CBV Institute

INTERNATIONAL VALUATION STANDARDS

WHAT THEY ARE AND WHAT CBVs SHOULD KNOW

June 2019

CONTENTS

INTRODUCTION

This document is the first publication by CBV Institute with respect to International Valuation Standards (IVS). The purpose of this publication is to raise awareness and understanding of IVS among CBV Members, Registered Students and Canadian-based international groups or organizations. This first publication provides a high level factual overview of the structure of the IVS and the content therein that is relevant to business valuation. CBV Institute expects to provide further publications which will compare IVS to CBV Institute Practice Standards.

IVS are a global set of valuation standards promulgated by the International Valuation Standards Council (IVSC), which is an independent, not-for-profit global standard setter for the valuation profession[1]. The IVSC's goal is to build trust in valuation by establishing one set of globally consistent, high-quality valuation standards.

Click to watch a short video about the IVS

The IVSC has more than 130 member organizations from around the world and is supported by numerous sponsor organizations who are leaders in the valuation field. The IVSC facilitates collaboration and cooperation among its member organizations, who are valuation professional organizations (VPOs), valuation service providers, financial services businesses, regulators, international bodies and academic institutions. The IVSC is an independent standard setter – it does not offer training or accreditation to individuals or valuation firms. The IVSC has different forms of recognition from the UN, World Bank, IMF, European Banking Authority and IASB, amongst others. Some of the world's leading regulators send observers to IVSC meetings, and IVSC also engages at the highest levels to provide input and understand regulatory issues.

As one of the leading business valuation professional bodies in the world the CBV Institute is both a member and a sponsor of IVSC[2], and plays an essential role in supporting its mission. This facilitates Canadian influence on the global approach to business valuation, and increases recognition of CBV Institute and its members internationally, as well as when international investors seek valuations in the Canadian market. Several of our Members serve on the IVSC's Boards, including:

- **Iseo Pasquali,** FCBV (Chief Business and Integration Officer for Deloitte and Past Chair of CBV Institute Board of Directors), serves on IVSC's Board of Trustees
- **Eleanor Joy,** FCBV (Past Chair of CBV Institute's Board of Directors), serves on IVSC's Membership and Standards Recognition Board
- **Robert Boulton,** CBV (Executive Vice-President and Chief Operating Officer, CBV Institute), serves on IVSC's Business Valuation Standards Board
- **Thomas Lee,** CBV (KPMG Valuation Partner and National Leader for the Complex Financial Instruments team), serves as the Vice-Chair on the newly created IVSC Financial Instruments Standards Board
- **Mary Jane Andrews,** FCBV (President and CEO of CBV Institute and past Chair of CBV Institute Board of Directors), serves on IVSC's CEO Leadership Forum, which is an advisory role to IVSC Leadership through meetings of CEOs for larger VPOs around the world.

[1] Across all asset classes, including business valuation, intangible assets, tangible assets and financial instruments.

[2] Other sponsors include AICPA, ASA, RICS, CFA Institute, PwC, Deloitte, Ernst & Young, KPMG and others.

Efforts are underway by the IVSC to identify and develop a database of VPOs that have adopted IVS, as well as individual members of a VPO that have taken relevant IVS training. International investors and potential valuation clients will be able to access the database when looking for a valuer trained to provide valuations in line with IVS.

CBV Institute established a Task Force whose mandate is to consider matters relevant to CBV Institute's adoption of IVS. As part of that process, it was important to understand the IVS and how they compare to CBV Institute Practice Standards. This publication is dedicated to understanding IVS.

UNDERSTANDING IVS

IVS consist of mandatory requirements that must be followed in order to state that a valuation was performed in compliance with IVS. IVS are focussed on the whole valuation **engagement** (i.e. process), not just the valuation **report**.

IVS are principles-based multi-disciplinary standards; hence, they are broader than CBV Institute Practice Standards. IVS include requirements for multiple asset classes - tangible assets (such as plant & equipment and real property interests), business valuation, intangible assets and financial instruments. Even within the area of business valuation, IVS are broader than CBV Institute Practice Standards as IVS requirements apply to external as well as **internal** valuation engagements[3]. IVS also incorporate more definitions and guidance on different bases of value as compared to CBV Institute Practice Standards. That said, IVS does not contradict CBV Institute Practice Standards, and the guidance and contents of IVS are helpful in the application of CBV Institute Practice Standards.

The degree of detail as to the methods, considerations, process, actions, guidance and documentation is more extensive in IVS than in CBV Institute Practice Standards. For example, IVS 105 – Valuation Approaches and Methods, incorporates authoritative guidance on various valuation approaches and methods and how they should be used, which CBV Institute Practice Standards do not[4]. While much of the detail in IVS is expected to be common practice among CBVs, the additional guidance on technical valuation areas within IVS itself effectively codifies acceptable and appropriate practices, which promotes consistency in valuation practice.

The IVS also impose incremental requirements in certain areas when compared to CBV Institute Practice Standards. For example, an IVS compliant valuation requires valuers to assess the appropriateness of all significant inputs to a valuation, which CBV Institute Practice Standards may not require in all instances[5].

STRUCTURE OF IVS

In January 2017, the IVSC published the latest version of IVS (IVS 2017), which became effective on July 1, 2017. References hereafter to IVS will be to the IVS 2017 publication. IVS include a glossary, framework and five general standards that apply to all valuation assignments, as well as six asset standards that include requirements related to specific types of assets.

[3] Under IVS, clients could be external or internal. This means that IVS requires a report to be prepared when a valuation is prepared for an employer. In contrast, CBV Institute Practice Standards (for example Practice Standard 110) are not intended to apply to internal communications.

[4] CBV Institute includes this content as part of the Program of Studies.

[5] Under Practice Standard 110, the conclusion in "Calculation Reports" is based on minimal review and analysis and little or no corroboration of relevant information.

IVS GLOSSARY

The Glossary does not define basic valuation, accounting or finance terms (such as asset, liability, or cash flow) as valuers are assumed to have an understanding of such terms and the definitions of such terms may vary depending on the purpose of the valuation and the jurisdiction in which it is performed. The terms included in the Glossary[6] are:

- **Asset/Assets** – includes assets, groups of assets, liabilities and groups of liabilities.
- **Client** – refers to both external (third-party) and internal clients (i.e. valuations performed for an employer).
- **Jurisdiction** – is the legal and regulatory environment in which a valuation engagement is performed, which may in some cases require the use of a particular valuation approach (i.e. the relevant jurisdiction may require the use of only a market approach in a circumstance where IVS would indicate that the income approach should be used). Jurisdictions also impact departures from IVS.
- **Participant** – includes the relevant participants for the basis of value used in a valuation engagement (i.e. a market participant perspective is required in an IFRS fair value basis of value).
- **Purpose** - is the reason why a valuation is performed, and may include financial reporting, tax reporting, litigation support, transaction support, or to support secured lending decisions.
- **Significant and/or Material** – require professional judgement. “Materiality” refers to materiality to the valuation engagement. Aspects of a valuation are considered significant/material if their application and/or impact on the valuation could reasonably be expected to influence the economic or other decisions of users of the valuation. Judgements about materiality are affected by the size or nature of the subject asset. In other words, significance and materiality are tied to the user and their decision.
- **Subject or Subject Asset** – is the asset(s) valued in a valuation engagement.
- **Valuer** - includes an individual, group of individuals, or a firm possessing the necessary qualifications, ability and experience to undertake a valuation in an objective, unbiased and competent manner.
- **Valuation Reviewer** – is a valuer engaged to review the work of another valuer. IVS does not have separate standards for a critique of another valuer’s report. A valuation reviewer is able to provide their own conclusion of value whilst reviewing another valuer’s work[7].
- **Weight and Weighting** – is the amount of reliance placed on a particular indication of value in reaching a conclusion of value. Weighting refers to the process of analyzing and reconciling different indications of value, typically from different methods or approaches, but does not include averaging of valuations, which is prohibited by IVS.
- **May/Must/Should** – IVS clarifies that all aspects of the standards are mandatory; however, some aspects of IVS require a specific action, while others require only consideration of certain factors. The terms “must”, “should” and “may” are important, and help to distinguish various aspects of IVS and provide clarity.
    - **“Must”** indicates unconditional responsibility. The valuer must fulfill responsibilities of this type in all cases in which the circumstances exist to which the requirement applies.
    - **“Should”** indicates responsibilities are presumptively mandatory. The valuer must comply with

[6] Note that many business valuation terms are included in the International Glossary of Business Valuation Terms (currently available as CBV Practice Bulletin No. 2). CBV Institute is participating on a task force with ASA, RICS and AICPA to reconcile the two glossaries.

[7] Under CBV Institute Practice Standard 410, a Limited Critique Report, by definition, is a report that does not itself contain a valuation conclusion or conclusion as to the quantum of financial gain/loss, or any conclusion of a financial nature in the context of litigation or dispute.

requirements of this type unless they demonstrate that alternative actions which were followed under the circumstances were sufficient to achieve the objectives of the standards (in which case these must be documented). When "should" is used, it means the valuer should consider an action or procedure and therefore, consideration of the action or procedure is mandatory, while the action or procedure itself is not. In other words, "should" is still a fairly high bar which means that the valuer must comply or else have documented why the indicated action was not necessary or appropriate. The prevalent use of "should" within IVS has implications for file documentation.

- **"May"** describes actions and procedures that valuers have a responsibility to consider; these items require a valuer's attention and understanding, but the valuer must exercise professional judgment in how and whether the valuer implements these matters.

IVS FRAMEWORK

The IVS Framework consists of general principles with regard to objectivity, judgement, competence and acceptable departures from IVS. The Framework also clarifies that when a statement is made that a valuation has been undertaken in accordance with IVS, it is implicit that it has been prepared in compliance with all relevant standards issued by the IVSC. The Framework (as well as the IVS definition of Market Value) specifically state that the standards can be applied to the valuation of both assets and liabilities.

Objectivity

IVS is premised on an unbiased and objective opinion. The valuer must make impartial judgements as to the reliability of inputs and assumptions in the process of valuation. This is consistent with the definition of valuer as someone who undertakes a valuation in an objective, unbiased and competent manner. There is a fundamental expectation that controls and procedures are in place to ensure objectivity in the valuation process.

"Objectivity" is referenced in the CBV Institute Code of Ethics as part of the overall requirements for providing independent professional services[8].

Competence

Valuations must be prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market in which it trades and the purpose of the valuation. However, IVS provides that it is acceptable to seek assistance from specialists, providing this is disclosed in the scope of work.

Departures

In some circumstances a valuer may depart from IVS due to legislative, regulatory or other authoritative requirements and still state that the "valuation was performed in accordance with IVS", but must disclose the specific requirements and the significant ways in which they differ from IVS.

As CBV Institute is the local regulatory body for CBVs, any reporting requirements permitted by CBV Institute would constitute a regulatory and authoritative requirement, and therefore a permitted IVS

[8] CBV Institute Code of Ethics states: "A Member providing independent professional services shall, in respect of the particular engagement, be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgement or objectivity of the Member or which, in the view of a reasonable observer, would impair the professional judgement or objectivity of the Member."

departure under section 60.1 of the IVS Framework.

Departure deviations from IVS that are not the result of legislative, regulatory or other authoritative requirements are not permitted in valuations performed in accordance with IVS. Requirements by VPOs, (such as those of CBV Institute), other professional bodies or firms' internal policies and procedures could impose additional requirements on valuers. Those additional requirements may be followed in addition to IVS without being seen as "departures" as long as all of the requirements in IVS are fulfilled.

GENERAL STANDARDS

The five general standards set forth the requirements for the conduct of all valuation assignments, including establishing the terms of a valuation engagement, bases of value, valuation approaches and methods, and reporting. The general standards are:

- **IVS 101 – Scope of Work**
- **IVS 102 – Investigations and Compliance**
- **IVS 103 – Reporting**
- **IVS 104 – Bases of Value**
- **IVS 105 – Valuation Approaches and Method**

IVS 101 – SCOPE OF WORK

Also referred to as the "terms of the engagement", the scope of work describes the fundamental terms of a valuation engagement, such as the asset(s) being valued, the purpose of the valuation and the responsibilities of the parties involved.

IVS 101 applies to a wide spectrum of valuation assignments, including "in-house" valuations (valuations performed by valuers for their own employers), "third-party" valuations, and valuation reviews.

The general requirement for the scope of work is that the work undertaken must be appropriate for the intended purpose. A valuer must also ensure that the intended recipient of a valuation understands what is being provided, and must communicate the scope of work to the client before completing the assignment, including:

- Identity of the valuer, as well as any material connection or involvement with the subject asset or other parties to the valuation assignment
- Identity of the client(s)
- Identity of the intended users
- Asset(s) being valued
- Valuation currency
- Purpose of the valuation
- Basis/bases of value used

- Valuation date
- Nature and extent of the valuer's work and any limitations thereon
- Nature and sources of information upon which the valuer relies
- Significant assumptions and/or special assumptions
- Type of report being prepared (the format of the report must be described)
- Restriction of use, distribution and publication of the report
- That the valuation will be prepared in compliance with IVS and that the valuer will assess the appropriateness of all significant inputs.

The scope of work should be established and agreed between the parties prior to the valuer beginning work. A written scope of work should be prepared. IVS 101 also requires that any changes to the scope of work must be communicated to the client before the assignment is completed and the valuation report is issued.

IVS 102 – INVESTIGATIONS AND COMPLIANCE

Investigations

IVS require that sufficient evidence must be assembled (by inspection, inquiry, computation and analysis) to ensure that the valuation is properly supported, and professional judgement is required in this regard to ensure the information obtained is adequate for the purpose of the valuation.

Investigations must be appropriate for the purpose of the valuation assignment and the basis(es) of value. There may be agreed-upon limits on the extent of the valuer's investigations, which must be noted in the scope of work. However, IVS 105 requires valuers to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose, regardless of the source of those inputs and assumptions[9]. If the limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been prepared in compliance with IVS. Ultimately, compliance with IVS must be a meaningful statement on the quality of a valuation and, as such, IVS does not allow any and all limitations on investigations – rather, significant limitations that impair a valuer's ability to take responsibility for the inputs and assumptions result in a valuation not being in compliance with IVS.

IVS 102 also requires valuers to consider whether information supplied by a party other than the valuer is credible. In fact, significant inputs provided to the valuer by management may require consideration, investigation and/or corroboration. Where the credibility or reliability of supplied information cannot be supported, such information should not be used. While a valuer is not required to audit the information received, he/she must have a reasonable belief that reliance on that source is appropriate.

Importantly, if during an engagement it becomes clear that the investigations included in the scope of work will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, the valuation assignment will not comply with IVS.

[9] For example, for bases of value such as Market Value or Fair Value (financial reporting), the valuer would need to assess whether projections are reasonable from the perspective of a market participant.

Valuation Record

IVS requires a record to be kept of the work performed and the basis for the work on which the conclusions were reached for a reasonable period of time. This record should include:

- Key inputs
- All calculations
- Investigations and analyses relevant to the final conclusion
- Copy of any draft or final report(s) provided to the client[10].

IVS 103 – REPORTING

IVS reporting requirements are principles-based and high level – the main principle the reports must achieve is to communicate relevant information to clients. IVS does not define a valuation report, but states that a report must provide the intended users with a clear understanding of the valuation.

General Requirements

There is no one format of report that is required to comply with IVS. The report must be sufficient to communicate to the intended users the scope of the valuation assignment, the work performed and the conclusions reached. However, the report must also contain sufficient detail to allow an appropriately experienced valuation professional with no prior involvement with the valuation engagement to review the report and understand the scope of work performed, the analysis and procedures and the conclusion of value.

As there is no particular format of report that is required within IVS, reports may range from comprehensive narrative reports to abbreviated summary reports[11]. However, IVS identify the information that must be conveyed in a valuation report. The report must set out a clear and accurate description of the scope of the assignment, its purpose and intended use (including limitations on that use) and disclosure of any assumptions, special assumptions, significant uncertainty or limiting conditions that directly affect the valuation. The level of detail appropriate for the valuation report is determined by:

- The purpose of the valuation,
- The complexity of the asset being valued, and
- The users' requirements[12].

IVS state that the format of the report should be agreed with all parties as part of establishing the scope of work. IVS 103 also requires that the scope of work be clear in the report, and refers to IVS 101 in that regard. The scope of work undertaken in the preparation of a valuation must be appropriate for the intended purpose.

[10] The requirement to retain copies of draft reports in the valuation record only applies to draft reports that were provided to the client.

[11] The IVSC Boards agreed that it may be challenging to sufficiently communicate the scope of the assignment, the purpose and intended use of the report (and any limitations thereon), and disclose any significant assumptions when using abbreviated or summary reports, but these types of reports are not disallowed. A valuer may use those report formats provided they take the necessary steps to achieve the objectives of the standard.

[12] A valuer must understand all intended users of the valuation report (not just the client) and their needs in order to ensure the report content and format meets their needs.

IVS also does not differentiate report types by the level of assurance provided. IVS-compliant engagements are intended to provide the same quality of valuation, irrespective of the level of detail in the valuation report[13]. The report ultimately reflects the work undertaken, and the general requirement is that the work undertaken must be appropriate for the intended purpose and users.

Valuation Reports

Minimum required report disclosures for valuation reports are:

- Scope of work performed (including all 14 Scope of Work items listed in IVS 101 par 20.3)[14]
- Approach or approaches adopted
- Key inputs used
- Assumptions made
- Conclusion(s) of value and principal reasons for any conclusions reached, and
- Date of the report.

As part of a general focus on more principles-based standards, IVS 103 also allows valuers to comply with the reporting requirements by referring to other documents, such as engagement letters or scope of work documents.

Valuation Review Reports

IVS 103 also specifies the minimum required report disclosures for Valuation Review Reports.

IVS 104 – BASES OF VALUE

A basis of value[15] describes the fundamental premises on which the reported values will be based. IVS permit a valuer to select any appropriate value definition, which could be specific to the purpose of the valuation, the country, local requirements, statues or regulations, etc. The selected basis (or bases) of value must be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer's selection of methods, inputs and assumptions, and the ultimate opinion of value.

A valuer is required to select the appropriate basis (or bases) of value and follow all applicable requirements associated with that basis of value, whether those requirements are included as part of IVS (for IVS-defined bases of value) or not (for non-IVS defined bases of value). The source of the definition of any basis of value used must be cited or the basis explained. In practice, this means that a CBV is not prohibited from using the existing "Fair Market Value" (FMV) definition, so long as this definition was appropriate for the purpose of the valuation assignment.

[13] While the extent of investigations may be limited by agreement with clients, compliance with IVS requires that the valuer perform sufficient procedures to assess all significant inputs and assumptions and their appropriateness for use in the valuation.

[14] A valuer must disclose the nature and sources of information relied upon, and the extent of verification to be undertaken during the valuation process must also be identified.

[15] A "basis of value" in IVS differs from the basis of value under CBV Institute Standards (which provides for two possible bases of value: going concern or liquidation basis).

IVS-defined bases of value:

- **Market Value**
- **Market Rent**
- **Equitable Value**
- **Investment Value/Worth**
- **Synergistic Value**
- **Liquidation Value**

The above bases of value are defined and discussed in IVS 104. "Market value" is the IVS basis of value that most closely resembles the FMV definition adopted by CBV Institute[16]. Market value under IVS is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. Market value is the most probable price reasonably obtainable in the market, and unlike FMV, does not explicitly require the "highest" price, but notes that the market in which the asset is presumed exposed for sale is the one in which the asset notionally being exchanged is normally exchanged.

IVS makes reference to four bases of value defined by other organizations[17].

- Fair Value **(IFRS)**
- Fair Market Value **(OECD)**
- Fair Market Value **(US IRS)**
- Fair Value **(Legal/Statutory)** – includes Canadian case law

Valuers must choose the relevant basis or bases of value according to the terms and purpose of the valuation assignment. The choice of the basis of value should consider instructions and input received from the client and/or its representatives, however the valuer should not use a basis of value that is inappropriate for the intended purpose of the valuation. For bases of value defined by organizations other than the IVSC, it is the valuer's responsibility to understand and follow the regulation, case law and/or other interpretative guidance related to those bases of value as of the valuation date.

Premise of Value

Different bases of value may require a particular premise of value or allow consideration of multiple premises of value. IVS 104 describes and defines some common premises of value, including:

- Highest and best use[18]
- Current use/existing use

[16] Refer to CBV Institute Practice Bulletin No. 2 – International Glossary of Business Valuation Terms.

[17] IVS include these as commonly used bases of value and as illustrative examples, but it is not the intent of IVS to provide a comprehensive list of all bases of value. As such, the definition of FMV adopted by CBV Institute is not specifically referenced, but this does not mean it is not permissible, if defined.

[18] While this concept is most often applied to non-financial assets (such as real estate) since many financial assets do not have alternative uses, there may be circumstances where the highest and best use of financial assets needs to be considered.

- Orderly liquidation
- Forced sale

These premises are commonly, but inconsistently used across markets. IVS provides high level definitions of these terms to improve understanding and increase market consistency.

Entity-Specific Factors

IVS 104 includes a discussion of various factors that are specific to a particular buyer or seller but may not be available to participants generally, and the impact on the valuation.

Synergies

IVS 104 defines synergies and notes that their consideration depends on the basis of value.

Assumptions and Special Assumptions

IVS 104 differentiates between "assumptions" and "special assumptions". Assumptions are assumed facts that are consistent with or could be consistent with those existing at the date of the valuation, and special assumptions are those where the assumed facts differ from those existing at the valuation date or are different from what a typical participant would make ("hypothetical"). Special assumptions are so named to highlight to a user that the valuation conclusion is contingent on a change in the current circumstances, and are commonly used within the valuation of real property. Assumptions can also be significant assumptions if they could reasonably be expected to influence the decisions of users of the valuation.

IVS 105 – VALUATION APPROACHES AND METHODS

The principal valuation approaches are listed as "market", "income" and "cost", and IVS 105 includes information on the detailed methods of application for each approach. A valuer is required to select the most appropriate method under the particular circumstances. Valuers are not required to use more than one method for the valuation, but should consider the use of multiple approaches and methods when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. Where multiple approaches and methods are used to arrive at a single conclusion, the valuer should analyze and reconcile the differing values obtained, and should describe within the valuation report this analysis and reconciliation.

IVS 105 acknowledges that compliance with IVS may require a valuer to use a method not defined or mentioned in the IVS.

The following approaches and methods are laid out in detail in IVS 105, including the circumstances when they should be used and key steps in their application:

- **Market Approach**[19]
  - Comparable Transactions Method
  - Guideline publicly-traded comparable method

[19] For example, IVS specifies that the market approach should be applied and afforded significant weight when a) the subject asset has recently been sold in a transaction appropriate for consideration under the basis of value, b) the subject asset or substantially similar assets are actively publicly traded, and/or c) there are frequent and/or recent observable transactions in substantially similar assets.

- Other market approach considerations

- **Income Approach**

  Discounted Cash Flow Method (including type of cash flow, explicit forecast period, cash flow forecasts, terminal value, discount rate methods and considerations, etc).

- **Cost Approach**
  - Replacement cost method
  - Reproduction cost method
  - Summation method/underlying asset method
  - Cost considerations
  - Depreciation/obsolescence

This additional degree of detail in IVS on the approaches and the criteria on when they should be used would require the valuer to maintain substantial file documentation. For example, the valuer would need to document the comparative analysis done on the comparable assets and the subject asset, as well as adjustments made to the comparative companies, including documentation of the reasons for the adjustments and how they were quantified.

ASSET STANDARDS

IVS include six asset standards that apply depending on the type of asset being valued. The asset standards include requirements related to specific types of assets, including background information on the characteristics of each asset type that influence value and additional asset-specific requirements regarding common valuation approaches and methods used. The asset standards cover:

- **IVS 200 – Businesses and Business Interests**
- **IVS 210 – Intangible Assets**
- **IVS 300 – Plant & Equipment**
- **IVS 400 – Real Property Interests**
- **IVS 410 – Development Property**
- **IVS 500 – Financial Instruments**

Only the asset standards relevant to business valuation and intangible assets (IVS 200 to IVS 210) are included in this publication.

IVS 200 – BUSINESSES AND BUSINESS INTERESTS

IVS 200 contains additional requirements that apply to valuations of businesses and business interests. It is critical for the valuer to clearly define the business or business interest being valued. The type of value being provided must be appropriate to the purpose of the valuation and communicated as part of the scope of the engagement. The different levels at which value can be expressed are:

- Enterprise value

- Total invested capital value
- Operating value
- Equity value

IVS 200 provides a discussion of the three principal valuation approaches (market, income and cost) and how they may be applied to valuation of businesses and business interests.

Special Considerations for Businesses and Business Interests

IVS 200 also includes the following sections of topics (non-exhaustive) relevant to the valuation of businesses and business interests:

- **Ownership Rights** – All rights and preferences associated with a subject business or business interest such as restrictions on transfer of a business interest, multiple classes of stock, controlling vs non-controlling interests, etc., should be considered in a valuation.
- **Business Information** – A valuer must assess the reasonableness of information received from management, representatives of management or other experts, and evaluate whether it is appropriate to rely on that information for the valuation purpose.
- **Economic and Industry Considerations** – Awareness of relevant economic developments and specific industry trends is essential for all valuations.
- **Operating and Non-Operating Assets** – It is important to understand which assets and liabilities are required for use in the income-producing operations of the business and which ones are redundant or "excess" to the business at the valuation date.
- **Capital Structure Considerations** – As businesses are often financed through a combination of debt and equity, the valuer should generally consider the allocation of the enterprise value between debt and any types of equity.

IVS 210 – INTANGIBLE ASSETS

IVS 210 contains additional requirements that apply to valuations of intangible assets. IVS 210 lists the following categories of intangible assets:

- **Marketing-related**
- **Customer-related**
- **Artistic-related**
- **Contract-related**
- **Technology-based**

Goodwill is also addressed and generally defined, although the definition of goodwill differs depending on the purpose of a valuation. The value of goodwill can be different when calculated for different purposes, and for some purposes, goodwill may need to be further divided into transferable goodwill and non-transferable/personal goodwill.

The intangible assets that may need to be valued and how those intangible assets are defined may differ depending on the purpose of the valuation. The differences in how intangible assets are defined can lead to significant differences in value. IVS 210 recognizes that intangible assets may be valued for a variety of purposes, not just financial reporting purposes. It is the valuer's responsibility to understand the purpose of a valuation and whether intangible assets should be valued separately or grouped with other assets.

Circumstances that commonly include an intangible asset valuation component are: financial reporting purposes, tax reporting purposes, in the context of litigation, or other statutory or legal events, or for general consulting purposes, lending or transaction support engagements.

Bases of Value

IVS 210 refers back to IVS 104 Bases of Value.

Valuation Approaches and Methods

IVS 210 refers back to IVS 105 Valuation Approaches and Methods. Under each approach, IVS 210 provides guidance when each type of approach should be used, and examples of intangible assets for which the market, income or cost approaches are commonly used. For example, under the Income Approach, the following methods are discussed in some detail in the standard:

- Excess earnings method
- Relief-from-royalty method
- Premium profit method or with-and-without method
- Greenfield method
- Distributor method

IVS 210 also includes special considerations for intangible assets as follows (non-exhaustive list of topics relevant to valuing intangible assets):

- Discount rates/rates of return for intangible assets (the challenges of selecting discount rates for intangible assets and the factors to consider when assessing the risks associated with an intangible asset)
- Intangible asset economic lives (finite vs indefinite)
- Tax amortization benefit.

Chartered Business Valuators Institute
L'Institut des experts en évaluation d'entreprises

cbvinstitute.com
416 977 1117

277 Wellington Street West
Suite 808, Toronto, Ontario
M5V 3E4, Canada