

# National Association of Certified Valuation Professionals

## Professional Standards

### PREAMBLE

#### GENERAL AND ETHICAL STANDARDS

**1.1 Preamble.** All members of the National Association of Certified Valuation Analysts (NACVA), an association of Certified Public Accountants and other valuation professionals who perform valuation services, shall comply with the standards and definitions herein. NACVA will adopt changes and interpretations of the standards when necessary.

**1.2 General and Ethical Standards.** A member shall perform valuation and other services in compliance with a code of professional conduct consisting of the following principles and rules.

**a. Integrity and Objectivity.** A member shall remain objective, apply professional integrity, shall not knowingly misrepresent facts or subrogate judgment to others. The member must not act in a manner that is misleading or fraudulent.

**b. Professional Competence.** A member shall only accept engagements the member can reasonably expect to complete with a high degree of professional competence. If a member lacks the knowledge and/or experience to complete such engagement with a high degree of professional competence, the member is not precluded from performing such engagement. In such instance, the member must take steps necessary to gain such expertise through additional research and/or consultation with other professionals believed to have such knowledge and/or experience prior to completion of such engagement.

**c. Due Professional Care.** A member must exercise due professional care in the performance of services, including completing sufficient research and obtaining adequate documentation.

**d. Understandings and Communications with Clients.** A member shall establish with the client a written or oral understanding about the nature, scope and limitations of services to be performed and the responsibilities of the parties. If circumstances encountered during the engagement require a significant change in these understandings the member shall notify the client. A member shall inform the client of conflicts of interest, significant reservations concerning the scope or benefits of the engagement and significant engagement findings or events.

**e. Planning and Supervision.** A member shall adequately plan and supervise the performance of any service provided.

**f. Sufficient Relevant Data.** A member shall obtain sufficient relevant data to afford a reasonable basis for conclusions, recommendations or positions relating to any service rendered.

**g. Confidentiality.** A member shall not disclose any confidential client information to a third party without first obtaining the express consent of the client, unless required to do so by competent legal authority.

**h. Contingent Fees.** A member shall not perform a valuation engagement which results in the expression of a Conclusion of Value, as defined in §3.2, for a contingent fee.

**i. Acts Discreditable.** A member shall not commit any act discreditable to the profession.

**j. Client Interest.** A member shall serve the client interest by seeking to accomplish the objectives established by an understanding with the client while maintaining integrity and objectivity.

**k. Independence.** A member shall not express a Conclusion of Value unless the member and the member's firm state either of the following:

1) *"I (We) have no financial interest or contemplated financial interest in the property that is the subject of this report.";* or

2) *"I (We) have a (specified) financial interest or contemplated financial interest in the property that is the subject of this report."*

A member or the member's firm may only state a conclusion of value associated with this independence statement with the consent of the client and full disclosure of the financial interest, present or contemplated, in the member's report.

## **VALUATION SERVICES**

**2.1 Conclusions of Value.** When performing a business valuation, a member may express a Conclusion of Value. When expressing a Conclusion of Value, as defined in §3.2, a member shall comply with the Development Standards and the Reporting Standards in addition to all other standards promulgated by NACVA.

**2.2 Other Valuation Services.** A member may perform other valuation services, such as consulting, calculations of value and litigation support, that do not involve expressing a Conclusion of Value as defined in §3.2. When performing such services all standards promulgated by NACVA shall apply to the member's work except for the Development Standards and the Reporting Standards. The results obtained from calculations performed may be described as a calculation of value or by any other description except that a member shall not describe it as a Conclusion of Value (an Opinion of Value or an Estimate of Value). In expressing such results, the member may wish to include the following statement:

*"A calculation of value (or other description of value) is not a Conclusion of Value as defined in NACVA's Professional Standards, and such difference may be material."*

## **DEVELOPMENT STANDARDS**

**3.1 General.** A Member shall comply with these Development Standards when expressing a Conclusion of Value.

**3.2 Conclusions of Value.** Conclusions of Value can be expressed as an Opinion of Value, as a single number, or an Estimate of Value, as a single number or a range of values. Where, in the professional judgment of the member, an Opinion of Value cannot be expressed, the member may report an Estimate of Value.

**3.3 Identification.** In developing a conclusion of value, a member must define the assignment and determine the scope of work necessary by identifying the following:

- a. Subject to be valued;
- b. Interest to be valued;
- c. Valuation date;
- d. Purpose and use of the valuation;
- e. Standard of value;
- f. Premise of value;
- g. Assumptions, limiting conditions and scope limitations;

h. Ownership size, nature, restrictions and agreements;

i. Other factors that may influence value; and

j. The sources of information.

**3.4 Fundamental Analysis.** In developing a conclusion of value, the member must obtain and analyze information necessary to accomplish the assignment, including:

a. The nature of the business and the history of the enterprise;

b. The economic outlook in general and the condition and outlook of the specific industry in particular;

c. The book value of the interest to be valued and the financial condition of the business;

d. The earning capacity of the enterprise;

e. The dividend paying capacity of the enterprise;

f. Whether or not the enterprise has goodwill or other intangible value;

g. Sales of interests and the size of the block of interest to be valued;

h. The market price of interests of enterprises engaged in the same or a similar line of business having interests actively traded in a free and open market; and

i. All other information deemed by the member to be relevant.

**3.5 Scope Limitations.** In developing a conclusion of value, the member must identify and evaluate limitations on the scope of work, which affect the research, analysis and/or level of reliance the member places on the valuation results.

**3.6 Valuation Approaches and Methods.** Valuation methods are commonly categorized into the asset-based approach, the market approach, the income approach or a combination of these approaches. Consideration should be given to all approaches. Professional judgment must be used to select the approach(es) and the method(s) that best indicate the value of the business interest.

**3.7 Financial Statement Adjustments.** The historical financial statements should be analyzed and, if appropriate, adjusted to reflect the appropriate asset value, income, cash flows and/or benefit stream, as applicable, to be consistent with the valuation method(s) selected by the member.

**3.8 Earnings Determination.** The member should select the appropriate benefit stream, such as pre-tax or after-tax income and/or cash flows, and select appropriate capitalization/discount rate(s) to be consistent with the valuation method(s) selected.

**3.9 Capitalization/Discount Rate.** The member must consider appropriate capitalization and/or discount rates, consistent with the valuation method(s) selected, taking into consideration the following risk factors:

a. The nature of the business;

b. The stability or regularity of earnings;

c. The stability, depth and experience of management; and

d. Such other risk factors when appropriate in the opinion of the member.

**3.10 Marketability, Control and Other Premiums and Discounts.** The member must consider the following:

- a. Marketability, or the lack thereof, considering the nature of the business, business ownership interest or security, the effect of relevant contractual and legal restrictions on transferability of the interest being valued and the condition of the market for the interest being valued;
- b. Ability of the interest to control the operation, sale and liquidation of the related business enterprise; and
- c. Such other similar factors when appropriate in the opinion of the member.

**3.11 Documentation.** Documentation must be retained for all information relied upon in the valuation process. Inclusion of such information in the report satisfies this standard.

## **REPORTING STANDARDS**

**4.1 General.** A member shall comply with these Reporting Standards when expressing a Conclusion of Value.

**4.2 Form of Report.** One of the final stages in the valuation process is the communication of the results of the valuation to the client or other user of the report. The form of any particular report will depend on the nature of the engagement, its purpose, its findings, and the needs of the decision-makers who receive and rely upon it. The purpose of these standards is to establish minimum reporting criteria. The objective of these standards is to ensure consistency and quality of valuation reports issued by members of NACVA.

### **4.3 Contents of Report.**

a. A written report expressing a Conclusion of Value should be well written, communicate the results and identify the information relied upon in the valuation process. The wording used in the report should effectively communicate important thoughts, methods and reasoning, as well as identify the supporting documentation in a simple and concise manner, so that the user of the report can replicate the process followed by the member.

b. **Conclusion of Value Reporting Standards.** Any reporting of a Conclusion of Value must be in writing and set forth the following information concerning the valuation engagement and its results:

- 1) Identification of the subject being valued;
- 2) Description of the interest being valued;
- 3) Valuation date;
- 4) Report date;
- 5) Purpose and use of the valuation;
- 6) Definition of the standard of value;
- 7) Identification of the premise of value;
- 8) Identification of the assumptions, limiting conditions and scope limitations;
- 9) Conclusion of Value;
- 10) Limitations on use of the report—all valuation cases vary as to specific assumptions, limiting conditions and scope, therefore, the member must identify material matters considered;

11) Responsible member signature—the member who has primary responsibility for the conclusion of value must sign or be identified in the report;

12) A statement of independence;

13) Ownership size, nature, restrictions and agreements;

14) A description of the fundamental analysis;

15) Valuation approaches and method(s);

16) Historical financial statement summaries, when applicable;

17) Adjustments to historical financial statements, when applicable;

18) Adjusted financial statement summaries, when applicable; and

19) Projected/forecasted financial statements including the underlying assumptions, when applicable.

**c. Statement that the Report is in Accordance with NACVA Standards.** A statement similar to the following should be included in the member's report:

*"This valuation and report were completed in accordance with the National Association of Certified Valuation Analyst Professional Standards for conducting and reporting on business valuations."*

**d. Additional Reporting Standard for an Estimate of Value.** Members may be requested to report a valuation conclusion where, in the professional judgment of the member, an Opinion of Value cannot be expressed. In such instances, the member may conclude that value can be expressed as a range of values or a single number. Such a report must label the value conclusion "Estimate of Value" and include the following statement:

*"An Estimate of Value is not an Opinion of Value and such difference may be material."*

**4.4 Litigation Engagements Reporting Standards.** Generally, reporting as an expert witness in a litigation engagement is subject to discovery and/or cross-examination. NACVA recognizes that triers of fact establish the form and the content of an expert's report. Therefore, when the valuation assignment is a litigation engagement and when the member's expression of a Conclusion of Value is subject to discovery and/or cross-examination, NACVA's Reporting Standards do not apply, unless so directed by the client. This litigation waiver does not, however, relieve the member from complying with the Development Standards and all other standards promulgated by NACVA.

## **OTHER GUIDELINES AND REQUIREMENTS**

**5.1 Other Requirements.** Besides NACVA's Professional Standards, members may also find it necessary to consider guidelines and/or other requirements established by other organizations or authorities, such as:

a. Department of Labor (DOL);

b. Internal Revenue Service (IRS);

c. Rules of the applicable Courts;

d. Federal and State laws; and

e. The Appraisal Foundation (USPAP).

**5.2 International Glossary of Business Valuation Terms**. Developed jointly by the AICPA, ASA, CICBV, IBA and NACVA, the glossary of definitions should be used by the member.

**EFFECTIVE DATE**

**6.1** These Professional Standards are effective for engagements accepted on or after May 31, 2002.