

PRACTICE STANDARD NO. 320

EXPERT REPORTS

SCOPE OF WORK STANDARDS AND RECOMMENDATIONS

1. An Expert Report is defined as **“any written communication other than a Valuation Report, containing a conclusion as to the quantum of financial gain/loss, or any conclusion of a financial nature in the context of litigation or a dispute, prepared by an Expert acting independently.”** An Expert 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 Expert Report; (iii) the Expert 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 Expert has a reasonable expectation at the time the work product is provided that an Expert Report will be completed and issued in due course.
2. Where a Valuation Report forms part of an Expert Report, that Valuation Report shall conform to Standards 110, 120 and 130.
3. At a minimum, for an Expert Report 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.
4. **General Standards**
 - A. **The work shall 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.**
 - B. **The work shall be adequately planned and properly executed. If assistants are employed, they shall be properly supervised.**
 - C. **Sufficient evidence shall be gathered by such means as inspection, inquiry, computation and analysis to ensure that the Expert Report and the conclusion(s) contained therein are properly supported. When determining the extent of evidence necessary to support the Expert Report, the Expert shall exercise professional judgment, considering both the nature of the Expert Report and the expected use to which it will be put.**

- D. **The Expert shall perform the work in accordance with the Practice Standards and Code of Ethics of the Canadian Institute of Chartered Business Valuators.**
- E. **When access to essential information is denied by the client or some other party or is otherwise unavailable to the Expert, any conclusion expressed by the Expert in the Expert Report shall be qualified and the limitation(s) on the scope of work clearly set out in the Expert Report.**

5. **Specific Standards**

- A. **The Expert shall obtain clear instructions from the person requesting the Expert Report.** (*Recommendation:* the Expert 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 Expert Report.)
- B. **When planning the extent of scope of work for and performing a particular engagement, the Expert shall obtain:**
 - I. **Sufficient understanding of the subject of the Expert Report;** (examples—a business interest, shares, financial gain/loss, etc.) (*Explanatory comment:* The Expert should obtain and review all material documentation, including pleadings, agreements, contracts, and letters of understanding, letters of intent, correspondence etc. which bear on the subject of the Expert Report.)
 - II. **Sufficient understanding of the nature of the dispute and the events giving rise to the claim;**
 - III. **Where applicable, sufficient understanding of the economic context and industry outlook bearing on the individuals and/or business(es) central to the Expert Report calculation(s),** taking into account the past, the present and the foreseeable future;
 - IV. **Sufficient financial information relating to the dispute and/or claim.** (Examples: financial statements, financial projections, forecasts, tax returns, sales journals, etc.).
- C. **In performing the Expert Report calculation(s), the Expert shall determine the appropriate approach and techniques to be employed.**
- D. **The Expert shall consider key assumptions used and determine the reasonableness and appropriateness of key assumptions.** (*Explanatory comment:* The Expert is not required to determine the reasonableness and appropriateness of assumptions that fall outside the Expert's area of expertise. These assumptions may include facts to be proven in court and non-financial information presented by other specialists.)
- E. **The Expert shall consider the necessity of relying upon the work of a specialist** (e.g. real estate appraiser, engineer, actuary, etc.). (*Recommendations:* If it is deemed appropriate to request the assistance of a specialist, the Expert should obtain reasonable assurance concerning the specialist's reputation for competence and degree of independence.) (*Explanatory comment:* The appropriateness and reasonableness of the assumptions and methods used by the specialist are the

responsibility of the specialist. Ordinarily, the Expert may accept the specialist's judgement and work in this regard unless the report of the specialist, the Expert's communication with the specialist or the Expert's knowledge of the nature of the dispute and the events giving rise to the claim lead the Expert to believe that the specialist's assumptions or methods are unreasonable in the circumstances.)

- F. **The Expert shall determine the necessity of obtaining client representations in writing and, if possible, management representations from management or other representatives of the underlying business.** (*Recommendation:* 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 Expert Report; and
 - ii. Does not have any information or knowledge which would reasonably be expected to affect materially the conclusion(s) noted in the Expert Report.)

October 7, 2010