

THE ABC'S OF SELECTING A BUSINESS VALUATION EXPERT

By HAROLD G. MARTIN, JR.

Attorneys who practice in areas such as corporate law, trusts and estates, litigation, and marital dissolution often will be confronted with the need to value an ownership interest in a closely-held business.

Because such interests are not traded on a public exchange such as the NYSE, AMSE, or NASDAQ, their value cannot be determined by reading the financial pages of a publication such as the *Wall Street Journal*. The valuation of the interest must be performed by a qualified business valuation expert. Recent tax court cases such as *Estate of Kaufman* (TCM 1999-119), and litigation cases such as *Daubert v. Merrell Dow Pharmaceuticals, Inc.* (113 S. Ct. 2786, 125 C. Ed., 2d 469 (1993) and *Kumho Tire Co., v. Carmichael* (119 S. Ct. 1167 (March 23, 1999)), have made it even more important to select an expert with the appropriate qualifications.

How do you go about finding the right expert?

One of best places to find an expert is through a referral from a trusted professional colleague who has actually worked with the expert or is familiar with the expert's reputation. However, in the event you do not have the benefit of a direct referral, you may need to consider other sources such as referrals from other professionals (Certified Public Accountants, bankers, insurance agents) or member directories of valuation organizations.

Regardless of how you identify the expert, you will still need to make sure the expert possesses the necessary professional qualifications and that his expertise matches the needs of your particular assignment.

In assessing the appraiser's qualifications, you should consider the appraiser's curriculum vitae for relevant professional certifications, valuation experience, continuing professional education, and professional activities, including professional memberships, teaching experience, speaking engagements, published books and articles.

You should also consider whether or not the appraiser's professional organization requires adherence to established professional standards. In your search, you may be confronted with a long list of initials, such as CPA/ABV, ASA, CFA, CBA, and CVA.

The following summary will assist you in deciphering what this "alphabet soup" means.

CPA / ABV - Certified Public Accountant / Accredited in Business Valuation

American Institute of Certified Public Accountants
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The American Institute of Certified Public Accountants (AICPA) is the national professional association for Certified Public Accountants (CPAs) and has over 330,000 members.

CPAs have historically been engaged to provide audit, accounting, tax, and consulting services.

However, in recent years CPAs have expanded their service offerings, especially in niche areas such as business valuation services.

A CPA engaged to conduct a valuation can provide breadth of knowledge of various disciplines that other professionals lack, including an understanding of accounting and tax issues, financial statement analysis, and business management. However, as noted in *AICPA Consulting Services Practice Aid 93-3, Conducting a Valuation of a Closely Held Business*, "although accountants have a thorough understanding of financial statements and related matters, they also need to be proficient in the area of appraisals to competently complete an engagement. Usually, being proficient requires an in-depth knowledge of finance, economics, and security analysis and an understanding of appraisal principles and methods. In order for the practitioner to obtain the competency required to accept a business valuation engagement, appropriate education is required."

To provide assurance that CPAs are positioned as major providers of valuation services, in 1996 the AICPA introduced the Accreditation in Business Valuation (ABV) program.

Accreditation requirements include 1) passing a comprehensive eight hour written examination covering the body of valuation knowledge, including security market operations, research techniques and tools, company, industry and economic data analysis, valuation calculations and conclusions, and reporting standards and

report preparation; 2) participation in 10 valuation projects, 3) being a member in good standing of the AICPA; 4) holding a valid CPA certificate or license; and 5) holding a college degree or the equivalent.

Through 1999 the AICPA offered an eight-day Certificate of Educational Achievement Program in Business Valuation. Beginning in 2000, the AICPA will offer two three-day Fundamentals in Business Valuation program, as well as advanced courses in specialized valuation topics. For ABVs to maintain a high level of competence, the AICPA also has a mandatory re-accreditation cycle which requires CPA/ABVs to complete continuing professional education and provide evidence of continued substantial involvement in the discipline.

ASA - Accredited Senior Appraiser

The American Society of Appraisers
555 Herndon Parkway, Suite 125
Herndon, VA 20170
703.478.2228
www.appraisers.org.

The American Society of Appraisers is the oldest and one of the most widely recognized organizations dedicated to valuation. It is the only major appraisal organization representing all of the disciplines of appraisal specialists. In addition to business valuation, other disciplines include appraisal review and management, gems and jewelry, machinery and technical specialties, personal property, and real property.

The American Society of Appraisers awards two designations: Accredited Senior Appraiser (ASA) and Accredited Member (AM). The ASA is considered by many practitioners who value closely held businesses to be one of the premier professional credentials because of its stringent accreditation requirements and the mandatory professional standards to which all members must adhere. Accreditation requirements include completion of five years of full-time appraisal experience in the discipline in which the designation is being granted, as well as a college degree, passing of intensive written and oral examinations covering general valuation theory, technical expertise and principles and ethics of appraising, and submission of two appraisal reports that meet an examining committee's standards. The AM designation has the same requirements as the ASA, except that only two years of experience are required. The American

Society of Appraisers has a mandatory re-accreditation process which requires designated members to submit evidence of professional growth through continuing education.

CFA - Chartered Financial Analyst

Association for Investment Management and Research
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info@aimr.org

The Association for Investment Management and Research (AIMR) is a nonprofit organization of more than 40,000 investment professionals worldwide. The organization's purpose is to provide investment education, professional standards, and advocacy programs for its members.

AIMR awards the Chartered Financial Analyst (CFA) designation. The CFA program is primarily oriented towards investment management and publicly-traded investments. However, the program's body of knowledge does include consideration of valuation theory which is generally applicable to closely-held companies. The body of knowledge includes ethical and professional standards, quantitative methods, economics, financial statement analysis, global markets and instruments, valuation and investment theory, analysis of fixed-income investments, analysis of equity investments, analysis of alternative investments, and portfolio management. Accreditation requirements include being a member in good standing of AIMR, possession of a college degree or its equivalent, completion of three six hour written examinations covering the body of knowledge, and three years of professional experience in the investment decision-making process. AIMR's re-certification requirements for CFAs consist of the submission of an annual Professional Conduct Statement.

CBA - Certified Business Appraiser

Institute of Business Appraisers
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Boynton Beach, FL 33425
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IBAHQ@instbusapp.org

Established in 1978, the Institute of Business Appraisers (IBA) is a professional society comprised of business appraisers. The IBA's objectives are to increase the public's awareness of business valuation as a profession, ensure that the services of qualified and ethical business appraisers are available, expand the available body of valuation knowledge, and provide its members with both technical and professional advancement opportunities.

The IBA awards the Certified Business Appraiser (CBA) designation. Successful candidates for the CBA must be a member in good standing of the IBA, possess a college degree or its equivalent, complete a 3 1/2 hour written examination, and submit two business valuation reports for review. The IBA has also introduced a new Accredited by the IBA (AIBA) designation. This designation was created to encourage practitioners not possessing the CBA to begin the steps towards attaining the more advanced certification. The AIBA requires completion of an eight day appraisal workshop, passing of a written exam, and submission of a written report for peer review. The AIBA designation is valid for three years, at which point the member must enter the CBA program. The IBA does not require re-certification.

CVA - Certified Valuation Analyst

National Association of Certified Valuation Analysts
1245 East Brickyard Road, Suite 110
Salt Lake City, UT 84106-2563
801.486.0600
www.nacva.com

The National Association of Certified Valuation Analysts (NACVA) is a private, for-profit organization of members who provide business valuation services. NACVA is the only other organization besides the AICPA that requires its members to be CPAs.

The requirements for the Certified Valuation Analyst (CVA) designation include being a member in good standing of the AICPA and/or a state society of CPAs, holding a valid CPA certificate or license, being a member in good standing of NACVA, completing a five day training program, passing a four hour proctored exam and a take home exam, including essay questions and a case study. NACVA has also recently introduced the Accredited Valuation Analyst (AVA) designation for valuation practitioners who are not CPAs, as well as the Government Valuation Analyst (GVA) designation, a program for government-employed valuers.

The NACVA's re-certification requirements for CVAs, AVAs, GVAs consist of periodic continuing professional education, completion of a course on valuation ethics, standards and reporting, participation in a quality enhancement program, and maintaining membership in the AICPA or state society of CPAs (CVAs only).

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contributions, ESOP's, incentive stock option programs, buy/sell agreements, reorganization and bankruptcy, stockholder disputes, and marital dissolution. He also specializes in providing litigation consulting and expert witness services for commercial disputes and in performing special financial investigations. He may be contacted at: 4401 Dominion Boulevard, Suite 300, Glen Allen, VA 23060 / 804.273.6240 / E-Mail: hmartin@kshqs.com.

Interviewing an Appraiser

The American Society of Appraisers suggests asking the following questions when interviewing an appraiser for a valuation assignment:

1. What is your general appraisal and educational background?
2. What specific experience do you have with the kind of property I wish to have appraised?
3. Are you a member of a professional appraisal society? Does that society teach, test and accredit?
4. Do you hold a special designation issued by an appraisal society?
5. Is that designation based on successfully completing written examinations?
6. How long ago did you take the examination?
7. What continuing education have you undertaken in keep up-to-date in the field?
8. Has the appraisal society you belong to adopted a mandatory reaccreditation program to ensure that your education and knowledge are current?
9. What do you charge for your services, and how do you base your fee?
10. Are you required by your appraisal society to adhere to the Uniform Standards of Professional Appraisal Practice (USPAP)?