1 December 2021

PN-001: MINIMUM REQUIREMENTS FOR PERFORMING VALUATIONS AND ISSUING BUSINESS VALUATION REPORTS

1. Introduction

1.1. This Practice Note is intended as the minimum requirements for performing valuations and issuance of valuation reports. This Practice Note is compliant with the International Valuation Standards (“IVS”), and should be read in conjunction with it. This Practice Note will also refer to the *Code of Ethical Principles for Professional Valuers* advocated by the International Valuation Standards Council (“IVSC”).

2. Objective of the Practice Note

2.1. The purpose of this Practice Note is to establish minimum requirements for performing valuations and issuing business valuation reports.

2.2. This Practice Note will emphasise certain sections of IVS. It will also set out applications and considerations for engagements which may be deemed to be out of scope of this Practice Note.

3. Application of the Practice Note

3.1. Assets and liabilities:

3.1.1. This Practice Note can be applied to the valuation of both assets and liabilities and present and future claims on assets and liabilities. Assets would include, *inter alia*, business enterprises, intellectual property and other intangibles. To assist the readability of these requirements, the words “asset” or “assets” have been defined to include liability or liabilities and groups of assets, liabilities, or assets and liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded.

3.2. Out of scope:

3.2.1. An “out of scope” engagement is an engagement where specific contractual agreements differ from some of the requirements within IVS. For example, the valuer and the client may agree on the valuation approaches and methods the valuer will use, and the extent of procedures the valuer will perform in the process of calculating or analysing, the value of the subject asset (i.e. the procedures will be more limited than those of a formal valuation engagement) and the engagement does not include all of the procedures required for a valuation engagement (as stipulated in this Practice Note), the result of such an engagement is not a formal valuation opinion under this Practice Note. Such engagements are typically referred to as calculation engagements, calculation valuations, pricing support, etc.

3.2.2. It can also be a circumstance where it becomes clear during the course of an assignment that the investigations included in the scope of work will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation assignment will not comply with this Practice Note.

3.2.3. In these circumstances, the valuer must disclose that the valuation is not conducted in accordance with this Practice Note and consequently, the valuation report issued is out-of-scope.

4. General requirements

4.1. It is essential that the valuation report communicates the information necessary for proper understanding of the valuation. A report must provide the intended users with a clear understanding of the valuation.

4.2. To provide useful information, the report must set out a clear and accurate description of the scope of the assignment, its purpose and intended use (including any limitations on that use) and disclosure of any assumptions, significant uncertainty or limiting conditions that directly affect the valuation.

4.3. The report should also be sufficient for an appropriately experienced valuation professional with no prior involvement with the valuation engagement to review the report.

5. Identity and credentials of the valuer

5.1. Valuer has been defined as “an individual, group of individuals, or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to undertake a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a valuer. Because a valuation reviewer must also be a valuer, to assist with the legibility of these standards, the term valuer includes valuation reviewers except where it is expressly stated otherwise, or is clear from the context that valuation reviewers are excluded.

5.2. It is a fundamental expectation that, when applying the requirements of this Practice Note, appropriate procedures are in place to ensure the necessary degree of objectivity in the valuation process so that the results are free from bias. Valuers shall adhere to the *IVSC Code of Ethical Principles for Professional Valuers*.

5.3. If the valuer has any material connection or involvement with the subject asset or the other parties to the valuation assignment, or if there are any other factors that could limit the valuer's ability to provide an unbiased and objective valuation, such factors must be disclosed at the outset. If such disclosure does not take place, the valuation assignment is not in compliance with this Practice Note.

5.4. Valuations must be prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation.

5.5. If a valuer does not possess all of the necessary technical skills, experience and knowledge to perform all aspects of a valuation, it is acceptable for the valuer to seek assistance from specialists in certain aspects of the overall assignment, provided this is disclosed in the scope of work and the report.

5.6. The valuer must have the technical skills, experience and knowledge to understand, interpret and utilise the work of any specialists.

5.7. If the valuer needs to seek material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance must be made clear.

5.8. The valuation report shall include a statement that the Valuer is in a position to provide an objective and unbiased valuation, and has the requisite knowledge and experience to undertake the valuation.

5.9. The valuation report shall be signed off by the valuer in his/her name. When the valuation report is signed off in the valuer firm's name, the valuation report shall also include the name of the valuer.

6. Identify the client and any other intended users

6.1. A valuer must communicate to its client to confirm those for whom the valuation assignment is being produced. This is important when determining the form and content of the report to ensure that it contains information relevant to their needs.

6.2. The report must convey the identity of intended user(s). It is important to understand whether there are any other intended users of the valuation report, their identity and their needs, to ensure that the report content and format meets those users' needs.

7. Description of assets

7.1. The subject asset in the valuation assignment must be clearly identified.

8. Purpose of the valuation

8.1. The purpose for which the valuation assignment is being prepared must be clearly identified as it is important that valuation advice is not used out of context or for purposes for which it is not intended. The purpose of the valuation will also typically influence or determine the basis/bases of value to be used.

8.2. The valuation report must convey the intended use.

8.3. All valuation advice and the work undertaken in its preparation must be appropriate for the intended purpose.

9. Bases of value

9.1. The valuation basis must be appropriate for the purpose of the valuation. The source of the definition of any basis of value used must be cited or the basis explained.

10. Valuation date

10.1. The valuation date must be stated. If the valuation date is different from the date on which the valuation report is issued or the date on which investigations are to be undertaken or completed then where appropriate, these dates should be clearly distinguished.

11. Valuation currency

11.1. The currency for the valuation and the final valuation report or conclusion must be established. For example, a valuation might be prepared in Singapore dollars or U.S. dollars. This requirement is particularly important for valuation assignments involving assets in multiple countries and/or cash flows in multiple currencies.

12. Approaches and methods used

12.1. The valuation report must convey the following:

12.1.1. The approach or approaches adopted; and
12.1.2. The method or methods applied.

12.2. The valuation report should explain the reasons behind the choice of method(s) applied.

13. Nature and extent of the valuer's work and any limitations thereon

13.1. The valuation report must convey the scope of the work performed.

13.2. Any limitations or restrictions on the inspection, enquiry and/or analysis in the valuation assignment must be identified. If relevant information is not available because the conditions of the assignment restrict the investigation, these restrictions and any necessary assumptions made as a result of the restriction must be identified.

13.3. The valuation report shall disclose the extent of work and nature and source of information to be relied upon by the valuer. Specifically, the valuer is expected to apply valuation techniques (market, income and/or cost approach) that are appropriate in the circumstances and for which sufficient data are available to perform the valuation.

13.4. Valuers are not required to use more than one method for the valuation of an asset, particularly when the valuer has a high degree of confidence in the accuracy and reliability of a single method, given the facts and circumstances of the valuation engagement. However, valuers should consider the use of multiple approaches and methods and more than one valuation approach or method should be considered and may be used to arrive at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. Where more than one approach and method is used, or even multiple methods within a single approach, the conclusion of value based on those multiple approaches and/or methods should be reasonable and the process of analysing and reconciling the differing values into a single conclusion, without averaging, should be described by the valuer in the report.

13.5. When different approaches and/or methods result in widely divergent indications of value, a valuer should perform procedures to understand why the value indications differ, as it is generally not appropriate to simply weight two or more divergent indications of value. In such cases, valuers should reconsider the guidance in paragraph 13.4 to determine whether one of the approaches/methods provides a better or more reliable indication of value.

13.6. Valuers should maximise the use of relevant observable market information in all three approaches (i.e. income, market, and cost approaches). Regardless of the source of the inputs and assumptions used in a valuation, a valuer must perform appropriate analysis to evaluate those inputs and assumptions and their appropriateness for the valuation purpose.

14. Nature and source of the information upon which the valuer relies

14.1. The nature and source of any relevant information that is to be relied upon and the extent of any verification to be undertaken during the valuation process must be identified.

14.2. Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the purpose of the valuation.

14.3. When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration should be given as to whether the information is credible or that the information may otherwise be relied upon without adversely affecting the credibility of the valuation opinion. Significant inputs provided to the valuer (e.g. by management/owners) should be considered, investigated and/or corroborated. In cases where credibility or reliability of information supplied cannot be supported, consideration should be given as to whether or how such information is used.

14.4. In considering the credibility and reliability of information provided, valuers should consider matters such as:

14.4.1. The purpose of the valuation;
14.4.2. The significance of the information to the valuation conclusion;
14.4.3. The expertise of the source in relation to the subject matter; and
14.4.4. Whether the source is independent of either the subject asset and/or the recipient of the valuation.

15. Material risks and/or uncertainties

15.1. If material risks and/or uncertainties are identified that underpin the valuation, for instance, where a business valuation is dependent on the success of a commercial initiative by that business, these risks and/or uncertainties should be described in sufficient detail to show that they have been given due consideration and weight.

16. Significant assumptions and/or special assumptions

16.1. All significant assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified.

16.2. A significant assumption is one that can have a significant impact on value, or one where a reasonable variation in the assumption could materially affect the measurement of the accounting estimate. A special assumption is one where the assumed facts differ from the existing facts, often to illustrate the effect of a change in the current circumstance.

17. Valuation conclusion

17.1. The valuation report must convey the conclusion(s) of value and principal reasons for any conclusions reached.

18. Disclaimers and restrictions on use, distribution or publication of the report

18.1. If there are any disclaimers that affect the valuation process or the market value, they should be identified, and their effect explained.

18.2. Where it is necessary or desirable to restrict the use of the valuation or those relying on it, the intended users and restrictions must be clearly communicated in the report.