



## PRACTICE BULLETIN NO. 3

### GUIDANCE ON THE LEVELS OF VALUATION CONCLUSIONS




1. The Scope of Work of a valuation engagement is separate and distinct from the reporting format in which the results are communicated to intended users. This Practice Bulletin does not address matters concerning Valuation Report disclosure because such matters are explicitly set out in Practice Standard No. 110. The purpose of this Practice Bulletin is to assist the Valuator in:
  - (i) Determining the depth (extent of review, inquiry, analysis, and independent corroboration) of the Scope of Work that is appropriate for each of the three levels of Valuation Conclusions;
  - (ii) Determining the suitability of the three levels of Valuation Conclusions and Valuation Reports for various purposes; and
  - (iii) Assessing the impact of the availability of information on the level of Valuation Conclusion that should be issued.

#### Scope of Work by Level of Valuation Conclusion

2. As specified in Practice Standard No. 100:
  - **Comprehensive Valuation Conclusion** – is based on an extensive Scope of Work. A Comprehensive Valuation Conclusion has a Scope of Work that addresses in detail all of the significant inputs and assumptions. As such, it includes a high level of independent corroboration by the Valuator of all significant inputs and assumptions.
  - **Estimate Valuation Conclusion** – is 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.
  - **Calculation Valuation Conclusion** – 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.

3. The following table provides illustrative examples of the continuum of the depth of review, inquiry, analysis and independent corroboration that might be undertaken. Generally, this continuum corresponds to the level of Valuation Conclusion being issued with the highest extent of review, inquiry, analysis and independent corroboration of information and factors for Comprehensive Valuation Conclusions. **The examples are not intended to be prescriptive of what needs to be undertaken in any particular valuation engagement.** A determination of the extent of review, inquiry, analysis and corroboration to be performed in each particular engagement is necessarily a matter of professional judgment that takes into account all of the relevant facts and circumstances, including the overarching requirement for the Valuation Conclusion to be properly supported and credible for the purpose intended.

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Example of Information	Extent of Review, Inquiry, Analysis and Independent Corroboration (“Depth”)	Illustrative Examples of Review, Inquiry, Analysis and Independent Corroboration
<p><b>Normalizing Adjustments to Earnings / Cash Flows</b></p> <p>Or</p> <p><b>Financial Projections</b></p>	<p>Highest</p>  <p>Lowest</p>	<p><b>Comprehensive Valuation Conclusion:</b> In-depth analysis of inputs and assumptions, interviews of management, review and assessment of supporting documentation, research and analysis of industry benchmarks. Should also include consideration of apparent contradictory information.</p> <p><b>Calculation Valuation Conclusion:</b> Review of inputs and assumptions and consideration and assessment of the reasonableness of management representations using minimal independent corroboration, with some comparison to industry outlooks as/if applicable.</p>
<p><b>Real Property Market Value</b></p>	<p>Highest</p>  <p>Lowest</p>	<p><b>Comprehensive Valuation Conclusion:</b> Property appraisal report by qualified appraiser, at or near the valuation date.</p> <p><b>Calculation Valuation Conclusion:</b> Management estimate or opinion from other real estate agent or professional with only a minimal level of work or independent corroboration.</p>
<p><b>Industry research</b></p>	<p>Highest</p>  <p>Lowest</p>	<p><b>Comprehensive Valuation Conclusion:</b> Detailed independent research into the underlying industry including all relevant risks and opportunities, and consideration of relevant data, including guideline public company trading multiples or guideline market transactions.</p> <p><b>Calculation Valuation Conclusion:</b> General research into the current state of the industry, such as could be obtained by searches of industry association websites and discussions with management as to major industry trends.</p>

## Suitability by Level of Valuation Conclusion

4. Some considerations that might be relevant in assessing the suitability of a particular level of Valuation Conclusion (and the accompanying Scope of Work) are as follows:
  - (i) Extent of reliance – the extent of reliance on the Valuation Conclusion will vary based on the circumstances. For example, in contemplation of an open market transaction, the user of the Valuation Conclusion user may seek only a general indication of value as the market of buyers has been satisfactorily canvassed and the price of a transaction will ultimately be the result of negotiation or auction. A Valuation Conclusion that provides a lower Scope of Work may be suitable in this situation. In contrast, if an agreement on the price for a transaction or a settlement is being entered into based only on the Valuation Conclusion, the level of reliance, and therefore the appropriate Scope of Work, would be greater;
  - (ii) Significance of the matter to the user – the degree of significance to the user may increase the degree of due diligence (level of Valuation Conclusion) and thus impact the Scope of Work that is required;
  - (iii) Preliminary nature of the matter – a user may require only a Valuation Conclusion that is based on a limited Scope of Work for the purpose of making a preliminary or interim assessment in the course of an extended matter;
  - (iv) Number of users of the report – where there are more than one intended user, there may be an increase in the required Scope of Work and disclosure as the implications of a more limited Scope of Work may not be properly understood by all users or the users may have interests that are not aligned;
  - (v) Public availability – if the Valuation Conclusion will be disclosed or referred to in a public document (such as a securities filing), there would typically be an increased need for a more extensive Scope of Work as the implications of a more limited Scope of Work may not be properly understood by all potential users;
  - (vi) Contentious nature of the matter (or potential for being contentious) – if the matter is (or has the potential for being) contentious, this increases the likelihood that the Valuation Conclusion will be used as expert evidence and may be the basis for a settlement, or judgment by a trier of facts (e.g., judge, arbitrator), which would typically increase the Scope of Work that is required; and
  - (vii) Regulations or agreements – regulatory authorities or relevant contracts/agreements (e.g., a shareholders' agreement) may prescribe a certain level of Valuation Conclusion and the nature of the Valuation Report.
5. The foregoing considerations are illustrative and are provided only to assist in assessing the suitability of a Valuation Conclusion and Valuation Report in various circumstances. These considerations are not intended to be exhaustive or prescriptive of what level of Valuation Conclusion should be issued in a particular engagement. A determination as to whether the

level of Valuation Conclusion to be issued will be appropriate for the purpose for which it was prepared is necessarily a matter of professional judgment that considers all of the relevant facts and circumstances.

### Availability of Information on Scope of Work

6. One of the considerations in determining the level of Valuation Conclusion and Valuation Report is the availability of information on which to base a conclusion, relative to the information that exists and/or would typically be available in the circumstances. The inability of the Valuator to have access to certain pieces of relevant information could lead the Valuator to determine that it is not possible to prepare, say, an Estimate Valuation Conclusion but that the Valuator could still prepare a Calculation Valuation Conclusion. For all levels of Valuation Conclusion and Valuation Reports, Valuators should consider whether the information obtained is adequate for the purpose and intended use of the Valuation Conclusion, and whether the Valuation Conclusion expressed is credible and properly supported.
7. Determining the impact of the availability of information on the level of Valuation Conclusion to be issued is a matter of professional judgment that takes into account all of the relevant facts and circumstances including the purpose of the Valuation Conclusion and Report, the Scope of Work agreed upon by the client and the Valuator, and the significance of the unavailable and/or missing information to the conclusion.

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