

What kinds of reports can be issued by a Chartered Business Valuator?

There are three different levels of Valuation Reports that can be issued by members of the Canadian Institute of Chartered Business Valuators. **Valuation Reports** are any written communication where the Chartered Business Valuator (CBV), acting independently, concludes as to the **value of shares, assets or an interest in a business**.

A CBV can also work in advisory capacity **where independence is not required**. In this case, a written report concluding on value provided in an advisory capacity is called an **Advisory Report**, which are separate and distinct from a Valuation Report.

An **Expert Report** is a written communication, other than a Valuation Report, where the CBV is independent and is concluding on the **amount of financial gain or loss, or any conclusion of a financial nature** in the context of litigation or dispute.

There are additional reports prepared by a CBV, but they are beyond the scope of this article.

Levels of Assurance

Delving further in the specifics of Valuation Reports — there are three different levels:

1. Comprehensive Valuation Report
2. Estimate Valuation Report
3. Calculation Valuation Report

Comparatively, more assurance is given in a **Comprehensive Valuation Report**; less assurance is given in an **Estimate Valuation Report**; and the least amount of assurance is given in a **Calculation Valuation Report**. The three levels of reports are similar to the reports issued by Chartered Public Accountant with respect to financial statements: an Audit Report, a Review Engagement Report or a Compilation Report (sometimes called a Notice to Reader report).

Professional Standards

The CBV professional standards require that:

1. A **Comprehensive Valuation Report** be based on a comprehensive review and analysis of the business, its industry and all other relevant factors, adequately corroborated and generally set out in a detailed Valuation Report.
2. An **Estimate Valuation Report** be based on limited review, analysis and corroboration of relevant information, and generally set out in a less detailed Valuation Report.
3. A **Calculation Valuation Report** be based on minimal review and analysis with little or no corroboration of relevant information, and generally set out in a brief Valuation Report.

The valuator works with the client to determine what is the appropriate type of Valuation Report based on the purpose of the valuation, the availability of information and the client's need for assurance.

Amount of Work

There are no stated rules as to the amount of work to be completed; it is up to the professional judgement of the CBV. The judgement may however, be questioned in Court or by the Canadian Institute of Chartered Business Valuators.

At the very minimum, Valuation Reports should not be false or misleading and should be appropriate for the intended purposes. By way of an example, let's assume ABC Company is profitable trucking company with key real estate asset owned since 1960. The real estate is used as the trucking yard where trucks are stored, repaired and refueled. The property was purchased for \$10,000 and the owner states the property is now worth \$3 million.

Scenario for a Calculation Valuation Report

In this scenario, the purpose of the valuation is to support a tax driven corporate reorganization where new common shares of the company will be issued to a trust where all the children of the owners/parents are to be beneficiaries of the trust.

In this case, a Calculation Valuation Report may suffice as the wealth is being transferred to the same beneficiaries. What is primarily at play is when the taxes are paid; upon the death of both parents, upon the death of the children or another taxation event.

At the level of assurance required for a Calculation Valuation Report, we may take the word of the owner and base our calculations on a property value of \$3 million.

A counter-argument to doing low level assurance work in this situation, is that in the future one of those children may suffer a marriage breakdown and the "growth" of the value of the shares in the trust may be challenged.

Scenario for an Estimate Valuation Report

Let's assume the same facts as above, except in this case only two of five children will be beneficiaries of this trust. The other three children will be provided for elsewhere in the estate.

In this scenario an Estimate Valuation Report may be more appropriate. To provide the level of assurance required for an Estimate Valuation Report, we may insist a real estate appraisal be obtained. If the real estate is then appraised at \$3.9 million, it would have a significant impact on the rebalancing effort in the estate.

Scenario for a Comprehensive Valuation Report

Again assuming the same facts as above, except that the Comprehensive Valuation Report is required to support financing for the company where the real estate is the main security for the loan.

At the level of assurance required for a Comprehensive Valuation Report, and given the nature of the operations on the land, we may insist a Phase 1 Environment Site Assessment be obtained. Let's assume the land is found to be contaminated and will cost approximately \$1 million to clean up. This would obviously impact the value of the company, and may raise on-going liability issues with current and former directors or owners of the company.

The above three scenarios are merely intended to highlight some of the reasons where each level of assurance rendered by each type of Valuation Report may be appropriate. Professional judgement is required in each set of circumstances.

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