

PRACTICE INSPECTION PROGRAM

SUMMARY REPORT / 2024

APRIL 30, 2025

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We are pleased to share this report (“Report”) with Members and Registered Students. This report provides a summary of findings of the 2024 practice inspections, which covered work products issued during the four-year period from January 1, 2020 to December 31, 2023. CBV Institute’s Practice Inspection Program strives to enhance the quality of professional services by upholding the standard of professional practice expected of all valuation professionals.

EXECUTIVE SUMMARY

Approximately 31% of Members signed or took responsibility for work products subject to the Practice Standards during the current Inspection Period and were therefore eligible for inspection. Consistent with prior years, only a limited number of Members and Registered Students were selected for inspection in 2024. Overall, the majority of the work products inspected were of high quality and conducted professionally. However, the 2024 inspection results indicated some areas where compliance with Practice Standards can be improved, including: conducting an appropriate scope of work (particularly around key assumptions), improving report disclosure to tell a clearer valuation story and explain the valuator’s rationale, improving report and file documentation, and implementing better practice management processes, including quality controls. The Practice Inspection Committee is encouraged to see that inspector feedback is being taken seriously and that practitioners are proactively committing to improving their processes to address findings.



BACKGROUND

CBVs take immense pride in their designation and profession. The CBV profession is self-regulated, with cornerstones of professional excellence and protecting the public interest. Adherence to professional standards is of utmost importance to both the profession as a whole and to the individual practitioners who comprise our profession. Practice inspection is one of the important ways in which the CBV Institute delivers on its commitment to excellence in professional practice.

Objectives of the Program

The objectives of the Practice Inspection Program (the “Program”) are to ensure ongoing compliance with CBV Institute’s (the “Institute”) Practice Standards and Code of Ethics (“Professional Standards”); to protect the public interest; and to enhance the confidence the public and regulatory bodies have in the Institute, its Members and Registered Students, and the business valuation profession in general. The Program is carried out in accordance with the Institute’s By-laws and its Mandatory Practice Inspection Policy (the “Policy”)¹. The Program exists to inspect work products subject to the Institute’s Practice Standards. The Program commenced in 2019 and is overseen by the Institute’s Practice Inspection Committee (the “PIC”), a committee of the CBV Institute Board of Directors. The PIC’s role also includes reviewing inspection findings and determining any appropriate remedial actions.

The Program’s inspection of selected work products informs this Report. These inspections reflect a small cross-section of work products from a limited number of randomly selected Members and Registered Students. This Report only provides a summary of selected findings of the Program for the period reviewed.

This Report has three main purposes:

1. To offer transparency as to the activities of the PIC and the results of the Program;
2. To report on areas where adherence to Professional Standards may be improved to facilitate future compliance; and
3. To inform the CBV Institute of areas of possible updates and improvements to be considered relating to the Practice Standards and Practice Bulletins.

This Report does not, and is not intended to, establish new or different standards of care in the professional practice of Members or Students; and does not amend or otherwise revise the Practice Standards or Practice Bulletins. Rather, this Report’s focus is to primarily highlight areas of improvement based on practice inspections undertaken in 2024. Members and Students are advised to review and conform to Practice Standards and Practice Bulletins applicable to their professional practice.



2024 Declarations

In this sixth year of the Program, the Institute conducted practice inspections of work products completed by Members and Students during the period of January 1, 2020 to December 31, 2023 (the “Inspection Period”).

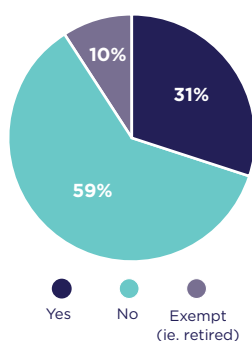
In general, the operational timing of the Program is as follows:

- March 1: practice inspection declarations are due from Members and Students wherein they declare whether they have completed work product that is covered by the Program.
- March – April: the Institute issues Notices of Proposed Suspension of Membership to Members who have failed to submit practice inspection declarations.
- May – December: practitioners are randomly selected for inspection and so notified. Engagements to review are also randomly selected and practice inspections are conducted.
- January – March: results of the previous year’s inspections are concluded as necessary and are summarized and published for the information of Members and Students.

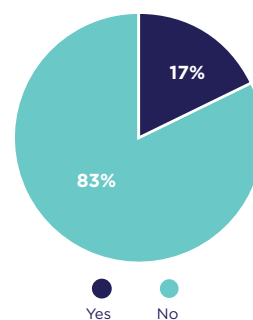
Below is a summary of the results of practice inspection declarations made by Members and Registered Students in 2024, from which the year’s inspections were sampled.

The annual practice inspection declaration asks all Members and Registered Students whether they have signed or otherwise taken responsibility for work product(s) which are subject to Practice Standards during the relevant period. A “Yes” response means that the individual signed or otherwise took responsibility for a work product which is subject to the Practice Standards during the four-year inspection period ended December 31, 2023, and is therefore eligible for inspection. Practitioners who sign the final issued work product are subject to practice inspection, and not their staff or other engagement team members. “No” responses would include those individuals who may regularly undertake a variety of business valuation, damage quantification or other 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 another member in their organization signs or takes such responsibility. Practitioners who declare “No” are not included in the pool from which selection for inspection is made.

**2024 PRACTICE INSPECTION
DECLARATION RESULTS - MEMBERS**



**2024 PRACTICE INSPECTION
DECLARATION RESULTS - STUDENTS**

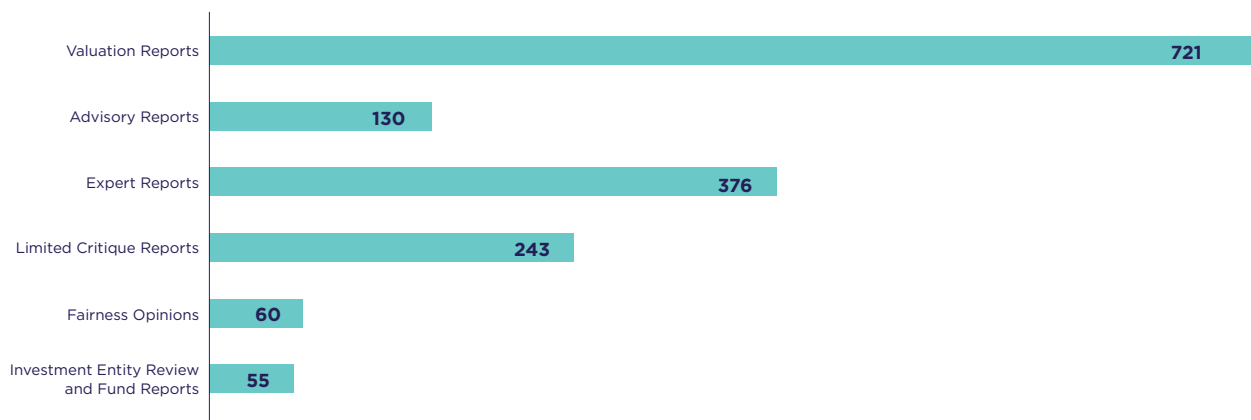


Approximately 31% of Members (776 individuals) and 17%² of Registered Students (82 individuals) declared that they signed or took responsibility for work products subject to the Practice Standards during the Inspection Period and were therefore eligible for inspection. These results are consistent with prior years.



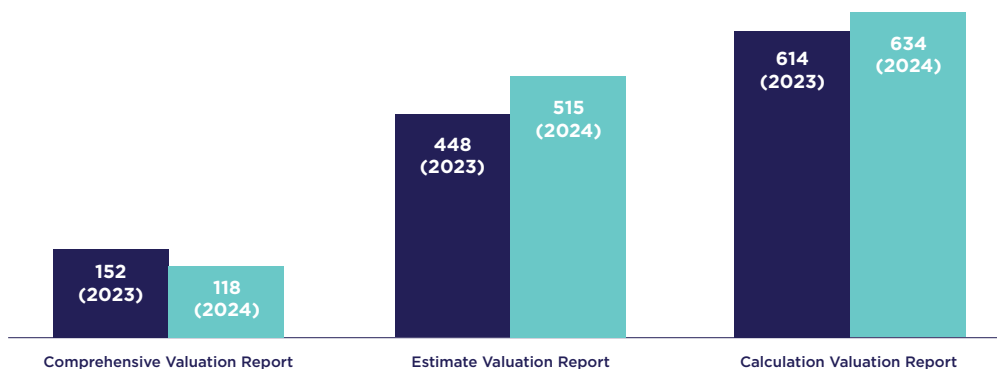
Of those individuals who responded “Yes” to the practice inspection declaration, the breakdown by individuals who indicated they issued a certain type of work product at least once during the Inspection Period is presented below. These results are also consistent with prior years.

TYPES OF WORK PRODUCTS ISSUED - JANUARY 1, 2020 TO DECEMBER 31, 2023



Of those individuals above who issued Valuation Reports, the breakdown by type of report issued during the Inspection Period is presented below³. Note that this data represents the number of individuals who issued a particular report type, not the number of reports issued. For example, 634 practitioners indicated that they issued Calculation Valuation Reports at least once during the four-year Inspection Period. Calculation Valuation Reports continue to be the most popular type of valuation report that is issued in practice as 74%⁴ of practitioners prepared these types of reports (71% in the prior year) at least once during the Inspection Period. The proportion of practitioners preparing Estimate Valuation Reports increased from 51% in last year’s declaration to 63% in the current declaration. The proportion of practitioners preparing Comprehensive Valuation Reports decreased to 14% (17% in the prior year).

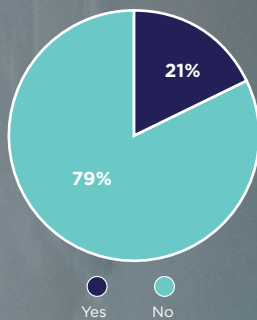
TYPES OF VALUATION REPORTS ISSUED - JANUARY 1, 2020 TO DECEMBER 31, 2023





The proportion of practitioners who declared that they have a quality control (“QC”) process in their practices is shown below. It was encouraging to see that almost 80% of those who issue reports subject to the Practice Standards have some form of internal quality control process. Establishing and maintaining a QC process for all valuations is anticipated to become mandatory in the future under Practice Standard No. 120 following the Institute’s Third and Final Exposure Draft issued on December 17, 2024.

PRACTITIONERS WITH INTERNAL QC PROCESSES - 2024





FINDINGS OF INSPECTIONS

Practitioners were selected randomly for inspection, as were work products of those practitioners. As a result of the random selection process, in 2024, the vast majority of such practitioners selected were sole practitioners, or practitioners from smaller or local accounting firms. Practitioners were asked to seek express client consent prior to the start of an inspection.

All of the 2024 inspections were conducted virtually, with documents being submitted electronically to the Institute using its secure cloud-based platform. Practitioners selected for inspection during 2024 either did not have internal compliance/quality control processes in place or chose not to rely on them, and therefore inspectors did not have the opportunity to review any QC processes in 2024. However, inspectors discussed with each practitioner their specific process around certain elements of QC, particularly how they ensure independence and objectivity and safeguard against conflicts of interest as part of the engagement acceptance process.

Work products were selected for each practitioner to cover a representative sample of their professional activities and report types. The number of work products inspected per practitioner can vary from one to four work products. In 2024, an average of three work products were inspected per selected practitioner. The work products inspected were Calculation Valuation Reports, Estimate Valuation Reports and Expert Reports.

A practice inspection can conclude in one of the following ways:

- If there are no findings or the findings are trivial or minor in nature, the inspection will be closed.
- If there are non-trivial findings, then the PIC may:
 - o require further written submissions from the practitioner on the intended course of corrective action to address any findings.
 - o require the practitioner to take certain remedial action to address the findings.
 - o order a further inspection within a reasonable period. A re-inspection is requested by the PIC when there are multiple non-trivial findings or when the PIC deems that the severity of the findings is higher. The purpose of a re-inspection is to reassess the practitioner's practices using more recent engagements.
- If the findings are such that remedial action or re-inspection is not judged as sufficient or where there is a continuing history of deficiencies, a complaint may be referred to the Conduct and Discipline Committee for its separate and independent consideration.

Overall, the majority of the work products inspected were of high quality and conducted professionally. However, the 2024 inspection results indicated some areas where compliance with Practice Standards can be improved.

Findings ranged in severity from documentation deficiencies to process issues to scope of work and reporting deficiencies. Although there were re-inspections required, no inspection findings warranted referral to the Conduct and Discipline Committee.



The key areas of findings from the 2024 practice inspections are presented and discussed below.

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Feedback from practitioners who underwent practice inspection in 2024 was positive and indicated that the Institute's practice inspection program is "tough but fair," and well designed. Practitioners appreciated the attention to detail and care that is taken to safeguard confidentiality. Practitioners also indicated that appropriate time was provided to assemble and provide documentation and to discuss inspection findings. Finally, they understood that the focus of the Program is on the quality of work and on promoting best practices, and that the process is first and foremost educational in nature. Most practitioners regarded the inspection process as a collegial way to learn and improve.



APPROPRIATE SCOPE OF WORK

The Scope of Work standard for independent valuations (Practice Standard No. 120) deals with “how much work” the valuator should do, and requires valuers to gather “sufficient evidence”, and thereby perform work that is appropriate for the intended use, to ensure that the Valuation Report and the conclusion contained are “properly supported”. This is one of the most critical areas of professional judgment for a valuator, and a recurring topic with inspection findings from year to year.

In the 2024 inspections, there were several examples where, in the view of inspectors, there was insufficient work performed on key inputs to the valuation such as:

- material adjustments made to financial statement amounts (such as FMV of rent and salaries) without sufficient support, given their significance to the overall valuation conclusion and the intended use of the report;
- the required rate of return (such as a lack of support for cost of capital inputs, or without explanation or identification of the sources of data);
- assumptions that NBV equals the FMV for assets which are significant to the valuation conclusion (such as machinery, equipment, furniture and fixtures), in an Estimate Valuation Report relying on the Adjusted Net Book Value method;
- insufficient validation and corroboration of management-provided information (such as projections), given the extent of reliance and their significance to the conclusion;
- material adjustments to working capital of the subject business without a detailed analysis, in an Estimate Valuation Report;
- a lack of review of (at least some) key contracts for an Estimate Valuation Report which relied on a DCF methodology to value contracts in place.

In one specific case, in an Estimate Valuation Report, the practitioner used management inputs without corroboration, analysis or support, which fell short of what inspectors would have expected to see in an Estimate Valuation Report, particularly as this report was to be used in a shareholder dispute/litigation.

In an Estimate Valuation Report to be used for an employee stock option plan, the practitioner did not perform or document sufficient forecast validation work for a company with high forecasted growth. Such support could have included additional historical trend analysis, industry benchmarking, or sensitivity analysis.

Based on the work products reviewed in 2024, there were two key observations from inspectors:

First, that practitioners could have benefitted from spending more effort validating assumptions in their valuations. The intended purpose and use of a valuation should drive the scope of work that is appropriate. The valuation report can only be fit-for-purpose when the scope of work includes appropriate and sufficient analysis of key value drivers – the factors that are most likely to impact the stated conclusion and therefore impact its usefulness given its intended use. While standards must necessarily be principles-based in this regard, inspectors have noted that the types of items that generally need additional attention and due diligence are: material financial statement line items (such as related party amounts, land, building and other specialized real assets), normalized working capital levels, industry trends, and other areas specific to the business or industry - that can generally be readily investigated/substantiated or supported.



Second, that practitioners could have benefited from “stepping back” more from their reports and determining (through sensitivity analysis or otherwise) the key inputs that are likely to impact their stated valuation conclusion. Practitioners should also “step back” to assess whether their valuation conclusion, when stated within a range, is “fit-for-purpose” - in other words, is the valuation conclusion range too wide, too precise, and what information the range itself may convey to the intended user(s). See also Appendix A on Goodwill.

SIGNIFICANT ASSUMPTIONS

Significant assumptions are used when certain facts or conditions cannot be estimated at the time of the valuation. They serve as a tool to bridge gaps in available information such that the valuator can form a reasonable basis for their conclusions. But how much work should a valuator do to support assumptions, particularly ones which are significant to the valuation conclusion? For all levels of valuation conclusion (Comprehensive, Estimate and Calculation), it is the responsibility of the valuator to ensure that the assumptions used are reasonable, especially for key inputs such as financial forecasts. While it is important to disclose significant assumptions transparently in the report, it is also important that a valuator not rely on such assumptions without some assessment of reasonability.

Inspectors noted instances where assumptions were used excessively or inappropriately, posing a risk of inadequately supported conclusions. Inspectors also noted the use of some assumptions which required more analysis and assessment before being relied upon. Significant assumptions that are unsupported may also introduce the risk of (perceived) bias and lack of objectivity, or of lack of due care.

Significant assumptions are an essential part of the required disclosure in valuation reports. However, a valuator should not make unsupported assumptions - the valuator has a responsibility towards key assumptions, as these will impact the credibility and accuracy of the valuation. A valuator has responsibility with respect to significant/key assumptions, even in Calculation Valuation conclusions.

In one case, the adoption of a blanket set of significant assumptions was used as a substitute for discussions with management. Elements that inspectors expect would be routinely confirmed with management by discussion and understanding of the business were assumed away, calling into question the adequacy of the scope of work. It is also not appropriate to omit important valuation work and due diligence that is required to meet the Practice Standards due to time and fee constraints.

Inspectors will continue to assess support for key assumptions in future inspections.



TECHNICAL ITEMS

During the 2024 inspections, there were a number of technical issues identified. These areas are outlined below and further discussed in Appendix A:

- Capital structure considerations – evidence vs. experience
- Observations from using the Adjusted Net Book Value Method
- Goodwill
- Non-operating assets or redundancies.

REPORT DISCLOSURE – A TOOL FOR COMMUNICATION

The purpose of a valuation report is primarily to document and communicate to users the value conclusion, and its basis. In several inspections the valuation reports, while superficially compliant with content requirements in Practice Standard No. 110, fell short of telling a clear “valuation story.” In other words, the reports were not entity-specific enough and at times read as boilerplate analyses (see also the findings regarding the use of templates).

Clearly communicating how the valuator arrived at the conclusion is an essential part of a valuation report. While the extent of disclosure is always a question of professional judgment based on the intended use and user of the report, the objective should be to write the valuation report in a manner that provides clarity. An important part of this is providing the valuator’s understanding of the key aspects of the business relevant to an assessment of its likely future cash flows and risk factors. This entity-specific disclosure was missing from several valuation reports inspected. In some reports, it was unclear:

- how the business operates and generates cash flow;
- where the business fits into the industry and market it operates in;
- whether certain significant assets of the business were operating vs non-operating.

In one Estimate Valuation Report, a description of the business was lacking. In another Estimate Valuation Report, the description of the Scope of Review contained general, rather than specific, information. In one Calculation Valuation Report, the report disclosure was so modest that, but for the name of the company valued, it would have been impossible for the reader to understand the type of business that was the subject of the valuation. In a Calculation Valuation Report for a tax planning/reorganization, the report included diverging value indications from two different valuation methodologies without an explanation for the reasons behind the divergence. Conveying the reasoning behind a divergence in value from two different methodologies can be important to readers. In all of these examples, additional analysis and disclosure (or file documentation) would have been required to fully meet the spirit of the Practice Standards, and to make the reports useful for their intended use. The inspected practitioners all agreed to prospectively enhance their valuation processes to address these findings.

Clarity of communication can be enhanced by the design and structure of schedules, use of cross references for key information, footnotes etc., and by keeping the intended user in mind. Reports should document the analysis and assessments that the valuator made, in a manner that is understandable to users, as these are key components in support of the valuation conclusion.



One comment raised by inspectors is that the report disclosure on the business context and information about the business is vague and too short. Acknowledging that some report users are familiar with the business, that is not always the case. Even if the report readers are familiar with the business, they may not be sufficiently familiar with how certain factors about the business (such as key risk factors) can impact upon value. The intent behind this report disclosure is not to “tick the box” on providing information about the business, but rather to adequately tell the story and clearly lay out how the business’ key value drivers impact the valuation conclusion at a specific point in time. Inspectors will continue to focus on the clarity of report disclosures vis-a-vis the requirement to provide sufficient information to allow a reader to understand how the Valuator arrived at the conclusion expressed.

THE IMPORTANCE OF DOCUMENTATION

Inspectors had findings with respect to the documentation of conflict checks, as well as the documentation related to the amount and type of work done in valuation engagements.

Inspectors observed that several practitioners did not have a documented process for conflicts of interest checks. It is important that practitioners be able to demonstrate their compliance with the Code of Ethics and Practice Standards through documentation.

Valuation conclusions are supported by a scope of work that includes review, inquiry, analysis and corroboration. As required by Practice Standard No. 130, work performed in the course of a valuation engagement is required to be adequately documented. In several instances inspectors noted a lack of documentation of work around key valuation inputs. In discussion with practitioners, many noted that the work had been done, but they were unable to provide any working papers or documentation to demonstrate that. Professional practice in accordance with the Practice Standards requires that documentation of the work performed in support of a conclusion be maintained. Reports and supporting files must be capable of standing on their own in order to be credible. It is not sufficient for practitioners to remember what they did in the place of appropriate documentation prepared contemporaneously with the scope of work.

Inspectors will continue to focus on the adequacy and sufficiency of file (and report) documentation.



CARE IN USE OF TEMPLATES

In several of the 2024 inspections, inspectors noted that the practitioner appeared to have used templates (which carry some risk, discussed below) and also used previously issued reports and schedules as templates for the inspected engagements without appropriately or sufficiently adapting them to the engagement at hand. Using previously issued reports as templates should be avoided.

While templates can increase efficiency, there are risks that should be addressed:

- While templates can promote “boilerplate” report disclosure, failure to sufficiently customize report sections for the specific valuation engagement renders the report less useful, or perhaps even confusing, to users. In some instances, the nature of the business and valuation issues addressed were not clearly apparent amongst the generic, boilerplate language and disclosures. Several valuation reports that were inspected from the same practitioner had very similar valuation inputs (such as the same debt-to-total capital ratios, or similar generic factors disclosed in support for company specific risk premia), further pointing to potentially inappropriate use of templates. Valuation reports should be tailored to the business being valued, the purpose of the valuation, and the intended users of the valuation. It should be clear from the report the work that was undertaken, and the scope of work must necessarily be unique to the subject business and intended purpose/use. Reports should focus on those areas of the valuation that are most important and are subject to the most professional judgment.
- Templates offer limited flexibility and may lead to oversimplifying the valuation approach and analysis, where important analytical or corroborating procedures, such as sensitivity analysis and scenario modeling may be passed over or ignored. Templated language may not adequately capture the use of professional judgment which is so critical in any business valuation. Some reports prepared using templates can make the process of arriving at a valuation conclusion appear mechanical, a perception that, in today’s age of AI-driven commoditization, could significantly dilute the profession’s brand. Relying too much on a template may lead to the valuator not fully analyzing and explaining the unique aspects of the business or interest, how it was valued, and its key value drivers.
- Templates can pose confidentiality risks if names and details are not meticulously scrubbed from a previous use.

Templates for reports and schedules should be used with care and due caution. Every valuation is unique, and valuation reports should reflect this. This is important even when the valuation is a Calculation. Issuing a Calculation Valuation Report rather than a higher-level report does not relieve the obligation to tailor the scope of work and the report to the circumstances of the business or interest being valued or the purpose at hand.

The use of templates and the issues inspectors have noted further underscores the importance of having a quality control process in place, ideally where the quality control is done by another CBV.



CHANGES IN SCOPE OF WORK/ REPORT TYPE PARTWAY THROUGH AN ENGAGEMENT

Inspectors noted several instances of changes to the agreed services after the engagement letter had been signed. Acknowledgement of these changes were not always documented.

Practice Standard No. 120 (par 3) indicates that “the Valuator shall obtain clear instructions from the person requesting the valuation, including the type of Valuation Report Required”.

In one Estimate Valuation Report the client signed an engagement letter for what was described as an Advisory Estimate Valuation Report. Subsequently the client requested that the engagement be for an Independent Estimate Valuation Report. This change was not documented by a new or revised engagement letter, nor by a note in the files.

In another situation, the engagement letter called for a Calculation Valuation Report to be prepared, however the report was labelled as an Estimate Valuation Report.

Again, the appropriate procedure would be to re-issue a corrected or revised engagement letter or otherwise document the change in confirmed correspondence with the client. Having a robust quality control process in place would also assist with these types of issues.

QUALITY CONTROLS OVER THE VALUATION PROCESS

The majority of practitioners selected for inspection during 2024 did not have internal compliance/quality control processes in place, although in the broader population roughly 80% of practitioners have self-declared that they do have QC processes in place. One objective of a QC process would be to help check that a valuation has been performed in accordance with the Practice Standards. The Practice Inspection Committee recommended that practitioners implement a QC process that has a scale and scope that is appropriate for their practice. Furthermore, the Institute is proposing to require a QC process as part of the revised valuation standards as outlined in the Third and Final Exposure Draft issued on December 17, 2024. This would align with global best practices and requirements per International Valuation Standards effective as of January 31, 2025 for valuation process quality controls.

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. If this is not possible, a QC checklist process, when carefully executed, may be sufficient for a sole practitioner. For discussion and guidance on as to what a QC process should include, reference is made to Appendix B of CBV Institute's Practice Inspection Findings – 2023 Practice Inspection Summary Report. The Institute's practice inspection checklists may be used for this purpose, and are available on the Practice Inspection page: <https://cbvinstitute.com/members-students/standards-ethics/practice-inspection/>



CONCLUSION

We are pleased with the evolution and maturity of the Practice Inspection Program over its first six years. Feedback from practitioners indicates that inspector comments are continuing to be well received and appreciated, in a profession-wide effort to become more consistent in the level of services delivered.

The Institute is both a regulator and a standard-setter. The Program allows the Institute to take the learnings from inspections performed in its role as a regulator to leverage the quality of its professional standards as a standard-setter. As a result of inspections carried out, the Institute has had the opportunity to identify and examine the specific areas of the Practice Standards, particularly the valuation standards, that require additional clarity and detail. These areas have been considered by the Professional Practice and Standards Committee (PPSC) as they developed the Third and Final Exposure Draft to the Valuation Practice Standards.

The results of the past six years of inspections showcase the benefits of the Program to the profession, and the unique opportunities it provides practitioners to maintain or improve their processes, their work and ultimately the services they provide. 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.

The 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 adherence to 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 process.



ON BEHALF OF THE PRACTICE INSPECTION COMMITTEE,

Robert S. White, CPA, CA, CBV
Chair, Practice Inspection Committee
CBV Institute

Catalina Miranda, CPA, CA, CBV
Vice President, Regulatory & Standards
CBV Institute

For questions or more information, please contact:

Catalina Miranda, CPA, CA, CBV
Vice President, Regulatory & Standards
catalina.miranda@cbvinstitute.com





APPENDIX A

TECHNICAL ITEMS

CAPITAL STRUCTURE CONSIDERATIONS - EVIDENCE VS EXPERIENCE

In several valuations where the income approach was applied, capitalization and discount rates were not sufficiently supported or documented.

In a Calculation Valuation Report, the WACC was determined using the build-up method. However, several inputs to the WACC, such as the interest rate used for the cost of debt and the proportion of debt and equity used, were not supported. In other Calculation Valuation Reports, practitioners using a WACC to determine appropriate capitalization rates did not disclose the components of the WACC at all. The Institute considers capitalization and discount rates to be key components in arriving at a value conclusion using the income approach under par 13.1 of Practice Standard No. 110, which states “The Valuation Report shall provide sufficient information to allow the reader to understand how the Valuator arrived at the conclusion expressed.”

In one Estimate Valuation Report, the valuator did not provide any information of how the discount rate applied in their DCF analysis was determined, relying on their (undocumented) perception of rates of return required by corporate acquirers. A “perception” is insufficient support for this key valuation component. It is also not sufficient for a practitioner to rely on citing their own (oftentimes years of) experience in performing notional valuations as support for engagement-specific inputs such as the discount rate or multiple.

Inspectors have encountered situations where a practitioner selected valuation multiples based solely on their experience. A recent publication from The Appraisal Foundation (“TAF”)⁵ supports the stance that “experience” alone is not sufficient, and that evidence is required. The TAF document answers the question of whether an appraiser who has extensive experience in a particular type of assignment can support a valuation adjustment solely based on that experience. The answer: “No. Experience cannot be a recognized method or technique or a substitute for relevant evidence and logic”. Similarly, to meet CBV Institute Practice Standards, significant valuation inputs and adjustments must be supported for conclusions to be credible.

OBSERVATIONS FROM USING THE ADJUSTED NET BOOK VALUE METHOD

What is the valuator’s responsibility vis-à-vis material assets when relying on the Adjusted Net Book Value (ANBV) method to arrive at a valuation conclusion? Can the valuator generally assume that the FMV of these assets is equal to their net book values?

In an Estimate Valuation Report relying solely on the application of the ANBV method, inspectors would have expected that assets and liabilities that were significant inputs to the valuation conclusion would be (sufficiently) analysed and/or corroborated to warrant such reliance, and that the work done be documented.

In one inspection of an Estimate Valuation Report there were balances in asset categories such as receivables, redundant cash investments as well as large, related company loans that were significant to the conclusion. Neither the report nor the files documented the valuator’s analysis and corroboration, if it was completed.



In another Estimate Valuation Report where the ANBV method was used, the valuator indicated “the fair market value of the assets and liabilities of the Companies at the Valuation Date are not materially different from their book values”. The valuator had not performed any analysis and/or corroboration of the assets and liabilities. The valuator relied on the fact that the magnitude of the liabilities rendered the value of the tangible assets immaterial. In addition, the valuator was satisfied that no further work was required as the other party to the litigation had accepted their value conclusion.

In particular, inspectors noted that for certain assets, it would not have been difficult to perform some corroborating procedures such as referencing the insured value of vehicles, or their Black Book resale values, considering market indications of value for real estate, to at least assess the reasonableness of using book values.

When assumptions are made in respect of information that is derived from financial statements being equivalent to market values, the valuator should have a basis for making such assumptions, particularly where such assumed values are significant to the conclusion. Doing so requires some level of analysis to form a basis for an assessment that the assumptions are reasonable.

GOODWILL

In several of the 2024 inspections, where the value conclusion was derived using either capitalized cash flow or discounted cash flow methods, inspectors noted a lack of analysis of the overall reasonability of the conclusion, which would have required analysis of the implied goodwill. There was also a lack of consideration and disclosure of what the goodwill represents, including whether or not the goodwill is transferable and commercially valuable.

While good practice would be to calculate the implied goodwill (as the excess of enterprise value over the tangible asset backing) as well as the number of years required to recoup it, it is important not to just perform these calculations without also assessing:

- what the implied goodwill represents, and whether it is supported by the facts and circumstances of the subject business, and
- whether the goodwill is transferable or commercial (in other words, would a buyer realistically pay for it).

Such assessments should be included in the valuation report as part of the substantiation of the value conclusion.

Goodwill and intangible values (relative to tangible asset values) differ from industry to industry and from entity to entity within an industry due to the differing risks and volatility in cash flow. As such, a consideration of the goodwill in the greater specific context of the business and the industry is important.

For this reason, the Institute’s latest Exposure Draft with proposed changes to the Valuation Practice Standards introduces a requirement to “step back” and assess the reasonability of the overall valuation conclusion by performing reasonability tests or analysis.



NON-OPERATING ASSETS OR REDUNDANCIES

The identification of non-operating assets or redundancies can be significant to a value conclusion. Inspectors noted instances where significant non-operating or redundant assets or liabilities were included in value with very limited or no explanation in the report or files as to why the asset or liability was redundant or without any assessment as to the cash flows that would be realized on its disposal. Redundant assets should be subject to review, inquiry, analysis, and corroboration in a manner similar to any other key input to the valuation conclusion.

REFERENCES

1. Mandatory Practice Inspection Policy available [here](#).
2. This percentage is calculated as the number of Registered Students who responded Yes to the practice inspection declaration in 2024 divided by the total number of Students who were actively enrolled in a course (not terminated), as at December 31, 2024.
3. Respondents can select more than one valuation report type from Comprehensive, Estimate, and Calculation.
4. This percentage is calculated as the number of practitioners who indicated they issued Calculation Valuation Reports divided by the number of practitioners who indicated "Yes" on their 2024 practice inspection declaration.
5. TAF is a promulgator of US valuation and appraisal standards (USPAP). Document titled "2025 USPAP Q&A", issued March 6, 2025.