degree to which key assumptions and scope limitations are explicitly disclosed, and whether conclusions are arrived at by averaging various methods or using one method, among other differences as set out herein.
<b>iv)</b>	US valuation standards tend to be more detailed, technical and prescriptive as compared to CBV Standards and IVS, which allow for greater application of professional judgment on the part of the valuator.
<b>v)</b>	US valuation reports appear to make more reference to empirical market data and finance theory (such as CAPM), tend to contain more calculation details and tend to be lengthier than Canadian and European valuation reports.
<b>vi)</b>	In terms of disclosure of assumptions, independence and limitations, Canadian and US valuation reports tend to have more robust disclosures.
<b>vii)</b>	Notwithstanding geographic similarities and differences in valuation reports, and notwithstanding the level of detail used, it is ultimately the reasonableness of valuation conclusions in context of commercial reality that leads to whether a valuation is seen as credible by the various users of valuation reports such as clients and adjudicators.

**Table 3**

<b>Recommendations</b>	
<b>i)</b>	Given the disparity in level of detail between Canadian, US and other identified country valuations, perhaps it might be useful to harmonize those standards that are more prescriptive with those that are less so. Written guidance from the relevant valuation organizations would be helpful in order to initiate the harmonization process.
<b>ii)</b>	Guidance from the IVSC or enhancements to IVS with respect to required disclosures and professional and ethical responsibilities of valuers would be beneficial to reduce differences in this area between Canadian/US and European valuation reports.
<b>iii)</b>	Given comments from adjudicators that the spirit of independence is not always being adhered to in valuation reports, additional standards addressing ethics and the independence of valuers, with specific guidance and examples, would be most beneficial with respect to all valuation standards, and particularly with respect to IVS.
<b>iv)</b>	Currently, there is no consensus with respect to one uniform set of valuation standards to be used on an international basis with respect to the valuation of business interests and intellectual property. Establishing some consensus in this regard would be most beneficial to enhance consistency, transparency and understandability in valuation reports, irrespective of geography.

## **7.0 ANALYSIS OF DIFFERENCES IN THE APPROACH TO VALUATIONS – VALUATION STANDARDS**

### **7.1 Overview**

In order to identify and understand any geographic differences in the approach to valuations, we obtained, analyzed and compared the valuation standards governing the preparation of valuation reports in each of the Identified Countries.

Based on our research, the following valuation standards are primarily used in each of the Identified Countries with respect to the valuation of business interests:

**Table 4**

<b>Country</b>	<b>Valuation Standards for Business Interests</b>
Canada	Valuation standards of The Canadian Institute of Chartered Business Valuators (“CICBV” and “CBV Standards”)
United States	<p>Business Valuation Standards of the American Society of Appraisers (“ASA” and “ASA Standards”)</p> <p>Professional Standards of the National Association of Certified Valuation Analysts (“NACVA” and “NACVA Standards”)</p> <p>Statement on Standards for Valuation Services of the American Institute of Certified Public Accountants (“AICPA” and “SSVS”)</p> <p>Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation (“AF” and “USPAP”)</p>
United Kingdom	International Valuation Standards of the International Valuation Standards Council (“IVSC” and “IVS”)
Netherlands	IVS
Germany	<p>IVS</p> <p>Principles for the Performance of Business Valuations of the Institut Der Wirtschaftsprufer (“IDW” and “IDW S 1”)</p>
France	IVS

As our research focuses on the valuation of businesses or business interests, we did not analyze valuation standards relating to financial reporting. For instance, United States Generally Accepted Accounting Principles (“US GAAP”) and International Financial Reporting Standards (“IFRS”) have very detailed standards and requirements on when to calculate the fair value of investments and financial instruments, the allocation of fair value upon the purchase and consolidation of a business and goodwill impairment testing. However, these standards focus on consistency and clarity of financial statement information, and not the valuation of business interests. Therefore, we do not further address US GAAP and IFRS herein.

In order to identify differences and similarities between the different sets of business valuation standards, we will first briefly summarize each of the standards set out in Table 4 above.

## **7.2 Canada – The Canadian Institute of Chartered Business Valuators and CBV Standards**

Founded in 1971, The Canadian Institute of Chartered Business Valuators (CICBV) is nationally and internationally recognized as the pre-eminent business valuation organization in Canada. The CICBV establishes practice standards, educational requirements and ethical guidelines which support and promote the integrity of the CBV profession for the benefit of the public. The CICBV promulgates various practice standards as well as practice bulletins. CBV Practice Standards relate to the following areas:

- i. Valuation Reports
- ii. Advisory Reports
- iii. Expert Reports
- iv. Limited Critique Reports
- v. Fairness Opinions
- vi. Investment Entity Review Reports

The CICBV also promulgates a Code of Ethics governing the overall conduct of its Members.

We focused our analysis on Standards 110, 120 and 130 which deal with valuation reports. A summary of these standards is as follows:

**Table 5**

I: Standards No. 110, 120 and 130 of the Canadian Institute of Chartered Business Valuators (Valuation Reports)	
<b>i) Overview</b>	
Number of pages	10 pages (excluding glossary of terms)
<b>ii) Standard 110</b>	
	Report Disclosure Standards and Recommendations
Types of Valuation Reports	Comprehensive Valuation, Estimate Valuation, Calculation Valuation (Standard 110 provides a brief definition of each)
Report Structure	Report introduction (to whom the report is being provided, valuation date, purpose etc.) Definitions of value Report scope of review Description of valuation approach and methods used Description of valuation calculations, summary of relevant financial information etc. Restrictions and qualifications Conclusion of value
<b>iii) Standard 120</b>	
	Scope of Work Standards and Recommendations
General Standards	Valuation should be performed by people having adequate technical training and proficiency, gather sufficient appropriate valuation evidence, disclose any qualifications and limitations
Specific Standards	Sufficient understanding of the subject of the valuation and relevant financial statements Brief mention of need to consider key valuation components and assumptions Brief explanation of normalization adjustments, capitalization rates, reliance on 3rd parties Brief mention of key valuation components and assumptions
<b>iv) Standard 130</b>	
	File Documentation Standards
	Working papers should be maintained; valuation work to be documented Include all working papers necessary to understand valuation assumptions

### **7.3 US – American Society of Appraisers (“ASA”) and ASA Standards**

#### **National Association of Certified Valuation Analysts (“NACVA”) and NACVA Standards**

#### **American Institute of Certified Public Accountants (“AICPA”) and Standards for Valuation Services (“SSVS”)**

The US has the distinction of having at least three organizations that promulgate valuation standards; the ASA, NACVA and AICPA, as well as one organization, the Appraisal Foundation (“AF”), that sets quality control standards that valuers have to follow in a variety of circumstances (known as Universal Standards of Professional Appraisal Practice “USPAP”).

The American Society of Appraisers is an organization of professional appraisers representing all appraisal disciplines: Appraisal Review and Management, Business Valuation, Gems and Jewelry, Machinery and Technical Specialties, Personal Property and Real Property.<sup>4</sup>

The ASA also promulgates the “Principles of Appraisal Practice and Code of Ethics” which provide guidance with respect to the independence, ethical and competence requirements of its members.

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<sup>4</sup> <http://www.appraisers.org/About>

The ASA's business valuation standards are summarized as follows:

**Table 6**

IIa: Business Valuation Standards of the American Society of Appraisers (with summary descriptions of selected standards)	
<b>i) Overview</b>	
Number of pages	39 pages (excluding glossary of terms)
<b>ii) BS-I</b>	
	General Requirements for Developing a Business Valuation
Introduction	Report introduction (to whom the report is being provided, valuation date, purpose etc.)
Types of Valuation Reports	Appraisal, Limited Appraisal, Calculation (BS-I provides a brief explanation of each)
	Overall commentary on collecting sufficient, relevant information for the valuation, using appropriate valuation methods and procedures, documentation and reporting
<b>iii) BS-II</b>	
	Financial Statement Adjustments
<b>iv) BS-III</b>	
	Asset-Based Approach to Business Valuation
<b>v) BS-IV</b>	
	Income Approach to Business Valuation
<b>vi) BS-V</b>	
	Market Approach to Business Valuation
	Commentary on the relevance of financial statement adjustments and when to use the asset, income and market approaches
<b>vii) BS-VI</b>	
	Reaching a Conclusion of Value
	Discussion of using a weighted average of various methods and use of informed judgment to determine the relative weights to apply to each method
<b>viii) BS-VII</b>	
	Valuation Discounts and Premiums



**Iia: Business Valuation Standards of the American Society of Appraisers - Continued**

(with summary descriptions of selected standards)

<b>ix) BS-VIII</b>	Comprehensive Written Business Valuation Report
	Disclosures regarding independence and reliance on data supplied by others
	Definition of the valuation assignment
	Business description including discussion of management, competition, history and major assets
	Analysis and discussion of financial statements and adjustments
	Discussion of valuation methodology and reasons for selection of methodology
<b>x) BS-IX</b>	Intangible Asset Valuation
<b>xi) SBVS-1</b>	Guideline Public Company Method
<b>xii) SBVS-2</b>	Guideline Transaction Method
<b>xiii) AO-1</b>	Financial Consultation and Advisory Services
<b>xiv) PG-1</b>	Litigation Support: Role of the Independent Financial Expert
<b>xv) PG-2</b>	Valuation of Partial Ownership Interests

NACVA is a US based organization focused on training and certifying financial professionals in the disciplines of business and intangible asset valuation, financial forensics including damages quantifications, and fraud detection and prevention.<sup>5</sup> NACVA's business valuation standards are summarized as follows:

**Table 7**

**Iib: Professional Standards of the National Association of Certified Valuation Analysts**

(summary only)

Number of pages	10 pages (excluding glossary of terms)
Overview	Sets out ethical standards and professional standards for members to adhere to Discusses two types of report - valuation engagement and calculation engagement High level overview of items to consider in arriving at a valuation conclusion High level overview of items to include with respect to report structure and disclosures

<sup>5</sup> <http://www.nacva.com/>

The AICPA created a set of valuation standards (as well as the specialist designation Accredited in Business Valuation, “ABV”) in response to the increasing number of AICPA members involved in performing business valuation engagements, with the intent to improve the consistency and quality in the practice of such engagements. The AICPA’s business valuation standards are summarized as follows:

**Table 8**

IIc: Statement on Standards for Valuation Services of the American Institute of Certified Public Accountants (summary only)	
Number of pages	63 pages (excluding glossary of terms)
Overview	<p>Sets out overall engagement considerations relating to independence, ethical standards and professional standards for members to adhere to</p> <p>Discusses two types of report - valuation engagement and calculation engagement</p> <p>Detailed discussion of items to consider in arriving at a valuation conclusion including valuation methodologies, valuation adjustments, financial and non financial information to consider, setting out valuation assumptions and documentation of analyses undertaken</p> <p>Detailed discussion of items to include in a written valuation report, including report structure, sources of information, valuation methodologies selected and reasoning, representations of the valuator and representations with respect to information used</p>

In addition to the ASA, NACVA and AICPA, the AF is authorized by the US Congress to set the Uniform Standards of Professional Appraisal Practice, or USPAP, which represents the quality control standards applicable for real property, personal property, intangibles, and business valuation appraisal analysis and reports in the United States and its territories.

USPAP was first developed in the 1980s by a joint committee representing the major US appraisal organizations. The AF was formed by these same groups, along with support and input from major industry and educational groups, and took over administration of USPAP.

USPAP provides a minimum set of quality control standards for the conduct of appraisals in the US. USPAP requires that appraisers be familiar with and correctly utilize those methods which would be acceptable to other appraisers familiar with the assignment at hand and acceptable to the intended users of the appraisal.

USPAP consist of 10 Standards which cover the development and reporting of valuations, as well as Statements regarding specific practices in appraisal, and Advisory Opinions which are advisory rather than binding.

#### 7.4 Germany - Institut Der Wirtschaftsprufer and IDW S 1

The IDW is a privately-run organization established to serve the interests of its members, which comprise both individual public auditors as well as public audit firms. The IDW was established on a voluntary basis as opposed to statute.

The IDW promulgates the “Principles for the Performance of Business Valuations”, or IDW S 1<sup>6</sup>. This standard sets out the principles to be applied by German public auditors when carrying out business valuations. The standard describes the significant general principles to be applied. However, IDW S 1 indicates that “each valuation needs to be addressed individually. To this extent, the principles can only form a framework within which individual solutions must be determined for specific cases”<sup>7</sup>.

The IDW’s business valuation standard (IDW S 1) is summarized as follows:

**Table 9**

III: IDW S 1 of the Institut Der Wirtschaftsprufer	
(summary only)	
Number of pages	36 pages (English translation as at December 2, 2008)
Overview	<p>Sets out overall principles to be applied by German public auditors when carrying out business valuations</p> <p>Provides an overview of business valuation principles</p> <p>Discusses analysis of cash flows and projection of future cash flows</p> <p>Discusses basic principles of capitalization of future cash flows and application of dividend discount and DCF methods</p> <p>Overall guidelines with respect to setting a discount rate and using the WACC method</p> <p>Brief overview of documentation and reporting requirements</p>

<sup>6</sup> The IDW also promulgates standard IDW S 5, which relates to the valuation of intangible assets.

<sup>7</sup> IDW S 1, Section 1, Par. 1.

## **7.5 The Netherlands – Nederlands Instituut voor Register Valuators (“NIRV”)**

We understand that the NIRV is an organization that promulgates valuation standards in the Netherlands. However, through our research and discussions, we also understand that membership in the NIRV is not extensive, and the NIRV standards are not currently widely adopted in practice. Valuations in the Netherlands tend to be prepared pursuant to some of the other widely accepted valuation standards discussed herein (particularly IVS as further described in Section 7.6 below).

## **7.6 UK, Germany, Netherlands and France - International Valuation Standards Council (“IVSC”) and International Valuation Standards**

The IVSC is an independent, private sector organization which was created following discussions between the UK and US valuation professions in the late 1970s. Its operational headquarters are in London. The organization is mainly funded through membership subscriptions and sponsorship by valuation professional bodies, valuation providers and valuation users. The IVSC currently has 74 member bodies from 54 countries.<sup>8</sup>

The organization has three main bodies:

- i. a Board of Trustees responsible for the strategic direction and funding of the IVSC and for appointments to the Standards Board and Professional Board;
- ii. a Standards Board with autonomy over its agenda and the creation and revision of valuation standards and supporting technical guidance; and,
- iii. a Professional Board to promote the development of the profession around the world.

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<sup>8</sup> <http://www.ivsc.org/content/about-international-valuation-standards-council-ivsc>

The main objectives of the IVSC are to:

- i. Develop high quality international standards and support their adoption and use;
- ii. Facilitate collaboration and cooperation among its member organizations;
- iii. Collaborate and cooperate with other international organizations; and,
- iv. Serve as the international voice for the valuation profession.

The IVSC publishes International Valuation Standards (“IVS”) which are reviewed and revised periodically.

At this time, the IVS has not been universally adopted in all countries (for instance, in Canada and the US, although efforts are underway). Some countries have adopted IVS as national standards (e.g. Australia, New Zealand, Romania, South Africa, Turkey). Other countries have adopted IVS as national standards with amendments to meet requirements of national legislation. Meanwhile, professional organisations have associated with the IVS, such as the Appraisal Institute of Canada, the Royal Institution of Chartered Surveyors (“RICS”) and the ASA (for non-US reports). Ongoing IVS adoption efforts continue.<sup>9</sup>

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<sup>9</sup> IVSC: Its Role, Today’s Standards Setting Environment and Current Projects. Presentation by Steve Sherman and Tom Boyle of the IVSC, July 25, 2013.

The IVS are summarized as follows:

**Table 10**

IV: International Valuation Standards of the International Valuation Standards Committee (with summary descriptions of selected standards)	
<b>i) Overview</b>	
Number of pages	32 pages (including IVS Framework and IVS 101 to 201, excluding asset valuation standards and standards IVS 220 to 310, excluding explanatory comments and guidance)
Structure of IVS	<p>IVS Definitions</p> <p>IVS Framework - sets out generally accepted valuation principles and concepts for applying all other standards</p> <p>IVS General Standards - 3 general standards set forth requirements for all valuation engagements</p> <p>IVS Asset Standards - 6 asset standards set forth any additions to the general standards</p> <p>IVS Valuation Applications - address common purposes for which valuations are required and any additions to the general and asset standards for those purposes</p> <p>Technical Information Papers - support the application of requirements in other standards. Includes TIPs on DCF, cost approach for intangible assets and valuation of intangible assets</p>
<b>ii) IVS Framework</b>	Commentary on objectivity, competence of valuers, basis of value, definition of market value, overview of valuation approaches and valuation inputs
<b>iii) IVS 101</b>	Scope of Work
<b>iv) IVS 102</b>	Implementation
<b>v) IVS 103</b>	Reporting
	Disclosure of assumptions, restrictions, valuation methodologies and rationale, purpose of valuation, extent of investigation and nature and source of information provided
<b>vi) IVS 200</b>	Brief commentary on additional scope of work and implementation criteria for valuing business interests
<b>vii) IVS 210</b>	Brief commentary on additional scope of work for valuing intangible assets

## 7.7 Analysis and Commentary

We reviewed and analyzed all of the standards set out above in order to identify any significant differences and similarities among them. Our observations are as follows:

- i. All of the reporting standards generally set out the same or similar structure for valuation reports. For instance, all of the standards require a report introduction, definitions of value, descriptions of valuation approach, restrictions and qualifications and so on. We note that the German IDW S 1 standard is less detailed than the other standards in this regard.
- ii. Most of the standards generally set out similar scope of work requirements. For instance, all of the standards require that valuation work be properly supervised, performed by people with adequate technical training and proficiency, that sufficient and appropriate valuation data be gathered and the extent of work undertaken and any limitations be disclosed. IDW S 1 does not include scope of work requirements.
- iii. With respect to ethical and professional standards, US valuation standards tend to discuss the independence, ethical responsibilities and objectivity of valuers in more depth. CBV Standards themselves do not discuss independence in depth, but the CBV Code of Ethics does cover the ethical responsibilities of a valuator. The IVSC has the “Code of Ethical Principles for Professional Valuers” as well as the “Competency Framework for Professional Valuers”, dealing with the expected competence and ethical considerations of professional valuers.
- iv. When compared to CBV Standards, IDW S1 and IVS, US valuation standards overall are distinctively lengthier, more prescriptive, and set out the required elements of valuation reports in more detail. CBV Standards, IDW S1 and IVS, for instance, tend to outline the potential valuation methodologies that can be used in broad terms, whereas there are individual ASA Standards for each of the asset, income, and market approaches (BS-III, IV and V, respectively), as well as additional standards that discuss the guideline public company and guideline transaction approaches (SBVS-1 and 2, respectively). Similarly the SSVS contains a fairly detailed discussion of items to include in a written valuation report as well as an illustrative list of assumptions and limiting conditions for a business valuation.

- v. Following from the above, CBV Standards, IDW S 1 and IVS set out overall valuation principles and frameworks, allowing for a greater exercise of prudent professional judgment by business valuers in terms of the selection of valuation methods that best meet the needs of particular valuation contexts, how to disclose items such as assumptions and scope limitations and how to arrive at and express a conclusion of value. We noted from our interviews with counsel and arbitrators (discussed in Section 9 below) that, often, the ability to exercise prudent professional judgment rather than strictly follow technical rules is seen as a positive attribute, as it results in valuation conclusions that are relevant and make sense given commercial reality.
- vi. Canadian and US standards explicitly define different types of valuation reports, representing different levels of analysis. CBV Standards define three report levels: comprehensive, estimate and calculation valuations, which are closely mirrored by the ASA's appraisal, limited appraisal and calculation valuation report definitions. Meanwhile, NACVA Standards and SSVS both define and discuss two report levels: valuation and calculation engagements. Based on our review, IVS and IDW S 1 do not set out explicit definitions of different types of valuation reports. The IVS does mention a "valuation review" engagement where the reviewer is not expected to provide their own opinion of value, but no other types of reports are referred to.
- vii. With respect to arriving at valuation conclusions, ASA Standard BS-VI suggests that more than one valuation method be employed, with a weighted average of the methods being used to arrive at a conclusion of value. None of the other valuation standards suggest or recommend that more than one valuation approach be used and that a weighted average be calculated. At the same time, none of the other valuation standards preclude this either.
- viii. All things considered, we found Canadian valuation reporting standards to be robust yet concise in their requirements, clearly laid out and easy to understand and flexible in allowing for the exercise of professional judgment, as opposed to requiring adherence to specific rules. By comparison, US valuation standards were far more detailed and prescriptive. Meanwhile, IVS appeared to be concise, yet somewhat more difficult to follow, as the same IVS Framework and General Standards are generic and meant to apply to the valuation of business interests as well as other asset classes. Moreover, certain areas of the IVS, such as



recommendations with respect to independence and objectivity, were less detailed than their Canadian and US counterparts.

## **7.8 Conclusion – Differences in the Approach to Valuations**

Having reviewed and analyzed the various valuation standards used in the Identified Countries, it would appear that:

- i. There are no significant differences between valuation standards in terms of the basic structure and disclosure requirements of valuation reports. However, some standards provide more detailed guidance than others in this regard.
- ii. Differences exist in the level of detail required by the various standards, with US valuation standards tending to be more detailed and prescriptive than CBV Standards, IDW S 1 and IVS, and with respect to how conclusions are to be determined (using a single methodology versus using a weighted average of more than one methodology), among other differences.
- iii. CBV Standards, IDW S 1 and IVS allow for greater application of prudent professional judgment on the part of the valuator. As we will see shortly below, our review of Canadian and European valuation reports reflected a difference between the application of professional judgment between reports.

## **8.0 ANALYSIS OF DIFFERENCES IN THE APPLICATION OF VALUATION THEORY AND METHODOLOGY – REVIEW OF VALUATION REPORTS**

### **8.1 Obtaining Valuation Reports**

In order to analyze geo-professional differences with respect to the application of business valuation theory and methodology, we obtained, analyzed and compared valuation reports (where available) from the Identified Countries which were prepared in the past 10 years (2005 to 2014, inclusive).

We encountered considerable difficulties in obtaining valuation reports to analyze and compare. Due to the confidentiality of information contained therein, most practitioners and counsel were understandably reluctant to provide us with valuation reports. Nevertheless, we were able to, upon providing confidentiality undertakings and/or obtaining client permissions, view various valuation reports at the premises of counsel. The valuation reports we analyzed were as follows:

**Table 11**

<b>Country</b>	<b>Number of Valuation Reports</b>
Canada	17
United States	9
United Kingdom	7
Netherlands	2
Germany	4
France	6
Total	45

We appreciate that analyzing the above number of reports may not represent a statistically valid sample. Our observations may not be reflective of all valuation reports from the Identified Countries for all valuation contexts. However, they do provide a useful basis from which to draw observations and inferences. Many of our observations and inferences were corroborated in our interviews with legal counsel and arbitrators as set out in Section 9 below.

## **8.2 Caveats**

Our observations from our review of valuation reports are set out below. We have summarized our individual observations into “consensus” observations. With respect to this, we caution that:

- i. In summarizing “consensus” observations, some of the variability and differences between individual valuation reports from a particular country are inevitably lost. Nevertheless, we tried to capture the overall factual characteristics of valuation reports from each identified country as accurately as possible.
- ii. Given the difficulties in obtaining valuation reports to analyze and compare, the observations set out below represent our factual findings from the valuation reports we did obtain and analyze and, as such, reflect the facts and contexts for which the valuations were prepared.

- iii. We did not summarize all differences and similarities into the tables below, but chose ones that, in our view, were more significant and representative of the overall population reviewed. Other differences and similarities may exist.

### 8.3 Structure of Valuation Reports

We first analyzed and compared valuation reports for their structure – i.e., whether they contained an introduction section, scope of review, scope limitations, the extent to which disclosures and contextual discussions were present, etc. We noted the following:

**Table 12**

	Canada	US	UK	Netherlands/ Germany	France
<b>I: Structure of Valuation Report</b>					
<b>Report introduction</b>					
States to whom the valuation report is being provided	Yes	Yes	Yes	Yes	Yes
Description of shares or assets being valued	Yes	Yes	Yes	Yes	Yes
Effective date of valuation	Yes	Yes	Yes	Yes	Yes
Type of report or extent of due diligence	Yes Comprehensive, estimate or calculation of value	Yes Appraisal, limited appraisal or calculation	Not explicitly stated	Not explicitly stated	Not explicitly stated
Statement of independence	Comparatively detailed	Comparatively detailed	Comparatively less detailed	Brief/not included	Brief/not included
Definition of value (fair market value etc.)	Yes	Yes	Yes	Yes	Yes

	Canada	US	UK	Netherlands/ Germany	France
<b>I: Structure of Valuation Report - Continued</b>					
<b>Scope of review</b>					
Scope of review included	Yes	Yes	Yes	Yes	Yes
Any scope limitations disclosed	Often	Sometimes	Often	Sometimes	Sometimes
<b>Restrictions and qualifications</b>	Yes	Yes	Yes	Yes	Yes Comparatively brief
<b>Disclosure of significant assumptions</b>	Yes - explicitly listed	Yes - explicitly listed	Included in report body	Included in report body	Included in report body
<b>Background facts</b>	Concise	Detailed	Detailed	Concise	Concise
<b>Overview of valuation methodologies</b>	Yes	Yes	Yes	Yes	Yes
<b>Discussion of appropriate methodology</b>	Comparatively detailed	Comparatively detailed	Comparatively less detailed	Comparatively less detailed	Comparatively less detailed

**Commentary:**

Our commentary with respect to the above observations is as follows:

- i. Valuation reports from the Identified Countries all have reasonably similar structures. Most valuation reports seem to include the same key structural elements, albeit in different order.
- ii. For the most part, only the Canadian and US valuation reports explicitly defined the type of report or extent of due diligence undertaken. Canadian valuation reports specified whether the valuation was a comprehensive, estimate or

calculation valuation report. US valuation reports also had similar terminology (appraisal, limited appraisal, calculation). While the extent of analysis was described in the text of the valuation reports from the other Identified Countries, this tended to not be explicitly stated up front and sometimes was only included in peripheral comments made in various sections of the report. Stating this up front would, in our view, be helpful to the reader.

- iii. Canadian, US and UK valuation reports tended to have more robust disclosures with respect to independence of the expert, whereas reports from the other Identified Countries had either brief or, in some cases, no such disclosure. Given the focus on independence of experts in recent years in Canada, US and the international stage, explicit and uniform disclosures about independence would add to the credibility of valuation reports.
- iv. With respect to scope limitations, it appears that the Canadian and UK valuation reports tended to disclose scope limitations more often than the reports from the other Identified Countries. This is likely a result of the valuation contexts themselves and a result of Canadian valuation standards and IVS being more prescriptive in terms of outlining exactly what information was not available, versus information that was available and relied on.
- v. With respect to disclosure of significant assumptions, while all valuation reports set out assumptions in the text of the report, Canadian and US valuation reports explicitly set out the significant assumptions in a separate section or appendix. We found this helpful in terms of understanding the key facts and assumptions underpinning each valuation.
- vi. The US and UK valuation reports we reviewed had rather extensive background sections, which included commentary on the subject company or asset being valued, the industry, economy, competitive companies and demographic trends. In our view, we found that the US valuation reports included background information that some users may find too detailed or not completely relevant to the valuation exercise being undertaken.

#### **8.4 Valuation Methodology**

We analyzed and compared valuation reports for the valuation methodology employed – i.e., whether there was a tendency towards a particular valuation method, whether valuation discounts or premiums were applied, the level of detail delved into and the extent to which empirical market data was referred to in order to calculate risk premiums and other valuation inputs.

As part of our general summary below, we took into consideration the context of each valuation report and excluded situations with particular circumstances/contexts that might distort our overall observations.

We noted the following:

**Table 13**

	Canada	US	UK	Netherlands/ Germany	France
<b>II: Valuation Methodology</b>					
<b>Normalization adjustments to forecasted cash flows</b>	Yes - Various adjustments	Yes - Various adjustments	Yes - Various adjustments	Yes - Comparatively fewer adjustments	Yes - Comparatively fewer adjustments
<b>Level of detail used to calculate normalization adjustments</b>	Comparatively less detailed	Detailed	Comparatively less detailed	Comparatively less detailed	Comparatively less detailed
<b>Tendency towards use of a particular valuation method (market comparables; discounted cash flow; capitalized cash flow; adjusted net realizable value etc)?</b>	No particular tendency noted	No particular tendency noted; see below	No particular tendency noted; see below	No particular tendency noted	No particular tendency noted
<b>Conclusions based on one primary valuation method or average of two or more methods?</b>	One primary method. Secondary method used to corroborate	Use of two or three methods, with conclusion based on weighted average of methods	Use of two or three methods, with conclusion based on weighted average of methods	One primary method	One primary method

Canada

US

UK

Netherlands/  
Germany

France

## II: Valuation Methodology - Continued

### Determination of discount rate/capitalization multiple

	Canada	US	UK	Netherlands/ Germany	France
Tendency to use Capital Asset Pricing Model (CAPM) or build up method to obtain cost of equity	Both build up and CAPM	CAPM	CAPM	Both build up and CAPM	Both build up and CAPM

Extent of use of empirical market data for risk premiums	Considerable - Use of market research studies to establish some risk premiums	Extensive - Numerous market research studies referred to establish risk premiums	Considerable - Use of market research studies to establish some risk premiums	Some use of market research studies.	Some use of market research studies.
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Use of finance models other than CAPM or build up to establish cost of equity	No	Yes	No	No	No
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### Discounts

Control premium or minority discount applied	Yes - Minority discount	Yes - Either applied, where relevant	Yes - Either applied, where relevant	Yes - Minority discount	Yes - Minority discount
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Use of empirical market data for minority discount	No - Qualitative criteria	Yes - Frequently	Yes - Sometimes	No - Qualitative criteria	No - Qualitative criteria
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Discount for lack of marketability	Yes - Often included with minority discount	Yes	Yes - Often included with minority discount	No	No
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Use of empirical market data for marketability discount	No - Qualitative criteria	Yes - Frequently	Yes - Sometimes	No - Qualitative criteria	No - Qualitative criteria
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## **Commentary:**

Our commentary with respect to the above observations is as follows:

- i. We noted a difference in how valuation methodologies were employed in the valuation reports from the Identified Countries. Such differences did not relate to a tendency towards a particular valuation method (discounted versus capitalized cash flow, for instance) but, rather, in the level of detail undertaken and extent to which empirical market data was examined to arrive at inputs such as risk premiums used in valuation calculations.
- ii. Overall, we noted that the US valuation reports tended to be considerably more detailed with respect to consulting empirical market data to arrive at risk premiums, minority and marketability discounts and normalization adjustments. The Canadian and UK valuation reports tended to rely slightly less on empirical market data, and even less so by the valuation reports from the remaining Identified Countries.
- iii. Valuation reports from the US and UK tended to rely on the Capital Asset Pricing Model (“CAPM”) to establish the cost of equity used in valuation calculations. Reports from Canada and the other Identified Countries used either CAPM or a risk adjusted build-up method.
- iv. With respect to estimating the appropriate equity risk premium, beta, size premium and company specific premium, the US valuation reports tended to examine a considerably greater set of empirical market studies, and employed a considerably more detailed calculation regime than any of the valuation reports from the other Identified Countries. Notwithstanding this, we found that, in the US valuation reports, the discussions of which market studies were examined and which data was considered was somewhat hard to follow due to the level of detail set out.
- v. We noted a tendency, in the Canadian valuation reports, to use one discount percentage to reflect both minority interest and marketability issues, and, where a controlling interest was valued, we noted no instances of a control premium being applied. In contrast, in the US valuation reports, we noted that minority and marketability discounts were applied separately, and control premiums for controlling interest were often considered and applied, likely due to the higher frequency of the CAPM approach being utilized.

- vi. With respect to valuation methodologies, the Canadian valuation reports tended to consider various methods and then select one primary method for valuation calculations. A secondary method might then be used to test the reasonableness of the primary method. With respect to the US and UK valuations, we noted a tendency to use two or more valuation methods to arrive at value figures, and then a weighted average of the methods would be undertaken to arrive at a valuation conclusion. Valuation reports from the other Identified Countries tended to use one primary valuation method.
- vii. Where a weighted average was used, in some cases we questioned the appropriateness of using two or more methods, as it seemed that some of the methods used may not have been appropriate for the specific company being valued. For instance, it may not make sense to use an adjusted net realizable value method to value a company that is clearly a going concern with positive future cash flow, and to include this method as part of a weighted average calculation that also includes a discounted cash flow and capitalized cash flow valuation.

## 8.5 Reconciliation of Valuation Conclusions/Reasonableness Check

**Table 14**

	Canada	US	UK	Netherlands/ Germany	France
<b>III: Reconciliation of Valuation Conclusions/Reasonableness Check</b>					
Use of other valuation methodologies as a reasonableness check	Yes - Always	Yes - Done as part of the weighted average of different valuation methods	Yes - Always	Yes - Always	Yes - Occasionally/ Briefly
Calculation of tangible asset backing and assessment of reasonableness of implied goodwill	Yes - Always	No	No	No	No
Consideration of prior valuations or purchase offers, or other value indicators	Yes	No	No	No	No

### **Commentary:**

Our commentary with respect to the above observations is as follows:

- i. The majority of valuation reports we reviewed employed some measure of a reasonableness check of valuation conclusions, usually involving the use of a secondary valuation method to corroborate a primary method's conclusions.
- ii. The calculation of tangible asset backing, calculation of implied goodwill and assessment of reasonableness of the implied goodwill figure tended to be prevalent in Canadian valuation reports but not in US, UK or other valuation reports.

iii. While the US valuation reports tended to focus on empirical market data and detailed analyses of items such as normalization adjustments, the reports we examined did not appear to consider past valuations or prior purchase offers as another check of valuation conclusions. This was also the case with valuation reports from other Identified Countries. Many of the Canadian valuation reports we examined did, to varying degrees, consider prior valuations and purchase offers, when applicable. We note, however, that the above observation may be a result of contextual differences between the various valuation reports examined.

## 8.6 Overall Observations with Respect to Valuation Reports Reviewed

Table 15

	Canada	US	UK	Netherlands/ Germany	France
<b>IV: Overall Observations with Respect to Valuation Reports Reviewed</b>					
Clarity of valuation conclusions	Clear	Clear - Extra details due to weighted average of different valuation methods	Clear - Extra details due to weighted average of different valuation methods	Clear	Clear
Succinctness of valuation report	Usually succinct	Usually voluminous	Usually voluminous	Usually succinct	Succinct
Clarity of valuation calculations/schedules	Clear and well organized	Clear - However, level of detail adds complexity	Clear and well organized	Reasonably clear	Reasonably clear

## **Commentary:**

Our commentary with respect to the above observations follows below. Note that these are broad overall observations.

- i. With respect to the clarity of valuation conclusions, we found that the Canadian, Dutch, German and French valuation reports tended to provide comparatively more clear and concise conclusions. While conclusions in the US and UK valuation reports were also clearly presented, the additional level of detail necessitated by undertaking a weighted average method added an extra level of detail which perhaps detracted from the clarity of the overall up front conclusion.
- ii. We found the Canadian, Dutch, German and French valuation reports to be generally be more succinct in their disclosure. Meanwhile, the US and UK valuation reports we reviewed tended to be comparatively more lengthy. The US reports in particular tended to have additional appendices that set out market and economic data such as interest rates, support for risk premiums, economic forecasts and details on comparable companies. We found that in a number of US valuation reports, the additional information included in the appendices was not necessary directly utilized as part of the valuation calculations, but was included on more of an “FYI” basis.
- iii. With respect to the clarity of valuation calculations and schedules, we found that all valuation reports presented valuation calculations in a reasonably clear and logical fashion. We found that the level of detail contained in many of the US valuation reports we reviewed added to the overall length and complexity of valuation schedules, making them somewhat more difficult to follow in some cases.

## 9.0 ANALYSIS OF DIFFERENCES IN THE APPLICATION OF VALUATION THEORY AND METHODOLOGY – INTERVIEWS WITH LITIGATION COUNSEL AND ARBITRATORS

### 9.1 Interviews

In order to further analyze geographic differences with respect to the application of business valuation theory and methodology, we conducted interviews with litigation counsel and arbitrators wherein we discussed, from their experiences, specific examples of differences (or lack thereof, as the case may be) in valuation reports from the Identified Countries.

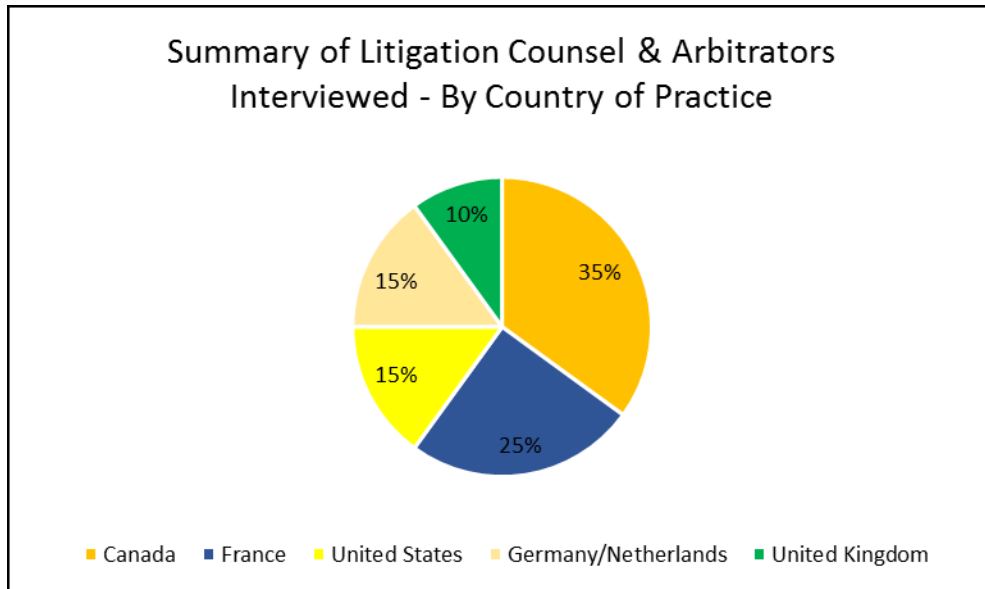
Many of our interviewees practice in the field of international arbitration, and, therefore, have had occasion to review valuation or loss reports or hear valuation or loss testimony from valuers of different countries. Interviews were conducted either in person in Paris, New York, Montreal, or Toronto, or via telephone call. Counsel and arbitrators shared their candid views on valuation reports with us on the condition that we would not disclose their identities or the facts of the cases they were describing. The number of litigation counsel and arbitrators we interviewed were as follows:

**Table 16**

Litigation Counsel	41
Arbitrators	14
Total	55

The geographic breakdown of these individuals based on their country of practice is summarized below:

**Exhibit 1**



We are extremely grateful to all the counsel and arbitrators who gave so generously of their time and insights in order to make this part of our research possible.

**9.2 Caveat**

Some counsel and arbitrators were able to review valuation reports from past cases they had been involved in before being interviewed by us. However, in most cases, past valuation reports were not readily available and, therefore, the majority of our interviewees relied upon their recollections of key aspects of valuation reports and valuation testimony. Recollections are not as strong as hard factual data, but they provide a useful insight into which particular differences between valuation reports made a greater impression on and remained in the minds of counsel and arbitrators.

The results of our interviews and our commentary with respect to them are set out below.

### 9.3 Structure of Valuation Reports

**Table 17**

<b>I: Structure of Valuation Report</b>	
<b>Overall Comments</b>	<p>Valuation reports are generally well laid out, and generally summarize the mandate, conclusions and methodologies in a logical manner.</p> <p>Valuation reports that are concise yet which have undertaken adequate due diligence to support valuation calculations are preferred by arbitrators to those that are voluminous.</p> <p>Arbitrators prefer valuation reports that set out scope limitations and assumptions explicitly in the report rather than having to infer these from the body of the report.</p>
<b>Specific Comments</b>	<p>US valuation reports tend to be larger in size and contain more detail. Some arbitrators indicate this somewhat detracts from the overall flow or understandability of the report.</p> <p>Canadian and US valuation reports tend to have more robust disclosures with respect to the independence of the valuator preparing the report than valuation reports from other countries.</p>

#### **Commentary:**

Our commentary with respect to the above observations is as follows:

- i. It is interesting and generally consistent with our own analysis of valuation reports that counsel and arbitrators view valuation reports from the Identified Countries as having generally similar structures. The differences arise with respect to characteristics such as length and the extent of disclosure of such items as assumptions and scope limitations.
- ii. US valuation reports tend to be seen as larger in size and containing more detail relative to valuation reports from the other Identified Countries. Overall, arbitrators expressed a preference for more concise reports.



- iii. Interestingly, while US and Canadian reports were seen as having more robust disclosures with respect to independence, it was a recurring comment among arbitrators that valuers are not always in compliance with the spirit of independence. For instance, arbitrators indicate that in some cases, valuers make assumptions upon instructions from counsel when such assumptions are not within the qualifications of the valuator to prove or substantiate. In the eyes of arbitrators, this results in less credible valuation conclusions. In other cases, some of the legal counsel and arbitrators we interviewed felt that in some circumstances, valuers appear to have intentionally attempted to overstate or understate valuation conclusions.
- iv. Counsel indicated that they were not always made aware of the specific independence standards or codes of ethics that were adhered to in the preparation of valuation reports, and that explicit disclosure of this would be particularly helpful.

This concern with respect to independence often manifests itself upon cross examinations of valuation experts at hearings and is not evident from the reports in and of themselves. In addition, this concern does not appear to restrict itself to valuation conclusions from any one of the Identified Countries, but is a general concern across geographical boundaries.

## 9.4 Valuation Methodology

Table 18

II: Valuation Methodology	
<b>Overall Comments</b>	<p>There is no discernable pattern in terms of whether valuation reports from particular identified countries tend to use a certain valuation methodology (DCF vs CCF) over another. By and large, valuation reports appear to use whatever methodology makes sense in each specific valuation context.</p> <p>The level of detail and extent to which empirical market data is referred to in order to arrive at discount rates and other valuation inputs does not necessarily result in a more credible valuation conclusion. It is the competence of the valuator and the overall reasonableness of the conclusion that are more credible than technical details.</p>
<b>Specific Comments</b>	<p>US valuation reports tend to have a greater reliance on finance theory in order to arrive at discount rates and other valuation inputs.</p> <p>French valuation reports sometimes do not fully explain the rationale behind selection of particular risk premiums or minority/marketability discounts.</p> <p>Canadian valuation reports tend to explain the selection of valuation methodology in a logical and concise manner.</p>

### Commentary:

Our commentary with respect to the above observations is as follows:

- i. There does not appear to be a geographic pattern towards the use of one particular valuation methodology over another. Counsel and arbitrators perceived the valuers as utilizing the most appropriate methodology given the facts of each valuation context.
- ii. It is also notable that the level of detail relied upon with respect to valuation inputs such as risk premiums does not automatically result in more credible valuations in the eyes of arbitrators. One arbitrator remarked upon how it was possible to take comfort in the technical aspects of market data and statistics, but

to miss the commercial reality of what an appropriate value ought to be, or, in rare cases, to use technical analyses to intentionally calculate higher or lower valuation conclusions.

- iii. A number of counsel remarked that French valuation reports sometimes did not provide sufficient discussion of valuation methodologies or the rationale behind the selection of particular valuation inputs. This is particularly the case in French civil court proceedings, when courts appoint their own valuation expert instead of having valuation reports advanced by valuers from the parties involved in a proceeding. In these situations, the perception is that, without the motivation of potential cross examination, the court appointed experts do not adequately explain the basis for their assumptions and calculations, but rely upon their experience and expertise to substantiate their valuation calculations.
- iv. Overall, US valuation reports are seen as relying more heavily on finance theory and empirical market data in order to arrive at discount rates and other valuation inputs.

## 9.5 Reconciliation of Valuation Conclusions/Reasonableness Check

**Table 19**

III: Reconciliation of Valuation Conclusions/Reasonableness Check	
<b>Overall Comments</b>	All valuation reports attempt some degree of reasonableness check of valuation conclusions. However, just because a reasonableness check is performed, this does not mean that the valuation conclusion is indeed reasonable in the eyes of the adjudicator. The valuation conclusion has to be consistent with commercial reality.
<b>Specific Comments</b>	Canadian and US valuation reports tend to provide multiple data points to assist in the reconciliation/reasonableness of valuation conclusions relative to valuation reports from the other identified countries.

**Commentary:**

Our commentary with respect to the above observations is as follows:

- i. Consistent with comments we heard about adhering to independence in appearance but not in fact or spirit, we heard comments from arbitrators that while most valuation reports attempt reasonableness checks, this does not mean that the underlying conclusion is necessarily reasonable.
- ii. Notwithstanding that, we found it encouraging that the arbitrators singled out Canadian and US valuation reports as having more rigorous checks of reasonableness and having more data points to arrive at the reasonableness of conclusions than valuation reports from the other Identified Countries.

## 9.6 Overall Observations with Respect to Valuation Reports and Valuation Testimony

Table 20

IV: Overall Comments with Respect to Valuation Reports and Valuation Testimony	
<b>Overall Comments</b>	<p>In the view of most counsel and arbitrators, there is no significant or material difference in the structure or methodology used in valuation reports from the identified countries.</p> <p>Differences arise in the level of detail that some valuation reports delve into in arriving at valuation conclusions.</p> <p>Factual details that take into account various legal scenarios are understood and appreciated by arbitrators. However, what is perceived as excessive detail in arriving at valuation inputs used in valuation calculations is seen as distracting, and does not result in a valuation conclusion being more credible relative to a valuation that is based on less empirical data but is prepared by a competent valuator who can explain the valuation in a professional and logical manner.</p>
<b>Specific Comments</b>	<p>When testifying in court/arbitrations, US and Canadian valuers tend to be more flexible when asked about the impact on their valuation conclusions of using different or alternate assumptions than those used in their reports. Valuators from the other identified countries tend to have more difficulty in adopting alternate assumptions and assisting the court/arbitration panel with how their conclusions would change if these assumptions were adopted and used.</p> <p>Canadian and UK valuation experts in particular are seen as having a good reputation in terms of the independence and credibility of their valuation conclusions.</p> <p>When comparing US and Canadian valuation reports, Canadian valuation reports are seen as more succinct and convey valuation conclusions in a comparatively clearer fashion.</p>

The above observations are largely self-explanatory. Therefore, we will not further expand on them.

## 10.0 SIGNIFICANT FINDINGS AND RECOMMENDATIONS

The significant findings from our review and analysis of valuation standards, valuation reports and interviews conducted are as follows:

- i. On balance, there are geo-professional differences in the approach to and application of business valuation theory and methodology from around the world.
- ii. There do not appear to be significant differences with respect to the structure of valuation reports and the choice of methodologies used.
- iii. Differences do, however, exist with respect to the level of detail employed in valuation reports, the degree to which key assumptions and scope limitations are explicitly disclosed, and whether conclusions are arrived at by averaging various methods or using one method, among other things.
- iv. The US valuation reports consistently make more reference to empirical market data and finance theory, and tend to contain more calculation details, which likely accounts for their relatively more voluminous size relative to reports from the other Identified Countries. This is likely attributable to and consistent with the fact that US valuation standards are also generally more prescriptive, rules based, and require additional details with respect to valuation methodology, discounts and premiums, the use of the guideline company method and so on.

It is indeed interesting that, notwithstanding the greater emphasis on detail and market data, US valuation reports were not perceived as having an additional advantage over other Identified Countries or other valuation reports by the individuals we interviewed. In fact, arbitrators suggested that somewhat less technical detail would be preferable, and suggested that it is not the extent of detail that is important but, rather, whether the details are relevant and result in valuation conclusions that make sense given commercial reality.

Given the often wide disparity in level of detail between US, Canadian and other identified country valuations that we reviewed, coordination between the CICBV, US valuation bodies and the IVSC with respect to the level of detail would be useful to harmonize those standards that are more prescriptive with those that are less so, in some form of written guidance from the relevant valuation organizations.

- v. In terms of disclosure of assumptions, independence and limitations, Canadian and US valuation reports tend to have more robust disclosures. This is likely attributable to and consistent with the fact that Canadian and US valuation standards tended to contain additional guidance in these areas, relative to IVS. This, in turn, may be the result of the fact that Canadian and US valuation standards have been developed and in practice for a considerable period of time, and have been refined continuously over time. Moreover, recent years have seen a greater emphasis on independence in the Canadian and US court systems, and this may be reflecting itself in Canadian and US standards and/or valuation reports.

The reports and standards from other Identified Countries tended to have less robust disclosures in this regard. Given that the other Identified Countries use IVS, perhaps some further guidance from the IVSC or enhancements to IVS with respect to required disclosures and professional and ethical responsibilities of valuers would be beneficial to reduce differences in this area.

- vi. It is concerning to us that arbitrators had a generally skeptical view of the independence of valuers and valuation reports. This is certainly not a view that the valuation profession should allow to linger. Given comments that the spirit of independence does not always appear to be adhered to, additional standards addressing ethics and the independence of valuers, with specific guidance and examples, would be beneficial with respect to all standards, and, particularly, the IVS.
- vii. We noted from our review of valuation standards that CBV Standards and IVS tend to be more concise and less technical, and allow for greater exercise of professional judgment on the part of valuers. It is interesting, given this “freedom” that Canadian valuation reports tended to gravitate towards more disclosures, details and reconciliations of valuation conclusions. Meanwhile, the European valuation reports appeared to gravitate towards somewhat less disclosure, details and reconciliations of valuation conclusions. In other words, the Canadian and European valuation reports appear to have differing interpretations of what is sufficient and appropriate report disclosure.

## 11.0 CONCLUSION

In the book *Around the World in Eighty Days*, Fogg and Passepartout make it back home just in the nick of time, after circumnavigating the globe in eighty days. It took us almost that same period of time to research and write this paper, and it is perhaps fitting that we conclude it in the nick of time as well.

We have learned that there **are** differences in the approach to and application of business valuation theory and methodology around the world through our research, as demonstrated in the different valuation standards used and in valuation reports themselves. The differences do not relate to the structure of valuation reports. Rather, differences emerge in the underlying detail and the overall conceptual approach to valuations – more technical versus more professional judgment based, for example.

In order to reduce the number of differences across jurisdictions, certain aspects of valuation standards used around the world may need to be enhanced, while some technical aspects of other valuation standards may need to be tempered. Among the potential enhancements seems to be the need for a greater focus on independence and objectivity among valuers. This could result in clients and adjudicators having greater confidence in the independence of valuation conclusions.

The results of our research will help fellow valuers and their clients generally understand what to expect (in terms of level of detail, disclosures, weighted averaging of conclusions etc.) when a valuation report from one of the Identified Countries comes across their desks, and will help them better understand the regulatory context (i.e. the valuation standards) pursuant to which the valuation report may have been prepared.

Perhaps one of the most compelling ancillary findings of our research is that despite various similarities and differences in valuation reports from around the world, and despite differences in the level of detail used, it is ultimately the reasonableness of valuation conclusions in context of commercial reality that leads to whether a valuation is seen as credible.

In the next few years, the valuation profession will likely continue to seek ways to harmonize international valuation standards and practice. We hope this paper assists in some capacity to identify some of the major differences and areas of focus. In any case, we look forward to enthusiastic dialogue on the subject between our valuation colleagues from around the world.



# APPENDICES

# APPENDIX A

# APPENDIX A

## SCOPE OF REVIEW

In preparing this paper, we have reviewed and relied upon the documents, information and interviews set out below:

### **I: Valuation Standards and Valuation Organizations**

1. Canadian Institute of Chartered Business Valuators - Valuation Standards 110, 120, 130 and Code of Ethics.
2. Business Valuation Standards of the American Society of Appraisers - Standards BS-I to BSIX, SBVS 1 and 2, AO-1, PG 1 and 2.
3. Professional Standards of the National Association of Certified Valuation Analysts.
4. Statement of Standards for Valuation Services of the American Institute of Certified Public Accountants.
5. Professional standards of the National Association of Certified Valuation Analysts.
6. Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation.
7. International Valuation Standards of the International Valuation Standards Committee - IVS Definitions, Framework, General Standards, Asset Standards, Valuation Applications and Technical Information Papers.
8. Principles for the Performance of Business Valuations (IDW S 1) of the Institut Der Wirtschaftsprufer.
9. NIRV Standards of the Nederlands Instituut voor Register Valuators.
10. Information pertaining to the background and organization of the IVSC as per (<http://www.ivsc.org/content/about-international-valuation-standards-council-ivsc>).

11. Presentation:IVSC: Its Role, Today's Standards Setting Environment and Current Projects  
(Presentation by Steve Sherman and Tom Boyle of the IVSC, July 25, 2013).
12. Information pertaining to the background and organization of the ASA as per (<http://www.appraisers.org/About>).
13. Information pertaining to the background and organization of the NACVA as per (<http://www.nacva.com/>).
14. Information pertaining to the background and organization of the AICPA as per (<http://www.ivsc.org/content/about-international-valuation-standards-council-ivsc>).

## **II: Macro Economic Data**

15. Statistics Canada, Canadian International Merchandise Trade, 2004 to 2013.  
([http://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/h\\_00029.html](http://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/h_00029.html)).

## **III: Valuation Reports**

16. Valuation reports (45 in total, on a confidential basis) from countries in different geographical jurisdictions including: Canada, United State of America, United Kingdom, Netherlands, Germany and France.

## **IV: Interviews**

17. Interviewed 55 litigation counsel and arbitrations (41 counsel, 14 arbitrators, on a confidential basis) relating to observed differences, if any, in the approach to and application of business valuation theory and methodology by different valuers from the identified countries.
18. Mr. H. Scott Fairley, Partner, WeirFoulds LLP, Toronto, Canada.
19. Ms. Mary Jane Andrews, Partner, Advisory Services, KPMG, Halifax, Canada, Chair of the Board of Directors of the International Institute of Chartered Business Valuers and Member of the Board of Directors of the Canadian Institute of Chartered Business Valuers.
20. Mr. Michael Badham, Executive Director, International Institute of Business Valuers, Toronto, Canada.

21. Ms. Jutta Menninger, Head of Taxes, Brose Group, Munich, Germany.
22. Mr. Andrew Pike, Managing Director, AN Valuations, Leiden, The Netherlands.

**V: Additional Research**

23. Presentation entitled "An Assessment of the Valuation Profession and International Valuation Standards" by Elvin Fernandez (July 22-24, 2010).
24. Article entitled "International Arbitration: Would a Single Set of Global Valuation Standards Assist Parties in Testing Expert Valuation Evidence" by Geoff Senogles and Phil Hersey (October 2013).
25. Paper entitled "Global Unification of Business Valuation Standards" by Elizbieta Izabela Szczepankiewicz (2013).
26. Valuation and Common Sense (4<sup>th</sup> Ed.) by Professor Pablo Fernandez, IESE Business School, Madrid (July 2013).
27. Paper entitled "Market Risk Premium Used in 82 Countries in 2012: A Survey with 7,192 Answers" by Professor Pablo Fernandez, Javier Aguirreamalloa and Luis Corres (January 2013).

# APPENDIX B

**Prem Lobo CPA, CA, CBV, CPA (ILLINOIS), CFE, CFF**  
Principal | [plobo@cohenhamiltonsteger.com](mailto:plobo@cohenhamiltonsteger.com)

**Professional Experience**

Prem Lobo is a Principal at Cohen Hamilton Steger & Co. Inc. Prem specializes in the quantification of damages, business valuations and forensic accounting. His practice has been focused exclusively in this area since 2001. In 2013, Prem was named the “Top Chartered Business Valuator under 40” by the Canadian Institute of Chartered Business Valuators (“CICBV”) and in 2014, he was awarded the Communicator Award by the CICBV.

Prem is located in Toronto, Ontario, but his practice has encompassed various jurisdictions across Canada, the US, Europe, South America and the Caribbean. Prem was formerly an Associate Director in a major international consultancy’s Disputes and Investigations practice.

Prem has been involved in the quantification of damages with respect to breach of contract, misrepresentation, intellectual property matters, class action lawsuits and expropriation proceedings, among other commercial matters. He has been involved in preparing business valuations for shareholder disputes, purchase price allocations, corporate acquisitions, tax litigations, and for various transactions. Prem has conducted forensic accounting investigations with respect to alleged fraud, accounting improprieties and non-arm’s length transactions, among others.

Prem’s damages quantification, business valuation, and forensic accounting experiences have encompassed a diverse range of industries including manufacturing, oil and gas, software development, power generation, pharmaceuticals, financial services, real estate, retail and others.

Prem has prepared or assisted in the preparation of numerous expert reports and affidavits and has appeared as an expert witness at trial and at mediation proceedings.

Prem is a frequent public speaker and writer, and has published articles and papers in numerous legal and accounting periodicals including the Journal of Business Valuation, CA Magazine, Business Valuation Digest, the Advocates’ Journal, Commercial Litigation Review and Class Action Defence Quarterly. Prem has taught accounting courses at the undergraduate and graduate levels at York University’s Schulich School of Business and the University of Ontario. Prem has authored or co-authored six accounting-related text books and study guides.

# APPENDIX C



## **Matt Bottomley CPA, CA, CBV, CFE**

**Canaccord Genuity Corp.**

**Equity Research Associate | [mbottomley@canaccordgenuity.com](mailto:mbottomley@canaccordgenuity.com)**

### **Professional Experience**

Matt Bottomley is an Equity Research Associate at Canaccord Genuity Corp., focusing on the Canadian healthcare and life science industry. Matt has extensive business valuation and damage quantification experience and has been practicing exclusively in the area of business valuation and market research since 2012, with a current focus on Canadian pharmaceutical companies.

Matt's business valuation experience has involved a wide breadth of companies and industries including manufacturing, construction, automotive, technology, aerospace, real estate, financial services, entertainment and pharmaceuticals.

Matt has been involved in the quantification of damages with respect to share holder disputes, breach of contract, expropriations, misrepresentation, income tax disputes, intellectual property matters as well as a variety of forensic accounting examinations, including international corporate fraud investigations.

Matt has authored a number of presentations and articles which have been presented at various conferences and seminars in matters ranging from loss quantification in the context of expropriations, to best practices for expert valuers to consider when placing evidence in Canadian courts. Matt has written for the Lawyers Weekly and is an active member of the Young Valuers Group of the Canadian Institute of Chartered Business Valuers.

Matt received his Honours Bachelor of Commerce from McMaster University in 2007.