What "SSVS" Means To A Business Valuation

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Effective January 1, 2008, the world of business valuations was introduced to the American Institute of Certified Public Accountants' (AICPA) "Statement on Standards for Valuation Services (SSVS) No. 1 – Valuation of a Business, Business Ownership Interest, Security or Intangible Asset." Although its title is quite a mouthful, the gist of this promulgation is to "improve the consistency and quality of practice among AICPA members performing business valuations."

AICPA members are all Certified Public Accountants (CPAs). Therefore, if the valuation is not done by a CPA member of the AICPA, this standard does not apply. There may be other standards that are required of non-CPAs who hold other designations, such as Accredited Senior Appraiser or Certified Valuation Analyst, or there may be none at all, which highlights the importance of using a CPA for your valuation work.

The SSVS allows for two types of engagements to estimate value – a *valuation* engagement and a *calculation* engagement. Further, the SSVS details the developmental procedures to be followed in performing both types of engagements and the reporting requirements of each. It is important to understand that both types of engagements provide a value to the user. In a valuation engagement, the result is called a *conclusion of value* and in a calculation engagement, the result is known as a *calculated value*. So, what is the difference?

In a valuation engagement, the valuation analyst is the sole determiner of the valuation methods and approaches that will be used to reach a conclusion of value. For a calculation engagement, the valuation analyst and the client(s) agree on the valuation methods and approaches that will be used and the extent of the procedures the valuation analyst will perform to reach a calculated value. By definition, the valuation engagement will require more extensive work and analysis than the calculation engagement. However, the calculation engagement allows for the flexibility to provide a wide range of methods and procedures, which can be tailored for the specific task at hand.

There are "Overall Engagement Considerations" that both types of engagements require. An assessment of these considerations, listed below, prior to accepting an engagement to estimate value, will help assure all parties of the integrity of the analysis.

- Professional competence (proper training) of the valuation analyst to perform the engagement.
- The nature and risks of the valuation services and expectations of the client(s).
- Objectivity and conflicts of interest of the valuation analyst.

- Independence of the valuation analyst.
- Existence of a clear understanding with the client, preferably in writing – use of an Engagement Letter is suggested.
- Restrictions or limitations to scope.
- Use of (third-party) specialists in the engagement – e.g., real estate or equipment appraisers.

SSVS includes detailed discussions as to the how the valuation analyst should perform valuation services and what information is essential to that. It describes the overall analysis of the business enterprise; non-financial information that should be obtained; ownership information; financial documents to consider; valuation approaches (Income, Asset, Market) and methods; the use, if appropriate, of valuation discounts or premiums; and subsequent events. For a valuation engagement, the SSVS encompasses 21 paragraphs detailing how the above information should be considered and documented. In contrast, the calculation engagement states that, "at the least," the following should be considered:

- Identity of the client.
- Identity of the subject interest.
- Whether or not a business interest has ownership control characteristics and its degree of marketability.
- Purpose and intended use of the calculated value.
- Intended users of the report and the limitations on its use.
- Valuation date.
- Applicable premise of value.
- Applicable standard of value.
- Sources of information used in the calculation engagement.
- Valuation approaches or valuation methods agreed upon with the client.
- Subsequent events, if applicable.
- Compliance with documentation requirements.

In the SSVS, details about the development of engagements to estimate value are followed by the reporting requirements for each type of engagement. For a valuation engagement, either a "Detailed Report" or a "Summary Report" can be used. The SSVS makes it absolutely clear that, while the report itself may vary, the development of the report cannot. Either type of report for a valuation engagement requires the same amount of developmental work, analysis and documentation. For a calculation engagement, there is only one type of report – aptly named the calculation report.

It is interesting to note that the SSVS has an exception to its reporting requirements for "certain controversy proceedings:"

> *A valuation performed for a matter before a court, an arbitrator, a mediator or other facilitator, or a matter in a governmental or administrative proceeding, is exempt from the reporting provisions of this Statement. The reporting exemption applies whether the matter proceeds to trial or settles. The exemption applies only to the reporting provisions of this Statement... The developmental provisions of the Statement...still apply whenever the valuation analyst expresses a conclusion of value or a calculated value.*

This means that for the vast majority of the litigation work (divorce, commercial, etc.) done by Cowan, Gunteski & Co., P.A., the reporting provisions do not apply. However, we have opted to follow the reporting provisions in these situations to better assure our clients of the quality of the product we issue.

The SSVS provides many more details about both the development of and reporting for an engagement to estimate the value of a business. It also includes two glossaries of business valuation terms. It is a valuable resource for CPAs and attorneys alike. You can find a link to it on our website: www.cowangunteski.com/resources/links, or go to the source directly as follows: http://fvs.aicpa.org//NR/rdonlyres/672E1DD4-2304-47CA-8F34-8C5AA64CB008/0/SSVS_FullVersion.pdf.

One final point regarding the use of valuation or calculation engagements is warranted. There is no doubt that the valuation engagement is more comprehensive than the calculation engagement. It takes into account all possible avenues the valuation analyst deems appropriate to arrive at a conclusion of value. On the other hand, it is far more costly and time consuming than a calculation of value and, in some cases, may be "overkill" for the situation at hand. The differences in scope and cost should be clearly understood by all parties before the engagement is accepted.

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