



# PRACTICE STANDARD NO. 110

## VALUATION REPORTS

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### REPORT DISCLOSURE STANDARDS AND RECOMMENDATIONS

1. Chartered Business Valuators may be retained as independent experts to provide a conclusion as to the value of shares, assets or an interest in a business. In these circumstances, reports arising from such engagements are termed "Valuation Reports".
2. 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.
3. In practice, there are three types of Valuation Reports. These Reports are not only distinguished by the Valuator's scope of review and the amount of disclosure provided, but also by the level of assurance being provided in the conclusion, with a Comprehensive Valuation Report providing the highest assurance and the Calculation Valuation Report providing the lowest. The three types of Valuation Reports are generally described as follows:
4. **Comprehensive Valuation Report** - a Comprehensive Valuation Report contains a conclusion as to the value of shares, assets or an interest in a business that is based on a comprehensive review and analysis of the business, its industry and all other relevant factors, adequately corroborated and generally set out in a detailed Valuation Report.
5. **Estimate Valuation Report** - an Estimate Valuation Report contains a conclusion as to the value of shares, assets or an interest in a business that is based on limited review, analysis and corroboration of relevant information, and generally set out in a less detailed Valuation Report.
6. **Calculation Valuation Report** - a Calculation Valuation Report contains a conclusion as to the value of shares, assets or an interest in a business that is based on minimal review and

analysis and little or no corroboration of relevant information, and generally set out in a brief Valuation Report.

7. The type of Valuation Report required is a matter to be discussed and agreed on by the Valuator and the client, and then reflected in the terms of engagement. In arriving at this agreement, the Valuator and client should consider the purpose for which the Valuation Report is being prepared, the availability of information on which to base a conclusion, and the client's need for assurance. The Valuator should also consider whether the type of Valuation Report will be credible for the purpose intended, and ensure that any conclusion expressed will not be misleading to a reader and is not dependent on any assumptions known by the Valuator to be false.
8. A summary of any type of Valuation Report shall be exempt from the following standards and/or recommendations provided that the summary clearly refers to the original Valuation Report.
9. At a minimum, all Valuation Reports shall contain the following information, which is set out herein in bold characters. To the extent requirements differ for the three types of Valuation Reports, the different requirements are specifically noted. "*Recommendations*" are not mandatory, but encouraged. "*Explanatory comments*" provide additional guidance in applying the specific provisions of the Standard.

## 10. Report Introduction

### 10.1 The valuation report shall have an introduction that includes the following information:

- A. **To whom the Valuation Report is being provided;** (*Explanatory comment:* if not readily apparent from the addressee, the name of the party who engaged the Valuator should be disclosed)
- B. **A description of the shares, assets or interest in a business being valued;**
- C. **The effective date of the valuation (the valuation date);**
- D. **The date of the Valuation Report;** (*Explanatory comment:* the Valuation Report should be dated at the time when pertinent information was last obtained and analyzed, including information obtained from discussions with management or other parties)
- E. **The purpose for which the Valuation Report is being prepared;** (*Explanatory comment:* the Valuator may want to emphasize that the Valuation Report is addressed to specific readers in specific circumstances, having specific needs and/or knowledge)
- F. **The name of the firm responsible for preparing the Valuation Report, as well as the name of the Valuator when the Valuation Report is prepared for litigation purposes;** (*Explanatory comment:* this information may be disclosed elsewhere in the Valuation Report, such as in the letterhead and/or on the signature page)
- G. **The type of Valuation Report being provided (i.e. Comprehensive, Estimate or Calculation Valuation Report);**

- H. **A statement that the Valuation Report was prepared by the Valuator acting independently and objectively;** (*Explanatory comment:* in circumstances where a firm is responsible for preparing the Valuation Report, this statement is in respect of the independence and objectivity of the person(s) who prepared the Valuation Report and any assistants)
- I. **A statement that the Valuator's compensation is not contingent on an action or event resulting from the use of the Valuation Report;** and
- J. **A statement that the Valuation Report has been prepared in conformity with the Practice Standards of The Canadian Institute of Chartered Business Valuators.**

## 11. Report Definitions

- 11.1 **The Valuation Report shall contain definitions for the terms of value used, such as "fair market value", "market value", "fair value", or "adjusted net asset value".** (*Recommendation:* unless self-evident, other terms and phrases having a technical meaning should be defined or explained in the Valuation Report, including such terms as "special purchaser", "notional valuation", "minority discount", or "control premium")
- 11.2 **With respect to the definition of fair market value, the Valuation Report should indicate the extent to which special purchasers were considered and the reasons why.** (*Recommendation:* the discussion may include the steps taken to investigate the existence of special purchasers, the problems of quantifying the amount of net economic value-added, and the degree to which special purchasers have influenced the conclusion)

## 12. Report Scope of Review

- 12.1 **The Valuation Report shall contain a scope of review that clearly identifies the specific information on which the Valuator relied to arrive at a conclusion.** (*Explanatory comment:* such information might consist of the documents reviewed, the individuals interviewed, the facilities visited, other expert reports relied on, such as Valuation Reports, management consulting studies, and appraisals, and management representations obtained with respect to the information provided)
- 12.2 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 judgement as to the amount of review appropriate for the type of Valuation Report being provided.
- 12.3 **For Estimate and Calculation Valuation Reports, the Valuator shall disclose that the scope of review is inherently limited by the nature of the Valuation Report being provided, and that the conclusion expressed may have been different had a Comprehensive Valuation Report been provided.**
- 12.4 Where the conclusion is qualified by a scope limitation, regardless of the type of Valuation Report being provided, the limitation shall be explained, setting out the reasons for the limitation. (*Explanatory comment:* to the extent that the

scope of review has been significantly restricted, or information provided is substantially incomplete, the Valuator must determine if an unqualified conclusion can be provided)

### 13. Report Disclosure

- 13.1 **The Valuation Report shall provide sufficient information to allow the reader to understand how the Valuator arrived at the conclusion expressed.** (*Explanatory comment:* the amount of information included and the manner of disclosure is a matter of professional judgment, based on the scope of review, the purpose for which the Valuation Report is intended, and the type of Valuation Report being provided)
- 13.2 **At a minimum, all Valuation Reports (i.e. Comprehensive, Estimate and Calculation Valuation Reports) shall include the following information:**
- A. **The basis of valuation, as well as the approach and methods used,** explaining the rationale for using the going concern or liquidation basis and the reasons for selecting a particular valuation approach (income, cost or market) ; (*Recommendation:* the basic mechanics of the valuation methodologies used should be outlined, and appropriate definitions should be provided as necessary) (*Explanatory comment:* the amount of explanation and disclosure would be minimal for a Calculation Valuation Report, and progressively more for an Estimate and Comprehensive Valuation Report) and
  - B. **A statement of the key assumptions made in arriving at the valuation conclusion.**
- 13.3 **In addition to the minimum information required for all Valuation Reports as noted in 13.2, Comprehensive and Estimate Valuation Reports shall also include the following information:**
- A. **A description of the valuation calculations,** explaining how the significant components of the valuation calculations were developed, the rationale for each component and the matters considered;
  - B. **Where relevant to the valuation assignment, a full description of the classes of shares and rights attached thereto, where interests other than common shares have to be valued either directly or as part of the overall valuation;** (*Recommendation:* the details of any shareholder agreements, voting trust agreements, or other contractual obligations affecting the shareholders should be provided)
  - C. **A summary of relevant financial information;** (*Explanatory comment:* this would comprise the most current balance sheet, as well as historic income/cash-flow statement information leading up to the valuation date)
  - D. **A description of the business being valued, sufficient for the reader to understand the valuation basis and approach adopted, as well as**

**the various earnings/cash flow risk factors present;** (*Explanatory comment:* this would include a narrative description of the business activities, a brief history and a discussion of factors influencing value) and

- E. **A reference to trading volumes and price ranges, in the case of publicly traded securities.**

- 13.4 **In addition to 13.2 and 13.3, a Comprehensive Valuation Report shall include:**

- A. **A description of the economic context and industry outlook bearing on the shares, assets or interest in a business being valued, taking into account the past and foreseeable future, as well as conditions at the valuation date.**

#### 14. **Report Restrictions and Qualifications**

- 14.1 **All Valuation Reports shall disclose any restrictions that affect the Valuator's conclusion, as noted below:**

- A. **A statement restricting the use of the Valuation Report by the persons for whom the Report was prepared and only for the stated purpose;**
- B. **A statement denying responsibility for losses resulting from any unauthorized or improper use of the Valuation Report; and**
- C. **A statement giving the Valuator the right to make revisions and/or to further support the conclusion under specified circumstances, such as when facts existing at the valuation date become apparent to the Valuator after the Valuation Report is issued.**

- 14.2 **Comprehensive and Estimate Valuation Reports shall disclose any qualifications that affect the Valuator's conclusion.** (*Recommendation:* Valuators should consider including qualifications in Calculation Valuation Reports as well)

#### 15. **Conclusion**

**The Valuation Report shall contain a conclusion as to the value of the shares, assets, or interest in a business being valued.** (*Recommendation:* the conclusion should include a reference to the type of Valuation Report being provided, the Valuator's scope of review, key assumptions relied upon, and any restrictions and/or qualifications in the Valuation Report)

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