“Putting a value on valuation”

A business valuation standard that has been incubating for the past five years within the American Institute of CPAs is ready to hatch early next year, and when it does, it could force those who perform business valuations to pay attention to yet another set of guidelines.

“The field of business valuation and the valuation of intangible assets has been an emerging and maturing discipline,” said Mike Crain, who chairs the AICPA, as the national body, should issue professional guidance for the CPAs performing this type or technical work.”

The proposed statement of Standards for Valuation Services – Valuation of a Business, Business Ownership Interest, Security or Intangible Asset is now in the hands of the institute’s Consulting Services Executive Committee, the body responsible for publishing standards at the AICPA, and if all goes well, the new standards would go into effect for practitioners who enter into valuation engagement after Jan. 1, 2008.

According to the AICPA, the driving force behind its issuing standards is the increasing number of members performing valuation engagements – some without proper valuation training. The institute also claims that it has a responsibility to provide guidance to its members in all areas of practice, and that these standards are designed to improve the consistency and quality of practice among AICPA members providing this service.

“This process has taken a number or years, and there were times I wanted to pull my hair out,” Crain said. “But aside from those emotional ups and downs, this has been an excellent process to get a better standard out. I think this standard is probably the gold standard of all the organizations, because the process required deliberations, not just from the valuation community, but from many technical areas within the CPA community."

There are already a handful of organizations that have developed valuation standards, including the Institute of Business Appraisers, the International Society of Appraisers, the American Society or Appraisers and the National Association of Certified Valuation Analysts, according to Parnell Black, chief executive officer of Salt Lake City-based NACVA.

Black said that he had mixed feelings about the AICPA issuing new standards. "I certainly understand why they feel they need to do this, and it makes perfect sense," he explained. "What it does do, it does kind of further confuse the landscape for practitioners, and probably more so [for those] who are not full-time or who are new to the discipline. We don't want our standards to have any direct conflict with the AICPA standards, so we may tweak ours a little bit. But based on what we have seen so far, we don't anticipate that it's going to require any substantive tweaking."

The number of CPAs who have received the Accredited in Business Valuation credential from the AICPA has grown to just under 2,500 since the late 1990s, according to Crain. NACVA's Black said that upwards of 4,700 participants have gone through his association's business valuation certification since 1991.

As an example of the niche's growth throughout the profession, 82 percent of Accounting Today's Top 100 Firms reported growth over the past year in their business valuation services, while 78 percent saw their revenues from litigation support services expand.

"I think the business community is getting more sophisticated, and there's a need for more precision, to come up with more accurate numbers that represent the value of a business interest or the value of an intangible asset," explained Crain, who is also a managing director with The Financial Valuation Group in Fort Lauderdale, Fla. "There are more transactions where business interests are bought and sold, there's increasing needs from the Internal Revenue Service to get more accurate valuations, and in the area of accounting, there's higher scrutiny on the accuracy of financial reporting today."

THE VALUE OF VALUATIONS

"There seem to be two things that are competing right now," explained Ron Seigneur, a partner at Lakewood, Colo.-based Seigneur Gustafson Knight, referring to growth in the business valuation arena. "There's a lot of opportunity in the area, and a lot of us are starting to say business valuation within the profession of accounting has become well-recognized as a specialty niche. But at the same time, while there are so many opportunities to do the work, the skillset required to do the work competently is rising. There are a lot more sources to refer to, a lot more techniques that can be used. There's still a lot of professional judgment involved, but you have to express your professional judgment after a thorough analysis of all the relevant facts and you have to be able to say that with a straight face."

NACVA, for instance, has beefed up its educational curriculum, and will start offering more training in tangential areas of business valuations, such as litigation, expert witnessing, intellectual property, fraud and forensic accounting. It is currently working on a five-day-program specializing in forensic accounting to roll out this year.

“It’s a scenario that is so expansive, we anticipate in four or five years we’ll have four or five weeks of training in that area alone,” Black said. “We’ve seen a lot of interest within the profession in getting more involved in those areas, which is really connected to business valuation, but it’s kind of branching beyond that.”

Business valuation is “the fastest-growing” area, according to Mary O’Connor, a partner and director of business valuation and appraisal services at international firm RGL – Forensic Accountants & Consultants. She said that there are generally three reasons why a company would want to have its assets valued: taxation, litigation and financing.

“Ultimately, in everyone’s life, at various times, the central question of what it’s worth has to be answered,” O’Connor said. “Either people want to cash out someday or [want to] feel that they can exit their investment. It’s all about value.”

Les Solomon, director of litigation support services and a partner at Rotenberg, Meril, Solomon, Bertiger & Guttilla PC & CPAs, in Saddle Brook, N.J., said that he has also experienced growth in the business valuation area, which brings in roughly 12 percent of his firm’s revenue.

“It’s growing,” he said, adding that much of his firm’s work is litigation-related, but that he’d like to branch out into other areas: “Purchase price allocation and the continued emphasis on fair value accounting are probably the most up-and-coming growth areas of valuation.”

Matrimony disputes and mergers and acquisitions are two areas that De. Shannon Pratt, chief executive of Portland, Ore.-based Shannon Pratt Valuations LLC, said are growing.

"Unfortunately, we're seeing a lot more divorces, but that is a small part of our book of business," Pratt said. "We're getting a lot more fairness opinions, a lot more dissenting stockholder suits, a lot more within corporate disputes and minority oppression suits. A typical remedy in a dissenting stockholder suit or a minority oppression suit is the fair value of the stock, and that's defined by a state statute and state case law, as opposed to fair market value, which is defined by federal law."

Documenting litigation tends to be one of the more demanding aspects of the business valuation process, according to Pratt, who added that mistakes in this area can, however, be prevented.

"The most major shortcoming in appraisals that I review – and I review a lot of appraisals – is lack of documentation of the work," he said. "They can't go back to the drawing board if they're already in court. For federal cases, if it's not in the four corners of the report, it's not admissible. So it's incumbent on financial analysts to get in into the report the first time."

HOT AND GETTING HOTTER

Stock-option valuations have become a "very hot topic" according to Jeff Faust, director of business valuations at Freemont, Calif.-based Greenstein, Rogoff, Olsen & Co., which provides independent valuations to set the price for option grants as a result of the IRS's proposed regulations under Section 409A.

"[The regulations] said that you can no longer issue a discounted option, they all have to be grated at fair market value," Faust said of the annual process, which goes into effect in January 2008. "The proposed regs had to outline a couple of methods you need to determine the fair market value, one of them being an independent valuation. That's where I come in which was music to my ears when they came out with this, because that means a nice annuity revenue stream.”

After the Pension Protection Act was signed into law in 2006, the IRS issued a clearer definition of a qualified appraisal and a qualified appraiser for any appraisals that have to do with gift and estate tax purposes, according to SGKs Seigneur.

“It kind of puts a little more meat into saying, ‘ You know you can’t do this stuff unless you issue a competent appraisal that meets these parameters and only the people who are qualified to issue that competent appraisal are acceptable to the IRS,’” said Seigneur, adding that the issue emerged from growing inflated appraisals for non-cash charitable contributions. “Under those definitions, a qualified appraiser is someone who has the education and training and experience to appraise that specific type of business and does it on a regular basis, and that’s important to pay attention to. There’s a lot of buzz about it in the valuation community, [but] I don’t think it really affected us other than saying we need to pay attention.”