



PRACTICE STANDARD NO. 120

VALUATION CONCLUSIONS AND VALUATION REPORTS

SCOPE OF WORK STANDARDS AND RECOMMENDATIONS

1. ~~A Valuation Report is defined as “any written communication containing a conclusion as to the value of shares, assets or an interest in a business, prepared by a Valuator acting independently.” A Valuation Report does not include work product that is in the process of being completed that is provided to a client or knowledgeable third party in circumstances where each of the following conditions are met: (i) the work product is clearly marked as being in draft form and subject to change; (ii) the work product is issued for the purpose of obtaining comment, instruction, confirmation or other information required to complete the Valuation Report; (iii) 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 may in turn rely on such work product; and (iv) 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.~~
1. **Scope of Work** refers to a process that consists of review, inquiry, analysis, and independent corroboration of significant relevant information of the business, its industry, and any other factors relevant to the valuation and necessary to achieve a credible and properly supported Valuation Conclusion. It is the responsibility of the Valuator to determine the appropriate Scope of Work for a particular engagement to render a credible and properly supported Valuation Conclusion and this involves professional judgement.
2. At a minimum, for all Valuation Reports **Conclusions** the following procedures set out in **bold** characters **must** be performed. ~~“Recommendations” are not mandatory, but encouraged. “Explanatory comments” provide additional guidance in applying the specific provisions of the Standard.~~

General Standards

3. **The following General Standards apply to all three types levels of Valuation Reports Conclusions (i.e., Comprehensive, Estimate, and Calculation Valuation Reports):**
 - A. **The Valuator shall must obtain a written engagement agreement containing clear instructions from the person requesting the valuation and the terms of the engagement, including the type of Valuation Report required including the expected Scope of Work and level of Valuation Conclusion to be provided.** (Recommendation: the Valuator should assess the necessity of obtaining an engagement letter in each circumstance and, if no engagement letter is obtained, consider documenting the nature of the instructions received from the person

~~requesting the valuation, including the type of Valuation Report required.)~~
(*Explanatory comments:* the fundamental terms of the engagement typically include the specific assets, liabilities or interest being valued, the valuation date, the purpose and intended use/users of the valuation, the expected Scope of Work, any anticipated limitations to the Scope of Work, any other anticipated limitations or restrictions on use, the basis on which fees will be charged, the responsibilities of the parties involved, and engagement timing. Any subsequent significant changes to the terms of engagement must be documented and agreed to in writing.)

- B. ~~The work shall must be adequately planned and, properly executed, and performed with due care and an objective state of mind.~~
- C. ~~The work shall must be performed by a person or persons having adequate technical training and proficiency in financial analysis and/or business valuation concepts, principles and techniques, with due care and with an objective state of mind to competently value the subject of the valuation. If assistants are employed, they shall must be properly supervised.~~
- D. ~~Sufficient evidence shall 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. When determining the extent of evidence necessary to support the Valuation Report, Valuators shall exercise professional judgment, considering the nature of the valuation, the type of Valuation Report being provided (i.e. Comprehensive, Estimate or Calculation Valuation Report) and the use to which the Valuation Report will be put. (Explanatory comments: it is expected that the scope of review will be more comprehensive for a Comprehensive Valuation Report and progressively less comprehensive for an Estimate Valuation Report and a Calculation Valuation Report. It is a matter of professional judgment as to the amount of review appropriate for the type of Valuation Report being provided.)~~
- E. ~~The Valuator shall perform the work in accordance with the Practice Standards and Code of Ethics of the Canadian Institute of Chartered Business Valuators.~~
- F. ~~When access to essential information is denied by the client or some other party, or is otherwise unavailable to the Valuator, any conclusion expressed by the Valuator in respect of such valuation shall be qualified and the limitation(s) on the scope of work clearly set out in the Valuation Report.~~
- D. **The Valuator must assess the reliability of external sources and tools, such as opinions of other experts or specialists (e.g., real estate appraisers), artificial intelligence, or other sources of data or technology.**
- E. **The Valuation Conclusion must be based on sufficient and appropriate information given the intended purpose and intended user(s).** (*Explanatory comment:* paragraph 4 J sets the requirements for supporting significant inputs and assumptions.)
- F. **The Valuator must consider the extent to which the Scope of Work has been limited. If any scope limitation(s) are significant to a degree that they are likely to jeopardize the credibility of the Valuation Conclusion, the Valuator must not render a Valuation Conclusion.** (*Explanatory comments:* Determining whether a

scope limitation exists, and how significant it is, is a matter of professional judgment. Scope limitations may exist for every level of Valuation Conclusion (Comprehensive, Estimate, Calculation). A scope limitation occurs when significant relevant information is denied by the client or some other party or otherwise unavailable to the Valuator, limiting the ability of the Valuator to perform an appropriate Scope of Work. A scope limitation may also occur if the Valuator considers the quality of the information to be inadequate and/or unreliable. A scope limitation is any limitation on the nature and extent of the Valuator's work, including any limitation in review, inquiry, analysis, or independent corroboration of significant relevant information of the business, its industry, and any other factors relevant to the valuation and necessary to achieve a credible and properly supported Valuation Conclusion. Examples of scope limitations may include, but not be limited to, unavailable financial statements, unavailable data or key documents, inability to speak to management about relevant aspects of the business, etc.)

- G. **A quality review process must be applied to ensure that the valuation has been performed in accordance with the Practice Standards and the Code of Ethics.** (*Explanatory comments:* This process should include the application of professional skepticism and review and challenge of key judgments in the valuation. A quality review process might include peer review performed by a Valuator with sufficient appropriate expertise, and/or other internal quality review processes.)

Specific Standards

4. The following Specific Standards apply to **Comprehensive and Estimate Valuation Reports:** (~~*Recommendation:* Valuators should consider applying the Specific Standards to Calculation Valuation Reports.~~) all three levels of Valuation Conclusions. (For guidance relating specifically to each of Comprehensive, Estimate and Calculation Valuation Conclusions, refer to Practice Bulletin No. 3). As part of the Valuator's Scope of Work, the Valuator must:
- A. ~~**When planning the extent of the scope of work for a particular engagement, the Valuator shall obtain:**~~
- A. **Sufficient Obtain a sufficient understanding of the subject of the valuation (e.g., shares, units);** (~~*Explanatory comment:* depending on the type of Valuation Report being provided, the Valuator should obtain and review material documentation, including agreements, contracts, letters of understanding, letters of intent and correspondence, which bear on the subject of the valuation.~~) (*Explanatory comments:* to obtain this sufficient understanding, interviews with key management might be conducted, along with a review of documentation such as: articles of incorporation, share certificates stating the features and/or terms and conditions of the various classes of shares, and/or summaries thereof).
- B. **Sufficient Obtain a sufficient understanding of the underlying business operations and other information relevant to the valuation;** (*Explanatory comments:* this requirement pertains to entity-specific non-financial information, such as: ownership, history of the business, key management, material agreements or contracts).

- C. **Sufficient Obtain sufficient financial information relating to the subject being valued, including past results, future prospects and present financial position;** (~~Recommendation:~~ depending on the type of Valuation Report being provided, the information to be obtained and analyzed will include prior years' operating results and cash flows, a current balance sheet, and future oriented financial information such as budgets, forecasts and projections) (*Explanatory comments:* such information will typically include relevant historical and current financial statements, corporate income tax returns, and future oriented financial information such as budgets, forecasts and projections, if available.)
- D. **Sufficient Obtain a sufficient understanding of the relevant industry(s) in which the underlying business operates;** (~~Recommendation:~~ depending on the nature of the mandate and on the type of Valuation Report being provided, this analysis might consider the following: *Explanatory comments:* such information might include:
- Critical success factors;
 - Competitors and their respective market shares;
 - Industry regulations;
 - Industry projections and forecasts;
 - New developments or trends;
 - Environmental, social and governance (ESG) or other sustainability issues or opportunities;
 - Trading volumes and price ranges, prices and financial and valuation ratios of publicly traded shares guideline public companies; and
 - Comparable Guideline market transactions).
- E. **Sufficient Obtain sufficient information relating to the general economic conditions affecting the underlying business operations as at the Valuation Date.** (*Explanatory comments:* such information might normally consist of selected rates of return, interest rates, inflation rates, and other general economic indicators).
- F. **Obtain relevant prior or current valuations or indicators of value of the business or the subject of the valuation;** (*Explanatory comments:* such information might consist of valuations by other Valuators or analysts, market trading prices, equity transaction details, formal offers involving the subject being valued).
- G. ~~In performing the business valuation, the Valuator shall determine the appropriate valuation basis and approach to be employed.~~ (*Explanatory comment:* the “valuation basis” refers to going concern or liquidation, whereas the “valuation approach” refers to income (earnings or cash flow methods), cost (adjusted net book value method) and market (comparable transactions method) **Determine the appropriate basis of value and premise of value¹;** (*Explanatory comments:* the basis of value, also known as the standard of value, is the definition of value used in the valuation (e.g., “Fair Market Value”). The premise of value (e.g., going concern) is an assumption regarding the circumstances that might be applicable to the subject valuation. The appropriate basis and premise of value is selected by the Valuator using professional judgment and will depend on the purpose and intended use of the

¹ Refer to Practice Bulletin No. 2 for definitions of several internationally agreed basis of value terms.

valuation. However, the basis of value and/or the premise of value that will be appropriate in the circumstances may be established by legislation, a decision of a trier of facts, or a contractual agreement.)

- H. **Determine the appropriate valuation approach(es) and valuation method(s) to be employed²**; (*Explanatory comments*: valuation approach(es) include the income, market or cost approaches. The valuation methods – also called methodologies – will vary depending on the selected valuation approach(es) such as discounted cash flow, capitalized cash flow, etc. Valuers must consider all valuation approaches and methods that are relevant and appropriate in the circumstances, regardless of the level of Valuation Conclusion (Comprehensive, Estimate, or Calculation). Professional judgment is required to select approaches and methods that are appropriate in the particular circumstances. Valuers are not required to use more than one approach or method to reach a Valuation Conclusion, particularly when the Valuator has a high degree of confidence in the appropriateness of a single approach and method given the facts and circumstances of the valuation engagement. However, use of more than one valuation approach may provide the Valuator with additional support in the reasonableness of the Valuation Conclusion reached. Valuers should document in the Valuation Report or working papers the reasons that any relevant and appropriate approaches and methods were not used.)

- ~~I. **The Valuator shall consider key valuation components and assumptions.**~~
~~(*Explanatory comment*: the key valuation components might include the following:~~

- ~~a. Normalizing adjustments;~~
- ~~b. Capitalization rates;~~
- ~~c. Income tax issues;~~
- ~~d. Redundancy;~~
- ~~e. Minority and other discounts; and~~
- ~~f. Special purchasers.)~~

- I. **Determine and apply an appropriate and reliable valuation model**; (*Explanatory comments*: a valuation model is a quantitative tool that might be used to collect inputs to perform mathematical calculations and provide outputs that might be used in the development of a Valuation Conclusion. Valuation models might be developed internally or sourced externally. The Valuator must determine that the model used is appropriate for the purpose and intended use of the valuation and is mathematically and technically accurate (e.g., appropriately applying valuation theory). In all cases the Valuator must apply professional judgment in the selection and use of valuation models, the application of inputs used, the design of calculations, and the assessment of outputs of the models.)

- J. **Determine appropriate inputs and assumptions. Inputs and assumptions must be reasonable and appropriate for the intended purpose and intended use(s) of the Valuation Conclusion. Significant inputs and assumptions must be supported**; (*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. Determining which inputs and assumptions are significant is

² Refer to Practice Bulletin No. 2 for definitions of several internationally agreed business valuation approaches, methods and techniques.

necessarily a matter of professional judgment, which should be made in light of the facts and circumstances of the valuation engagement. Significant inputs and assumptions that cannot be supported should be disclosed as a Scope Limitation. The Valuator must use professional skepticism when considering reliance on assumptions provided by their client.)

K. Consider and document the reasonableness and appropriateness of the overall Valuation Conclusion; (*Explanatory comments:*

- i. When performing reasonableness tests of the Valuation Conclusion, the Valuator should consider the availability of market-based data relevant to the valuation. For example, if valuation metrics for 'somewhat comparable' assets or transactions are available, they must be considered in the reasonableness testing of the Valuation Conclusion, although not required to be 'used' directly for arriving at the Valuation Conclusion).
- ii. If the Valuator has considered multiple valuation approaches or methods and they have resulted in different indications of value, the Valuator should compare, analyze and document how the Valuator arrived at the Valuation Conclusion considering these differing indicators of value.
- iii. The Valuator may express the Valuation Conclusion as a point estimate or a range. However, a range should not be so wide as to negatively impact the perception of the reliability or credibility of the Valuation Conclusion.)

L. ~~The Valuator shall~~ Consider the necessity of relying upon the work of a specialist. 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. (*Explanatory comments:* engaging the work of a specialist may require agreement from the client or disclosure to the client. ~~, for example~~ Examples of specialists include: real estate appraisers, engineers, ~~or~~ equipment appraisers, actuaries, etc. If the Valuator determines that ~~(Recommendation: if it is deemed~~ appropriate to ~~request~~ obtain the assistance of a specialist, the Valuator should obtain reasonable ~~assurance~~ support concerning the specialist's reputation for competence and degree of independence and objectivity.) (~~Explanatory comment: the~~ The appropriateness and reasonableness of the assumptions and methods used by the specialist are the responsibility of the specialist. ~~Ordinarily, the~~ The Valuator may accept the specialist's judgment and work in this regard unless ~~apparent deficiencies are identified~~ the report of the specialist, the Valuator's communication with the specialist, or the Valuator's knowledge of the business being valued, lead the Valuator to believe that the specialist's assumptions or methods are unreasonable in the circumstances.)

M. ~~The Valuator shall determine the necessity of~~ Consider obtaining client representations in writing and, if possible, management representations from management or other representatives of the underlying business.

~~(Recommendation-Explanatory comments:~~ such representations may be in letter format, and would normally include a general representation that the client/management:

- i. Has reviewed a draft copy of the Valuation Report;
- ii. ~~Is satisfied with~~ Understands the valuation concepts and approaches methodologies adopted; and

- iii. Does not have any information or knowledge **not shared with the Valuator** which would reasonably be expected to materially affect the **conclusion noted in the Valuation Report Conclusion.**)

~~October 7, 2010~~
December 17, 2024

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