



PRACTICE INSPECTION PROGRAM SUMMARY REPORT

2020

March 31, 2021

We are pleased to share this report with Members and Registered Students. This report provides a summary of findings of practice inspections completed during 2020 (the second year of practice inspections for CBV Institute), which covered work products issued during the two-year period of January 1, 2018 to December 31, 2019.

BACKGROUND

CBVs take immense pride in their designation and profession. The CBV profession is self-regulated, with cornerstones of professional excellence and the protection of the public interest. Adherence to professional standards is of utmost importance. The purpose of this Summary Report is to share key practice inspection findings with practitioners in a transparent manner, to fulfill CBV Institute's obligation to ensure that its high standards of practice are being upheld.

Objectives of the Program

The objectives of the Practice Inspection Program (the "Program") are to ensure ongoing compliance with CBV Institute's professional standards (Practice Standards and Code of Ethics); to protect the public interest; and to enhance the confidence the public and regulatory bodies have in CBV Institute, its Members and Registered Students, and the business valuation profession in general. The Program is governed by CBV Institute's Mandatory Practice Inspection Policy (the "Policy").¹

2020 Declarations and Inspections

The Program commenced in 2019 and covered work products completed in 2018. In this second year of the Program, CBV Institute conducted practice inspections of work products completed by Members and Registered Students during the period of January 1, 2018 to December 31, 2019 (the "Inspection Period").

In general, the operational timing of the Program is as follows:

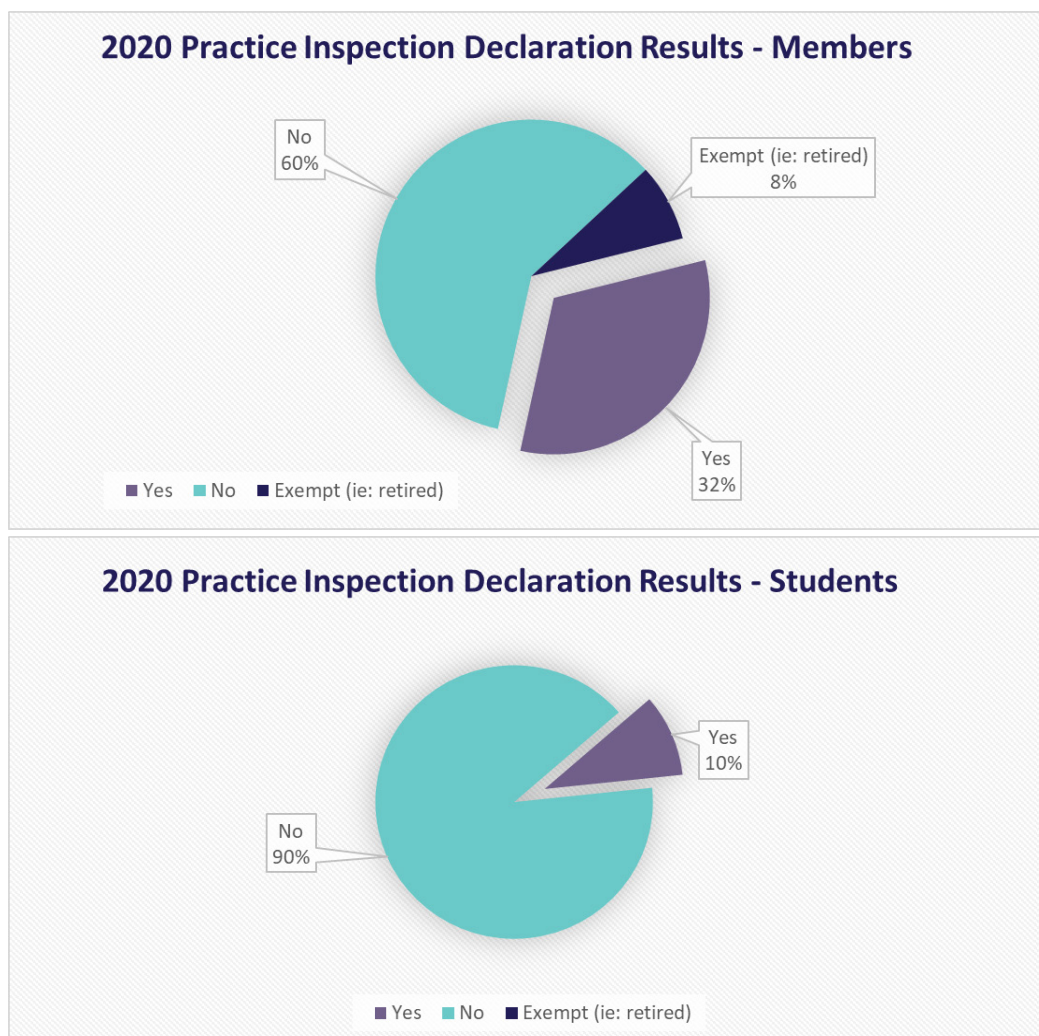
- March 1: practice inspection declarations are due from practitioners wherein they declare whether or not they have completed work product that is covered by the Program;
- March-April: CBV Institute issues Notices of Proposed Suspension of Membership to Members who have failed to submit practice inspection declarations;
- May – December: practitioners to be inspected are randomly selected and notified. Practice inspections are conducted;
- January – March: results of the year's inspections are summarized and reported.

The Institute continues to investigate ways to perform the random sample selection earlier, in order to enable more practice inspections to be completed during the calendar year. In this second year of the Program, as expected, numerous operational aspects continued to be refined. A French-speaking Inspector was engaged, and the Institute continued to streamline the inspection process. Due to limitations arising from the COVID-19 pandemic, the majority of practice inspections were conducted virtually in 2020.

¹ Mandatory Practice Inspection Policy [available here](#).

Below are summarized results of the 2020 practice inspection declarations made by CBV Institute Members and Registered Students, from which the inspections were sampled.

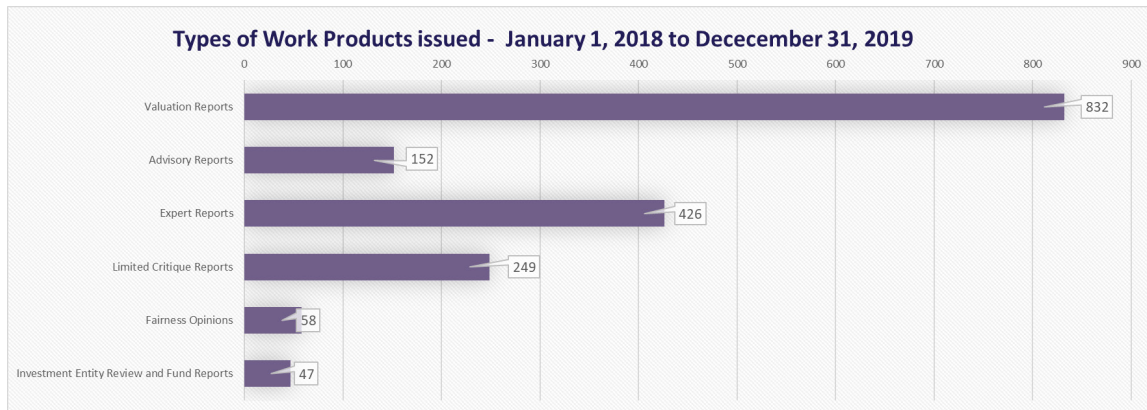
The annual practice inspection declaration asks whether the individual has signed or otherwise taken responsibility for work product(s) which are subject to CBV Institute Practice Standards during the relevant period. A “Yes” response means that the Member or Registered Student signed or otherwise took responsibility for a work product which is subject to the Practice Standards during the two-year inspection period of January 1, 2018 to December 31, 2019, and is therefore eligible for inspection. Only practitioners who sign the final issued work product, and not their staff, are subject to practice inspection. “No” responses would include those individuals who may regularly undertake a variety of business valuation or damage quantification work that is subject to the Practice Standards, but who are not the ones who ultimately sign or sign-off on issued work products, generally because a more senior person in their organization signs or takes responsibility. Practitioners who declare “No” are not included in the pool from which selection for inspection is made.



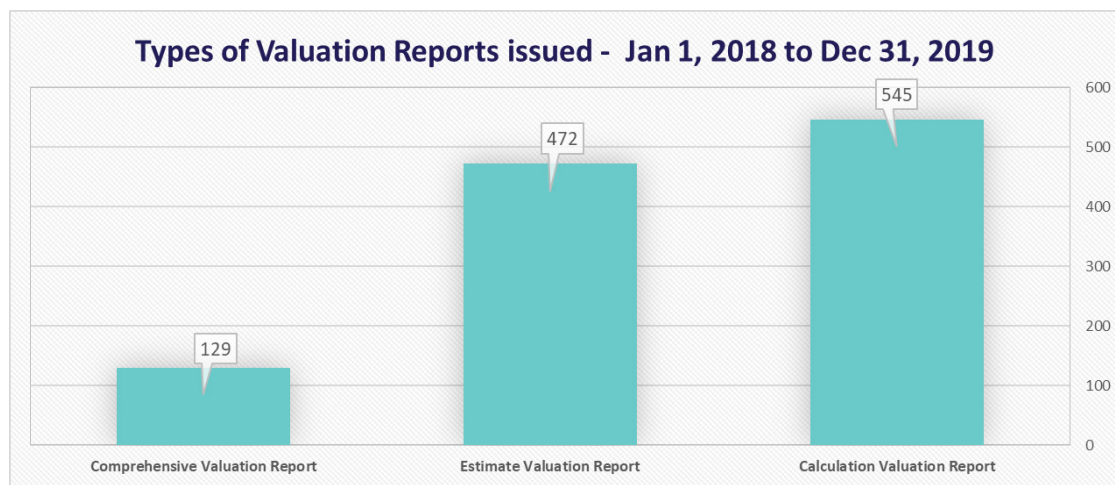
Approximately 32% of Members (720 individuals) and 10%² of Registered Students (88 individuals) declared that they issued work products subject to the Practice Standards during the Inspection Period, and were therefore eligible for inspection. On a blended basis, 27% of all Members and Registered Students issued work products subject to practice inspection during the years 2018 and 2019.

2 This percentage is calculated as the number of Registered Students who responded Yes to the practice inspection declaration in 2020 divided by the total number of Registered Students who were actively enrolled in a course (not terminated), as at December 31, 2020.

Of those individuals who responded “Yes” to the practice inspection declaration, the breakdown of the types of work products issued by these Members and Registered Students during the Inspection Period has been presented below:



Of those individuals above who issued valuation reports, the breakdown by type of report issued during the Inspection Period is presented below.



WORK PRODUCT SUBJECT TO INSPECTION

When do the Practice Standards apply?

The Program applies to work products which are subject to the Institute’s Practice Standards and is premised on Members’ and Registered Students’ annual self-declaration regarding their completion of such work products.

Given the breadth of services which business valuation professionals provide, practitioners are often asked to assist, advise or consult on matters for which the applicability of the Practice Standards may not always be clear. During this round of practice inspections, several questions arose during the annual mandatory practice inspection declaration process about whether CBV Institute’s Practice Standards apply in certain situations, and if so, which Practice Standards apply.

In general, Practice Standards are applicable if an engagement:

1. Requires the application of professional judgment,
2. Results in a written work product or communication where a conclusion is expressed³, and
3. The communication is not strictly internal to the practitioner's own organization or firm.

Practitioners are advised to consult with CBV Institute staff to discuss the applicability of the Practice Standards to a specific engagement. Guidance can also be found in Practice Bulletin No. 5 – *Guidance as to when Communications are not Valuation, Advisory, Expert or Limited Critique Reports*.

Client Consent for Practice Inspections

Confidentiality of client information is of utmost importance to the CBV profession, and therefore the Program is carried out with highest attention to confidentiality. Before any file inspection can take place, clients must provide explicit consent to the practitioner before the Institute will proceed with the practice inspection.

To comply with their obligations, practitioners who sign or otherwise take responsibility for work products must advise clients in advance, and in writing, that their work product may be subject to practice inspection. Practitioners should obtain express client consent that the practitioner may disclose the work product and related file information to the Institute for the purpose of complying with their professional obligations. This consent should be obtained at the engagement acceptance stage, ideally as part of the engagement letter.

While clients must be appropriately advised about practice inspections, the language that each practitioner or firm will use in these communications may differ. It is important that the consent language used by each practitioner be clear and explicit. To help practitioners comply in this regard, CBV Institute has published sample engagement letter language (with respect to practice inspections) on the practice inspection webpage⁴. To ensure that all practitioners are seeking and obtaining appropriate and sufficient consent for practice inspection at the start of an engagement, practitioners are advised to consult with CBV Institute staff.

For many of the 2020 inspections, the engagement letters inspected did not contain specific, informed client consent for practice inspections as required by the Policy. The Institute reminds all practitioners who issue work products subject to the Practice Standards:

1. that engagement letters are a best practice and should be obtained to protect all parties; and
2. to include consent language specific to practice inspection in their engagement letters.

The Institute will continue to assess this area actively in inspections and consider any appropriate actions.

FINDINGS OF INSPECTIONS

Practitioners and the work products inspected were selected randomly. The practitioners selected during 2020 included sole practitioners, practitioners from smaller or local accounting firms, practitioners from mid-size professional services firms, and practitioners from national professional services firms. 90% of the 2020 inspections were conducted virtually, with documents being submitted electronically to CBV Institute using CBV Institute's secure cloud-based platform. Approximately 10% of inspections were carried out in-person at the practitioner's office. Inspectors did not rely on or test the internal compliance/quality control processes

³ This may be a conclusion of value, of financial gain/loss or of a financial nature in the context of litigation.

⁴ <https://cbvinstitute.com/practice-inspection/>

of any firm in 2020. The ability to rely on internal compliance review is expected to become increasingly important with every year of the Program, as the Institute increases the number of work products inspected per practitioner. Reliance (and testing of) internal compliance processes of the respective firm of the selected practitioner would reduce the number of work products inspected by the Institute.

Work products inspected during 2020 included Calculation Valuation Reports, Estimate Valuation Reports, Expert Reports and Limited Critique Reports. **Overall, the 2020 inspection results were positive; however, there were areas where compliance with applicable professional standards can be improved.**

The sample size of practitioners selected for inspection during 2020 increased from 2019, as did the number of work products inspected per practitioner. However, the number of completed inspections were less than targeted at the beginning of the year due to the challenges and disruptions caused by the COVID-19 pandemic. As a result of the inability of some selected practitioners to access certain client files and documents to complete active inspections, several 2020 inspections were delayed, and are being completed in 2021. Due to the relatively limited sample size completed for the year, results of inspections may not necessarily indicate trends in practice. Furthermore, as this second year of inspection findings were based on a limited sample size, these percentages are not representative.

90% of inspections resulted in non-trivial findings. The findings range in severity from less significant documentation deficiencies or process issues to more significant scope of work and reporting deficiencies. A summary of the findings results are as follows:

- In approximately 70% of the inspections, the Practice Inspection Committee accepted the action(s) proposed by the practitioner to address the noted findings, and no further action was required.
- In approximately 10% of the inspections, the Practice Inspection Committee accepted the action(s) proposed by the practitioner to address the noted deficiencies, but also required additional action by the practitioner in order to deem the inspection complete, such as providing evidence of implementation.
- In approximately 20% of the inspections, the Practice Inspection Committee requested re-inspection. A reinspection is requested when there are multiple findings or when the Practice Inspection Committee does not have sufficient information. The purpose of a reinspection is to reassess the practitioner's practices using more recent engagements.
- No inspections were significant enough to warrant referral to CBV Institute's Conduct and Discipline Committee.

In determining the appropriate outcome for an inspection, the Practice Inspection Committee gave consideration to comments and responses from the practitioner and whether the:

- Findings and deficiencies were trivial – in which case the inspection was closed;
- Findings and deficiencies were minor – in which case the inspection was closed with comments and proposed actions by the practitioner (noting both deficiencies and areas for improvement);
- Deficiencies were significant – in which case other actions may be required of the practitioner, such as remedial actions, evidence of implementation, re-inspections, or sanctions.

None of the 2020 inspections had deficiencies of such significance that the Practice Inspection Committee required sanctions (beyond reinspection) or resulted in a referral to CBV Institute's Conduct and Discipline Committee.

The following are summaries of some of the findings of the 2020 practice inspections.

Calculation Valuation Reports – Sufficient Evidence and Sufficient Information

Practice Standard No. 110 (paragraph 13.1) requires a valuation report to include sufficient information to allow the reader to understand how the valuator arrived at the value conclusion. Practice Standard No. 120 requires a valuation report and conclusion to be supported by sufficient evidence (based on inspection, inquiry, computation and analysis), considering the application of professional judgment by the valuator, the type of valuation report provided, and its intended use. Inspectors continue to have inspection findings and deficiencies regarding these aspects of the Practice Standards.

Sufficiency, both in terms of the practitioner's work file and report detail, is an area of professional judgment. Based on the practice inspection findings, it was at the calculation-level that practitioners generally appeared to fall short of meeting these foundational requirements.

A general observation by the Inspectors was that several Calculation Valuation Reports included more boilerplate disclosure than entity-specific disclosures. Several of the inspected Calculation Valuation Reports devoted many pages to the general requirements in Practice Standard No. 110 (such as explaining the definitions for technical terms and methodologies, disclaimers, etc.), but did not include sufficient information on the subject business itself to allow the Inspector to understand how the practitioner arrived at the conclusion expressed. Specifically, some of the Calculation Valuation Reports inspected in 2020 included only superficial detail on:

- Description of the key inputs and assumptions of the valuation, how/why they were determined (i.e. normalization adjustments, and the basis for weighting of different years' financial results in arriving at a level of normalized earnings/cash flows, etc);
- Whether or not the practitioner had attempted to look for any special purchasers or consider the potential marketplace of possible acquirers for the subject business or business interest.

In addition to the above, the engagement file itself did not contain sufficient evidence of the practitioner's review in the following key areas, which are recommended and should be considered in every valuation engagement:

- Description of the business' activities and operations, and other relevant operational or financial risk factors that had a significant impact on the valuation conclusion;
- Description or documentation demonstrating an understanding of the broader industry and/or geography within which the business operates.

Several inspected engagement files at the calculation-level lacked "sufficient evidence" and documentation for the work undertaken (inspection, inquiry, computation and analysis) on key valuation inputs – examples of this include: lack of support for the multiples applied in a capitalized cash flow method (which support should be specific to the entity and its industry) and discounts applied for lack of liquidity/marketability⁵.

⁵ The role of practice inspection is not to criticize, challenge or second-guess the conclusion expressed by a practitioner, but rather to assess whether the practitioner has met the standards as documented or evidenced in their report and/or file.

While report disclosure for calculation-level conclusions is intended to be lower than for other reports, it should still be sufficient to allow the reader to understand the basis for the conclusion. Inspectors acknowledge that for reports that are intended for the business owner's sole use, repeating business information that is already known to the client within the report will not be considered to be value-added. However, it is important that the analysis performed by the practitioner is communicated.

Practitioners should carefully evaluate report disclosure to ensure there is enough entity-specific disclosure. Inspectors will continue to focus on this area in future practice inspections.

Scope of Work, File Documentation and Professional Skepticism

The Scope of Work Practice Standards for Valuation and Expert Reports (i.e. Practice Standards No. 120 and No. 320) require practitioners to gather “sufficient evidence” to ensure that the report and the conclusion contained therein are properly supported. For instance, Practice Standard No. 120 requires a valuation report and conclusion to be supported by sufficient evidence, based on inspection, inquiry, computation, and analysis, considering the application of professional judgment by the valuator, the type of valuation report provided, and its intended use. The practice standards also require key valuation components and assumptions to be considered and documented. In some situations, practitioners' files did not contain “sufficient evidence” of the work performed on certain key valuation inputs – examples of this include: failure to include information on the determination of multiples applied in a capitalized cash flow method⁶, discounts applied for lack of liquidity/marketability, or other risks.

While a determination of the extent of the scope and work to be performed in each particular situation is a matter of professional judgment taking into account all relevant facts and circumstances (including the engagement agreed to between the client and the practitioner), the practitioner must be able to demonstrate to an inspector through either (1) documentation in the final report, or (2) file documentation, that the work that was performed on inputs that are significant to the conclusion.

There are several aspects to carefully consider in each engagement:

- For a conclusion to be properly supported, it must be reasonable in the circumstances. Any value conclusion, whether it is expressed in a Calculation, Estimate or Comprehensive report, is the conclusion of the practitioner, and carries with it a certain level of reliability, and will be relied upon by the client for the purpose for which it was prepared;
- The consideration and documentation of “key valuation components and assumptions” is a matter of professional judgment. The standards enumerate some examples of key components, such as capitalization rates, normalizing adjustments and discounts, that should be taken into account;
- How much work should be done on each key valuation component and assumption, in other words, what is “sufficient”, is also an area of professional judgment.

While the intent of the Program is not to second-guess areas of professional judgment, the inspections often identify areas where constructive feedback can be provided, and practices can be improved. The role of practice inspections is not to test or challenge a practitioner's conclusion, but rather to assess and recommend improvements to the practitioner's process of arriving at a particular conclusion.

6 Insufficient evidence of work performed would include boilerplate language which does not address the subject of the valuation and its specific nature of operations. Sufficient evidence may include maintaining evidence of the practitioner's consideration of one or more of the following: market transactions, guideline company multiples, discussion of risks applicable to the subject of the valuation, etc.

It is important to maintain appropriate file documentation to evidence the application of professional skepticism. For example, Practice Standard No. 110 refers to “corroboration of relevant information.” With respect to significant inputs or assumptions provided by management and/or the business owners, corroboration refers to the practitioner’s obligation to confirm those inputs with another source (whether internal or external). What is appropriate will vary from one engagement to the next. While reliance on discussions with management may be sufficient for a calculation-level valuation conclusion depending on the purpose and intended use of the valuation, it is unlikely to be sufficient for an estimate-level valuation conclusion, where the practitioner would want to increasingly rely and obtain support using third-party data or metrics. While the role of a valuator should not be mistaken with that of an auditor, a valuator’s inability to confirm certain key inputs may need to be explicitly disclosed as scope limitations in the report.

Inspected practitioners undertook to improve file documentation⁷ in the future to better demonstrate how significant valuation inputs were considered. Inspectors will continue to focus on the documentation of the work performed on significant inputs and assumptions.

Scope of Work for Industry and Economic Factors

Practice Standard No. 120 requires the practitioner to obtain a sufficient understanding of the relevant industry and economic environment, whether or not this information gets included in the valuation report. Paragraph 4.1(A)(IV) and (V) of Practice Standard No. 120 require a “sufficient understanding of the relevant industry(s) in which the underlying business operates” and “sufficient information relating to the general economic conditions affecting the underlying business operations” for all Estimate and Comprehensive-level engagements. The Practice Standard notes that practitioners performing calculation-level engagements “should consider” the above.

Industry and economic research and knowledge are fundamental, and underpin every high quality, credible, business valuation, irrespective of the level of conclusion. If a valuation is based on an income approach, assessing the risk inherent in the business operations must always be done in the context of the industry and the prospects for future performance. The global COVID-19 pandemic has further underscored the importance of an in-depth understanding of the specific industry sector, as many industries experienced high volatility, disruption and long-term dislocation during 2020.

The nature and extent of economic and industry analysis is a matter of professional judgment. Inspections provide the opportunity to assess how practitioners apply professional judgment in a specific situation. Determining what is “sufficient” remains challenging for Inspectors and the Committee, particularly at the calculation-level. Calculation Valuation Reports remain a key area where work products appear most likely to contain deficiencies and where inspections are uncovering opportunities for improvement.

For example, inspectors noted the issuance of a calculation-level report for the valuation of a professional services firm using a capitalized cash flow method, for purposes of a possible transaction related to new partners buying into the firm. The multiple applied in the valuation was determined using the practitioner’s experience with previous notional valuations in the same/similar space and geographical region. The explanation for the multiple selected was generic and factors specific to the subject business and industry did not appear to be addressed. The Committee was concerned that the valuation file did not contain analysis in support of the general risk factors listed, and particularly that industry or transaction analysis was lacking in support of the reasonability of the selected multiple.

The practitioner’s own knowledge of the appropriate multiples in a particular industry is valuable, but should be documented and supported. Corroborating analyses or reasonability checks using market multiples based on actual market transactions, in addition to multiples applied by the practitioner in previous notional valuation engagements, should be considered. Other metrics to check the overall reasonability of

⁷ As part of the inspection, CBV Institute Inspectors offer and discuss recommendations for best practices.

the valuation conclusion should be analyzed within the valuation file (e.g. discussion of implied goodwill, assessment of a payback period, etc). Calculation-level valuation conclusions need to be credible and appropriately supported.

While it is difficult to have prescribed rules for how much analysis and documentation as to the industry should be contained in every valuation file, in the context of practice inspection, if the work is not apparent from the report or the file, it will be up to the practitioner to explain how they met the standard. The Committee encourages practitioners to document their understanding of the relevant industry, including competitors, their market share and any relevant market transactions or market participants, to make it obvious that these were considered in the valuation conclusion. Failure to include evidence of this work in the engagement file will result in practice inspection deficiencies.

Report Disclosure – Key Assumptions

Several of the inspected work products contained a section titled “Key Assumptions”, as required by the Practice Standards, however, in many cases the disclosed assumptions were boilerplate in nature, such as “no material changes to the Company”, “no contingent liabilities”, “no contracts being negotiated at the Valuation Date”, etc. While these assumptions are important, the Practice Standards require “A statement of the key assumptions made in arriving at the valuation conclusion”. The intent of this requirement is to highlight to a reader the key inputs into the final value figure or range provided – such as a particular future cash flow or event assumption, an assumption around costs to reproduce a certain technology, or any other item that is significant to the valuation conclusion expressed. These would normally be the assumptions that, if they were varied, would cause the valuation conclusion to change by a significant amount, and may be assumptions that were provided by management or other insiders. It is important that practitioners disclose key assumptions that are specific to the valuation engagement and company at hand, in addition to other, more generic assumptions, that could apply to any valuation engagement.

Inspectors will continue to assess whether the key assumptions disclosed in the report are specific enough to meet the objectives of the practice standards.

OTHER GUIDANCE

Practice Bulletins – Rules or Guidance?

While the Program applies to work products that are subject to the Institute’s Practice Standards, in assessing and concluding on the outcome of an inspection, Inspectors, the Director of Professional Practice, and the Practice Inspection Committee consider the contents of Practice Bulletins.

Under CBV Institute’s by-laws, Members and Registered Students are encouraged to observe all Practice Recommendations – including the Practice Bulletins. The Practice Bulletins do not supersede or override the Practice Standards. The Practice Bulletins provide context and guidance on the Practice Standards and the Code of Ethics and are intended to assist practitioners in the exercise of professional judgment.

For instance, Practice Bulletin No. 5 – *Guidance as to when Communications are not Valuation, Advisory, Expert or Limited Critique Reports*, contains useful guidance on matters such as:

- Verbal conclusions/verbal reports,
- Time and fee constraints,
- Internal communications,
- Illustrative scenarios.

Fit-for-Purpose Valuation Conclusions – Calculation Valuation Reports

The practice inspection declarations indicate that Calculation Valuation Reports are the leading report type issued in practice by many CBVs. A recent Member survey on the topic of Calculation Valuation Reports conducted in December 2020 uncovered a variety of issues with this report type. A majority of Members indicated a general lack of clarity around usage and reliability, a lack of consensus in the profession as to the intended differences in scope of work for each report type and the arbitrary nature of the labels “Calculation”, “Estimate” and “Comprehensive”. The survey also indicated a general consensus among respondents that the diversity in practice between practitioners at the calculation-level may be harmful to the profession overall. Against this backdrop and the popularity of Calculation Valuation Reports, the Practice Inspection Committee has decided to continue focusing on this type of work product for the 2021 inspections, and to assess whether they are being suitably used and executed. CBV Institute’s Professional Practice and Standards Committee is also evaluating revisions to the 100-series standards to address this matter.

Practice Standard No. 110 states:

“The type of Valuation Report required is a matter to be discussed and agreed on by the Valuator and the client, and then reflected in the terms of engagement. In arriving at this agreement, the Valuator and the client should consider the purpose for which the Valuation Report is being prepared, the availability of information on which to base a conclusion, and the client’s need for assurance. The Valuator should also consider whether the type of Valuation Report will be credible for the purpose intended ...”

Practice Bulletin No. 3 – *Guidance on Types of Valuation Reports* (“PB3”) provides guidance on how practitioners and their clients can determine whether a particular type of report will be suitable for its purpose. The bulletin indicates that in making such assessments, fee and time constraints related to an engagement should be viewed with caution, and that suitability for purpose should be the main driver behind the use of a particular report type. The bulletin outlines some considerations that might be relevant in assessing the suitability of a particular type of valuation report, as follows:

- Extent of reliance,
- Significance of the matter to the user,
- Preliminary nature of the matter,
- Number of users of the report,
- Public availability,
- Contentious nature of the matter (or potential for being contentious), and
- Regulations or agreements.

PB3 is also referred to when assessing whether an inspected practitioner has undertaken an appropriate level of work for the particular engagement. The Practice Inspection Committee will look to this bulletin for application guidance to assess whether the extent of review, analysis and corroboration of significant relevant information was “sufficient” and met the standard. For example, the bulletin advises a less extensive scope of work at the calculation-level for company-specific financial information, company-specific non-financial information, industry context and economic environment. While professional judgment is required to be applied in every engagement, the Practice Inspection Committee reminds practitioners that PB3 can help to illustrate and contrast the suitability of various report types.

Valuations for Litigation and Disputes – Valuation Standards or Expert Report Standards?

For situations in which a valuation conclusion is prepared for litigation and/or dispute purposes, the Practice Standards that should take precedence and be applied by practitioners is often at question (i.e., expert reporting standards (300-series) vs. valuation reporting standards (100-series standards), or both). The checklist that the Inspector will use is also often at question.

The question is important and can impact the scope of work a practitioner is required or expected to undertake – particularly if the valuation is at a calculation-level. Determining whether the work product falls under the 300-series or the 100-series can impact how much work the CBV should undertake to vet key assumptions and industry information. Where a Valuation Report forms part of an Expert Report, do practitioners also need to satisfy the more detailed scope of work requirements of Practice Standard No. 320?

Practice Standard No. 320 explicitly states that “The Expert shall consider key assumptions used and determine the reasonableness and appropriateness of key assumptions.” Practice Standard No. 120 does not have the same explicit requirement about key assumptions, but instead requires “sufficient evidence” to be gathered by such means as inspection, inquiry, computation and analysis to ensure that the Valuation Report and the conclusion contained therein are properly supported. Practice Standard 120 gives the practitioner latitude to use professional judgment in determining the extent of evidence necessary to support the valuation report, and requires practitioners to broadly “consider key valuation components and assumptions” but stops short of explicitly saying “determine the reasonableness and appropriateness of key assumptions”.

Importantly, Practice Standard No. 120 does not prohibit calculation-level conclusions for use in disputes. While there is continued diversity of opinion in the CBV profession as to whether Calculation Valuation Reports are appropriate for use and reliance in a litigation context in general, the reality is that there are situations in which they continue to be used. This may happen in a family law context such as a mediation, when the size of the subject business is very small, the situation is amicable, and the likelihood of the matter going to court is low. The general consensus of the Practice Inspection Committee is that Calculation Valuation Reports should generally not be used in contentious or potentially contentious matters, and that an Estimate Valuation Report or a Comprehensive Valuation Report is most often more appropriate in such circumstances.

Paragraph 4 of Practice Standard No. 310 states: “Where a Valuation Report forms part of an Expert Report, that Valuation Report shall conform to Standards 110, 120 and 130”. Paragraph 2 of Practice Standard No. 310 also defines an Expert Report to be “any written communication other than a Valuation Report, containing a conclusion as to the quantum of financial gain/loss, or any conclusion of a financial nature in the context of litigation or a dispute, prepared by an Expert acting independently.”

In summary, the Practice Inspection Committee’s view is that only the Valuation Report standards govern valuation conclusions in the context of litigation. As such, if part of an Expert Report is a conclusion of value, the 100-series practice standards apply, and the 300-series standards do not apply to valuation reports prepared in the context of litigation. That said, the Practice Inspection Committee cautions practitioners on issuing calculation-level valuation conclusions for litigation-related purposes, even when the parties appear to be amicable. Even at a calculation-level, a CBV’s conclusion is their opinion, and as such the Practice Inspection Committee would expect any major inputs to be vetted.

The amount of work required to determine the reasonableness and appropriateness of key assumptions will differ from file to file, and the Committee acknowledges that in some cases, it will be the parties' legal counsel that provides direction and input on key data and key assumptions. In those cases, and for those key assumptions, it becomes critically important that the report clearly and conspicuously highlight the areas where there were gaps in information, and the key assumptions made as a result.


CONCLUSION AND NEXT STEPS

We are pleased with the progress achieved in the second year of the Program, which continues to evolve and grow. While it was a challenging year for all of us individually because of the global COVID-19 pandemic, the Program continued to be seamlessly operational, striving towards its objective.

CBV Institute remains committed to protecting the public interest and helping its Members and Registered Students maintain a leading reputation in the marketplace by ensuring ongoing observance of Professional Standards to enhance the confidence that the public has in the business valuation profession generally. On behalf of the Practice Inspection Committee, we wish to thank Institute staff for their efforts, and the inspected practitioners for their cooperation throughout this new process.

We recognize that the Policy and the practice inspection process overall will continue to be refined as we proceed through the first four-year cycle of the Program. The results of the 2020 inspections showcase the benefits of the Program to the profession, and the unique learning opportunities it provides all practitioners to maintain or improve the quality of services provided. In future years we will continue to share the results of practice inspections, our observations, and suggestions for improvement, for the benefit of the CBV profession and those who rely on it.

ON BEHALF OF THE PRACTICE INSPECTION COMMITTEE,



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