

PRACTICE STANDARD NO. 610

INVESTMENT ENTITY REVIEW REPORTS

REPORT DISCLOSURE STANDARDS AND RECOMMENDATIONS

1. Chartered Business Valuators may be retained to perform an independent review to assess whether or not the value of the specified shares, units, underlying investments or the net asset value of the Investment Entity, as determined by the manager of the Investment Entity or another party, is reasonable. In these circumstances, reports arising from such engagements are termed “Investment Entity Review Reports”.
2. For purposes of this Standard the definition of an Investment Entity includes (among other types of investment entities and forms of organization): investment funds such as private equity funds; pension funds; real estate funds; venture capital funds; commodity funds; hedge funds; offshore fund vehicles; master funds; feeder funds, funds-of-funds; bank common/collective trust funds and other similar funds; partnerships; general partnerships; limited partnerships, limited liability partnerships, joint ventures, corporations; limited liability corporations; etc. The definition of an Investment Entity for purposes of this Standard excludes an investment fund as defined under National Instrument 81-106F1 Contents of Annual and Interim Management Report of Fund Performance and Companion Policy 81-106CP Investment Fund Continuous Disclosure, and Labour Sponsored or Venture Capital Funds as defined in Appendix A to Standard No. 410, as Appendix A to Standard No. 410 pertains to an independent valuation review of these investment funds.
3. Within this Standard, the person(s) responsible for the valuation of the specified shares, units, underlying investments or net assets of the Investment Entity is referred to as the “Preparer”, and the person(s) responsible for reviewing and assessing the reasonableness of the valuation is referred to as the “Reviewer”.
4. An Investment Entity Review Report is defined as (“**any written communication prepared by a Valuator (the “Reviewer”) containing a conclusion as to the reasonableness of the value of the specified shares, units, underlying investments or the net asset value of an Investment Entity as determined by a manager of the Investment Entity or another party (the “Preparer”)**”). An Investment Entity Review 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 Investment Entity Review Report; (iii) the Reviewer 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 Reviewer has a reasonable expectation at the time the work product is provided that an Investment Entity Review Report will be completed and issued in due course.

5. At a minimum, an Investment Entity Review Report shall contain the following information, which is set out herein in bold characters. “Recommendations” are not mandatory but encouraged. “Explanatory comments” provide additional guidance in applying the specific provisions of the Standard.

6. **Reasonableness**

- 6.1 **In arriving at a conclusion as to the reasonableness of the value of the specified shares, units, underlying investments or the net asset value of the Investment Entity the Reviewer shall consider the following factors:**

- A. **The appropriateness of the approach and techniques used by the Preparer;**
 - B. **The characteristics of the specified shares, units, underlying investments or net assets of the Investment Entity and their impact on value;**
 - C. **The prospective financial information used by the Preparer;**
 - D. **The key assumptions used by the Preparer;**
 - E. **The purpose of the Investment Entity Review Report; and**
 - F. **Whether a range of value that is quantitatively defined would be appropriate to assist in the determination of reasonableness.** (*Explanatory comment: the determination of the range of values would likely take into account discussion with the intended users of the Investment Entity Review Report and would be agreed upon with the engaging entity*)

7. **Report Introduction**

- 7.1 **The Investment Entity Review Report shall have an introduction that includes the following information:**

- A. **To whom the Investment Entity Review Report is being provided;** (*Explanatory comment: if not readily apparent from the addressee, the name of the party who engaged the Reviewer should be disclosed*)
 - B. **A statement of the nature of the mandate, including the identification of the Preparer and the financial reporting standards, internal policies, income tax rules or legislation, securities legislation, regulation, or policies under which the valuation was prepared;**
 - C. **A summary description of the shares, units, underlying investments or net assets that have been reviewed;**
 - D. **The date of the Investment Entity Review Report;** (*Explanatory comment: the Investment Entity Review 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 effective date of the valuation (the valuation date)**
 - F. **The name of the firm responsible for preparing the Investment Entity Review Report;** (*Explanatory comment:* this information may be disclosed elsewhere in the Investment Entity Review Report, such as in the letterhead and/or on the signature page)
 - G. **A statement that the Investment Entity Review Report was prepared by the Reviewer acting independently and objectively;** (*Explanatory comment:* in circumstances where a firm is responsible for preparing the Investment Entity Review Report, this statement is in respect of the independence and objectivity of the person(s) who prepared the Investment Entity Review Report and any assistants)
 - H. **A statement that the Reviewer's compensation is not contingent on an action or event resulting from the use of the Investment Entity Review Report; and**
 - I. **A statement that the Investment Entity Review Report has been prepared in conformity with the Practice Standards of The Canadian Institute of Chartered Business Valuators.**
8. **Report Definitions**
- 8.1 **The Investment Entity Review Report shall contain definitions of the terms of value used (such as “fair value”, “fair market value”, “market value”, etc.), along with a statement as to whether these definitions are consistent with the financial reporting standards, internal policies, income tax rules or legislation, securities legislation, regulation, or policies under which the valuation was prepared.** (*Recommendation:* unless self-evident, other terms and phrases with technical meaning should be defined or explained as they appear in the body of the Investment Entity Review Report, or refer to the definitions in the Investment Entity valuation analysis if the same definitions are used)
9. **Report Scope of Review**
- 9.1 **The Investment Entity Review Report shall contain a scope of review, including a clear summary of the information on which the Reviewer relied to arrive at the conclusion as to whether or not the value reviewed is reasonable.** (*Explanatory comment:* such information may consist of the documents reviewed, the individuals interviewed, other expert reports relied upon (such as valuation reports, management consulting studies, and appraisals) and management representations obtained with respect to the information provided)
10. **Report Disclosure**
- 10.1 **The Investment Entity Review Report shall include the value of the specified shares, units, underlying investments or net assets as determined by the Preparer.**
- 10.2 **The Investment Entity Review Report shall include a statement of the key assumptions made in arriving at the conclusion as to reasonableness to the extent such assumptions differ from those made in the Investment Entity**

valuation analysis being reviewed; (*Recommendation:* the Reviewer should consider restating all key assumptions used in the Investment Entity valuation analysis and indicate whether these assumptions are being assumed to be complete and correct unless otherwise noted)

- 10.3 It is recommended that Investment Entity Review Reports also include the following information:
- A. A summary of the characteristics of the specified shares, units, underlying investments or net assets of the Investment Entity that have an impact on value;
 - B. A summary description of the scope of work and procedures performed by the Reviewer that enabled the Reviewer to arrive at the conclusion as to whether or not the value is reasonable;
 - C. Comments on the review performed that enabled the Reviewer to arrive at the conclusion as to whether or not the value is reasonable; (*Explanatory comment:* the level of disclosure should be sufficient for a reader to understand the basis of the conclusion)
 - D. Comments on the approach and techniques used by the Preparer to determine the value of the components which comprise the specified shares, units, underlying investments or net assets of the Investment Entity;
 - E. Comments on the strengths and weaknesses of subjective assessments made by the Preparer; and
 - F. Comments on whether the analysis in the Investment Entity valuation analysis is suitable for the stated purpose, with reasons and alternatives, as appropriate.

11. Report Restrictions and Qualifications

11.1 The Investment Entity Review Report shall disclose any restrictions that affect the Reviewer's conclusion, as noted below:

- A. **Where the Reviewer was limited in the scope of review or where information provided to the Reviewer was substantially incomplete, disclosure should be made of the limitation and of the incomplete information provided, the reasons given and the potential impact on the conclusion;** (*Recommendation:* the Reviewer should assess whether the lack of access to relevant information is so significant as to limit his or her ability to issue the Investment Entity Review Report. Additionally, as the scope of review in such engagements is often limited to information obtained from the Investment Entity or the Preparer without the Reviewer having access to the management of the underlying investment(s) or net assets of the Investment Entity, the Investment Entity Review Report in such circumstances should disclose that the scope of review was limited to information obtained from the Investment Entity or the Preparer) and
- B. **A statement that the nature and extent of review, analysis and corroboration performed in connection with an Investment Entity Review Report is inherently limited and that the conclusion expressed as to the**

reasonableness of the value of the specified shares, units, underlying investments, or the net asset value of the Investment Entity may have been different had review, analysis and corroboration been performed that was sufficient to enable a value conclusion to be expressed in accordance with the requirements of Standard 110.

11.2 It is recommended that the Investment Entity Review Report also disclose any restrictions that affect the Reviewer's comments, as noted below:

- A. A statement restricting the use of the Investment Entity Review Report to the party for whom it was prepared and only for the stated purpose;
- B. A statement disclaiming responsibility for losses resulting from unauthorized or improper use of the Investment Entity Review Report;
- C. A statement giving the Reviewer the right to make revisions and/or further support the conclusion under specified circumstances, such as when facts existing at the date of the Investment Entity Review Report become apparent to the Reviewer after the Investment Entity Review Report is issued; and
- D. A statement cautioning the reader that selecting portions of the analysis, without considering all factors and analysis in the Investment Entity Review Report together, could result in the misinterpretation of comments and analysis concerning value. (*Explanatory comment:* the preparation of an Investment Entity Review Report is a complex process and components cannot be viewed in isolation)

12. Conclusion

12.1 **The Investment Entity Review Report shall contain a conclusion as to whether or not the value of the specified shares, units, underlying investments or net assets of the Investment Entity as determined by the Preparer is reasonable.**

(*Recommendation:* the conclusion should include reference to the Reviewer's scope of review, key assumptions relied upon, and any restrictions and/or qualifications in the Investment Entity Review Report)

June 19, 2014