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**BV1 The benefits of professional standards to CA
Valuation Specialists**

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Discussion Outline

- Development of valuation standards and specialty credential in the U.S.
- Our member objections to standards development and the specialty credential
- Professional standards can only benefit valuation specialists
- Types of valuation services and types of valuation clients
- Transactional valuations and notational valuations
- Types of professionals who provide valuation services
- When professional standards are (and are not) appreciated
- How valuation standards (and credentials) benefit CAs—and the public
- How to promote your standards (and your credentials)

Differences between the U.S. and Australia/New Zealand

- I appreciate that there are differences between our:
 - general professional standards
 - valuation specialty professional standards
 - government and other regulatory requirements
 - taxation statutes and regulations
 - corporation and shareholder laws
 - valuation credentialing programs
 - valuation credentialing examinations
 - types of clients and types of client services
 - markets and competitors
 - reasons to perform valuation services

Differences between the U.S. and Australia/New Zealand (cont.)

- And I apologize if I use American terminology (certified public accountant vs. chartered accountant, valuation analyst vs. valuation specialist)

Similarities between U.S. and Australia/New Zealand

- Recognizing the differences, there is a substantial amount of similarities between our:
 - general professional standards of practice
 - valuation specialty professional standards
 - valuation credential programs and requirements
 - types of clients, client services, and client motivations
 - valuation services markets and types of competitors
 - reasons to perform and defend valuation services

Similarities between U.S. and Australia/New Zealand (cont.)

- There is also a substantial similarity in the timing of the development of our valuation standards and valuation credential activities:
 - The AICPA exposed several drafts of our *Statement on Standards for Valuation Services (SSVS)* in the 2003-2006 period
 - The final version of SSVS was issued in June 2007 for valuation services retained after January 1, 2008
 - There was a multiyear period of member training, orientation, and implementation

Similarities between U.S. and Australia/New Zealand (cont.)

- There is a substantial similarity between our SSVS and the APES 225 *Valuation Services*
- In addition, both SSVS and APES 225 incorporate the *International Glossary of Business Valuation Terms*

Why Develop SSVS in the U.S.?

- The AICPA recognized a diversity of practice among members
- Members were seeking professional guidance related to technical issues, scope of services, etc.
- The AICPA perceived that the public would be better served by receiving more consistent and more professional services
- The AICPA perceived that members would be better served by having valuation standards they could refer to and comply with
- Members wanted to increase the credibility of their valuation services with the judiciary, with taxing authorities (e.g., the IRS), with regulatory agencies (e.g., the SEC), and other parties

Why Develop SSVS in the U.S.? (cont.)

- Fair value accounting was becoming a more prominent component of U.S. GAAP. The SEC and others were looking more closely at fair value valuations.
- Members wanted to compete more effectively with other valuation professional organizations (e.g., ASA, IBA, NACVA).

SSVS Development Process Within the AICPA

- A committee of valuation analyst member volunteers was formed to draft the standards
- The committee coordinated with various disciplines within the AICPA
- The committee coordinated with various regulatory authorities (e.g., IRS, SEC, FASB, state CPA societies, state boards of accountancy, etc.)
- The committee coordinated with other valuation professional organizations
- While helping to improve the proposed standards, this coordination did not always satisfy all constituents

SSVS Development Process Within the AICPA (cont.)

- Several exposure drafts were issued to the membership over a period of several years
- Several member town halls were conducted at numerous AICPA conferences
- SSVS was approved by the AICPA consulting services executive committee (CSEC) and adopted by state boards of accountancy in 2007
- Complimentary training programs were conducted through state CPA societies in 2007 and 2008
- Member town halls were conducted at various AICPA and state CPA society conferences for the next several years

Common Member Objections to Proposed Standards

- More regulation of already over-regulated accounting profession
- Any regulation should come from the IRS, SEC, FASB, or some other authority
- SSVS puts members at competitive disadvantage to non-CPA valuation analysts
- Members could not make money providing valuation services
- How could the member explain analysis or reporting changes to a recurring valuation client?
- This was a conspiracy on the part of the national accounting firms
- This was a conspiracy on the part of the full-time valuation analysts
- This was a conspiracy against sole practitioners and occasional valuation analysts
- This was an attempt to remove all professional judgment from the valuation process

Professional Standards Can Only Benefit Valuation Analysts

- Members are protected by relying on professional standards with regard to:
 - answers to questions from clients
 - answers to questions from auditors
 - answers to question from tax authorities
 - answers to question from other regulators
 - answers to questions from lawyers and judges
 - answers related to questions from any party relying on the valuation
 - answers to allegations related to professional liability

Professional Standards Can Only Benefit Valuation Analysts (cont.)

- Members receive technical guidance
- Members can feel confident of their analyses, conclusions, reports
- Members benefit from increased credibility with lenders, transaction parties, auditors, regulators, tax authorities, judicial finders of fact, etc.
- The public (clients, lenders, regulators, tax authorities, the judiciary, any parties relying on valuations) benefit from
 - increased conformity of valuation practice
 - assurance of consistent compliance with standardized professional practices

Professional Standards Can Only Benefit Valuation Analysts (cont.)

- Members can promote professional standards in the client proposal process, particularly in competition with non-member analysts

Both Members and Clients Recognize a Difference in Types of Valuation Services

- Valuation standards apply to both transactional valuations and notational valuations
- But clients are more willing to pay for quality services in the case of transactional valuations
- Transactional valuations are analyses where money will change hands at the end of the assignment

Both Members and Clients Recognize a Difference in Types of Valuation Services (cont.)

- Examples include:
 - merger and acquisition fairness opinions
 - financing collateral valuations
 - financing solvency opinions
 - intellectual property license agreements
 - exercise of stock buy/sell agreements
 - any valuation-related litigation
 - any tax compliance valuation
 - any tax controversy valuation

Both Members and Clients Recognize a Difference in Types of Valuation Services (cont.)

- Notational valuations are analyses where no money changes hands at the end of the assignment
- Examples include:
 - fair value accounting valuations
 - tax planning valuations
 - personal financial planning valuations
 - creating a buy/sell agreement
 - regulatory (e.g., ESOP/ERISA) compliance reporting
 - executive stock option accounting

Appreciate the Differences between Transactional Valuation and Notational Valuations

- Clients (and other parties) are much less interested in (and less willing to pay for) professional standards compliance when there is no monetary impact of the valuation being wrong.
- Your obligation to comply with professional standards does not change depending on whether the engagement is a transactional valuation or a notational valuation.
- You can use standards compliance as an explanation to clients regarding the procedures required, even for a notational valuation.

Know (and Manage) Your Clients

- Not all clients will want—or pay for—compliance with professional standards, particularly with regard to notational valuations
- You may not want to provide all services to all clients
- You may want to recommend non-member analysts to some clients for some engagements
- Some clients just want the lowest level of service at the lowest fee—without any consideration of professional standards (or of your professional reputation)
- Some clients just want “the number” they want, or they just want any low-price report to complete a file

Know (and Manage) Your Clients (cont.)

- If you do not turn down at least 10 percent of potential clients every year, you may want to reconsider your client acceptance policy
- If you do not fire at least one client a year, you may want to reconsider your client retention policy
- Some valuation analysts believe they have to take the low fee assignments to get in line for the client's next big fee assignment. Most clients perceive the valuation market as bifurcated between low-fee analysts and substantial engagement analysts. Which segment do you want to practice in?

Beware of the Creeping Commitment

- A common phenomenon we encounter is the client (or, often, the client's counsel) requests a gradual expansion of the assignment scope.
- Gradually, the assignment changes from a calculation to a limited scope valuation engagement to a valuation engagement.
- Often, a rebuttal analysis turns into a valuation engagement and valuation report.
- Sometimes, particularly in litigation, the valuation specialist is asked "you are a CA, why don't you also opine on this GAAP issue or this taxation issue?"

Beware of the Creeping Commitment (cont.)

- Valuation specialists (and their clients) should be aware that a change (albeit incremental) in the scope of an engagement can result in a change in the applicable standards.

Types of Professionals Who Provide Valuation Services

- Both from a business competition and a professional standards perspective, it is important to understand the different types of professionals who perform valuation services.

Types of Professionals Who Provide Valuation Services (cont.)

- Our competitors include the following:
 - CPA/ABV valuation analysts
 - CPA valuation analysts
 - non-CPA credentialed valuation analysts
 - non-CPA noncredentialed valuation analysts
 - CFA security analysts
 - investment bankers
 - business brokers
 - industry consultants
 - economists
 - professors - finance
 - professors - other
 - engineers
 - licensing executives
 - others

Types of Professionals Who Provide Valuation Services (cont.)

- Some of these analysts will comply with your professional standards.
- Some of these analysts will comply with other professional standards.
- Many of these analysts will comply with no professional standards.
- You should inform potential clients (and others) of the differences in standards among the various categories of analysts.
- You should be cognizant of how others perceive these various analyst categories, including the legal profession, judicial finders of fact, the banking community, taxation authorities, government regulators, and others.

Understand Your Professional Services

- Be prepared to list, explain, and differentiate the professional services you perform—and the professional services you do not perform.
- Understand the differences between valuing a:
 - business
 - business ownership interest
 - security
 - intangible asset

These are different types of valuation subjects, requiring different types of valuation analyses.

Understand Your Professional Services (cont.)

- Understand the differences between the various types of analyses:
 - valuation opinions
 - transaction opinions
 - damages opinions
 - transfer price opinions
 - other opinions
- Be prepared to specialize—and to explain your specialization

Understand Your Professional Services (cont.)

- Can any analyst today provide all valuation-related services to all clients?
- Know your technical and specialty limitations—and admit to those limitations
- Specialization not only makes you better at your specialty, it keeps you out of trouble

Illustrative Differences between Business Valuation and Intangible Asset Valuation

Item	Valuation Issue	Business Valuation	Intangible Asset Valuation
1.	Valuation subject	Fee simple interest	Defined bundle of rights
2.	Valuation approaches	Income, market, asset-based	Income, market, cost
3.	Premise of value	Value in use	HABU
4.	Income measure	100% of entity income	Small portion of entity income
5.	Income life	Perpetuity RUL	Limited RUL
6.	Income growth	Positive	Negative
7.	Maintenance expenditures	Capx, NWC	R&D, SG&A, CAC
8.	Discount rate	Business-specific	Asset-specific
9.	Transactional databases	Public companies; M&As	Licenses
10.	Value synthesis	Several indications	One indication

Alternative Standards of Value

- We are frequently asked to opine on alternative standards of value:
 - Fair market value
 - Fair value (GAAP)
 - Fair value (statutory)
 - Investment/investor value
 - Owner value
 - Use/user value
 - Reasonably equivalent value
 - Fair and reasonable price
 - Arm's-length price
 - Adequate consideration
 - Transactional fairness (absolute)
 - Transactional fairness (relative)

When Professional Standards Are Most Appreciated

- Standards are important in all engagements for all clients. Standards benefit the analyst, as well as benefit the client and the public.
- Some clients will appreciate standards more than others.
- Transactional valuation clients benefit from standards more than notational valuation clients do.
- Clients will pay attention to—and pay for—standards more when dollars are at risk related to:
 - transaction price
 - security exchange ratio
 - financing availability
 - taxation dispute
 - regulatory challenge
 - litigation award

When Professional Standards Are Most Appreciated (cont.)

- Clients appreciate professional standards when the analyst will face immediate contrarian scrutiny and the clients want their analyst to prevail.
- Those are exactly the situations when you should appreciate standards the most.
- It is a reasonable business strategy to provide services to clients who will pay attention to—and will pay for—professional standards compliance.

When Professional Standards Are Not Appreciated

- All CA valuation specialists should appreciate the benefit of valuation professional standards.
- It is understandable that some clients that only need notational valuations may not want to pay for professional standards.
- Then perhaps those valuations should not be performed by CA valuation specialists.
- You should be prepared to refer certain client situations to other professionals (business brokers, economists, academics). Those clients will come back to you when they need CA services—including professional valuation services.

What Valuation Standards Are Not Intended to Do

- The promulgation of—and the compliance with—valuation standards are not intended to:
 - disadvantage any members
 - generate fees for any organization
 - advantage large firms over small firms
 - advantage full-time practitioners over part-time practitioners
 - prevent members from earning fees
 - prevent members from serving smaller clients
 - prevent members from working on smaller engagements
 - make CA analysts noncompetitive to non-CA analysts
 - force CAs to increase their fees
 - discourage CAs from performing valuation services

What Valuation Standards Are Not Intended to Do (cont.)

- Valuation standards are only intended to benefit members—and clients—and the public

How Do Valuation Standards Benefit CAs—and the Public?

- Valuation standards benefit full-time practitioners, part-time practitioners, and the public.
- For full-time practitioners, you can:
 - promote your standards compliance with both current and potential clients (compared to non-CAs)
 - promote your standards compliance with judicial finders of fact, regulators, transaction counterparties, and others
 - use the standards as a QC checklist
 - defend yourself against many professional liability claims

How Do Valuation Standards Benefit CAs—and the Public? (cont.)

- For part-time practitioners, you can:
 - promote your standards compliance in competitive situations (compared to non-CAs and to other CAs)
 - use the standards as QC guide throughout the engagement
 - use the standards as a basis for staff training
 - defend yourself against many professional liability claims

How Do Valuation Standards Benefit CAs—and the Public? (cont.)

- For clients and the public, you can:
 - benefit from the consistency of practice across all CA analysts
 - know that your CA part-time practitioner will deliver a valuation in compliance with standards
 - distinguish between CA analysts and non-CA analysts
 - have a guide to ensure that the valuation was prepared in compliance with professional standards

Your Standards Are Your Friend

- Compliance with valuation professional standards provides the CA analyst:
 - assurance that you performed a supportable engagement
 - a quality control mechanism for your own analysis and report
 - a quality control staff training program
 - a response to many client questions regarding fees, proposals, etc.
 - a response to many contrarian review questions
 - a defence to many professional liability claims
 - a quality control mechanism for your staff's analyses and reports

Your Standards Are Your Friend (cont.)

- In a litigation environment (either in the courtroom or in a deposition), you only have two friends:
 - Your expert report
 - Your professional standards compliance

Do You Need a Specialist Credential?

- The AICPA experienced a lot of resistance and resentment related to the ABV credential.
- The ABV was introduced approximately the same time as the SSVS.
- Do you need to be recognized as a valuation specialist?
- Do you want to be recognized as a valuation specialist?
 - to prove your expertise—to the public
 - to prove your expertise—to yourself
 - to promote your credential in practice development
 - to promote your credential compared to non-CAs

Do You Need a Specialist Credential? (cont.)

- Do you believe valuation is a profession?
- Do you believe valuation is a specialized profession?
 - with a specialized body of knowledge
 - with specialized professional standards
 - requiring specialized training, experience, expertise
 - and that not every practitioner is a professional
- Do you believe that you are a professional?

Observations on How We Promote Ourselves

- At Willamette Management Associates, we use the firm motto: “thought leadership.”
- The not-so-subtle implication is: “we’re smart guys; hire us.”
- The subtle implication is:
 - we are actively involved in contributing to the professional literature
 - we were actively involved in developing the professional standards
 - we are actively involved in AICPA professional activities
 - we proudly hold the CPA/ABV credential

Observations on How We Promote Ourselves (cont.)

- We actively promote our valuation standards compliance
- We actively promote our valuation specialization credentials
- Judges and other authorities recognize these credentials
- We politely note when competitors don't have valuation credentials or comply with rigorous professional standards
- We less-than-politely note when opposing experts don't have valuation credentials or don't comply with rigorous professional standards

Summary and Conclusion

- We talked about:
 - Valuation standards and valuation specialty credential in the U.S.
 - Objections to standards development and specialty credential
 - Professional standards benefit CA valuation specialists
 - Understanding types of valuation services and clients
 - Distinguishing transactional valuation and notational valuations
 - Understanding types of professionals who perform valuation services
 - When professional standards are (and are not) appreciated
 - How valuation standards and credentials benefit us (and the public)
 - How we can promote our standards and our credentials
- It was a privilege and an honour to be here today

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