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# EXPOSURE DRAFT

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## PROPOSED MANDATORY PERFORMANCE FRAMEWORK FOR THE FAIR VALUE QUALITY INITIATIVE

MAY 24, 2016

Comments are requested by August 24, 2016

Collaboratively prepared by AICPA, ASA, and RICS for comment from persons involved in conducting fair value measurements of entities and intangible assets for U.S. public company financial reporting purposes

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## EXECUTIVE SUMMARY

### Problem Identification

During the last 15 years, the global accounting model has increasingly gravitated towards the use of fair value as the measurement basis for assets and liabilities for financial reporting purposes. Estimating these fair value measurements often involves the use of sophisticated financial models, various valuation approaches and analytical assumptions, and professional judgment.

Within the past several years, public statements by U.S. capital market regulators have called into question whether some of the individuals that assist SEC registrants with estimating fair value for financial reporting purposes have the requisite training, qualifications, experience and expertise to perform this type of work. The SEC staff has expressed a desire that the various stakeholders in the valuation profession coordinate their efforts to establish rigorous and uniform qualifications, training, accreditation, and oversight of individuals conducting fair value measurements that serve as a basis for management's preparation of financial statements for public companies that are SEC registrants.

Regulatory concerns and public perceptions are driving the need for professionals engaged to estimate fair value measurements to conduct themselves with professionalism and demonstrate professional competence.

In response to these regulatory concerns and the public perceptions, numerous groups including not-for-profit **VALUATION PROFESSIONAL ORGANIZATIONS**<sup>1</sup> (VPOs), non-membership organizations and others collaborated to form a Task Force that focused on the issues facing the valuation profession and how best to address them.

The Task Force (known as the 'Fair Value Quality Initiative') formed four work-streams designed to address VPO governance and operational issues relevant to developing, implementing, and maintaining an infrastructure to support the new Fair Value Quality Initiative credential. The work-streams are as follows:

- Governance and Coordination
- Performance Requirements
- Qualifications
- Quality Control

Each of these work-streams has its own integral set of responsibilities to help the VPOs develop and support an infrastructure that will provide valuation professionals who obtain this new credential a roadmap to conduct more consistent, higher quality, and better documented valuation engagements. For an in-depth discussion on these efforts please review Assessment of the Current Professional

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<sup>1</sup> Words or terms defined in the glossary are set in **CAPITAL BOLD** type the *first time they are applied in context* within this document.

Infrastructure Governing Fair Value Quality – Progress Report available at the VPO websites. For purposes of this document, only a summary of the Performance Requirements work-stream follows below.

### **Performance Requirements**

U.S. accounting standards have evolved to a “mixed model” combining aspects of historical cost measurement attributes with fair value measurements attributes. The SEC and the Public Company Accounting Oversight Board (PCAOB) have increased their expectations towards financial statement preparers and their advisors to provide consistent, supportable, and auditable fair value measurements.

The valuation profession has responded to this by developing technical standards and guidance, essentially addressing the “how to” question. Further, VPOs have increased their focus on providing training, accreditation, technical guidance and frameworks for ethical conduct, essentially addressing the “who is to do” question.

One area, however, where gaps in guidance are believed to still exist relates to performance (that is, addressing the “how much” to do question). Various terms have been used to describe this topic, such as “level of rigor”, “depth of analysis”, “scope of work”, “level of due diligence”, “extent of documentation”, or “extent of investigation”.

The Performance Requirements Work-Stream was tasked with developing a **MANDATORY PERFORMANCE FRAMEWORK** (‘MPF’, ‘Performance Framework’ or ‘Framework’) designed to establish a minimum threshold to the question of “how much” for valuation professionals who obtain this credential.

The following definitions are intended to differentiate “professional standards” and “technical standards” from “performance framework” for the purposes of this MPF:

**PROFESSIONAL STANDARDS** *are standards that encourage professional behavior (for example, codes of ethics, codes of conduct, acting competently, independently, objectively, transparently). These can also be considered standards that define a professional: ethical, independent, objective, having requisite skills, educated, experienced, tested, trained, and credentialed/licensed. Professional standards focus on characteristics of the individual professional and the conduct of their behavior.*

**TECHNICAL STANDARDS** *are standards that address the “how to” of work that must be done to prepare a “professional” work product. These standards address the technical “correctness” of the work product by considering appropriate input factors, application of methods and techniques, and reporting guidelines. Both mandatory standards and voluntary guidance have been developed around technical issues in valuation in general and, to a lesser extent, around fair value measurement (FVM).*

**PERFORMANCE FRAMEWORK** contains requirements that cover “how much” work should be performed in order to prepare a “professional” work product. Performance framework addresses scope of work and extent of documentation and analysis, consideration of contrary evidence, and documentation in both the report and the supporting work papers. Alternatively, the performance framework reflects the extent to which the professionals perform their work in terms of depth of analysis and documentation.

### Structure of the MPF and Application of MPF sections

#### *Mandatory Performance Framework*

- The first section of the MPF includes the Preamble (Section 1) that provides an overview of the Framework’s purpose and scope (that is, when and by whom the Framework must be followed)
- The second section of the MPF provides Evaluation Engagement Guidance (Section 2) that establishes the parameters of the documentation requirements that valuation professionals who obtain the new Fair Value Quality Initiative credential must abide by. This includes the fundamental engagement considerations and scope of work that manifest themselves within the engagement letter, the extent of documentation requirements, and professional skepticism required in the valuation process and in the reporting of any conclusions.
- Mandatory Performance Framework Glossary (Section 3) sets forth definitions of terms that may be unique to the Framework, and/or defines their meaning within the context of the MPF.
- Authoritative and Technical Guidance (Section 4) includes a list of accounting standards, audit standards, valuations standards and reference to certain technical literature applicable to the guidance presented in the Framework.

The content cited in the Authoritative and Technical Guidance section is delineated based on authoritative weight. The accounting standards are issued by regulators and accounting standard-setters and are mandatory for all financial statements issued for public interest reporting. The valuation standards issued by the VPOs are mandatory only for their respective members who engage in valuation services. Non-members who practice in certain jurisdictions, specialty subject interests, or both should be aware that they may be required by federal, state, or local laws or regulations to adhere to specified valuation standards either promulgated by VPOs or by non-membership organizations (for example, The Appraisal Foundation, International Valuation Standards Council). The technical literature is non-authoritative; however, these publications are prepared by professionals with in-depth knowledge of the topics and were broadly vetted by preparers and users of valuations, and auditors.

*Application of the Mandatory Performance Framework (separate document)*

- General Valuation Guidance (Section A1) applies the MPF for selected areas of professional valuation practice that are often either misapplied or insufficiently supported, documented, or both in valuations prepared for **PUBLIC INTEREST REPORTING**.
- Business Valuation Guidance and Valuation of Assets and Liabilities Guidance (Sections A2 and A3) apply the MPF and identify the most common components of an engagement in which the valuation professional provides a conclusion of value of a business or business interest. It governs the scope of work and extent of documentation for selected areas associated with the valuation of businesses, business interests, intangibles assets, certain liabilities and inventory that are prepared for public interest reporting. Specifically, these sections address matters where there is need for greater consistency in the application of valuation approaches and methodology; support for matters that require the application of professional judgment; and documentation of inputs.

These sections will continue to evolve and expand to cover a broader spectrum of subject matter topics and professional practice trends in the valuation profession.

By design, the Framework and the Application of the MPF sections do not provide illustrative examples that might otherwise be interpreted as requirements for “how to” perform a valuation. Instead, the purpose of the MPF is to provide valuation professionals with guidance on “how much” documentation is required when performing valuation assignments for public interest reporting. In certain circumstances, however, the application of the MPF sections may provide *some* discussion of “how to” in order to complement the usability and application of this Framework.

### **Guide for Respondents**

The VPOs are seeking comments specifically on the scope of the MPF and whether its contents will provide the appropriate set of parameters to help improve the documentation and auditability of fair value measurements. Respondents are asked to respond, in particular, to the following questions:

1. Are the objectives of the documentation guidance clearly stated?
2. Are there any topics or subtopics that should be included that are not currently in the document?
3. Would illustrative examples be helpful in providing instructive guidance for the application of the MPF?

Comments are most helpful when they refer to specific paragraphs; include the reason for the comments; and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposed language in the MPF, it will be helpful for the VPOs to be made aware of this view as well.

Written comments on the MPF and Application of the MPF will become part of the public record of the AICPA, ASA, and RICS, and will be available for public inspection at the offices of the respective VPO for one year beginning July 11, 2016.

**Comment Period**

The comment period for the MPF ends August 24, 2016.

**Conclusion**

In order for the valuation profession to grow and improve in terms of a discipline and in public's perception, it will need the structure of a profession. This will require adherence to a consistent set of professional, technical and ethical standards as well as a set of guiding principles that help define 'how much' work is necessary in order to provide supportable and auditable fair value measurements that serve as the basis for management's preparation of financial statements for companies that are SEC registrants.

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# PROPOSED MANDATORY PERFORMANCE FRAMEWORK FOR THE FAIR VALUE QUALITY INITIATIVE

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# 1. PREAMBLE

## Introduction

**1.1** The Mandatory Performance Framework is a document that provides guidance to professionals who have earned the new Fair Value Quality Initiative credential (referenced throughout the MPF as **VALUATION PROFESSIONALS**). This guidance is a set of parameters that indicates how much, in terms of scope of work and documentation, should be prepared or obtained when designing, implementing, and conducting valuations used to support management assertions made in financial statements issued for public interest reporting purposes.

**1.2** Financial statements issued for public interest reporting encompasses financial reports issued in registration statements or disclosures required by the U.S. Securities and Exchange Commission (SEC).

**1.3** The primary goal of the MPF is to provide valuation professionals with parameters of how much work should be performed and how to effectively and efficiently identify valuation documentation requirements in order to meet the changing needs of clients and other potential stakeholders, mitigate engagement risk, and support and document sound decision making. This Framework is a set of interrelated and interacting elements that valuation professionals can use in conjunction with the relevant valuation standards and technical guidance to promote quality, consistency, and auditability. It is not intended to address valuation theory or to be a “how to” regarding valuation steps.

**1.4** Written documentation within the engagement file that supports a final conclusion of value (referenced in the MPF as ‘work papers’), and the final valuation report will be referenced collectively as the **WORK FILE** unless otherwise specified.

The MPF requires that the valuation professional provide within the work file sufficient documentation to support a conclusion of value such that an experienced valuation professional not involved in the valuation engagement could review and understand the significant inputs, analyses, and outputs and how they support the final conclusion of value.

The MPF sets forth minimum scope of work and documentation requirements for valuation professionals. Circumstances where a valuation professional has agreed to comply with more stringent scope of work and documentation requirements are not negated by this Framework.

**1.5** Valuation professionals who perform valuation services for their clients, employers, or as part of another engagement, are required to adhere to the MPF.

**Important:** Valuation professionals who are employees of an entity that is required to prepare financial statements issued for public interest reporting (subsequently referenced as ‘reporting entity’), and who are responsible for preparing conclusions of fair value that provide support for information included in the financial statements and accompanying footnotes, are required to comply

with this Framework. However, for such situations certain administrative matters such as formal letters of engagements (LoE) are excluded, and the communication of value conclusions **MAY** not include a formal valuation report.

If a valuation professional who is an employee of a reporting entity concludes that a section (or sections) of the MPF is (are) not applicable because of his or her employment at the reporting entity, the valuation professional may elect not to comply with the identified sections of the MPF. The valuation professional **MUST**, however, document in the work file which sections of the MPF were not complied with and the rationale for the non-compliance.

**1.6** In the event there are professional requirements prescribed by the VPO sponsoring the valuation professional's credential that are not required by the Framework, valuation professionals must also conduct themselves in accordance with those requirements.

**1.7** The valuation profession uses a broad spectrum of approaches and methods when conducting a valuation. Therefore, in circumstances when the extent of research and analysis, documentation, or both, related to a valuation approach or method is not addressed by the Framework, the valuation professional **SHOULD** look to the Framework for analogous guidance deemed most appropriate for the engagement's relevant facts and circumstances.

**1.8** For the valuation professional, this Performance Framework provides:

1.8.1 A method to align a valuation engagement with procedures that will meet the needs of the client and other potential stakeholders in response to the greater focus on fair value measurements by regulators.

1.8.2 A resource to help identify and mitigate ineffective, inefficient, or incomplete valuation procedures that result in minimal support for the final conclusion of value and its auditability.

1.8.3 A resource for the valuation review process.

**1.9** For the entity's management, auditors, and external stakeholders, the application of the Performance Framework promotes:

1.9.1 Greater confidence in the valuation professional's ability to assist the company in meeting the entity's internal and external reporting requirements.

1.9.2 Greater confidence in the valuation professional's application of an acceptable process of evaluation, analysis and documentation of fair value measurements that may serve as a basis for management's financial statement assertions.

1.9.3 Greater understanding of the valuation professional's use of judgment, estimates, and industry knowledge.

1.9.4 Greater consistency in how much documentation is prepared among valuation professionals.

#### Applicable Business Valuation Standards

**1.10** As the valuation profession has grown, so too has the need for augmented consistency and quality in the profession. The valuation standards identified below represent standards that are voluntary in nature to the extent that valuation professionals elect to abide by these standards through the types of engagements they undertake and the organizations they align with. Membership Valuation Organizations are referenced in the Framework as VPOs. The founding VPOs of the fair value measurement credential and their respective business valuations standards are:

1.10.1 **American Institute of Certified Public Accountants (AICPA)** – Statement on Standards for Valuation Services No. 1, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset (SSVS No. 1).

1.10.2 **American Society of Appraisers (ASA)** – ASA Business Valuation Standards. The Business Valuation Standards of the American Society of Appraisers are used in conjunction with the Uniform Standards of Professional Appraisal Practice (USPAP) of The Appraisal Foundation, and the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers.

1.10.3 **Royal Institution of Chartered Surveyors (RICS)** – RICS Valuation – Professional Standards incorporate the International Valuation Standards (IVS).

Non-Membership Valuation Organizations and their respective valuation standards are:

1.10.4 **The Appraisal Foundation** – Uniform Standards of Professional Appraisal Practice (USPAP). The Appraisal Standards Board (ASB) of The Appraisal Foundation develops, interprets, and amends USPAP on behalf of appraisers and users of appraisal services. The Preamble, Definitions, Rules and, more specifically Standards 9 and 10, of USPAP relate to fair value measurements of business interests and intangible assets.

1.10.5 **International Valuation Standards Council – International Valuation Standards (IVS)** - The IVS Framework, IVS General Standards 101 - 105, IVS section 200 Businesses and Business Interests, IVS section 210 Intangible Assets, relate to the fair value measurement of businesses and intangible assets, in addition to the supporting IVS Framework and IVS General Standards.

## Applicable Accounting and Audit Standards Relevant to Business Valuation & Intangible Assets

**1.11** Due to the interrelated nature of valuation engagements and accounting standards, valuation professionals must, where applicable and relevant, understand the core accounting standards that may dictate the scope of work to be performed.

This includes instances where international accounting standards issued by the International Accounting Standards Board (IASB) may be incorporated into financial statements prepared for public interest filings in the United States. Both U.S. and international accounting standards can impact the nature, timing and scope of a valuation professional's work.

Valuation professionals must also be aware of audit standards that the audit profession uses as guidance when they conduct an audit of financial statements prepared for public interest reporting.

A list of important accounting and audit standards relevant to the valuation of business and intangible assets is provided in MPF section 4 – Authoritative and Technical Guidance.

### Scope of the Mandatory Performance Framework

**1.12** The term **ENGAGEMENT TO ESTIMATE FAIR VALUE** refers to any engagement or part of an engagement that involves estimating the fair value of a **SUBJECT INTEREST** to serve as a basis for management's preparation of financial statements for public interest reporting. An engagement to estimate fair value culminates in a written conclusion of value.

**1.13** Valuation professionals should be aware of any governmental regulations and other professional standards applicable to engagements to estimate fair value (or to valuation professionals when they are performing such engagements). Compliance is the responsibility of the valuation professional.

### Exceptions from the Mandatory Performance Framework

**1.14** If any part of this Framework conflicts with a published governmental, judicial, or accounting authority, then the valuation professional should follow the applicable published authority or stated procedures with respect to that part applicable to the valuation in which the valuation professional is engaged. If a published governmental, judicial, or accounting authority differs in that it simply requires less than this Framework, then the requirements of this Framework still must be met. The other parts of this Framework continue in full force and effect.

## 2. VALUATION ENGAGEMENT GUIDANCE

### Overview

**2.1** As the valuation profession has evolved, valuation firms and VPOs have developed various engagement processes and procedures for engagement acceptance, many of which are applicable to valuations prepared for purposes of public interest financial reporting (see MPF section 1.2 for definition).

**2.2** The following sections will address the Framework's requirements for valuation professionals engaged to perform valuations that are prepared to serve as a basis for management's financial statement assertions.

### Documentation Requirements for Fair Value Engagements

**2.3** The valuation professional must conduct each engagement or part of an engagement to estimate fair value of a subject interest to assist in management's preparation of financial statements for public interest reporting in accordance with the documentation guidance defined in this Framework.

#### *Composition of Valuation Documentation*

**2.4** Documentation is the written record within the final valuation report, supporting work papers, or both, that is used to support a conclusion of value or a range of values to be used by management in their assertions of fair value and their preparation of financial statements issued for public interest reporting.

**2.5** Documentation provides evidence that the valuation engagement was planned, performed, and reviewed in accordance with this MPF.

**2.6** Written documentation may include paper, electronic files, or other forms of recorded media. Examples include, but are not limited to: letters of engagement, correspondence with clients (for example, email, recordings of calls, voice messages), client-provided documents, representation letters, field notes, electronic spreadsheets, and internally prepared memoranda to the work file.

## 2.7 Documentation comprises two key components:

2.7.1 **SOURCE DOCUMENTS** including, but not limited to, data and information (including interview notes) collected from both company sources and external third-party data accumulation resources relating to the company, its financial position, its competitors, the industry it competes in, its customers and suppliers, the state of the economy, financial markets, and risk factors.

2.7.2 **ANALYSIS DOCUMENTS** including, but not limited to, exhibits, schedules, and work-papers that numerically set forth the analysis that was performed, and memos to file or other narratives, that document and explain the valuation professional's reasoning behind such matters as the: selection of methods, selection of inputs used in applying methods, and judgments made regarding valuation assumptions.

2.8 Source documents should be included in the work file to the extent they provide evidential support to an input, process, or output required to arrive at a value or other conclusion presented in the valuation report.

Source documents that are relevant to the analysis but indicate contrary evidence to the conclusion of value should also be retained in the work file along with the valuation professional's explanation of how this information was considered.

## 2.9 Analysis documents generally fall into two sub-categories:

2.9.1 **Computational analysis** (for example, spreadsheets, database use). To the extent that this type of analysis provides evidential support (or contradictory indications) to an input, process, or output, they are required to be included in the work file (that is, supporting work papers, final valuation report). This analysis demonstrates "what" the valuation professional did.

2.9.2 **Narrative based documents.** These documents complement the computational analyses by providing commentary on "why" the valuation professional elected certain methods, inputs, and judgments within the work-product. For example, narrative based documents could be included in (not a complete list):

- The narrative of the report
- The analysis documents (for example, footnotes, narrative fields)
- Memoranda to the work-file.

### *Extent of Documentation Requirements*

**2.10** The valuation professional must support the conclusion of value with sufficient detail to provide a clear and well organized link from the data and information gathered to the final conclusion of value. An experienced professional (for example, audit professional, client, and valuation professional) reviewing the final work file who has no involvement with the engagement must be able to:

- 2.10.1 Understand the nature, extent, and results of the valuation procedures performed.
- 2.10.2 Understand all approaches and methods used in the valuation analysis, and if applicable, understand why commonly used approaches and methods were not used in the valuation analysis.
- 2.10.3 Understand the inputs, judgments, and assumptions made and the rationale for their use.
- 2.10.4 Determine who performed the work and their qualifications (for example, valuation professional, subcontractor, management).
- 2.10.5 Identify the intended users of the valuation report
- 2.10.6 Identify the measurement date

**2.11** When considering the extent of documentation to support a conclusion of value, the valuation professional should consider:

- 2.11.1 The significance the data or information has on the conclusion of value.
- 2.11.2 The risk of management bias affecting the conclusion of value.
- 2.11.3 The risk that insufficient documentation may result in a misunderstood conclusion of value.
- 2.11.4 The degree of judgment required by the valuation professional to prepare information used to estimate the conclusion of value.
- 2.11.5 The reasonableness or appropriateness of the approaches and methods used in to estimate the fair value of the subject interest.

## Professionalism and Professional Competence

**2.12** A valuation professional, prior to accepting an engagement, must conclude that he or she can reasonably expect to complete the engagement with professional competence. Professional competence includes, but is not limited to, compliance with the Fair Value Quality Initiative's requirements for education, qualifications, quality control, and adherence to the MPF outlined herein.

A valuation professional must be able to demonstrate, at a minimum, the following criteria that align with or complement these requirements:

2.12.1 The appropriate academic and professional qualifications demonstrating technical competence.

2.12.2 The appropriate level of experience, including specific industry experience, to identify the problem to be addressed

2.12.3 The appropriate level of experience in valuing the type of business interest or asset that is the subject of the engagement and in completing engagements for a similar purpose.

2.12.3 Membership in a professional body whose guidelines incorporate a commitment to ethical standards.

2.12.4 Recognition of, and compliance with, country or state laws and regulations that apply to the valuation engagement or valuation professional.

**2.13** If a valuation professional determines prior to accepting an engagement, or during the course of an engagement, that he or she does not have the required level of subject interest expertise to competently complete the engagement, the following steps should be considered:

2.13.1 When possible, assemble and use appropriately qualified subject interest specialists within his or her firm or company.

2.13.2 Retain an appropriately competent and qualified subcontractor.

2.13.3 Do not accept the engagement or withdraw from the engagement if already accepted.

**2.14** If a subcontractor is used, as contemplated in MPF section 2.13.2, the valuation professional must:

2.14.1 Provide written notification to and obtain written approval from the client (for example, may be done within the letter of engagement, addendum to a letter of engagement (LoE) if identified after the initial LoE is executed, or email).

2.14.2 Document in the report the level of responsibility, if any, being assumed by the primary valuation professional and the subcontractor.

2.14.3 Assemble and evaluate relevant information from the retained subcontractor and retain such relevant information and interpretation in the work file.

**Important:** The valuation professional should use the criteria in MPF sections 2.10 and 2.11 to help evaluate the appropriateness of the subcontractor's work. See also sections on The Valuation Report (MPF section 2.24) and Content of the Valuation Report (MPF section 2.27) for further discussion on use of subcontractors and related documentation requirements.

**2.15** When more than one valuation professional has undertaken or contributed to the valuation, a list of each contributor must be retained in the work papers, together with a confirmation that each person has complied with the MPF. Also, in accordance with existing valuation standards (as defined by relevant VPOs, non-membership organizations, or both), contributing valuation professionals must either sign or be identified in the certification and representation of the valuation professional signing such certification or representation.

### Professional Skepticism

**2.16** Every valuation professional must exercise professional skepticism during each engagement where the valuation professional is providing a conclusion of value that will be used to support management's assertions in financial statements issued for public interest reporting.

**2.17** Professional skepticism requires that the valuation professional have an attitude that:

2.17.1 **Emphasizes EVIDENTIAL SKEPTICISM.** Valuation professionals must exercise due professional care that requires the valuation professional to continuously question and critique information and data provided by management for bias or misstatement, or both. The valuation professional must also consider the experience of management and the sufficiency of the documentation and analyses provided by management throughout the valuation engagement. The valuation professional should not presume management is biased; however, the valuation professional should not accept and rely on less-than-persuasive evidence because the valuation professional believes management is unbiased. This requirement extends to third-party specialists retained by management and their competence and the sufficiency of their work product.

2.17.2 **Emphasizes SELF-SKEPTICISM.** The valuation professional must continuously monitor his or her own client-based presuppositions that can detract from evidencing skepticism because of comfort level or familiarity with the client, industry or both.

**2.18** Each valuation professional must ensure the work file documents the valuation professional's consideration and implementation of professional skepticism with the understanding that the sufficiency of the conclusions reached in the report will be subjected to review (for example, the client, external auditors, regulators).

## Code of Ethics

**2.19** All valuation professionals must follow the Code of Ethics published by the VPO that issued the valuation professional's credential.

## Types of Engagements

**2.20** In general, valuation engagements include analyses that are either i) complete, or ii) limited in the extent of the research and analysis. Similarly, valuation reports can be very detailed or quite brief.<sup>2</sup>

A **COMPLETE VALUATION ANALYSIS** results in a conclusion of value by the valuation professional after having considered all relevant factors. The valuation professional uses **PROFESSIONAL JUDGMENT** to determine which valuation approaches, methods, and amount of documentation are appropriate for the circumstances.

Engagements performed for public interest reporting purposes, in general, must include a complete valuation analysis that conforms to the MPF requirements, but the report type can vary according to the requirements of the engagement.

If a valuation professional accepts a client engagement that will result in a limited analysis or calculation engagement, the LoE and report (this includes any work product intended for client use) must prominently state that the analyses and report do not meet the requirements of the MPF. If the valuation professional has reason to believe the results of a limited analysis or calculation engagement will be inappropriate for management's intended use of the analyses and report, the valuation professional must decline the engagement.

2.20.1 For each engagement, valuation professionals must prepare either a **COMPREHENSIVE VALUATION REPORT** or an **ABBREVIATED VALUATION REPORT**. Valuation professionals must prepare a valuation report that is sufficiently detailed to serve as a basis for management's financial statement assertions in public interest reporting with the understanding that the sufficiency of the conclusions reached in the report will be subjected to review (for example, the client, external auditors, regulators).

2.20.2 The comprehensive valuation report provides sufficient information for the intended users of the report to identify the data, analyses and rationale used by the valuation professional in order to arrive at a conclusion of value. An abbreviated valuation report condenses this information based on criteria agreed upon by the client and the valuation professional but may not contain sufficient details for the intended users or expected recipients to understand the data,

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<sup>2</sup> Note that SSVS No. 1 addresses the concept of **CALCULATION ENGAGEMENTS** (and reports), that do not include all of the procedures required for complete valuation engagement. Similarly, USPAP's Scope of Work Rule addresses the required extent of research and analysis, and further references Appraisal Reports (more thorough content and information) and Restricted Appraisal Reports (less thorough content and information).

analysis and rationale for the value conclusions. Therefore, in order to enhance auditability, the valuation professional must prepare the work file in alignment with the MPF to ensure sufficient detail exists to support the conclusion of value.

If the valuation professional is engaged by a client (or assigned by an employer) to prepare a valuation report that is less than a comprehensive valuation report and the scope of work is not in compliance with the MPF, the valuation professional should clearly state this limitation in the LoE (for third-party valuation professionals) and the final valuation report. The valuation professional must use the criteria presented in MPF sections 2.27.12 and 2.27.13 (and 2.27.14 when applicable) for purposes of disclosures within the final valuation report.

Regardless of the type of valuation report that will eventually be issued, the valuation professional must include the analysis and accompanying explanatory narrative for all internally prepared analyses, findings and conclusions within the work file. This documentation may take the form of internally prepared memoranda or narrative that will be used to develop the valuation report.

**2.20.3 Subcontractors.** As part of the complete valuation analysis, valuation professionals may retain third-party subcontractors (referred to within the MPF as ‘subcontractors’) to assist with outsourced components of their analysis. Such components may be complete or limited analyses, or calculations that the valuation professionals will specify and then incorporate into their complete valuation analysis, conclusions of value, and the written report. Valuation professionals must evaluate all such subcontractors’ contributions (see MPF section 2.14).

Subcontractors may also be retained to perform outsourced aspects of the valuation for which the valuation professional (or his or her firm) responsible for the valuation engagement does not have the requisite skills (for example the valuation of real estate, machinery and equipment, fine art, and so forth). The work and conclusions of such subcontractors should be readily identified in the valuation report including any certifications as required by VPOs or the professional standards applicable to the valuation professional.

**Important:** The valuation professional that is engaged by the client remains responsible for all aspects of the sub-contracted valuation within his or her area of expertise that will be included in the report. For sub-contracted assignments outside of the valuation professional’s area of expertise, the valuation professional must establish a reasonable basis for the decision to rely on the subcontractor’s work. This includes evaluating and concluding that the subcontractor performing the work is competent. For example, the valuation professional may use the criteria in MPF section 2.12 to evaluate the subcontractor’s professionalism and professional competence and MPF sections 2.10 and 2.11 to determine if the subcontractor’s work product is sufficiently documented to support his or her conclusion of value. The valuation professional also should review such subcontractor’s analysis for reasonableness. Adequate disclosure of sub-contractor participation in the report is required (see The Valuation Report at MPF section 2.24 and Content of the Final Valuation Report at MPF section 2.27).

## Engagement Letter

**2.21** When valuation professionals are engaged by an entity, firm, or individual, other than their employer (for example, internal engagements<sup>3</sup>), they must obtain a signed LoE with every engagement that results in the valuation professional providing a conclusion of value. The LoE establishes the nature, timing, and scope of the agreed-upon valuation assignment. The facts and circumstances of each valuation engagement will dictate the content of the LoE. An executed LoE between the valuation professional and the client must contain following components (to the extent they are applicable):

**2.21.1 Identification of the client.** The LoE must identify the client that has contracted for the valuation services. If the client is a corporation that has subsidiaries or other corporate affiliations, the LoE should identify the entities to be included in the engagement.

**2.21.2 Type of Report.** The LoE must clearly state the type of report that will be prepared for the engagement (see MPF section 2.20 for description of the most common reports, and refer to valuation standards for specific report types).

**2.21.3 Scope of Work.** The LoE must clearly state the acceptable scope of work appropriate for a quality public interest reporting valuation report that will be conducted on behalf of the client and done in compliance with this Framework. This includes, but not limited to, using the appropriate level of professional judgment to avoid errors of omission (for example, not including or considering certain assets that may exist), and limiting or omitting otherwise relevant scope by agreement with the client (for example mortality, and PFI review).

**2.21.4 Client responsibility.** The LoE must establish identifiable and actionable client responsibilities when those responsibilities have a significant impact on the valuation professional's procedures and conclusion of value. For example, providing complete and accurate financial records and data, appropriate and sufficient access to the client's personnel and records, appropriate and sufficient access to the client's facilities—to the extent it is relevant for the valuation procedures—and well-documented and supported prospective financial information.

**2.21.5 Identification of the intended use of the report.** The LoE must clearly state the intended use of the valuation analysis and report that will be prepared by the valuation professional. The report is valid only for that stated purpose or use (for example, additional support for management's fair value disclosures in the entity's SEC filings).

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<sup>3</sup> If the valuation professional is engaged to conduct a valuation for internal purposes, a clear definition of the work should be explained and documented in the company's internal documentation.

**2.21.6 Identification of the intended users and expected recipients.** The intended user of the report will generally be the client of record and may include other parties specifically identified as addressees in the LoE and the subsequent report. The client may share the LoE and report with additional expected recipients including its advisors (for example auditors, attorneys, and so forth in conjunction with the client's intended use of the valuation as specified within the LoE). Additional non-clients may subsequently be added as additional intended users based upon contractual agreement between the valuation professional and client.

**2.21.7 Measurement date for the valuation engagement.** The LoE must clearly state the measurement date or 'as of' or 'effective' date for the valuation engagement (if known by the client when LoE is presented to and signed by the client). If the measurement date is not known with certainty when the LoE is presented to and signed by the client, the LoE may state that the measurement date is to be determined; however, the valuation professional must confirm the measurement date with the client before beginning the engagement.

**2.21.8 Standard of value.** The LoE must include the applicable standard of value and its definition. This aligns client expectations with the nature, timing, and extent of valuation services to be performed.

**2.21.9 Premise of value.** The LoE must state the premise of value that will be used (if known) and its definition. This helps ensure both client and valuation professional are in agreement on terminology and concepts. If premise of value is determined, modified, or changed during the engagement, the valuation professional must receive from or provide to management written confirmation of the new or modified information and disclose in the written report.

**2.21.10 Description and (if relevant) listing of the business(es), business interest(s), intangible asset(s), liabilities, or inventory that are to be valued.** The LoE must identify and describe the business, business interest(s) or intangible assets that will be valued. It is acceptable for the LoE to state that additional subject interests may be valued as they are identified during the engagement.

**2.21.11 Fee, timing, and deliverable.** The LoE should address the fee, timing of the valuation, delivery of any interim or draft conclusions, and the delivery of a final valuation report (note: the timing of the engagement should always include adequate time for the valuation professional to conduct the appropriate scope of work; this should include access to members of management for interviews and in-person meetings, and allow for sufficient time for auditor review).

**2.21.12 Assumptions, extraordinary assumptions or hypothetical assumptions, or limiting conditions.** To the extent that any necessary assumptions, extraordinary or hypothetical assumptions, or limiting conditions will be used in the valuation, they must be included in the LoE to make the client aware of the potential impact on the engagement (for example, conclusions that may otherwise be different). For any necessary assumptions, extraordinary or hypothetical assumptions, or limiting conditions that are developed during the engagement, the valuation professional must receive from or provide to management written confirmation of the new or modified information and disclose same in the written report.

**2.22** In addition to the required elements of a LoE, the valuation professional should consider supplementing the LoE with additional components that further improve the understanding with the client. Examples include:

**2.22.1 Approach and method.** The LoE may contain a description of the valuation approach(es) and method(s) that will be considered and applied during the valuation engagement (for example, income approach and discounted cash flow method). If the valuation professional includes approaches and methods in the LoE, he or she should identify the approach(es) and method(s) that may be considered and applied in the valuation of each subject interest.

**2.22.2 Firm Specific Terms & Conditions.** In addition to the required elements of a letter of engagement, valuation firms may incorporate their firm specific contractual terms and conditions that address various risk management matters such as indemnification, and so forth.

### Management Interviews

**2.23** The valuation professional should conduct on-site management interviews with the appropriate parties whenever practicable. Professional judgment must be used in making this determination (for example, cost-benefit concerns). Regardless of how interviews are conducted, the valuation professional should document (at a minimum):

- i. date of the interview
- ii. who conducted the interview
- iii. which members of management were interviewed (including date, time, and location of interview)
- iv. notes regarding the questions and related responses (field notes)
- v. which facilities were visited (if applicable) and their locations
- vi. any other relevant content discussed and impressions formed during the interview

**2.23.1** Telephonic interviews should be used when in-person, or on-site management interviews are not practicable. Any telephonic interviews should be documented, at a minimum, in accordance with criteria in MPF section 2.23.

## The Valuation Report

**2.24** The final valuation report represents the planning, execution, and conclusion of the valuation professional's services for a client. For purposes of the MPF, valuation professionals must prepare their work file, which includes the final valuation report, in accordance with the guidance provided in this section for all engagements to estimate fair value used to support management assertions made in financial statements issued for public interest reporting purpose.

**2.25** This section provides the valuation professional with a threshold for the minimum amount of information required in his or her final valuation report and supporting work papers. The substance and style of valuation reports may differ substantially depending upon the specific requirements of an engagement; the purpose or intended use of the valuation; and whether the report is prepared for an otherwise unrelated client or prepared internally for or by management.

**2.26** The final valuation report should be organized and written so that the intended users can readily understand the analyses, narrative-based documents and any exhibits that are included in the final valuation report.

### *Content of the Final Valuation Report*

**2.27** In order for a comprehensive valuation report to be prepared in accordance with this Framework, the valuation professional must, at a minimum, include the following components, where relevant, within the final valuation report.

**2.27.1 Client information.** The valuation report must clearly identify the client.

**2.27.2 Purpose and intended use of the valuation report.** The valuation report must clearly state why the valuation is needed and how the valuation report will be used. For example, 'the valuation report was prepared to assist the client with its test for possible impairment of long-lived assets as of the measurement date.' It is not acceptable for the purpose to be devoid of the intended use of the valuation (for example, 'the purpose of the valuation report is to estimate the fair value of the identified assets').

**2.27.3 Intended users of the valuation report.** Each intended user that will have authorized access to, use or review the contents of, or rely on (or both) the final valuation report for its intended use must be clearly identified within the report. When the intended user is an entity, the term intended users may include the company's executives, board of directors, and management. In addition, the entity's external advisors with respect to the intended use of the valuation report may also fall within the realm of expected recipients and include the entity's external auditors, and legal counsel.

**2.27.4 Measurement Date.** Also known as the ‘valuation date’ or ‘as-of’ date, is the point in time used by the valuation professional to estimate the subject interest’s fair value. This is not the same as the ‘valuation report date’ or ‘date of report issuance’ that are typically subsequent to the measurement date.

**2.27.5 Valuation Report Date.** This is the date the final valuation report is signed and issued by the valuation professional or firm and delivered to the client.

**2.27.6 Subsequent Events (if applicable and appropriate).** Events that occur between the measurement date and the valuation report date that were not known or knowable on the measurement date are typically not reflected in the analysis and conclusion; however, if any known subsequent events are disclosed in the valuation report, the relevant dates of the event(s) should be provided and whether such subsequent events were considered in the valuation.

**2.27.7 Identification of the subject interest.** The description of the subject interest, must be specific enough for the intended users of the valuation report to easily identify the subject interest being valued. This description should include any significant legal rights, restrictions, and/or entity obligations associated with the subject interest.

**2.27.8 Sources of information.** The valuation report must identify sources of information with sufficient detail that would allow an experienced valuation professional to independently identify all relevant sources of internal and external, client or non-client information used to estimate fair value of the subject interest.

**2.27.9 Reliance on client-provided information.** When the valuation professional relies on other client-provided information (this includes information prepared by third-party specialists retained by the client), and does not assess or evaluate it for reasonableness (for example, reviewing for accuracy and completeness), the valuation professional must clearly describe in the valuation documentation the information he or she relied on and the rationale for the reliance.

**Important:** When the client provides information (for example, prospective financial information) to the valuation professional, the valuation professional must use his or her professional skepticism and judgment to assess the relevance and reliability of the information and the extent to which he or she will rely on the information in the assessment of fair value.

**2.27.10 Valuation approaches and methods.** Each valuation approach and related valuation method considered and used must be clearly described along with a corresponding rationale for the selection of method used. This should include a clear description of the valuation professional’s consideration of each valuation approach and why (or why not) it was (or was not) selected.

**2.27.11 Alternative approaches and methods.** If the valuation professional uses a valuation approach, method, or both that deviates from common practice within the valuation profession, the valuation report should clearly state why the alternative approach, method, or both were appropriate and why the more common approach and method were not chosen.

**2.27.12 Limitations on the Scope of Research and Analysis.** In circumstances where the valuation professional does not have access to information that is significant and relevant to a supportable conclusion of value, the valuation professional must determine whether to continue with the engagement or withdraw from the engagement. An example may include direction by the client to not value inventory. If inventory valuation would normally result in a step-up, the valuation professional should advise the client of this during the engagement contracting process. If the client insists that inventory not be valued, the valuation professional must decide whether to: a) withdraw from the engagement, or b) prominently disclose in the report that the inventory was not valued at the direction of the client, and had the inventory valuation resulted in a step-up in basis, this step-up in basis would affect the fair value of the other subject interests of the business.

**2.27.13 Disclosure of limitations.** If the valuation professional elects to continue with the engagement, he or she must clearly disclose in the valuation report, at a minimum, the:

- i. limitations placed on the extent of research and analysis and the circumstances for the limitations,
- ii. a statement that the limitation might have affected the conclusion of value, and the possible directional impact on that conclusion if known,
- iii. rationale for continuing with the engagement, and
- iv. steps taken by the valuation professional to compensate for the limitations

**2.27.14 Disclosure of Scope Changes.** If the valuation professional has an executed LoE and has commenced a valuation engagement in accordance with the MPF requirements and:

1. the valuation professional is later asked by management to reduce the level of service (for example, a comprehensive analysis engagement to a limited scope engagement or calculation procedures), and
2. the report or other work product will be used to support management assertions made in financial statements issued for public interest reporting,

The valuation professional must prominently disclose the change of scope for the engagement within the report and other work product.

Furthermore, the valuation professional must evaluate the impact of the reduced level of service to the client and whether the valuation professional is able to conduct the engagement in accordance with the MPF requirements. In circumstances where the valuation professional believes the reduced level of service precludes him or her from complying with the MPF requirements, the valuation professional must either:

- i. Withdraw from the engagement; or
- ii. Continue providing valuation services to the client and: a) obtain a new LoE or amend the original LoE; and b) issue a report (this includes any work product intended for client use) that prominently states the analyses and report do not meet the requirements of the MPF.

**2.27.15 Non-assured financial statements.** In some engagements, the valuation report includes data from financial statements (either as part of an exhibit or the narrative or incorporated by reference), that are derived from the client's financial information that has not been the subject of an assurance engagement (for example, general ledger, reports from ERP systems, tax returns). Therefore, the valuation professional must:

- i. Identify the source of the financial statements (for example, derived from client ERP),
- ii. Disclose that the financial statements are client-prepared, and
- iii. Disclose the financial statements were not subject to any form of assurance, and the valuation professional is relying on the client for the completeness and accuracy of the information used to prepare the financial statements

**Important:** A common labeling convention used to refer to any client financial information included in the report is to describe the information as a 'summary of selected financial data' or 'derived from financial statements' rather than as 'financial statements'.

**2.27.16 Financial information adjustments.** When the valuation professional adjusts or changes the client's financial information (for example, restated historical financial statements, PFI) he or she must disclose in the final valuation report, at a minimum:

- i. the dollar amount or proportional percentage of each adjustment or change, and
- ii. the rationale for the adjustment or change.

**2.27.17 Significant assumptions and estimates – documentation requirements.** In order for the valuation report to be prepared in accordance with this Framework, the valuation professional must ensure that the valuation documentation: a) identifies each significant assumption, b) the person, persons, or firm responsible for developing the assumption, c) the rationale for using it to help estimate the subject interest's fair value, and d) how it supports the conclusion of value.

**Important:** The decision to categorize an assumption or estimate as significant must be based on professional judgment, communication with management, and, where appropriate, subcontractors (retained by valuation professional), or third-party specialists (retained by management).

**2.27.18 Subcontractors – retained by valuation professional.** When a valuation professional retains the services of a subcontractor to assist with the valuation engagement, the valuation professional must adhere to the requirements in MPF section 2.14 as well as conduct reasonable evaluation to ascertain the reasonableness of the subcontractor’s conclusions. This includes, but not limited to, reviewing the subcontractor’s professional background, experience with the subject interest he or she is retained to review, and the method used in the valuation.

**Important:** For sub-contracted valuation assignments outside of the valuation professional’s area of expertise, the valuation professional must establish a reasonable basis for the decision to rely on the subcontractor’s work. This includes evaluating and concluding that the sub-contractor performing the work is competent. For example, the valuation professional may use the criteria in MPF section 2.12 to evaluate the subcontractor’s professionalism and professional competence and MPF sections 2.10 and 2.11 to determine if the subcontractor’s work product is sufficiently documented to support his or her conclusion of value.

**2.27.19 Third-party specialist – retained by client.** When a client retains a third-party specialist to separately value certain assets (for example, real property or fine art) the valuation professional may include the third-party specialist’s conclusion by reference or include the report of the third-party specialist into the written report of the valuation professional (with the third-party specialist’s consent).

**2.27.20 Valuation report representation or certification.** The final report must contain a representation or certification consistent with the requirements of the VPO that issued the credential of the valuation professional signing it.

**2.27.21 Valuation report signature.** The final valuation report that is delivered to the client must contain the signature of least one valuation professional who will take responsibility for the reported analyses, and conclusions of value. The names and contributions of other individuals who provided significant assistance are also to be provided. Professional summary (for example, CV, resume) of individuals providing significant input into the engagement are to be included in the report.

The report letter of transmittal is typically signed by the valuation professional’s firm. The representation or certification should be signed only by those in a position to take full responsibility for all elements of the analyses, conclusions of value, and report.

### 3. PERFORMANCE FRAMEWORK GLOSSARY

Note to the Reader: This Glossary sets forth definitions of terms that may be unique to the Framework, and/or defines their meaning within the context of the MPF. Words or terms defined in the glossary are set in **CAPITAL BOLD** type the *first time they are applied in proper context* within this Framework.

**Abbreviated Valuation Report** – As compared to a comprehensive valuation report, an abbreviated report contains fewer details within the report in order to comply with a client’s request or focus the reader’s attention towards specific content. While the content of the report may be less detailed than a comprehensive report, valuation professionals are still expected to apply their own analyses, reasoning, and support for the conclusions presented and provide the proper documentation in the work files.

**Analysis Documents** – generally comprise two types of documents: i) Computational analysis. These analyses may include spreadsheets, database analyses, for example. This documentation and analysis demonstrates “what” the valuation professional did. ii) Narrative based documents. Examples of this type of analysis may include narratives within the report, footnotes, and memoranda to the work-file. This documentation and analysis demonstrates “why” the valuation professional elected certain methods, inputs, and/or judgments within the actual analyses.

**Best Practices** – Within the context of this Framework, a best practice is a task, technique, procedure or method that would typically be performed by any valuation professional even without specific instruction to do so because experience has shown it leads to a reliable and high-quality end result.

**Binding Requirement** – An unconditional mandatory requirement that must be met, followed or adhered to by the valuation professional, indicated by the use of the word “must”.

**Calculation Engagement** – This type of engagement requires the valuation professional to adhere to the instructions of the client and require minimal or no professional judgment to calculate the value of the subject.

**Complete valuation analysis** – This results in a conclusion of value by the valuation professional after having considered all relevant factors to determine the appropriate scope of work for the purpose or intended use of the valuation engagement. The valuation professional uses professional judgment to consider and apply as appropriate the valuation approaches and methods deemed appropriate for the circumstances.

**Comprehensive Valuation Report** – The various VPOs reference different names for valuation reports. Within the context of the Framework, a comprehensive valuation report is one that contains sufficient content for the intended user/reader to gain a complete understanding of engagement’s purpose and the valuation professional’s analysis, reasoning, and support for the conclusions presented. It is still

possible, however, that additional supporting information will be contained in the supporting work papers.

**Engagement to Estimate Fair Value** – This encompasses any engagement or part of an engagement that involves estimating fair value of a subject interest to support management’s assertions in their preparations of financial statements for public interest reporting. There are two general classifications of an engagement to estimate fair value: 1) a valuation engagement that can be either comprehensive or limited (this refers to the scope of the services provided not the report issued); and 2) a calculation engagement.

**Evidential Skepticism.** Evidential skepticism requires valuation professionals to continuously question and critique information and data provided by management for bias or misstatement, or both, taking into consideration the experience of management and the sufficiency of the documentation and analyses provided by management throughout the valuation engagement.

**Mandatory Performance Framework (also referenced as MPF, Performance Framework, or Framework)** - A set of interrelated and interacting elements that valuation professionals must use to establish quality objectives and establish best practices that are needed to ensure the MPF is followed and its objectives are achieved. It delineates requirements that govern the scope of work and extent of documentation.

**May** – within the context of this Framework and when used in conjunction with identified tasks, techniques or procedures, ‘may’ is used to denote suggested guidance with respect to the task at hand. Facts and circumstances will impact the valuation professional’s decision as to how to proceed.

**Must** – within the context of this Framework, and when used in conjunction with identified tasks, techniques or procedures, ‘must’ is a mandatory or binding requirement that has to be implemented and applied as appropriate in order for the valuation professional to be in compliance with the Framework.

**Non-Membership VPOs** – are not-for-profit valuation organizations that do not have a membership base; however, have been established to draft and issue valuation standards that are adopted by other valuation professional organizations. Examples of non-membership VPOs include: i) The Appraisal Foundation; and ii) the International Valuation Standards Council.

**Professional Judgment** - The process of making appropriate decisions that are based on the cumulative experiences of the valuation professional. A skill that evolves over time and results in decisions that reflect best practices of the valuation profession.

**Professional Standards** - are standards that encourage professional behavior (for example, codes of ethics, codes of conduct, acting competently, independently, objectively, transparently). These can also be considered standards that define a professional: ethical, independent, objective, having

requisite skills, educated, experienced, tested, trained, and credentialed/licensed. Professional standards focus on characteristics of the individual professional and the conduct of their behavior.

**Public Interest Reporting** - Financial statements issued for public interest reporting encompasses financial reports issued in registration statements or disclosures required by the U.S. Securities and Exchange Commission (SEC).

**Self-Skepticism**- Self-skepticism is awareness and monitoring of one's own client-based presuppositions that can detract from evidencing skepticism because of comfort level or familiarity with the client, industry or both.

**Should** – within the context of this Framework, and when used in conjunction with identified tasks, techniques or procedures, 'should' is best practice and is presumed mandatory; however in rare circumstances the valuation professional can elect an alternative option.

**Source Documents** – include, but not limited to, data and information (including interview notes) collected from both company sources and external third-party data accumulation resources relating to the company, its financial position, its competitors, the industry it competes in, its customers and suppliers, the state of the economy, financial markets, risk factors, and so forth.

**Technical Standards** - are standards that address the “how to” of work that must be done to prepare a “professional” work product. These standards address the technical “correctness” of the work product, by considering appropriate input factors, application of methods and techniques, and disclosure guidelines. Both mandatory standards and voluntary guidance have been developed around technical issues in valuation in general and, to a lesser extent, around fair value measurement (FVM).

**Valuation Practitioner** – an individual who provides valuation services (for example, management specialist, subcontractor, third-party specialist) who may or may not have the new Fair Value Quality Initiative credential.

**Valuation Professional** – an individual who has obtained the new Fair Value Quality Initiative credential and is in compliance with the Mandatory Performance Framework requirements.

**Valuation Professional Organization (VPO)** – a not-for-profit membership organization that sponsors and supports valuation credentials with qualification requirements, quality controls, education, and codes of ethics.

**Work File** – Written documentation within the engagement file that supports a final conclusion of value. This includes work papers (documentation not included in the final valuation report that is retained by the valuation professional in the engagement file that supports the final valuation report), and the final

valuation report. These are collectively referred to as the work file within the MPF. Written documentation may include paper, electronic files, or other forms of recorded media.

## 4. AUTHORITATIVE AND TECHNICAL LITERATURE

In addition to the accounting and valuation standards that impact valuation engagements for public interest reporting, various technical guidance has been published by the AICPA, the IVSC, and The Appraisal Foundation. These publications are included in this section and represent the best practices for the valuation of businesses, business interests and intangible assets for public interest reporting. Relevant additional technical guidance from VPOs are also included in this section. Valuation professionals will also have developed their own body of knowledge from various other source materials and authors about topics pertaining to businesses, business interests and intangibles valuations that may be relevant but not referenced within the Framework. Although they are likely relevant to the practice of valuation, the Framework does not cite or endorse the publications or views of individual authors.

### Applicable Accounting Standards

Due to the integral nature of valuation engagements and accounting standards, it is important for the valuation professional to be familiar with the core accounting standards that may dictate the scope of work to be performed. The following accounting standards are issued by Financial Accounting Standards Board (FASB) and are common subject interest topics that might be applicable when a company engages a valuation professional (not an all-inclusive list):

- ASC 350 – Intangibles – Goodwill and Other
- ASC 360 – Property, Plant, and Equipment (specifically long-lived asset impairment)
- ASC 606 – Revenue from Contracts with Customers
- ASC 718 – Compensation – Stock Compensation
- ASC 805 – Business Combinations
- ASC 820 – Fair Value Measurement
- ASC 825 – Financial Instruments
- ASC 946 – Financial Services – Investment Companies
- ASC 96X – Plan Accounting (for actuaries as it relates to pensions; however, knowledge that this ASC exists and its purpose, is important to the valuation professional)

Valuation professionals should also be aware of auditing standards that the audit profession uses as guidance when they conduct an audit of financial statements prepared for public interest reporting. These include, but should not be limited to:

- AS 1105 – Audit Evidence (formally AS no. 15)
- AS 1210 – Using the Work of a Specialist (formally AU section 336)
- AS 1215 – Audit Documentation (formally AU section 339)
- AS 2502 – Auditing Fair Value Measurement and Disclosures (formally AU section 328)

- AS 2501 – Auditing Accounting Estimates (formally AU section 342)

There are instances where international accounting standards may be incorporated into financial statements prepared for public interest filings in the United States and might impact the nature, timing and scope of a valuation professional's work. The following international accounting standards are issued by the International Accounting Standards Board (IASB) and are associated with fair value measurement engagements (not an all-inclusive list):

- IAS 16 – Property, Plant and Equipment
- IAS 36 – Impairment of Assets
- IAS 38 – Intangibles
- IAS 39 – Financial Instruments
- IAS 40 – Investment Property
- IAS 41 – Agriculture (Biological assets)
- IFRS 3 – Business Combinations
- IFRS 5 – Noncurrent Assets Held for Sale and Discontinued Operations
- IFRS 13 – Fair Value Measurement

#### Applicable Valuation Standards

##### Non-Membership Valuation Organization Standards

- **The Appraisal Foundation** – Uniform Standards of Professional Appraisal Practice (USPAP).
- **International Valuation Standards Council** – International Valuation Standards (IVS).

##### Valuation Professional Organizations Standards

- **American Institute of Certified Public Accountants (AICPA)** – Statement on Standards for Valuation Services No. 1, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset (SSVS No. 1).
- **American Society of Appraisers (ASA)** – ASA Business Valuation Standards.
- **Royal Institution of Chartered Surveyors (RICS)** – RICS Valuation – Professional Standards global. Incorporates the International Valuation Standards (IVS).

## Technical Literature

### Technical Literature (published)

- AICPA Accounting and Valuation Guide: Assets Acquired to Be Used in Research and Development Activities
- AICPA Accounting and Valuation Guide – Prospective Financial Information
- AICPA – Valuation of Privately-Held-Company Equity Securities Issued as Compensation
- AICPA Accounting and Valuation Guide: Testing for Goodwill Impairment
- The Appraisal Foundation, Best Practices for Valuations in Financial Reporting: Intangible Asset Working Group – Contributory Assets
  - The Identification of Contributory Assets and Calculation of Economic Rents
  - The Identification of Contributory Assets and Calculation of Economic Rents: Toolkit
- IVSC Technical Information Paper 3, The Valuation of Intangible Assets
- IVSC – A Guide to the Audit Process for Professional Valuers
- IRS Revenue Procedure 2003-51 (and predecessor IRS Revenue Procedure 77-12)

### Other Valuation Literature

- Time Warner Cable Inc., - Valuation of Cable Franchise Rights White Paper, File No. 1-33335 (SEC EDGAR)

### Technical Literature (in development)

- AICPA Accounting and Valuation Guide: Business Combinations
- AICPA Accounting and Valuation Guide: Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies
- The Appraisal Foundation – The Measurement and Application of Market Participant Acquisition Premiums
- The Appraisal Foundation, The Valuation of Customer-Related Assets
- The Appraisal Foundation, The Valuation of Contingent Consideration

The standards and technical literature cited herein are meant to provide direction to relevant guidance and resources that address a particular subject interest and NOT meant to be an all-inclusive reference. All references are current as of the MPF's publication date; however, the reader should not assume this guidance has been updated contemporaneously with any changes to the standards or guidance and should verify all references using a proper resource.