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Financial Instruments Performance Framework for the Certified in the Valuation of Financial Instruments™ credential
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Introduction

This Financial Instruments Performance Framework sets forth the common concepts regarding the scope of work and extent of documentation that valuation professionals can apply to their valuations of financial instruments. The framework is the result of the Certified in the Valuation of Financial Instruments™ (CVFI™) Task Force formed by the American Institute of CPAs (AICPA). The Task Force focuses on the issues facing the valuation profession with respect to financial instruments. This initiative included a performance framework¹ workstream tasked with the development of the Financial Instruments Performance Framework (FIPF).

The Need for the Financial Instruments Performance Framework

Regulatory efforts to improve the oversight of valuations and prevent market instability are raising the importance of being able to understand measurements across global markets. New regulations have generated new and significant demands for high quality reporting. Auditors under the watchful eye of regulators are requiring more transparency in the valuation process so the capital markets can place more credibility in the related financial statement disclosures.

Public financial statements do not include instrument level valuation detail (in value or valuation methodology, assumptions, inputs, models, and the like) but with the documentation and substantiation requirements promulgated by the FIPF, the users of these statements, auditors, regulators, and clients will benefit from the integrity and robustness of a consistent and transparent valuation process.

For all the regulatory guidance established for preparers and auditors, the valuation profession often falls outside of any direct regulatory oversight and, unlike other professions, does not benefit from uniform guidance on the scope of work and extent of documentation. The goal of the FIPF and the CVFI credential is to fill that gap and help to improve the transparency and consistency of valuations performed to assist management with their fair value estimates for financial instruments which, in turn, will help preparers and auditors meet their respective responsibilities to the capital markets and will improve the internal controls of affected institutions.

¹ Words or terms defined in the glossary are set in bold type the first time they are used in context within this document.
Financial statement preparers, auditors, regulators, and ultimately the users of the financial statements (collectively, the financial reporting supply chain) will benefit from a more transparent approach to the preparation and documentation of valuations performed for financial instruments. This is especially critical given the ubiquity of proprietary and "unobservable" inputs used in the creation of fair value estimates. The combination of the FIPF and the CVFI credential can help promote improved confidence and trust in the markets.

Financial Instruments Performance Framework

Fair value measurement and reporting is well established under financial reporting standards. The purpose of this framework is to ensure that valuation work conducted by CVFI™ credential holders meets rigorous professional standards and satisfies financial reporting objectives. This framework is intended to provide management and valuation professionals with guidance on the minimum scope of work, rigor, and documentation required when providing fair value estimates for financial instruments. The FIPF should not be interpreted as a limitation or restriction that precludes a valuation professional from providing a more comprehensive scope of work and documentation when deemed appropriate. The primary goal of the FIPF and the CVFI credential is to ensure that financial statements and supporting disclosures preparation are consistent with the requirements of fair value by addressing the following:

- Scope of work and extent of documentation and analysis, consideration of contrary evidence, support of key assumptions, and documentation in the report and supporting working papers
- The internal and external stakeholders in the valuation process

Furthermore, the framework is focused on ensuring that fair value estimates for financial instruments are presented in the appropriate context:

- Consistent with the financial reporting objective with an understanding of the use for the valuation
- With a demonstrable understanding of the market and structural features of the financial instrument, including liquidity, contractual features, and performance profile
- Inclusive of documentation and understanding of the inputs and assumptions and basis for determining them, including the reliance on models or proxies
- Conducted with appropriate independence, skepticism, governance, and escalation procedures

Valuation activity should be cognizant of the continued evolution of the financial landscape where we observe ever changing supply and demand dynamics and the creating of new complex securities in both
the security and the markets. FIPF recognizes these changing dynamics and is focused on creating an
approach to ensuring valuation transparency and accuracy, and not detailing how specific instruments
should be measured.

The principles of the FIPF are consistent with the Mandatory Performance Framework (MPF) for the
Certified in Entity and Intangible Valuations™ (CEIV™) credential. When a valuation falls within the scope
of both the FIPF and the MPF, the valuation professional may follow either framework.

Structure of the Financial Instruments Performance Framework

The structure of the FIPF is as follows:

FIPF section 1, Preamble, provides an overview of the framework’s scope and purpose (that is, who
must adhere to it and when must it be followed).

FIPF section 2, Valuation Engagement Guidance, addresses markets and valuation approaches, and
establishes the parameters of the documentation requirements that valuation professionals must adhere
to. For third-party valuation professionals, this includes the fundamental engagement considerations and
scope of work that manifest themselves within the engagement letter, the extent of documentation
requirements, and the professional skepticism required in the valuation process and in the reporting of any
conclusions. For internal valuation professionals employed by reporting entities, the requirements related
to engagement letters are replaced with requirements to document the nature and scope of the valuation
assignment.

FIPF section 3, Financial Instrument Performance Framework Glossary, sets forth definitions of terms that
may be unique to the framework and, when necessary, defines their meaning within the context of the
framework.

FIPF section 4, Authoritative and Technical Guidance, includes a list of accounting standards, auditing
standards, valuations standards, and certain technical literature applicable to the guidance presented
in the framework.

The content cited in section 4 is organized based on authoritative weight. The accounting standards are
issued by regulators and accounting standard setters and are mandatory for all financial statements issued
for financial reporting purposes. The valuation standards issued by the AICPA are mandatory only for
AICPA members and some nonmembers as follows: Nonmembers who practice in certain jurisdictions,
specialty subject interests, or both should be aware that they may be required by national, state, or local
laws or regulations to adhere to specified valuation standards promulgated by the AICPA or by non-
membership organizations (for example, The Appraisal Foundation and the 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 by auditors.

By design, the framework does not provide illustrative examples that might otherwise be interpreted as requirements for how to perform a valuation. The purpose of the framework is to provide valuation professionals with guidance on how much documentation and level of effort is required when performing valuation services for financial reporting.

Performance Requirements

To distinguish the “performance” aspect of the valuation professional’s responsibilities from other requirements, the following definitions are employed.

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

**Professional standards.** Standards that encourage professional behavior. Examples are codes of ethics and codes of conduct that require acting competently, independently, objectively, and transparently. These can also be considered standards that define the qualities of a professional: ethical, independent, objective, with requisite skills, educated, experienced, tested, trained, and credentialed or licensed. Professional standards focus on characteristics of individual professionals and their conduct.

**Technical standards.** 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 and other measurement objectives.

Scope of Adoption and Adherence by Valuation Professionals

The framework is designed to be used by management for internal valuation purposes and all external valuation professionals who provide valuation services for financial reporting purposes.

An overview of the scope of adoption and adherence by valuation professionals follows:

- **Valuation professionals with the CVFI credential.** It is mandatory for valuation professionals who have earned the CVFI credential to adhere to the framework when engaged (or assigned if an employee) by (a) an entity required to submit registration statements or
filings to a national regulatory authority such as the U.S. SEC, UK Prudential Regulation Authority, or European Banking Authority, or (b) a privately held entity that prepares and issues financial statements in accordance with an accounting or regulatory standard to perform a valuation of a financial instrument or component thereof used to support management’s assertions made in financial statements issued for financial reporting purposes.

- **Valuation professionals without the CVFI credential.** As noted previously, the FIPF is designed for use by all valuation professionals. Although only those valuation professionals who have the CVFI credential are required to adhere to the FIPF, the Financial Instruments Task Force recommends management and all valuation professionals who perform valuations of financial instruments or components thereof adhere to this framework. The Financial Instruments Task Force believes that adoption of the framework will lead to more reliable and higher quality results from valuations.

**Conclusion**

Valuations for financial reporting completed in a professional manner 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 to provide supportable and auditable measurements that serve as the basis for management’s preparation of financial statements for financial reporting.
# Contents

1. **PREAMBLE**
   - Introduction ......................................................................................................................... 1
   - Applicable Financial Instrument Valuation Standards .......................................................... 1
   - Relevant Accounting and Audit Standards Applicable to Financial Instruments Valuation ..... 3
   - Scope of the Financial Instruments Performance Framework ............................................... 4
   - Exceptions to the Performance Framework ............................................................................ 4

2. **VALUATION ENGAGEMENT GUIDANCE**
   - Overview ........................................................................................................................................ 4
   - Fair Value Considerations ........................................................................................................ 5
   - Documentation Requirements for Fair Value Estimates for Financial Instrument Engagements .................................................................................................................................. 7
   - Professionalism and Professional Competence ...................................................................... 10
   - Professional Skepticism .......................................................................................................... 12
   - Independence and Objectivity ................................................................................................. 13
   - Evaluation of Management Estimates .................................................................................... 14
   - Code of Ethics ......................................................................................................................... 15
   - Types of Engagements ............................................................................................................ 15
   - Engagement Letter ............................................................................................................... 17
   - Management Interviews ....................................................................................................... 20
   - The Valuation Report .............................................................................................................. 20

3. **FINANCIAL INSTRUMENTS PERFORMANCE FRAMEWORK GLOSSARY**
   - Note to the Reader .................................................................................................................. 26

4. **AUTHORITATIVE AND TECHNICAL GUIDANCE** ........................................................................... 30
1. PREAMBLE

Introduction

1.1 The Financial Instruments Performance Framework (FIPF) is a document for valuation professionals that provides guidance on scope of work, extent and depth of documentation as well as depth of analysis to be used when designing, implementing, and conducting valuations of financial instruments used for supporting management assertions made in financial statements or other reports issued for financial reporting.

1.2 Financial statements issued for financial reporting purposes include, but are not limited to, financial reports issued by the following:

   a. Entities required to submit registration statements or filings in compliance with reporting standards set by the U.S. SEC, UK Financial Reporting Council, or similar authorities

   b. Privately held entities that prepare and issue financial statements in accordance with United States generally accepted accounting principles (U.S. GAAP) or the International Financial Reporting Standards (IFRS)

   c. Any other engagement in which the individual is performing services as a valuation professional

   **Important:** If a CVFI credential holder is engaged by a privately held entity that does not issue financial statements or other reports in accordance with U.S. GAAP, IFRS, or other standards (for example, financial statements issued for regulatory reporting) and the engagement falls within the subject matter scope of the FIPF, the CVFI credential holder should follow the FIPF for the engagement or assignment. If, however, the CVFI credential holder elects not to follow the FIPF for this type of engagement or assignment, the CVFI credential holder must prominently display this fact and rationale in the final valuation report.

1.3 The primary goal of the framework 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, employers, and other potential stakeholders, mitigate engagement or assignment 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 relevant valuation standards and technical guidance to promote quality, transparency, consistency, and auditability. The framework is not intended to address valuation theory or to be a how-to guide regarding valuation steps.

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

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

**1.4.2** The valuation professional should include sufficient documentation to support a conclusion of value within the final valuation report as identified in FIPF section 1.4.1.

**1.4.3** The framework sets forth minimum scope of work and documentation requirements for valuation professionals. Circumstances in which a valuation professional has agreed to comply with more stringent scope of work and documentation requirements are not restricted or negated by this framework.

**1.5** CVFI credential holders who perform valuation services for their clients or employers, or as part of another engagement, are required to adhere to the framework for financial reporting.

**Important:** CVFI credential holders who are employees of an entity that is required to prepare financial statements issued for financial reporting (subsequently referenced as a reporting entity), and who are responsible for preparing conclusions of 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 engagement (LoE) are excluded, and the communication of value conclusions may not include a formal valuation report.

If a CVFI credential holder who is an employee of a reporting entity concludes that a section (or sections) of the framework is (or are) not applicable because of the credential holder’s employment at the reporting entity, the valuation professional may elect not to comply with the identified sections of the framework. The valuation professional must, however, document in the work file which sections of the framework were not complied with and the rationale for the noncompliance.

**1.6** In the event that there are professional requirements prescribed by the AICPA and those requirements are not required by the framework, the CVFI credential holder must also adhere to conduct that is in accordance with the AICPA’s requirements.

**1.7** Valuation professionals use a broad spectrum of approaches and methods when conducting a valuation. Therefore, in circumstances in which 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 considered to be the most appropriate for the engagement’s or assignment’s relevant facts and circumstances.
1.8 For the valuation professional, this framework provides the following:
   a. A method to align a valuation engagement or assignment with procedures that will meet the needs of the client or employer and other potential stakeholders in response to the greater focus by regulators on fair value measurements
   b. A resource to help identify and mitigate non-independent, ineffective, inefficient, or incomplete valuation procedures that result in insufficient support for and auditability of the final conclusion of value
   c. A resource for the valuation review process

1.9 For the reporting entity's management, auditors, and external stakeholders, the use of the framework promotes the following:
   a. Greater confidence in the valuation professional's ability to assist the company in meeting the entity's internal and external reporting requirements
   b. Greater confidence in the valuation professional's application of an acceptable process of evaluation, analysis, and documentation of measurements that may serve as a basis for management's financial statement or other assertions
   c. Greater understanding of the valuation professional's use of judgment, estimates, and industry knowledge
   d. Greater consistency in how much documentation is prepared among valuation professionals
   e. Greater understanding of the need for independence and objectivity in the valuation process

Applicable Financial Instrument 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 in section 4 of this framework represent mandatory professional standards for CVFI credential holders (VS section 100, Valuation of a Business, Business Ownership Interest, Security [AICPA Professional Standards]).

Relevant Accounting and Audit Standards Applicable to Financial Instruments Valuation

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

1.12 This includes instances where financial statements were prepared in accordance with accounting standards issued by the International Accounting Standards Board (IASB). Both U.S. and international accounting standards can affect the nature, timing, and scope of a valuation professional's work.
Valuation professionals must also be aware of auditing standards that the audit profession uses as guidance when conducting an audit of financial statements prepared for financial reporting.

A list of important accounting and auditing standards relevant to the valuation of financial instruments is provided in FIPF section 4, Authoritative and Technical Guidance.

Scope of the Financial Instruments Performance Framework

The terms engagement and engagement to estimate fair value refer to any engagement, assignment, or part thereof that involves estimating the value of financial instruments (referenced individually or collectively as subject interest) to serve as a basis for management’s preparation of financial statements. An engagement or engagement to estimate fair value culminates in a written conclusion of value.

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

The principles of the FIPF are consistent with the MPF for the CEIV credential. When a valuation falls within the scope of both the FIPF and the MPF, the valuation professional may follow either the FIPF or the MPF. However, valuation professionals that hold both the CVFI and the CEIV credentials should follow the CVFI framework for engagements or assignments that largely include valuations of subject interests that meet the definition of a financial instrument as defined in FASB Accounting Standards Codification® (ASC) 825, Financial Instruments, or IFRS 9, Financial Instruments.

Exceptions to the Performance Framework

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 the part applicable to the valuation in which the valuation professional is engaged or assigned. The other parts of this framework continue in full force and effect. 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.

2. VALUATION ENGAGEMENT GUIDANCE

Overview

As the valuation profession has evolved, valuation firms and the AICPA have developed various engagement processes and procedures for engagement acceptance, many of which are applicable to valuations prepared for financial reporting purposes (see section 1.2).
2.2 The following sections will address the FIPF’s requirements for valuation professionals who are performing valuations within the scope of the FIPF.

Fair Value Considerations

2.3 This section focuses on the key and preliminary steps required to sufficiently perform and document the valuation professional’s process of estimating the fair value of any financial instrument.

Nature and Features of the Instrument

2.4 To determine how to value a financial instrument (or instruments), the valuation professional should gain an understanding of the nature and features of the financial instrument being valued, which includes contractual features and performance profile.

2.5 The valuation professional must use professional judgment to decide what is the most relevant information to include in the work file that adequately describes the nature and features of the financial instrument being valued.

Unit of Account

2.6 The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements. Therefore, the valuation professional should include in the work file a description of the unit of account.

Approaches and Valuation Models

2.7 More than one valuation approach within the accounting and valuation guidance may be appropriate to use when estimating the fair value of a financial instrument. If more than one valuation approach is appropriate, the valuation professional should include in the work file how the approach was selected. This could include the following:

a. The process and rationale for selecting the valuation approach or excluding potentially relevant valuation approaches to estimate the fair value of the financial instrument

b. The rationale for any changes in valuation approaches used for subsequent measurement dates

2.8 Numerous valuation models are available via trading systems or are created by valuation professionals. They include but are not limited to discounted cash flow models (present value of future expected cash flows), lattice (binomial) models, Monte Carlo, and other numerical methods. The valuation professional should include in the work file why a particular model was selected.

Inputs and Assumptions for Valuation Models

2.9 The valuation professional should determine which inputs and assumptions are the most
appropriate. The documentation explaining the process and rationale for selecting the inputs and assumptions to the valuation model within the work file should be commensurate with the level of objectivity and supportability for the inputs and assumptions. For example, an input that is based on a documented trading (for example, principal market) in the exact security with sufficient frequency and volume on valuation date should be readily supportable with objective quantitative information. In contrast, to support an input that may not be readily observable, the valuation professional should provide documentation that is more robust and supports the subjective and qualitative information.

2.10 Management-based assumptions are often crucial to the valuation process and are addressed in sections 2.35–2.39.

2.11 The valuation professional should include in the work file the rationale and support for the inputs used to estimate the fair value of the financial instrument.

Model Calibration

2.12 Regardless of which valuation technique is used, all valuation models that can be calibrated should be calibrated to current markets to ensure the accuracy of the inputs, assumptions, and calculations. This calibration process ensures that fair value findings are aligned with how the market works as opposed to how the market is expected to work.

IFRS 13 paragraph 64 and FASB ASC 820-10-35-24C require that

[i]f the transaction price is fair value in the initial transaction and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps a reporting entity to determine whether an adjustment to the valuation technique is necessary (for example, there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, a reporting entity shall ensure that those valuation techniques reflect observable market data (for example, the price for a similar asset or liability) at the measurement date.

Application to Liabilities and Nonperformance Risk

2.13 A fair value measurement assumes that the liability is transferred to a market participant at the measurement date (the liability to the counterparty continues; it is not settled) and that the nonperformance risk relating to that liability is the same before and after its transfer. Nonperformance risk refers to the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred.

2.14 When the valuation professional is estimating the fair value of a liability and related
nonperformance risk, he or she should include in the work file how nonperformance risk was evaluated and incorporated.

**Documentation Requirements for Fair Value Estimates for Financial Instrument Engagements**

2.15 The valuation professional must conduct and document 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 financial reporting purposes in accordance with the applicable guidance within this framework.

2.16 Documentation is the written record within the final valuation report or supporting working papers, or both, used to support a valuation conclusion used by management in their assertions of value and their preparation of financial statements or other reports.

2.17 Appropriate documentation provides evidence that the valuation engagement was completed in accordance with this framework.

2.18 Written documentation may include paper, electronic files, or other forms of recorded media. Examples include LoEs, correspondence with clients or employers (email, recordings of calls, voice messages, and the like), client- or employer-provided documents, representation letters, field notes, electronic spreadsheets, and internally prepared memorandums to the work file.

2.19 Documentation comprises two key components.

   2.19.1 **Source documents** include, but are not limited to, data and information (including interview notes) collected from both company sources and external third-party data accumulation resources relating to the financial instrument, its financial markets, and risk factors. The valuation professional, at a minimum, must document the following in writing within a work file, if applicable:

   - Description and nature of the asset or liability, its market and unit of account
   - Structural features
     - Contractual features
     - Contingent features
     - Payment terms

   2.19.2 **Analysis documents** include exhibits, schedules, and working 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. This may include the following:

   - The process and rationale for selecting the valuation model or methods
• Quality control of any methods and models used (for example back-testing or market calibration)
• The significant assumptions and inputs used
• Information on quality and observability of significant inputs
• Support of fair value level selection
• FASB ASC 820 or IFRS 13 (fair value measurement) level of each input
• Consideration and development of the following:
  – Discount rate(s)
  – Other interest rates
  – Prepayment rates
  – Default or recovery rates
  – Other applicable inputs or adjustments or both
• Description of the adjustments for nonperformance risk (if applicable)
• Information about sensitivity analyses performed (if performed)

2.20 Source documents should be included in the work file to the extent that they provide evidential support to an input, process, or output required to arrive at a conclusion of value.

  a. Identification of source documents, data, and specific selection criteria used to identify information used to support the final valuation report (or valuation conclusion in the case of an internal VP not issuing a formal report) is appropriate when inclusion of source documents in the work file is not feasible or practicable (for example, portfolio valuations involving the valuation of thousands of homogenous securities, where appropriate, may incorporate these securities by reference using sufficiently descriptive documentation that would allow an experienced professional to readily and independently locate, identify, and corroborate the information).

  b. Source documents that are relevant to the analysis and indicate contrary evidence to the conclusion of value, along with the valuation professional’s explanation of how this information was considered, should be included in the work file (and such source documentation should be identified in accordance with FIPF section 2.20a if not included in the work file because it is not feasible or practicable to do so).

2.21 Analysis documents generally fall into two subcategories.

  a. **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, it is
required to be included in the work file (that is, supporting working papers, final valuation report, if applicable). This analysis demonstrates what the valuation professional did and how they did it.

b. Narrative-based documents. These documents complement the computational analyses by providing commentary on why the valuation professional selected certain methods, inputs, and judgments within the work product. For example, narrative-based documents could be included in the following (this list is not all-inclusive):

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

Extent of Documentation Requirements

2.22 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 (who may or may not be a valuation professional) reviewing the final valuation report or conclusion who has no involvement with the engagement or assignment must be able to do the following:

a. Identify subject financial instruments and components thereof, including all contractual features and performance features.

b. Understand the principal market (or most advantageous market in the absence of a principal market) and key valuation drivers for the financial instrument in question.

c. Understand the purpose, nature, extent, and results of the valuation procedures performed.

d. 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.

e. Understand the source of the inputs, judgments, and assumptions made and the rationale for their use, including the following:\(^\text{2}\)

i. Relevant market information used (trades, comparable transactions, indices, broker quotes and so on) and its market observability.

ii. The sources and supporting data for the inputs, judgments, and assumptions made.

iii. If known, the level(s) of significant inputs available in the marketplace used as basis for the

\(^2\) FIPF 2.22.e.iii and iv have to do with level(s) within the fair value hierarchy.
ii. When management retains a CVFI credentialed professional to assist in the fair value level selection, provide an explanation of how the professional’s guidance was determined.

*Observation:* Some broker quotes may be actionable, whereas others are simply indicative. The latter are less observable and may require further valuation analysis.

f. Understand key risk factors considered (credit risk, structural features, embedded derivatives, exposure and controls, sensitivity testing, nonperformance risk).

g. Determine who performed the work and the qualifications and independence (for example, valuation professional, subcontractor, management).

h. Identify the intended users of the valuation report or conclusion.

i. Identify the measurement date and ensure that the data used for the valuation is representative of the market on that date.

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

a. The observability of the relevant market information used

b. The significance the data or information (the input) has on the conclusion of value

c. The risk of management bias affecting the conclusion of value

d. The risk that insufficient documentation may result in a misunderstood conclusion of value

e. The degree of judgment required by the valuation professional to prepare information used to estimate the conclusion of value

f. The reasonableness or appropriateness of the approaches and methods used to estimate the value of the subject interest

g. If there were a range of values, how the conclusion of value (point estimate) was determined

*Professionalism and Professional Competence*

2.24 Prior to accepting an engagement or assignment, valuation professionals must evaluate their ability to reasonably expect to complete the engagement or assignment with professional competence that includes adherence to the framework. Valuation professionals, if requested, must be able to demonstrate, at a minimum, the fulfillment of the following criteria:

a. The appropriate academic and professional qualifications and experience demonstrating technical competence.

b. The relevant valuation experience, including specific industry or market valuation experience,
to identify the problem to be addressed. Experience includes knowledge of the terms and structural aspects of the financial instrument.

c. The appropriate level of experience in valuing the subject interest and in completing engagements for a similar purpose.

d. Recognition of and compliance with applicable local laws and regulations that apply to the valuation engagement or valuation professional.

e. For CVFI credential holders, professional competence also includes compliance with the CVFI requirements for education, qualifications, and quality monitoring, and adherence to the framework.

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

1. When possible, assemble and use appropriately competent and qualified subject interest specialists within the professional's firm or company.

2. Retain an appropriately competent and qualified subcontractor.

3. Do not accept the engagement, or withdraw from the engagement if already accepted, or escalate the engagement through appropriate channels.

2.26 Subcontractors. If a subcontractor is used to either assist with work the valuation professional is professionally competent to do but unable to do (for example, because of time or geographic constraints) or assist with work the valuation professional is not professionally competent to do (for example, because the professional is an expert in a niche field or very technical subject matter), the valuation professional must do the following:

a. Provide written notification to and obtain written approval from the client (for example, this may be done within the LoE, in an addendum to the LoE if the need for a subcontractor identified after the initial LoE is executed, or by email).

b. Document in the report or conclusion the level of responsibility, if any, being assumed by the primary valuation professional and, if applicable, the subcontractor.

c. Assemble and evaluate relevant information from the retained subcontractor and retain such relevant information and interpretation in the work file. The valuation professional’s ability to competently do the work of the subcontractor will determine the level of responsibility assumed by the valuation professional and the amount of documentation the framework requires. These requirements are as follows:

i. Valuation professionals who retain subcontractors must evaluate all such subcontractors’ contributions (see FIPF sections 2.22 and 2.23). If necessary, the
Valuation professionals should prepare supplemental documentation and analysis to complement the subcontractor’s work product to ensure the valuation professional’s work file complies with the framework.

ii. Valuation professionals working on an engagement or assignment who retain subcontractors to perform valuation services the valuation professional (or firm) is not professionally competent to do must not take responsibility for the subcontractor’s work and must provide adequate disclosure of subcontractor participation in the final valuation report or conclusion (see “The Valuation Report” at FIPF section 2.47 and “Content of the Final Valuation Report” at FIPF section 2.50).

**Important:** The valuation professional who retains a subcontractor to assist with work the valuation professional is professionally competent to do but is unable to do is responsible for all aspects of the subcontracted valuation that will be included in the work file. Furthermore, the valuation professional who retains a subcontractor in this capacity must retain the subcontractor’s report and, to the extent possible, the subcontractor’s working papers in the work file.

2.27 Valuation professionals who retain subcontractors to assist with valuation services outside of the valuation professional’s area of expertise 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 FIPF section 2.24 to evaluate the subcontractor’s professionalism and professional competence and FIPF sections 2.22–2.23 to determine whether the subcontractor’s work product is sufficiently documented to support the conclusion of value.

2.28 The framework’s requirements for professionalism and professional competence are adhered to when the valuation professional taking responsibility for the analyses and conclusion of value ensures that all contributing valuation professionals have followed the FIPF.

2.29 **Important:** CVFI credential holders who sign the final valuation report (if applicable) must comply with reporting requirements required by FIPF section 2.50v.

**Professional Skepticism**

2.30 Professional skepticism is an attitude that includes a questioning mind and critical assessment of valuation evidence. The valuation professional uses the knowledge, skill, and ability called for by the valuation profession to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.

2.31 Every valuation professional must exercise professional skepticism during each engagement or assignment where the valuation professional is providing a conclusion of value that will be used to support management’s assertions in financial statements issued for financial reporting purposes.
2.32 Professional skepticism requires that the valuation professional have an attitude that emphasizes the following:

a. **Evidential skepticism.** Valuation professionals must exercise due professional care by regularly questioning and critiquing all information and data with the appropriate level of skepticism. The level of skepticism should be based on the potential for bias within the information and data (for example, multiple sources of external corroboration versus a management-generated estimate with no external corroborating support).

   **Important:** When evaluating management-generated and management-provided information, the valuation professional must 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, their competence, and the sufficiency of their work product.

b. **Self-skepticism.** The valuation professional must regularly monitor the client- or employer-based presuppositions that could detract from evidencing skepticism as a result of comfort level or familiarity with the client, industry, or both.

2.33 Each valuation professional must implement a degree of professional skepticism with the expectation that the conclusions reached will be subjected to review (for example, by the client, external auditors, regulators).

**Independence and Objectivity**

2.34 The reporting entity needs to ensure that the valuation professional’s activity is conducted with an appropriate degree of independence and objectivity. The valuation professional may rely on other stakeholders but will need to distinguish between independent functions and other stakeholders appropriately. Several aspects related to the independence and objectivity of the valuation professional from other stakeholders should be considered. Examples include the following:

- Compensation based, in part, on the estimate
- Reporting relationships
- Personal or familial relationships
- Financial interests
- Board participations
Evaluation of Management Estimates

Overview

2.35 The valuation professional is responsible for evaluating whether management-provided estimates are consistent with the objective of fair value and properly supported. Key estimates for the measurement of financial instruments include the following:

a. Prospective financial information (PFI)

b. Internal milestones (key hires, establishing technical feasibility, raising capital)

c. External milestones (initial public offering, merger, obtaining regulatory approval)

d. Other key management assumptions

Prospective financial information is a broad term that encapsulates several types of forward-looking financial information. PFI is any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts. Common categories include, but are not limited to, break-even analyses, feasibility studies, forecasts, or projections. This type of information is commonly prepared for external financing, budgetary purposes, or calculating the expected return on investments. Furthermore, the manner in which the PFI is expected to be used will usually dictate the type of PFI prepared.

Important: Valuation professionals who obtain management’s PFI for use in their valuation procedures must review the PFI with the appropriate level of professional skepticism.

Reasonably Objective Bias

2.36 Because management estimates (PFI) represent future expectations, they are, by their very nature, imprecise. Therefore, the assumptions used must be reasonable and supportable. In order for the valuation professional to determine whether a management estimate is reasonable, the valuation professional must use professional judgment to identify the most reliable objective information available.

Understanding Management’s Approach to Developing Estimates

2.37 Estimates might be routinely prepared by one or more members of management or, in larger companies, an internal functional group often called financial planning and analysis (subsequently referenced as management). Valuation professionals should understand and document how each significant estimate was developed by management. The party or parties responsible for preparation of the PFI should be identified in the documentation.

2.38 Valuation professionals should be aware of the purpose for which the estimate was prepared. In addition, valuation professionals should understand whether the estimate was prepared using market participant assumptions. Valuation professionals should strive for objective, reasonable, and supportable
estimates relevant for use in the valuation process with the understanding that management bias may exist and, if present, should be properly adjusted (reflecting market participants’ assumptions) in the analysis.

The Valuation Professional’s Assessment of Management Estimates

2.39 Part of the valuation professional’s responsibility is to evaluate the estimates provided by management for reasonableness in general, as well as in specific areas. Factors and common procedures to consider when performing this assessment may include, but are not limited to, the following:

- Frequency of preparation. If a designated group of management regularly prepares estimates, those are likely to be more consistent and meaningful compared to circumstances when management does not regularly prepare such estimates.

- Comparison of prior estimates with actual results. The valuation professional should complete a comparison of prior estimates (if they exist) against actual results. This type of analysis will help assess whether management’s estimates are appropriate or reasonable, or tend to be optimistic, conservative, or just generally inaccurate. Many external influences might make the estimation process difficult and an inaccurate estimate does not necessarily indicate that management’s process is deficient.

- There are cases in which the outlook for a company differs significantly from its historical performance and other industry information that is available. The former should be infrequent but may occur if the company is significantly changing its business focus, geographical location, or other factors. The latter could occur if a company is in a niche industry with relatively sparse industry information available, or the expectations of the company differ from that of its industry. The primary goal is to have a well-supported and clear explanation as to why the differences exist.

- Comparison to industry expectations. The valuation professional should complete an analysis of management estimates relative to the economy, industry, and other external data.

- Check for internal consistency. The review of metrics should consist of review of each estimate individually as well as a concurrent review to evaluate whether all of the estimates used in the analysis are collectively consistent with each other.

Code of Ethics

2.40 All CVFI credential holders must follow the AICPA Code of Professional Conduct.

Types of Engagements

2.41 In general, valuation engagements and assignments include analyses that are either (a) complete
or (b) limited as it relates to the extent of research and analysis included in the valuation report or conclusion. Also, valuation reports can be very detailed or quite brief.  

2.42 A complete valuation analysis results in a conclusion of value by the valuation professional after having considered and evaluated all relevant factors. The valuation professional uses professional judgment to determine which valuation approaches and methods, and what amount of documentation, are appropriate based on the facts and circumstances of each engagement or assignment.

2.43 Engagements performed for financial reporting purposes must include a complete valuation analysis that conforms to the framework requirements, but the report type can vary according to the requirements of the engagement.

a. 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 assertions, with the understanding that the sufficiency of the conclusions reached in the report may be subject to regulatory scrutiny and subject to audit procedures in accordance with generally accepted auditing standards within the context of an overall audit of the entity’s financial statements.

b. In order to enhance auditability, the valuation professional must prepare the work file in alignment with the framework to ensure sufficient detail exists to support the conclusion of value. Therefore, the valuation professional must determine, based on the facts and circumstances of the engagement to estimate fair value, which of the following to prepare:

- A comprehensive valuation report that provides sufficient information for the intended users or expected recipients of the report to identify the data, analyses, assumptions, models and rationale used by the valuation professional in order to arrive at a conclusion of value as prescribed in FIPF section 2.50.

- An abbreviated valuation report that condenses the requirements of a comprehensive valuation report based on criteria agreed upon by the client and the valuation professional. Although an abbreviated valuation report may not contain sufficient details for the intended users or expected recipients to understand all of the data, analyses, assumptions, models, and rationales used to support the conclusion of value, valuation professionals must conduct a complete valuation analysis.

c. Regardless of the type of valuation report that will 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

3 Note that VS section 100 addresses the concept of calculation engagements (and reports) that do not include all the procedures required for a complete valuation engagement.
prepared memoranda or a narrative that will be used to develop the valuation report.

d. 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 do one of the following:

- Indicate to the client or management that the calculation will be inappropriate to the intended use of the analysis and agree with the client or management to create a report that would be appropriate to the intended use (either in addition to or in the place of the original report, as agreed).
- Decline the engagement.
- Prominently note the reasons for believing the analysis and report will be inappropriate for the intended use.

**Important:** If a valuation professional accepts a client engagement or employer assignment that will result in a limited analysis or calculation engagement or assignment, the LoE and final valuation report (this includes any work product intended for client use) must prominently state that the analyses and final valuation report (if applicable) do not meet the requirements of the framework and specifically identify the scope of the engagement or assignment. This includes identifying which sections of the framework have not been complied with. In these circumstances, valuation professionals must use the criteria presented in FIPF sections 2.50k and 2.50l (and 2.50m when applicable) for purposes of disclosures within the final valuation report (if applicable).

e. As part of the complete valuation analysis, valuation professionals may retain subcontractors to assist with outsourced components of their analyses. Such components may be complete or limited analyses, or calculations that the valuation professionals will specify as such and then incorporate into their complete valuation analysis, conclusions of value, and final valuation report. The valuation professional who retained the subcontractor must adhere to the professionalism and documentation requirements in FIPF sections 2.27 and 2.50, respectively.

**Engagement Letter**

2.44 When valuation professionals are engaged by an entity, firm, or individual other than their employer (that is, for engagements other than internal engagements), they must obtain a signed LoE for 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

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4 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.
circumstances of each valuation engagement will dictate the content of the LoE. An executed LoE between the valuation professional and the client must contain the following components (to the extent they are applicable):

a. **Identification of the client.** The LoE must identify the client that has contracted for the valuation services. If there are several clients (that is, more than one), the LoE must identify all clients to the engagement.

b. **Type of report.** The LoE must clearly state the type of report that will be prepared for the engagement (see FIPF section 2.41 for description of the most common reports and refer to valuation standards for specific report types).

c. **Scope of work.** The LoE must clearly state the scope of work to be completed by the valuation professional in compliance with this framework. This includes
   i. whether the report will be prepared in accordance with the FIPF;
   ii. using the appropriate level of professional judgment to avoid errors of omission; and
   iii. limiting or omitting otherwise relevant components of a typical scope of work by agreement with the client (for example, accepting management’s estimate of volatility).

d. **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, client responsibilities might include 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 PFI.

e. **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 financial report).

f. **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 of the report including its advisers (for example, auditors or attorneys) in conjunction with the client’s intended use of the valuation as specified within the LoE. Additional non-clients may subsequently be added as intended users based on a contractual agreement between the valuation professional and client.

g. **Measurement date for the valuation engagement.** The LoE must clearly state the measurement date (also known as the “valuation date,” “as of date,” or “effective date”) for the valuation engagement (if known by the client when the 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.

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

i. Premise of value, if applicable. The LoE must state the premise of value that will be used (if known) and its definition. This helps ensure the client and the 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 this information in the written report.

j. Description and (if relevant) listing of the financial instruments and components thereof that are to be valued. The LoE must identify and describe the financial instruments and components thereof that are expected to be valued. It is acceptable for the LoE to state that modifications to the identified subject interests may be made as the modifications are identified during the engagement as additional information becomes known.

k. 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 include adequate time for the valuation professional to conduct the appropriate scope of work; this should include time to access members of management for interviews and in-person meetings [see section 2.46], and should allow for sufficient time for self-review, internal review, and auditor review.)

l. Known assumptions or limiting conditions. To the extent that any known and relevant assumptions, including 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 might otherwise be different). For any known and relevant 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 this information in the written report.

2.45 In addition to the required elements of an LoE, the valuation professional should consider supplementing the LoE with components that further improve the understanding with the client. Examples include the following:

a. Approach and method. The LoE may contain a description of the valuation approaches and methods that will be considered and applied to each of the subject interests during the valuation engagement.

b. Firm-specific terms and conditions. Valuation professionals may incorporate their firm-specific contractual terms and conditions that address various risk management matters such as
indemnification, and so forth.

**Management Interviews**

2.46 If management interviews are used to create the estimate, the valuation professional should conduct management interviews with the appropriate parties. The valuation professional should document the following (at a minimum):

   a. The date of the interview
   b. Who conducted the interview
   c. Which members of management were interviewed (and the role or responsibility of each person interviewed, time, and location of each interview)
   d. Notes regarding the questions and related responses (field notes)
   e. Any other relevant content discussed, and observations made during the interview

Telephone interviews should be used when in-person or on-site management interviews are not practicable. Any telephone interviews should be documented, at a minimum, in accordance with the criteria in this section.

**The Valuation Report**

2.47 The final valuation report represents the planning, execution, and conclusion of the valuation professional’s services for a client. For purposes of this framework, 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 financial reporting purposes.

2.48 This section provides valuation professionals with a threshold for the minimum amount of information required in their final valuation report to the extent the components are applicable and relevant. The substance and style of valuation reports may differ substantially depending on 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.

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

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**Important:** As noted in FIPF sections 1.2 and 1.5, if the valuation professional is engaged to provide valuation services and prepare a valuation report with supporting analyses and documentation that do not comply with the framework, the valuation professional must prominently state in the final valuation report that the analyses and final valuation report do not meet the requirements of the framework and specifically identify the scope of the engagement. This includes identifying which sections of the
framework and have not been complied with. In these circumstances, valuation professionals must use the criteria presented in FIPF sections 2.50.k and 2.50.l (and 2.50.m when applicable) for purposes of disclosures within the final valuation report.

Content of the Final Valuation Report

2.50 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:

a. **Client identification.** The valuation report must clearly identify the client.

b. **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 financial reporting requirements pursuant to FASB ASC 820 and 825 as of the measurement date.”). It is not acceptable for the purpose to be devoid of the intended use of the valuation (note: an example of this is, “The purpose of the valuation report is to estimate the fair value of the identified financial instrument.”)

**Important:** If a CVFI credential holder elects not to adhere to the FIPF, this fact must be prominently disclosed in the final valuation report.

c. **Intended users of the valuation report.** Each intended user that will have authorized access to use, review, or rely on the contents of 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 advisers with respect to the intended use of the valuation report may be expected recipients (for example, the entity’s external auditors and legal counsel).

d. **Measurement date.** The measurement date (also known as the “valuation date,” “as of date,” or “effective date”) is the point in time used by the valuation professional to estimate the subject interest’s value. This is not the same as the “valuation report date,” or “date of report issuance,” that is typically subsequent to the measurement date.

e. **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.

f. **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 events should be provided, and whether such subsequent events were considered in the valuation should be indicated.
1. **Identification of the item or items being valued.** The description of the item(s) must be specific enough for the intended users of the valuation report to easily identify the item(s) being valued. This description should include any significant legal rights, restrictions, or entity obligations associated with the item(s) interest including referencing appended materials.

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

3. **Client-prepared information.** Valuation professionals must use their professional skepticism and judgment to assess the relevance and reliability of any client-prepared information and the extent to which they will rely on the information in the assessment of fair value. Valuation professionals must describe the information they relied on and the rationale for the reliance (Note: the description of the client-prepared information may be very general, such as “all interest rate swaps,” or very specific, such as “schedule of expected future preferred stock financing dates and amounts”).

4. **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 the method used. This should include a clear description of the valuation professional's consideration of each valuation approach used and why it was selected. This should also include, when appropriate, the rationale for deviation from common practice within the valuation profession and why the more common approach and method were not chosen.

5. **Limitations on the scope of research and analysis.** In circumstances in which the valuation professional does not have access to information that is significant and relevant to a conclusion of value, the valuation professional must determine whether to continue with the engagement or withdraw from the engagement. The valuation professional should assess whether the imposed limitations are significant enough that they result in a change of scope for the engagement. Upon determining a change in scope for the engagement has, in fact, occurred the valuation professional must evaluate the impact based on the criteria in FIPF section 2.50m.

**Important:** An example might include direction by the client to not use secondary market transactions. If such transactions would normally result in an adjustment to the concluded value, the valuation professional should advise the client of this during the engagement contracting process. If the client insists that secondary market transactions be ignored, the valuation professional must decide whether to 
(a) withdraw from the engagement or 
(b) prominently disclose in the report that the scope was limited at the direction of the client, and, had the secondary market transactions been given appropriate weighting, this would have affected the fair value of the other subject interests.

6. **Disclosure of limitations.** Upon electing to continue with the engagement, the valuation
professional must clearly disclose the following in the valuation report, at a minimum:

i. The limitations placed on the extent of research and analysis and the circumstances for the limitations, and

ii. A statement that the limitation might have affected the conclusion of value, and the possible directional impact on that conclusion if known.

m. Disclosure of scope changes. The valuation professional must prominently disclose a change of scope that reduces the level of service as compared to what was agreed upon in the executed LoE (for example, an engagement to perform a complete valuation analysis reduced to a limited-scope engagement or calculation procedures), and the valuation professional’s conclusion of value will still be used to support management assertions made in financial statements issued for financial reporting purposes.

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 framework requirements. In circumstances in which the valuation professional believes the reduced level of service precludes compliance with the framework requirements, the valuation professional must either

i. withdraw from the engagement or

ii. continue providing valuation services to the client and
   (1) obtain a new LoE or amend the original LoE and
   (2) issue a report (this includes any work product intended for client use) that prominently states that the analyses and report do not meet the requirements of the framework.

n. Non-assured financial information. In some engagements, the valuation report includes financial information (either as part of an exhibit or the narrative or incorporated by reference) that is derived from sources other than the client’s audited financial statements. Any financial information that does not appear in the audited financial statements (for example, information from the company’s general ledger, reports from ERP systems, and tax returns) cannot be considered to have been subject to an assurance engagement even if that information is from a period that was subject to an audit engagement. Therefore, the valuation professional must do the following:

i. Identify the source of the financial information (for example, derived from client ERP).

ii. Disclose that the financial information is client-prepared.

iii. Disclose that the financial information was not subject to any form of assurance that the valuation professional is aware of and that the valuation professional is relying on the client for the completeness and accuracy of the information.
Financial information adjustments. Upon adjusting or changing the client’s financial information (for example, restated historical financial statements, PFI), he or she must disclose the following in the final valuation report, at a minimum

i. the amount (for example, in currency units, basis points, volatility, and so on), as a level, percentage, or both of each adjustment or change, and

ii. the rationale for the adjustment or change.

Significant inputs and assumptions—documentation requirements. For the valuation report to be prepared in accordance with this framework, the valuation professional must ensure that the valuation documentation is sufficient to understand assumptions, estimates and inputs (see section 2.9).

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

Subcontractors with subject interest expertise retained by valuation professional. When a subcontractor has been retained by a valuation professional because the valuation professional does not have the required level of subject interest expertise to competently complete the engagement, the valuation professional must identify the subcontractor’s work and conclusions in the final valuation report. In addition, the final valuation report must indicate that the valuation professional has relied on the subcontractor’s work but has not assumed any responsibility for the work due to the professional’s lack of subject interest expertise.

Important: For subcontracted 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 subcontractor performing the work is competent. For example, the valuation professional may use the criteria in FIPF section 2.24 to evaluate the subcontractor’s professionalism and professional competence and FIPF sections 2.22–2.23 to determine whether the subcontractor’s work product is sufficiently documented to support the conclusion of value.

Third-party specialist retained by client. When a client retains a third-party specialist to separately value certain assets (for example, common stock), the valuation professional may include the third-party specialist’s conclusion by reference or include third-party specialist’s report in the valuation professional’s written report (with the third-party specialist’s consent).

Reliance on conclusions of third-party specialist retained by client. 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, does not have the subject matter expertise to evaluate and does not retain a subject matter expert to evaluate), the valuation professional must clearly describe in the valuation documentation the information relied on and the rationale for the reliance.

**Important:** Valuation professionals should use professional judgment to determine whether the work provided by the third-party specialist requires review and evaluation by a subcontractor with subject matter expertise if the valuation professional is not professionally competent to review and evaluate the third-party specialist’s work.

t. **Conclusion of value.** The final report must include a conclusion of value.

u. **Valuation report representation and signature for valuation professionals who do not have the CVFI credential.** The final valuation report that is delivered to the client must contain the signature of at least one valuation professional who will take responsibility for the reported analyses and conclusions of value. The final valuation report should include the following:

1. A professional summary (for example, academic background, professional experience, subject matter expertise, credentials held) of valuation professionals who have undertaken or contributed to the valuation engagement

2. A representation that the final valuation report and supporting analyses and underlying documentation was prepared in compliance with this framework

3. Signatures of all valuation professionals who take full responsibility for elements of the analyses, conclusions of value, and final valuation report

v. **Valuation report representation or certification for valuation professionals with the CVFI credential who have adhered to the FIPF.** CVFI credential holders who take responsibility for the final valuation report must include in the final report a representation or certification that includes the following:

1. A representation that the credential holder signing the report is in good standing with the educational, training, quality monitoring, and ethical requirements of the AICPA

2. A list of CVFI credential holders who have contributed to the work file

3. A representation that each credential holder who has contributed to the engagement has complied with the educational, training, quality monitoring, and AICPA requirements

4. A representation that the final valuation report and supporting analyses and underlying documentation was prepared in compliance with this framework

5. Signatures of all valuation professionals who take full responsibility for elements of the analyses, conclusions of value, and final valuation report
6. Any additional representations or certifications required by the AICPA

3. FINANCIAL INSTRUMENTS PERFORMANCE FRAMEWORK

GLOSSARY

Note to the reader

This glossary sets forth definitions of terms that may be unique to the framework or defines their meaning within the context of the framework. Words or terms defined in the glossary are set in **bold** type the first time they are used in proper context within this framework.

**abbreviated valuation report.** Compared to a comprehensive valuation report, an abbreviated report condenses the requirements of a comprehensive valuation report based on criteria agreed upon by the client and the valuation professional. The final valuation report might not contain sufficient details for the intended users or expected recipients to understand the data, analysis, and rationale for the value conclusions (for example, an abbreviated valuation report includes fewer details within the report in order to comply with a client’s request or focus the reader’s attention toward specific content). Although the content of the report may be less detailed than a comprehensive valuation report, valuation professionals must conduct a complete valuation analysis that applies their own analyses and reasoning. Furthermore, valuation professionals must prepare the work file in alignment with the framework to ensure sufficient detail exists to support the conclusion of value.

**analysis documents.** These generally comprise two types of documents:

1. **Computational analysis.** Examples of this type of analysis may include spreadsheets or database analyses. This documentation and analysis demonstrates what the valuation professional did.

2. **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, or judgments within the actual analyses.

**calculation engagement.** This type of engagement requires the valuation professional to adhere to the instructions of the client and requires reduced professional judgment to calculate the value of the subject interest.

**complete valuation analysis.** This results in a conclusion of value by the valuation professional.
after having considered all relevant factors to determine and complete 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 the valuation approaches and methods deemed appropriate for the facts and circumstances.

**comprehensive valuation report.** Within the context of the framework, a comprehensive valuation report is one that contains sufficient content for the intended user or expected recipient to gain a complete understanding of the 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 working 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 financial reporting purposes. There are two general classifications of an engagement to estimate fair value: (1) a valuation engagement that can be either complete or limited (this refers to the scope of work and documentation prepared 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.

**experienced professional.** A professional who has sufficient experience in preparing, reviewing, or auditing valuation reports issued for financial reporting purposes (for example, valuation professionals, management, auditors, attorneys, and so forth).

**financial instrument.** Cash, evidence of an ownership interest in a company or other entity, or a contract that does both of the following:

1. Imposes on one entity a contractual obligation to either
   a. deliver cash or another financial instrument to a second entity or
   b. exchange other financial instruments on potentially unfavorable terms with the second entity
2. Conveys to that second entity a contractual right to either
   a. receive cash or another financial instrument from the first entity or
   b. exchange other financial instruments on potentially favorable terms with the first
entity

**financial reporting purposes.** Within the context of this framework, financial reporting purposes encompasses all financial statements that include fair value measurement disclosures for financial instruments.

**may.** Within the context of this framework and when used in conjunction with identified tasks, techniques, or procedures, the word *may* indicates that the valuation professional is required to consider performing the indicated task, technique, or procedure, but the action itself is not required. Facts and circumstances will affect 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, the word *must* indicates 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.

**performance framework; framework.** A set of interrelated and interacting elements that valuation professionals must use to establish quality objectives and establish practices that are needed to ensure the framework is followed and its objectives are achieved. The framework delineates requirements that govern the scope of work and extent of documentation.

**professional judgment.** Within the context of this framework, this refers to the process of making informed and reasonable decisions that are based on the cumulative experiences of the valuation professional. This is a skill that evolves over time and results in decisions that reflect practices of the valuation profession leading to a reliable and high-quality result.

**professional standards.** Standards that encourage professional behavior. Examples are codes of ethics and codes of conduct that encourage acting competently, independently, objectively, transparently. These can also be considered standards that define the qualities of a professional: ethical, independent, objective, with requisite skills, educated, experienced, tested, trained, and credentialed or licensed. Professional standards focus on characteristics of individual professionals and their conduct.

**self-skepticism.** Self-skepticism is the awareness of and monitoring of one’s own client-based presuppositions that could detract from evidencing skepticism as the result 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, the word *should* indicates a practice that is presumed mandatory; however, in rare circumstances, the valuation professional can elect an alternative option.

**source documents.** These include, but are 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.

**subject interest.** Refers collectively or individually to any or all financial instruments and components thereof being valued for financial reporting purposes.

**technical standards.** 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.

**valuation professional.** Within the context of this framework, an individual who conducts valuation services for financial reporting purposes. This includes management, especially those that sign valuation reports.

**valuation services.** Valuations used to support management assertions made in financial statements issued for financial reporting purposes.

**work file.** Written documentation within the engagement file that supports a final conclusion of value. (Note: This includes information that is relevant to the analysis and indicates contrary evidence to the conclusion of value and the valuation professional’s explanation of how this information was considered). This includes working papers (documentation not included in the final valuation report but that is retained by the valuation professional that supports the final valuation report) and the final valuation report. Within the context of this framework, this documentation is collectively referred to as the work file. Documentation may include paper, electronic files, or other forms of recorded media.
4. AUTHORITATIVE AND TECHNICAL GUIDANCE

The AICPA has published various technical guidance in addition to the accounting and valuation standards that affect valuation engagements for financial reporting. These publications are included in this section and represent the recommended/required practices for the valuation of financial instruments and components thereof for financial reporting. Additional relevant technical guidance from the AICPA is 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 valuations of financial instruments and components thereof that may be relevant but not referenced within the FIPF. Although they are likely relevant to the practice of valuation, the FIPF does not cite or endorse the publications or views of individual authors.

Relevant Accounting Standards

FASB and the IASB issue the following accounting standards; these are common subject interest topics that might be applicable when a company engages a valuation professional for fair value measurement engagements (this list is not all-inclusive):

- FASB ASC 320, Investments – Debt and Equity Securities
- FASB ASC 321, Investments – Equity Securities
- FASB ASC 323, Investments – Equity Method and Joint Ventures
- FASB ASC 325, Investments – Other
- FASB ASC 718, Compensation – Stock Compensation
- FASB ASC 815, Derivatives and Hedging
- FASB ASC 820, Fair Value Measurement
- FASB ASC 825, Financial Instruments
- FASB ASC 860, Transfers and Servicing
- FASB ASC 940, Financial Services – Brokers and Dealers
- FASB ASC 942, Financial Services – Depository and Lending
- FASB ASC 944, Financial Services – Insurance
- FASB ASC 946, Financial Services – Investment Companies
- FASB ASC 948, Financial Services – Mortgage Banking
- IAS 28, Investments in Associates and Joint Ventures
- IFRS 7, Financial Instruments: Disclosures
- IFRS 9, Financial Instruments
- IFRS 10, Consolidated Financial Statements
- IFRS 13, Fair Value Measurement
Relevant Auditing Standards

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

- PCAOB AS\textsuperscript{5} 1105, \textit{Audit Evidence}
- PCAOB AS 1210, \textit{Using the Work of a Specialist}
- PCAOB AS 2501, \textit{Auditing Accounting Estimates}
- PCAOB AS 2502, \textit{Auditing Fair Value Measurements and Disclosures}
- PCAOB AS 2601, \textit{Consideration of an Entity's Use of a Service Organization}
- AU-C section\textsuperscript{6} 540, \textit{Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures}
- AU-C section 620, \textit{Using the Work of an Auditor's Specialist}
- \textit{International Standard on Auditing (ISA) 540, Auditing Accounting Estimates, including Fair Value Estimates}

AICPA Valuation Standards

VS section 100, \textit{Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset (AICPA, Professional Standards)}

Technical Literature

Published technical literature includes the following:

- AICPA Audit Guide \textit{Special Considerations in Auditing Financial Instruments}
- AICPA Accounting and Valuation Guide \textit{Valuation of Privately-Held-Company Equity Securities Issued as Compensation}
- Audit and Accounting Guide \textit{Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies}
- Accounting Guide \textit{Brokers and Dealers in Securities}
- AICPA Guide \textit{Prospective Financial Information}
- International Valuation Standards Council (IVSC) A \textit{Guide to the Audit Process for Professional Valuers}
- AICPA Accounting and Valuation Guide \textit{Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies} (in development)
- The Appraisal Foundation's \textit{VFR valuation Advisory #3: The Measurement and Application of}

\textsuperscript{5} All AS sections can be found in \textit{PCAOB Standards and Related Rules}.
\textsuperscript{6} All AU-C sections can be found in AICPA \textit{Professional Standards}.
Market Participant Acquisition Premiums

- The Appraisal Foundation’s Advisory: Valuing Contingent Consideration (in development)
- IVS 500, Financial Instruments

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