THIRD AND FINAL EXPOSURE DRAFT: REVISIONS TO PRACTICE STANDARDS NO 100, 110, 120 AND 130 – INDEPENDENT VALUATION CONCLUSIONS AND VALUATION REPORTS

December 17, 2024

Comments Must Be Received By: April 30, 2025

EXPOSURE DRAFT

This Exposure Draft concerning proposed revisions to the practice standards for independent valuation conclusions (Practice Standards Nos. 100, 110, 120 and 130) is issued by The Canadian Institute of Chartered Business Valuators ("CBV Institute") for comment. **This is the third and final exposure draft on this topic and is an update to the exposure draft dated June 29, 2022.** This Exposure Draft contains proposed changes which impact all valuation conclusions and reports, including Calculation Valuation Reports.

Individuals and organizations are invited to send written comments on the revisions to the practice standards proposed in this Exposure Draft. Comments are requested from those who agree with the proposed changes as well as from those who do not.

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

Summary of Questions in the Exposure Draft

Respondents should address whether they support the proposed changes, and answer the following questions[1]:

Question 1: Do you agree with the way that Comprehensive Valuation Conclusions have been defined within PS 100? If not, why not?

Question 2: Do you agree with the way that Estimate Valuation Conclusions have been defined within PS 100? If not, why not?

Question 3: Do you agree with the way that Calculation Valuation Conclusions have been defined within PS 100? If not, why not?

Question 4: Do you disagree with any element or paragraph within PS 100? If so, what alternative language would you propose?

Question 5: Do you disagree with any of the new report disclosure items proposed? If so, which one(s), and why?

Question 6: Do you believe any other (additional) disclosure items or topics should be considered that have not yet been considered in PS 110? If so, explain.

Question 7: Does any additional guidance (explanatory comments) need to be added to PS 110?

Question 8: Do you disagree with any of the new proposed Scope of Work requirements? If so, which one(s), and why?

Question 9: Do you believe any other (additional) Scope of Work items or topics should be considered that have not yet been considered in PS 120? If so, explain.

Question 10: Does any additional guidance (explanatory comments) need to be added to PS 120?

Question 11: Do you disagree with any of the new proposed Documentation requirements? If so, which one(s), and why?

Question 12: Do you believe any other (additional) Documentation items or topics should be considered that have not yet been considered in PS 130? If so, explain.

Question 13: Does any additional guidance (explanatory comments) need to be added to PS 130?

Question 14: Is there any significant guidance missing from PB3 that would help you appropriately apply the new Valuation Practice Standards?

[1] These questions are addressed, explained and repeated throughout the Exposure Draft. This is a summary list of the questions only, for easy reference.

The Professional Practice and Standards Committee (PPSC) is the Committee of CBV Institute's Board of Directors responsible for developing and revising CBV Practice Standards, Practice Bulletins and the Code of Ethics, in the public interest. Following its review of input solicitated from Members, the PPSC has discussed various issues concerning valuation reports, and has considered how to address them. Ultimately, the changes proposed in this Exposure Draft are intended to uphold the high standard of practice expected from CBVs, in the public interest.

To be considered, comments on this Exposure Draft must be received by **April 30, 2025.** It is preferable that comments be sent using the following survey link:

CLICK HERE FOR RESPONSE SURVEY

Comments may also be sent via email to:

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Materials and attachments included with this Exposure Draft:

Practice Standard No. 100 (NEW)	**Clean Version**	
Practice Standard No. 110	**Clean Version**	**Redline Version**
Practice Standard No. 120	**Clean Version**	**Redline Version**
Practice Standard No. 130	**Clean Version**	**Redline Version**
Practice Bulletin No. 3	**Clean Version**	**Redline Version**

CBV Institute leads the Chartered Business Valuator (CBV) profession – Canada's only designation dedicated to business valuation since 1971. With CBVs and Students across Canada and around the world, we uphold the highest standards of business valuation practice through education, accreditation and governance of the CBV Institute, for the benefit of the public interest. A not-for-profit organization, CBV Institute adapts and evolves to advance the CBV profession to the forefront of business change. A primary purpose of CBV Institute is to protect the public interest by having and upholding high quality practice standards that underpin the professional services offered by CBVs.

INTRODUCTION

1. CBV Institute's Practice Standards Nos. 110, 120 and 130 (the "Valuation Practice Standards") were last updated in 2009/2010. CBV Institute previously issued two exposure drafts with proposed revisions to the Valuation Practice Standards on June 3, 2021 and on June 29, 2022. These documents contain the history, background, and member outreach activities that led to the currently proposed changes to the Valuation Practice Standards.

2. Throughout 2023 and 2024, the PPSC discussed the broad member feedback obtained to date, both formal and informal, and how to best move forward to (1) draft Valuation Practice Standards which reflect this member feedback, (2) modernize the standards and (3) reflect evolving best practices and global trends in business valuation practice.

3. During this time, on September 19, 2023, CBV Institute formally adopted International Valuation Standards ("IVS") as issued by the International Valuation Standards Council ("IVSC") as optional use practice standards, making IVS acceptable for use in Canada. This decision was made based on broad CBV support for IVS following CBV Institute's multi-year consultation process with members. In order to facilitate the adoption of IVS, CBV Institute created a new Practice Standard No. 100 ("PS 100") as a way to incorporate IVS into CBV Institute's suite of practice standards.

4. Member feedback to the first and second exposure drafts strongly supported (1) enhancing the scope of work required for Calculation Valuation Reports, (2) clarifying existing requirements and (3) aligning with IVS, where possible. Alignment with IVS requirements was viewed as beneficial to the CBV profession in order to reduce standards fragmentation, and enhance the ability of CBVs to participate in the global BV profession.

5. In drafting the proposed standards, the PPSC's objective was to maintain standards that are principles-based rather than overly prescriptive. Another objective was to utilize the insights gained through CBV Institute's Practice Inspection Program over the last five years.

6. Overall, the proposed standard revisions will:
   - raise the bar on Calculation valuation conclusions,
   - include more guidance on certain areas of the valuation process,
   - increase the quality of all valuations,
   - align more closely with IVS,
   - modernize and future-proof CBV Institute's practice standards.

Key Changes Made

7. Focusing the language in the Valuation Practice Standards on Valuation Conclusions (and the scope of work required to arrive at a credible and properly supported conclusion), rather than on Valuation Reports (e.g., the contents of Valuation Reports).

8. PS 110, which outlines report disclosure standards for Valuation Reports, no longer differentiates disclosure requirements by the different levels of reports (Comprehensive, Estimate, Calculation). All disclosure requirements apply equally to all levels of reports, including industry and economic information. Note that the use of the word “sufficient” within the Scope of Work standards (PS 120) gives Valuators latitude to use their professional judgment to decide how “deep” to go when gathering relevant information for the valuation, including for industry and economic information.

9. Redefining the three levels of valuation conclusions. In the proposed standards, the primary differentiator between Calculation, Estimate and Comprehensive Valuation Conclusions is the depth of the Scope of Work (PS 120) performed by the Valuator, and specifically the extent of independent corroboration, with more independent corroboration of key inputs and assumptions in a Comprehensive Valuation, and only minimal independent corroboration of key inputs and assumptions in a Calculation Valuation Conclusion. While “more” and “minimal” are still relative and subjective terms, subject to professional judgment, the intent is for CBVs to tailor their procedures and independent corroboration to those items that are most material/significant to an intended user, given the intended use of the report.

10. Raising the bar on the Scope of Work required for **Calculation Valuation Conclusions** by eliminating the words “minimal to no corroboration” from the definition of a Calculation Valuation Report, and instead defining a Calculation Valuation Conclusion as one which “*is based on a Scope of Work that is less extensive than an Estimate Valuation Conclusion, and therefore may only be appropriate in certain circumstances. In a Calculation Valuation Conclusion, the Valuator limits the amount of independent corroboration and may make reasonable simplifying assumptions for certain inputs, and places a higher degree of reliance on client representations, conducting minimal independent corroboration*.” The implication of this revised definition is that Valuators must perform some level of independent corroboration over key inputs, even at the Calculation-level. This addresses issues that CBV Institute has observed in practice inspections and enhances the quality of this type of work product. See also discussion of changes related to scope limitations below.

11. Better defines **Estimate and Comprehensive Valuation Conclusions**, by reference to the degree of "independent corroboration" that is required in performing each, namely:
    - For Estimates: a "*moderate level of independent corroboration by the Valuator of all significant inputs and assumptions"*
    - For Comprehensive: a *"high level of independent corroboration by the Valuator of all significant inputs and assumptions"*

12. Redefines a Comprehensive Valuation Conclusion as "*based on an extensive Scope of Work. A Comprehensive Valuation Conclusion has a Scope of Work that addresses in detail all of the significant valuation elements. As such, it includes an in-depth level of independent corroboration by the Valuator of all significant inputs and assumptions*." The PPSC does not expect that the Scope of Work for a Comprehensive Valuation Conclusion would change based on the new definition.

13. Redefines an Estimate Valuation Conclusion as "*based on a Scope of Work that is substantial, but less extensive than a Comprehensive Valuation Conclusion and more extensive than a Calculation Valuation Conclusion. As such, it includes a moderate level of independent corroboration by the Valuator of all significant inputs and assumptions."* The scope of work generally undertaken by practitioners at the Estimate-level is not expected to change significantly as a result of this wording change. Rather, the wording change more accurately conveys the level of work generally undertaken today by Valuators for Estimate Reports.

14. Removes references to "assurance" from the definitions of Calculation, Estimate and Comprehensive. This posed the risk of misinterpretation by the public as "audit" assurance. In a business valuation context, the word "assurance" is intended to convey the depth of scope of work undertaken by the Valuator, and more appropriately describes the wide variety of procedures, which include independent corroboration with another source (often besides management) of certain facts and circumstances.

Key Changes - Practice Standard No. 100 – Valuation Conclusions and Valuation Reports

15. PS 100 was created as the overarching standard to set the basic, fundamental principles and expectations for valuations, regardless of level. This proposed standard: (1) contains foundational concepts, (2) clarifies the applicability of the rest of the standards that follow (PS 110, 120, 130), (3) makes explicit reference to the relevant guidance (practice bulletins) that exist, (4) incorporates the ability to follow either the Valuation Practice Standards (PS 110, 120 and 130) or IVS for independent valuation conclusions, and (5) defines and explains the three levels of valuation conclusions that may be issued.

16. Built in the fundamental requirement and principle for any Valuation Conclusion, irrespective of level, that "*A Valuation Conclusion must be credible and properly supported based on an appropriate scope of work consisting of review, inquiry, analysis, and independent corroboration*[2] *of significant relevant information of the business, its industry, and any other factors relevant to the valuation ("Scope of Work")".* In other words, ensuring that <u>even the lowest level of Valuation Conclusion (Calculation) requires the Valuator to understand and consider both industry and economic information</u>. This is a new requirement for Calculation Valuations which is expected to strengthen the quality of these work products and improve the perception of the profession as a whole. See paragraph 3 of PS 100.

17. Built in explicit statements that interpreting and applying PS 100, 110, 120 and 130 require "*professional competence in business valuation*". This is to address the fact that CBV Institute standards are meant to be applied by those who have knowledge of business valuation, whether by virtue of having gone through CBV Institute's Program of Studies, by holding comparable business valuation designations, and more clearly indicate that CBV standards are <u>not</u> intended to be applied by individuals who have not undertaken comparable training, education and experience in business valuation. See paragraph 7 of PS 100.

18. Built in the concepts of "*informed professional judgment*", and "*appropriate professional skepticism*", which are important elements of business valuation practice, particularly for independent valuations, and which mirrors the language used by other reputable valuation standard setters. The concept behind professional skepticism is to protect the public interest. The onus is on the Valuator to approach management information with appropriate due care (which is already required by the Code of Ethics), such that the extent of procedures undertaken are appropriately tailored to reflect the purpose and intended use of the valuation and give consideration to the intended users' expectations. Professional skepticism is an attitude that includes a questioning mindset and critical assessment of valuation evidence. The Valuator is expected to use the knowledge, skill, and ability called for by the valuation profession to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence. Professional skepticism is tied to the underlying concepts of independence and objectivity. For greater clarity, applying professional skepticism does not necessarily imply that valuators

[2] Although the PPSC opted not to define "corroboration" within the standards themselves, as it was somewhat self-explanatory, the PPSC nonetheless interprets corroboration as "the procedures undertaken by the Valuator which seek to assess whether significant inputs or assumptions provided by management, the business owners and/or others can be relied upon, such as by confirming the reasonableness of the information with another source (whether internal or external)."

must "verify" management-prepared financial statements. It is acknowledged that a common assumption made by valuators is that the financial statements which have been provided are free from material errors and present fairly the financial position and results of operations of the business, unless there is evidence to the contrary. See paragraph 7 of PS 100.

19. Built in requirements for Valuation Conclusions that are communicated <u>only orally</u> (without any written work product whatsoever). The PPSC believes it is important to not be silent on the practice, as previously the standards failed to address this topic. Notably, in the U.S., valuation standards allow for oral reports. Responses to the 2022 Exposure Draft indicate that Members agree that any Valuation Conclusion communicated (strictly) orally should still be subject to the Scope of Work standards (PS 120) and the Documentation standards (PS 130). The PPSC concluded that setting out parameters for oral valuation conclusions was beneficial, while signalling that oral (only) valuations are generally discouraged in practice due to the increased likelihood of misunderstandings. See paragraph 15 of PS 100.

20. Clarified that distributing valuation schedules accompanied by an oral report constitutes a written work product that must comply with the reporting standards (Practice Standard No. 110) if the work product contains what may be viewed as a Valuation Conclusion.

21. Added language to clarify what distinguishes a Calculation from an Estimate and from a Comprehensive – namely, the depth of the Scope of Work, and specifically, the extent of independent corroboration by the Valuator. See paragraphs 20, 20.1, 20.2 and 20.3.

Question 1: Do you agree with the way that Comprehensive Valuation Conclusions have been defined within PS 100? If not, why not?
Question 2: Do you agree with the way that Estimate Valuation Conclusions have been defined within PS 100? If not, why not?
Question 3: Do you agree with the way that Calculation Valuation Conclusions have been defined within PS 100? If not, why not?
Question 4: Do you disagree with any element or paragraph within PS 100? If so, what alternative language would you propose?

Key Changes - Practice Standard No. 110 – Report Disclosure Standard

22. Responses to the 2022 Re-Exposure Draft indicated that the minimum disclosure requirements (i.e., the categories of information to disclose) should be consistent across all levels of Valuation Reports (Calculation, Estimate, Comprehensive). As a result, PS 110 now requires that **all Valuation Reports, including Calculations, disclose the same categories of information;** however, the extent of disclosures may vary amongst levels. Importantly, Calculation Valuation Reports cannot omit disclosures that are relevant to the valuation, such as industry and economic factors. Having said that, since the depth of work performed in an Estimate or Comprehensive Valuation is expected to be higher than that in a Calculation Valuation, the extent of report disclosure related to industry and economy in these report levels is expected to be higher as well.

23. To improve transparency for intended users, the proposed revisions require that Valuators disclose **four draft report conditions explicitly on the draft report.** The four conditions are not new, only the requirement to explicitly disclose them on the work product is new. This addresses a recurring issue noted in Practice Inspections. The intent is to reduce the risk of misuse of draft reports or unintended reliance on a draft report in practice. The four conditions are:
    - the work product is clearly marked as being in draft form and subject to change, and cautions that changes may be significant;
    - the work product is issued for the purpose of obtaining comment, further instructions or information from the client(s), required to complete the Valuation Report;
    - the Valuator knows, or reasonably ought to know, that the intended reader(s) does not intend to rely on the work product or distribute the work product to a third party who might in turn rely on such work product; and
    - the Valuator has a reasonable expectation at the time the work product is provided that a Valuation Report will be completed and issued in due course.

    See paragraph 3 of PS 110.

24. Built in the foundational principle that the level of disclosure in the Valuation Report should not depend on whether it has been classified as a Calculation, Estimate or Comprehensive. Rather, the report disclosure should simply be fit-for-purpose. Paragraph 5 states "*The Valuation Report must provide the intended users with a clear understanding of how the Valuator arrived at the Valuation Conclusion and include all information necessary to provide the client and intended users with a clear description of the work performed, information relied upon, professional judgments made, significant inputs and assumptions and the basis for conclusions reached*." Although the concept of tailoring the report contents to the purpose for which it is prepared is not new, the PPSC felt that it was important to add this as an explicit statement to make it clear that report

levels are not meant to restrict disclosure or arbitrarily determine what should or should not be disclosed, but are meant to establish the minimum standards. The Valuator must use professional judgment and go beyond the minimum standards when the situation calls for it.

25. Added in a requirement to identify, by name, not just "to whom the valuation report is being provided" (as the standards previously required), but also **to explicitly identify "*the client*" (if any), and "*any other intended users*" (if any).** This aims to enhance transparency in the report. See paragraph 7(A).

26. Introducing a requirement to name, not just the firm responsible for issuing the valuation report, but also the Valuator(s) responsible. This is because CBV Institute regulates individuals (Members and Registered Students), and not firms. The individual(s) who should be named is the one who takes responsibility, and who oversees the performance of the rest of the members of the engagement team. This aligns with the requirements of PS 310 *Expert Reports* and other leading global BV standards.

27. Added a requirement to disclose: (1) the level of Valuation Conclusion being provided (Comprehensive, Estimate or Calculation), and (2) **a statement that professional judgment was applied by the Valuator in determining the appropriate Scope of Work for the engagement** and also for classifying a particular Valuation Conclusion as Comprehensive, Estimate or Calculation, based on discussions with the client(s) regarding purpose and intended use. See paragraphs 7K and 7L.

28. Added **specific "disclaimer" language to be included in all Calculation Valuation Reports,** to draw attention to their (inherent) limitations. Since many of the Institute's practice inspection findings relate to Calculation Valuation Reports, the PPSC agreed it was prudent to bolster the disclaimer language accompanying these reports such that users are adequately informed of their potential shortcomings. This "Notice to Reader" disclosure (for which recommended language has been provided within the standard as guidance) should help align the expectations of users with those of CBVs with respect to this type of Valuation Conclusion. While this language need not be used verbatim, it is recommended as a best practice by the PPSC. See paragraphs 8A and 8B.

29. Added explicit requirement for Valuators to **explain the rationale for selecting particular bases of value, valuation approach(es), and method(s)**. Previously, reports had to disclose the basis, approach and method selected, but were not necessarily required to explain the rationale. The PPSC believes that disclosing the

rationale for the selection of these is an integral part of allowing the reader to understand how the Valuator arrived at the conclusion expressed. See paragraph 9A.

30. Added a requirement for all Valuation Reports, including Calculation and Estimate Reports, to disclose "*a summary of the relevant industry and economic factors that affect the Valuation Conclusion*." Previously, only Comprehensive Valuation Reports required a description of "economic context and industry outlook". This new requirement is in response to user needs, and the PPSC's belief that all valuation conclusions are affected (although in practice, the degree may depend) by the industry of the subject business or asset, as well as the general economic conditions which prevail at the Valuation Date. To the extent that industry conditions do not impact substantially on the valuation of the subject asset or liability, they need not be disclosed or disclosed in much detail in the report. Ultimately, the extent of disclosure must be consistent with the purpose and intended use of the valuation. This requirement aligns with IVS 200 *Business and Business Interests*, and which states "Awareness of relevant economic developments and specific industry trends is essential for all valuations (emphasis added)." See paragraph 9C.

31. Added a requirement to disclose "relevant financial information" for all reports, including for Calculation Valuation Reports (this was previously only required for Estimate and Comprehensive Reports). If the financial information is relevant, irrespective of report type, the PPSC felt it should be disclosed. See paragraph 9E.

32. The new PS 110 requires disclosure of "significant inputs" (paragraph 9F) and "significant assumptions" (paragraph 9G), as fundamental building blocks of a valuation, with guidance on what constitutes "significant". The Explanatory Comments state "*Aspects of a valuation are considered significant if their impact on the Valuation Conclusion could reasonably be expected to impact the decisions of the intended users of the conclusion".* For example, if they impact the amount ($) of the Valuation Conclusion in a meaningful way. Valuators often perform sensitivity analyses on significant inputs and assumptions to assess their effect on the valuation range ("high" or "low"). Significant inputs generally include the valuation approach and method, rates of return, discounts or premia. Significant assumptions might include the FMV of capital assets, reliance on conclusions of other experts, and normalizing adjustments. To increase clarity to readers, Valuators are encouraged to disclose significant inputs and assumptions (previously termed "key" assumptions) in a standalone section of the report.

33. Added a requirement to disclose scope limitations (if any). Disclosure of scope limitations (if any) is now a mandatory (bolded) requirement and calls on the Valuator to clearly set out scope limitations in a "prominent manner" in the valuation report (see paragraph 11). Including a specific "Scope Limitations" section in the Valuation Report is strongly encouraged (if applicable). Through practice inspections, CBV Institute has noted a general hesitation by Valuators to identify and label "scope limitations" using this terminology. Practice varies widely - some scope limitations are buried in footnotes of the report, some are identified as assumptions, etc. The PPSC concluded that it is transparent, and in the public interest, to prominently identify scope limitations within a separate section of the report, along with the reason for the limitation, and its possible impact on the Valuation Conclusion. CBV Institute has heard from users, including regulators, that this would improve the transparency of valuation reports. Guidance has also been added on what could constitute a scope limitation, how to assess its significance, and to clarify that if scope limitations are so significant as to jeopardize the credibility of the Valuation Conclusion, that Valuators must not issue the conclusion at all.

Question 5: Do you disagree with any of the new report disclosure items proposed? If so, which one(s), and why?
Question 6: Do you believe any other (additional) disclosure items or topics should be considered that have not yet been considered in PS 110? If so, explain.
Question 7: Does any additional guidance (explanatory comments) need to be added to PS 110?

Key Changes – Practice Standard No. 120 – Scope of Work standard

34. PS 120 has a section titled "Specific Standards" that sets out Scope of Work principles that only apply to Comprehensive and Estimate Valuation Reports. The proposed revisions make these Specific Standards apply equally to all levels of Valuation Conclusions, including Calculation Valuation Conclusions. The proposed revisions continue to acknowledge that the extent (depth) of the specific work and procedures will differ from one valuation to another, based on the purpose and intended use.
35. For example, paragraphs 4D and 4W extend the **requirement for the valuator to explicitly consider the relevant industry and general economic conditions affecting the underlying business.** Note that the use of the word "sufficient" within the standards gives Valuators latitude to use their professional judgment to decide how "deep" to go when gathering relevant information for the valuation, including industry and economic information. See paragraphs 4D and 4W of PS 120.

36. The PPSC has added several paragraphs in the "General Standards" section to capture foundational concepts that are not new to business valuation, but are newly articulated within the standards themselves, such as:
    - "*The Valuation Conclusion must be based on sufficient and appropriate information given the intended purpose and intended user(s)*" (par 3E);
    - Valuators are required to consider any scope limitations that may exist, and their significance and impact (par 3F);
    - Valuators are required to obtain a written engagement letter or agreement or instruction letter (par 3A);
    - Valuators are required to *'assess the reliability'* of any external data sources or tools they rely on, including databases (e.g., CapitalIQ), opinions from specialists (e.g., tangible asset appraisers), and newer technologies like artificially intelligence or automated valuation platforms (par 3D). The PPSC introduced this requirement to address the growing use of tools with varying levels of transparency, emphasizing the Valuator's obligation to ensure reliability before use. This aligns with exercising "due care" in today's technology-driven environment. For more information, refer to CBV Institute's **AI Primer**.

37. The revised standards (par 3F), **prohibit the Valuator from providing a Valuation Conclusion if scope limitations are "*significant to a degree that they are likely to jeopardize the credibility of the Valuation Conclusion.*"** Determining what constitutes a "significant" scope limitation is case-specific and requires professional judgment. Examples may include missing financial statements or key documents or the inability to speak with management. The PPSC believes that significant scope limitations should be disclosed, but if they "jeopardize the credibility of the Valuation Conclusion, the Valuator must not render a Valuation Conclusion." This aligns with PS 100's requirement that a Valuation Conclusion must be "credible", and "properly supported", as well as the Code of Ethics' prohibition against issuing a conclusion that may be false or misleading. In these circumstances, Valuators may issue clients a letter outlining the information required for a credible Valuation Conclusion.

38. Introducing a new explicit requirement **to implement a quality review process over the valuation (also referred as to quality control, or QC, process)**. The rationale for this requirement is supported by: a) observations and findings of practice inspections conducted over the last 5 years, which suggest that such processes would be highly beneficial and serve to improve quality across the board; b) a global best practice as outlined in IVS; and c) a process that is already undertaken by a large proportion of CBVs within their valuation firms. The proposed standards do not specify what such a process must look like, and as such, the requirement can be implemented by CBVs at

whatever scale and scope is appropriate for their practices. Generally, a QC process would consist of a review of valuation reports prior to their issuance by a peer or another CBV not involved with the valuation engagement. However, a QC checklist process may be sufficient for a sole practitioner. The purpose of the QC process is, first and foremost, to ensure that the valuation has been performed in accordance with the Practice Standards and the Code of Ethics. See paragraph 3G of PS 120. Additional discussion and guidance on this topic is available in Appendix B of CBV Institute's **Practice Inspection Findings – 2023 Practice Inspection Summary Report**, which provides some guidance on what such a process should include.

39. Introducing **a requirement to obtain "*relevant prior or current valuations or indicators of value*" of the business/subject** (par 4F). While most Valuators seek out or request from management any prior valuations as a matter of course, the PPSC believes that asking for prior valuations is important enough to require it on all engagements. Many Valuators regularly include such a question in their Management Information Requests, and, if the subject entity is public, would consider and refer to market trading prices, or other publicly available value-related information. The term "indicators of value" is intended to capture any letters of intent (LOIs), or other industry-specific indicators or analyses. The use of the word "relevant" within the standards gives Valuators latitude to use their professional judgment to decide whether a particular prior valuation or value indication is or is not relevant.

40. Setting out explicitly that the Valuator must determine the appropriate basis of value, premise of value (par 4G), and valuation approach(es) and method(s) (par 4H), and must generally apply an appropriate and reliable valuation model (par 4I). While 4G and 4H are not new, the introduction of the concept of a "model" within the standards is new. A model is any quantitative tool used by the Valuator. Models have historically been Excel-based, although increasingly they are becoming web or algorithm based, as many newer service providers have entered the market for business valuation services.

41. Introducing a requirement for the Valuator to **"*determine appropriate inputs and assumptions*",** requiring that **"*inputs and assumptions must be reasonable and appropriate for the intended purpose and intended use*",** and requiring the Valuator to **support "significant"[3] inputs and assumptions** (par 4J). This new requirement acknowledges that for a Valuation Conclusion to be "credible", the Valuator must apply some degree of professional judgment (in the context of the engagement), and that the

[3] Guidance on "significance" has been added as part of the explanatory comments. "Significant" inputs and assumptions are those that could have a significant impact on the Valuation Conclusion, and therefore require a higher Scope of Work by the Valuator.

situations where it is appropriate to rely (solely) on management inputs without any additional review, inquiry, analysis or independent corroboration, are rare. While some practitioners hold the view that, in a Calculation Valuation, they should be able to rely on information[4] provided by any source, without corroboration (so long as it is disclosed in the report), CBV Institute's observations and noted deficiencies observed over the last several years of the Practice Inspection Program show that such "automatic" reliance is impacting the perception of credibility of valuations in the market. This new language is consistent with the language used in Practice Standard No. 320 (Scope of Work for Expert Reports) and is now consistent with the overall objective that a valuation conclusion be properly supported and credible for the purpose intended.

42. Introducing a requirement to "step back" and assess the reasonability of the overall Valuation Conclusion by performing reasonability tests or analysis (par 4K). This is a best practice and is already a common undertaking in business valuation practice for CBVs. Additional guidance within the explanatory comments addresses situations such as obtaining divergent indications of value from using different approaches or methods, and formally acknowledges that the Valuation Conclusion itself may be a "point estimate' or a "range".

43. Enhanced the "use of a specialist" paragraph, such that rather than just "considering the necessity of relying upon the work of a specialist", the standards now include further requirements, which state "*Prior to engaging a specialist or relying upon the work of a specialist hired by the client,* ***the Valuator must obtain reasonable support that it is appropriate to rely on the specialist.*"** (par 4L). This requirement aligns with international best practice, and with IVS. A "specialist" is defined within IVS as "an individual or group of individuals possessing technical skills, experience and knowledge required to perform or assist in the valuation or the review and challenge process." IVS requires that prior to using a specialist, the valuer (Valuator) must assess and document the knowledge, skill and ability of the specialist, using factors such as:

(a) experience in the type of work performed,
(b) professional certification, license, or professional accreditation of the specialist in the relevant field,
(c) reputation and standing of the specialist in the particular field.

[4] Note that when referring to "information", this refers broadly to information about the business, and not to financial statements. Valuators can and do generally rely on management prepared financial statements, whether they are compiled, reviewed or audited, without any independent verification. The intent of the new standards is not to require Valuators to perform audit procedures.

While “specialist” is not defined within the Valuation Practice Standards, this concept is well established and well understood.

Question 8: Do you disagree with any of the new proposed Scope of Work requirements? If so, which one(s), and why?
Question 9: Do you believe any other (additional) Scope of Work items or topics should be considered that have not yet been considered in PS 120? If so, explain.
Question 10: Does any additional guidance (explanatory comments) need to be added to PS 120?

Key Changes - Practice Standard No. 130 – Documentation Standard

44. Requiring **documentation of the valuator’s independence and conflict check procedures**, including documentation of the factors considered to ensure the independence and objectivity for the specific valuation engagement. See paragraph 3A. As maintaining independence (both in fact and in appearance) is a key element of maintaining public trust in the CBV profession, Valuators are expected to have in place a process to support the positive statement[5] that they are indeed independent. Such a process is subject to inspection by CBV Institute as part of the Mandatory Practice Inspection Program and should be documented.

45. Introducing a requirement to maintain documentation to evidence the performance of the quality review process required by PS 120. See paragraph 4F. Valuators can meet this requirement by using a checklist of specific items reviewed by the quality reviewer, along with the quality reviewer’s sign-off before the final Valuation Report is issued. The Institute’s Practice Inspection Checklists, **available here**, may be helpful for this purpose.

46. Requiring documentation of premise of value, basis of value, valuation approaches and methods, techniques selected (and reasoning as to why they were selected), as well as significant components of the valuation considered by the Valuator (intentionally broad), and significant inputs and assumptions, as well as the valuation calculations and supporting documentation. See paragraph 4E. To the extent that these items are adequately disclosed and form part of the Valuation Report, that will meet the requirements of the standard.

[5] PS 110 requires the Valuation Report to disclose that “the Valuation Report was prepared by the Valuator acting independently and objectively.”

47. Introducing a requirement to obtain an engagement letter or agreement for every Valuation Conclusion. Based on Member feedback to date, there is strong member support for requiring an engagement letter (or instruction letter) for every independent valuation engagement. Paragraph 4B reflects this new requirement. Mandatory engagement letters are for the protection of all parties, including the practitioner and are best practice.

48. Added guidance on document retention. See paragraph 3D. The new guidance states that, in accordance with CBV Institute's Mandatory Practice Inspection Program, Valuators are required to retain engagement documents for five (5) calendar years following the date of the Valuation Report, although longer periods may apply (i.e. 6 years from the end of the last tax year if the valuation is for tax purposes, etc.)

Question 11: Do you disagree with any of the new proposed Documentation requirements? If so, which one(s), and why?
Question 12: Do you believe any other (additional) Documentation items or topics should be considered that have not yet been considered in PS 130? If so, explain.
Question 13: Does any additional guidance (explanatory comments) need to be added to PS 130?

Key Changes – Practice Bulletin No. 3 - Guidance on the Levels of Valuation Conclusions (previously Guidance on the Types of Valuation Reports) ("PB3")

49. Practice Bulletin No 3 was shortened and now provides more concise guidance on determining the depth of the Scope of Work that is appropriate for each of the three levels of Valuation Conclusion (Calculation, Estimate and Comprehensive).

50. The PPSC decided to retain only one of the existing charts within PB 3, namely the chart with illustrative examples of information and the procedures that may be considered by the Valuator. Other charts were removed because they were duplicative, and offered little in the way of specific guidance.

51. Paragraph 4, setting out the considerations that might be relevant in assessing the suitability of a particular level of Valuation Conclusion (and the accompanying Scope of Work), is not new. The intent of this guidance is to discourage the use of Calculation Valuation Conclusions in certain "high risk" situations, such as when the extent of reliance is "high", when the matter is highly significant to the intended user, when there is more than one intended user of the valuation, when the matter is contentious, etc.

Question 14: Is there any significant guidance missing from PB3 that would help you appropriately apply the new Valuation Practice Standards?

Changes Not Made

52. As no consensus emerged on whether to eliminate the three levels of valuations (Comprehensive, Estimate and Calculation), the PPSC decided to maintain the three levels at this time, but to differentiate them more prescriptively on the basis of the scope of work performed (rather than the extent of report disclosure), and more specifically, the depth of work required.

53. Because each valuation is unique, the PPSC decided not to articulate with any specificity or granularity the differences in the required scope of work between Calculation, Estimate and Comprehensive valuations - a view shared by CBV Institute's other professional committees such as the Practice Inspection Committee and the Conduct and Discipline Committee. As such, the PPSC is of the view that the conceptual differences should remain articulated in a relative way, without prescribing a hierarchy of specific valuation procedures to be undertaken for each of the three levels. The PPSC decided that the scope of work for every valuation engagement should be clear to users from the report itself, rather than from a more broad or generic label of "Calculation", "Estimate" or "Comprehensive." The PPSC's view is that, while these labels are helpful as guideposts, and to indicate a relative scale of scope of work, there is no absolute list of valuation procedures that would apply to one level, but not to the others. As such, the Scope of Work requirements in Practice Standard No. 120 for each report remain subject to professional judgment, based on the intended use and needs of the intended users.

54. The standards do not prescribe when to use or not use each report type (Calculation, Estimate, Comprehensive). This is intentional, as each circumstance is unique. Having said that, the PPSC believes that the guiding principles in Practice Bulletin No. 3 remain relevant in assessing when, for example, a Calculation Valuation Conclusion and Calculation Valuation Report are generally NOT to be used (i.e., when the extent of reliance is "high", when the matter is highly significant to the intended user, when there is more than one intended user of the valuation, when the matter is contentious, etc.).

CONCLUSION

55. Thank you for taking the time to consider these important proposed revisions to CBV Institute's Valuation Practice Standards. The practice standards may be further revised in light of comments received, but no further exposure drafts are expected following this multi-year review process. PPSC acknowledges that application of the practice standards will continue to require significant professional judgment based on facts and circumstances to obtain a credible and properly supported valuation in the public interest.