

BUSINESS VALUATION UPDATE

TIMELY NEWS, ANALYSIS, AND RESOURCES FOR DEFENSIBLE VALUATIONS

Calculation Engagements: Still Broken, Still Bad

By Michael Paschall, ASA, ABV, CFA, JD

Editor's note: This article is in response to a rebuttal of the author's previous article, "Breaking Bad' in the Business Valuation Profession," which strongly criticizes the use of calculation engagements. Both of these articles are available as a free download on the BVR website.¹ There was also a subsequent webinar² and a conference presentation³ that covered similar points made in the rebuttal. Also, a few other individuals have weighed in on this issue.

I am flattered that certain individuals dedicated several articles, a webinar, and a conference presentation to rebutting my "Breaking Bad" article and criticizing calculation engagements. Furthermore, these individuals were the architects of some of the business valuation standards allowing calculation engagements, as they explicitly point out in their article⁴:

We were on the original AICPA Business Valuation Standards Writing Task Force that

produced the *Statements on Standards for Valuation Services (SSVS)*. We spent over six years on that task force and spent an incredible amount of time studying business valuation (BV) standards from many organizations in the U.S. and around the world. We were also asked by the AICPA to help clarify the use of calculations by valuation analysts. That resulted in the November 2017 release of AICPA, Valuation Services, VS Section, *Statements on Standards for Valuation Services, VS Section 100, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset, Calculation Engagements, Frequently Asked Questions (FAQs), Non-Authoritative*. We have also given numerous presentations on BV standards. In other words, when it comes to BV standards, we know what we are talking about.

I do not know and have never met any of these calculation proponents or anyone else quoted or cited in this article. My original article and this article are highly critical of the calculation engagement as a product and not of any individual. However, because certain calculation proponents have now made a very public defense of the calculation engagement, much of my criticism in this article is unavoidably directed at various comments these individuals made. While their attempted defense of the calculation engagement is admittedly unfortunate, my objection remains against the product and not against any individual.

It is clear to me that these proponents either do not understand or are choosing to avoid my

1 sub.bvresources.com/defaulttextonly.asp?f=downloads ("Calculation Report Controversy").

2 R. James Alerding, CPA/ABV, ASA, "Calculation Engagements: Risk, Rewards, and New Guidance," BVR webinar, Sept. 5, 2018 (available at sub.bvresources.com/bvstore/cd3.asp?pid=CD627).

3 R. James Alerding, CPA/ABV, ASA, "To Calculate or Not, That Is the Question!" AICPA Forensics & Valuation Services Conference, Nov. 5, 2018.

4 R. James Alerding, Edward J. Dupke, and James R. Hitchner, "Calculation Engagements: The REAL Story," *Financial Valuation and Litigation Expert*, August/September 2018 (included in material cited in Footnote 1).

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objections as the rote answer to virtually all of my criticisms is that: (1) the various BV organizations allow calculation engagements; and (2) business appraisers are given significant leeway in deciding whether the use of a calculation engagement is appropriate. I am well aware of and do not dispute these facts. These “answers,” however, do not address the numerous problems with the calculation engagement. In fact, they perpetuate the problems by lending an air of legitimacy to the calculation engagement.

The real world. First of all, as business appraisers, we live in a world of reality and not a world of theory. So let’s get an idea of when the rebuttal authors might actually use a calculation engagement (*Note: These are direct quotes from the webinar transcript*):

1. *IRS/tax purposes: No.* “In any circumstance, the IRS will not accept [a calculated value] in certain situations such as estate tax filings and things of that nature.” “The IRS does not in general accept calculation reports. It is not likely to do so.” “I would not provide any IRS-related value or tax-related value with anything less than a valuation engagement.” “I can’t see that the IRS would ever accept [a calculated value] in a litigation setting.” “I can’t see the Tax Court accepting [a calculated value], either.” “Would the IRS consider a calculated value to be a qualified appraisal? My answer to that is most likely it would not. I would not use one.”
2. *ESOP purposes: No.* “I would not use a calculated value in valuing an ESOP in any way, either for the annual value or for the value in order to substantiate a transaction in the stock.”
3. *Pretrial settlement purposes: Yes. At trial in litigation: No.* “Another situation, non-IRS, would be a divorce case where both parties might use calculated values as a settlement tool and then pump those up, so to speak, to a valuation engagement in order to go to

trial if they can't be settled." "I would only use a calculated value in a marital dissolution as a method of settling the issue, not as a method of determining the actual value of the marital asset." "At trial, a conclusion of value is a much stronger position than a calculated value."

This refusal to use a calculation engagement in so many common business valuation situations immediately raises a red flag as to its reliability and usefulness. Keeping that in mind, let's dig deeper into the lone situation where the proponents indicate they *might* use a calculation engagement: for pretrial settlement purposes. To do this, we will examine the AICPA *FAQs on Calculation Engagements*,⁵ which were "in effect drafted by" some of these calculation proponents. Here are some of the comments in the *FAQs* on the potential use of calculation engagements for pretrial settlement purposes:

FAQ 24. Q: *Some litigation is settled via a calculation without a trial. However, assume that litigation ensues and winds up in court after the initial calculation of value. Should the related engagement letter also have language that a full valuation engagement will be prepared when a trial is imminent?*

A: Yes. This is a good use of a calculation engagement. However, it is not required by the Standards. At trial, a conclusion of value is a much stronger position than a calculated value.

Here the *FAQs* say it is OK to use a calculation engagement for settlement purposes before trial, but, if there is no agreement on the value at the settlement stage, then you should probably kick it up to a valuation engagement at trial as that is a "much stronger position." This position in *FAQ*

⁵ aicpa.org/content/dam/aicpa/interestareas/forensicandvaluation/resources/standards/downloadabledocuments/aicpa-vs-section-100-calculations-faqs.pdf.

24 is also consistent with the webinar comments noted above about "pumping up" the calculation engagement at settlement to a valuation engagement at trial.

FAQ 39. Q: *If the valuation analyst performs a calculation engagement and is later directed to perform a valuation engagement, is there language that protects the valuation analyst if the value changes due to the more comprehensive work? Does the valuation analyst just limit the work to a calculation in an engagement letter?*

A: It is good practice to state in the engagement letter that the valuation analyst is performing a calculation engagement for preliminary purposes, e.g., settlement purposes in a litigation matter, and that it is not to be used for testimony or to be transacted upon. The valuation analyst would also state that, if testimony is required, the service to be provided would be a valuation engagement.

FAQ 39 says it is good practice for the engagement letter to state that a calculation engagement is acceptable for "settlement purposes" in a litigation matter, but it is not to be used to be "transacted upon." While this is consistent with the advice given in *FAQ 24*, we still need to unpack this statement a bit.

Dictionary.com defines "transact" as:

To carry on or conduct (business, negotiations, activities, etc.) to a conclusion or settlement.

Interesting. The term "settlement" is used to define the word "transact." So a "transaction" is a "settlement." Well, that makes sense. Money (based on a value) is transferred in a settlement just as it is at the conclusion of a litigated matter. Both instances constitute the conclusion of a contested matter, and both instances require a reliable value for the transaction or settlement to be fair.

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So substituting “settlement” for “transaction” results in *FAQ 39* stating:

A calculation engagement can be used for settlement purposes but is not to be used in a settlement.

Wait a minute. That did not work. Let’s try substituting “transaction” for “settlement.” Now *FAQ 39* states:

A calculation engagement can be used for transaction purposes but is not to be used in a transaction.

I’m getting a headache, but we need to look up one more definition (from Wikipedia):

The Law of Noncontradiction: In classical logic, the law of noncontradiction states that contradictory statements cannot both be true in the same sense at the same time, e.g., the two propositions “A is B” and “A is not B” are mutually exclusive.

Certain calculation proponents described various comments in my “Breaking Bad” article as “crazy,” “convoluted,” “wrong,” “ridiculous,” “patently false,” and “preposterous.” Yet all these adjectives combined are still insufficient to describe the irrational nonsense of *FAQ 39*. In the double-standard world of *FAQ 39*, it is fine to settle a case by paying the nonowner spouse an inaccurate number based on a calculation engagement, but an accurate number based on a valuation engagement is required if the case goes to trial. This is illogical, unfair, and leads to one inescapable conclusion: *A calculation engagement should never be used when third-party reliance is present or even possible.* This includes (but is not limited to) IRS and tax purposes, ESOP purposes, transaction purposes, and *all* litigation purposes (including pretrial settlement).

What’s left? So, if a calculation engagement makes no sense when third-party reliance is present or possible, what are the remaining

scenarios for which a calculation engagement could be useful? In the conference presentation, one proponent offered a hypothetical example in which a client expresses an interest in knowing what his company’s indicated value would be under a particular valuation methodology. Here is where this client stands after a calculation engagement in this context:

1. He doesn’t know the actual value of his company because the appraiser: (1) did not do the full amount of analysis required in a valuation engagement; (2) did not consider or conduct other applicable valuation methodologies that could have indicated different preliminary values for the company; and (3) did not reconcile the different preliminary opinions of value under different methodologies into a final conclusion of value; and
2. He doesn’t even know whether the calculation value he has is accurate under the single valuation methodology used. This is due to the fact that the more limited analysis in the calculation engagement could have resulted in the appraiser missing one or more key items that would have changed certain adjustments or assumptions that would have resulted in a different indication of value using the same methodology in a valuation engagement.

Now comes the part where you better have a good professional liability insurance policy. Does this client really just want to know the “value” of his company using a single methodology for kicks and giggles? Will he really spend thousands of dollars on a calculation engagement for informational purposes and something he cannot use, or is it possible that the client made this request because he wants to pay as little as possible for a “value” that he fully intends to use for some purpose?

By doing a calculation engagement in this case, you have just created potential liability for

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yourself when this client uses the calculated value in some way and it backfires. And you better be ready for the client to either be dumb or play dumb and have no idea about the limitations of the calculation engagement, *even if you explained it to him*. His bottom line is: (1) you are the business valuation expert; (2) I paid you money; (3) you gave me a “value”; and (4) why would I pay good money for something I cannot use?

The calculation engagement in this or any situation is like proceeding into the intersection of a four-way stop after looking only to your left. You may think it is safe to proceed because no one is coming from that direction, but you never checked to see the school bus turning left in front of you or the cement truck coming at you from the right. You pull into the intersection with an incomplete set of facts, and the results are predictably disastrous. Only the valuation engagement checks the traffic from all directions and enables you to proceed through the intersection safely. *The inevitable conclusion from this analysis is that the calculation engagement doesn't make sense in this context either.*

More ‘advice.’ The bottom line is that calculation engagements do not make sense in any context. The following webinar and conference comments made in the attempt to defend the calculation engagement further confirm this truth:

1. *“I would only use a calculated value in a marital dissolution as a method of settling the issue, not as a method of determining the actual value of the marital asset.”* This parroting of FAQ 39 states the essence of my objection to the calculation engagement perfectly. I have believed for 30 years as a business appraiser that my sole function is to attempt to provide an opinion of the “actual value” of an interest or entity *in all cases*. Yet, this comment declares that the calculated value does not determine the “actual value”—it is only useful for settlement purposes. You have to take the additional step of performing a valuation engagement

to determine the “actual value.” This comment inadvertently yet subconsciously acknowledges the clear difference between the inaccurate and meaningless value that is conjured in a calculation engagement and the “actual value” that is determined in a valuation engagement. This begs a fundamental question that must be answered: Why would we as business appraisers ever submit a product that did not attempt to determine the “actual value” in every case?

2. *“Calculation engagements are always incomplete—they are supposed to be.”* Why would you want to associate yourself (and your professional reputation) with a product or service that is “always incomplete?” What company is in the business of selling a product that is “always incomplete?” Do you buy a car without an engine or a house without a roof? A physician who performs surgeries that are “always incomplete” will soon lose his or her medical license and spend the rest of his or her life defending malpractice suits. Do you tell your kids that you want their homework to be “always incomplete” every night? What is the marketing slogan for the “always incomplete” service or product?

Nike: ~~Just do it.~~
 Do some of it.
 Do part of it.
 Forget it.

3. *“Calculations are not always unreliable.”* Are we supposed to take comfort that calculation engagements are not *always* unreliable, that they are unreliable only *some* of the time? You would never buy such a product. Why then do you want to be in the business of selling it?
4. *“[A]ll that is required in a calculation engagement versus a valuation engagement is that the procedures be less. They could be just minimally less, or they could be majorly less.”*

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Perhaps the calculation engagement should require a cover page indicating whether the procedures therein were “minimally less” or “majorly less,” the objective guidelines as to how the “minimally” or “majorly” qualifier was measured, and the degree to which that impacted the accuracy of the calculated value in the report. As to the necessary length of the calculation engagement, it was opined: “[Y]ou can probably do it in two 8 1/2 by 11 pages—two, three at the most—and meet all of the items that are in the *Standards* that are required.” I cannot tell you how frustrated I am to find out I have wasted the last 30 years of my life preparing 100-plus page valuation engagement reports when I could have been doing two-page pamphlets instead.

5. “Does the valuation analyst have to explain the marketability and minority discounts and how they were determined in the body of the calculation report? No.” Silence and opacity are a complete and total disservice to the client and the public. The responsibility of a business appraiser is to explain and support the assumptions and conclusions in a report—not hide them. Plus, a thorough explanation of the determination of these two discounts would go way beyond the two-to-three-page limit.
6. “[T]he calculation can be reliable; it certainly can be, and it is not set in stone that it isn’t.” Can be reliable? Do you want a parachute that *can be* reliable or one that *is* reliable? What percentage of the time is a calculation engagement reliable? Are those calculation engagements that are unreliable clearly marked as such? Furthermore, one of the proponents already set in stone the unreliability of the calculation engagement back in 2014:

What you are really saying is: “My opinion (which is sufficient, reliable, believable, and with reasonable certainty)

of the calculated value (which is not sufficient, reliable, believable, or with reasonable certainty) of XYZ Company is \$4,000,000.” This sounds odd, as it should. So while an opinion of a calculated value is not prohibited by SSVS No. 1, from a practical perspective, why would you want to put yourself in this untenable position?

“[S]ufficiency and reliability are major factors here. *Black’s Law Dictionary*, 10th edition, 2014, defines a credible witness as ‘[a] witness whose testimony is believable.’” In some litigation settings, an opinion is given with “reasonable certainty.” *So, can a calculation and calculated value be provided that is sufficient, reliable, believable, and/or with reasonable certainty? Given the language in paragraphs 21b and 77 in [SSVS], you would think that the answer is “no.”*⁶ (emphasis added)

7. “Cost is usually the main reason that calculations are used.” Based on the article, webinar and conference presentation, cost wasn’t just the main reason cited—it was the *only* reason. This helps to crystallize the difference between calculation engagements and valuation engagements: You can do it cheap, or you can do it right. You cannot do both. When you need quadruple-bypass surgery, do you do single-bypass instead to save some money?

USPAP is still violated. Carla Glass and Jay Fishman, the “only living business valuation professionals who have served on the Appraisal Standards Board (the board that writes USPAP),” wrote a letter to the editor in the December 2018 issue of *BVU* indicating that calculation

⁶ Jim Hitchner, CPA/ABV/CFF, ASA, “Calculations and Opinions: Bringing Clarity to a Cloudy Issue,” *Financial Valuation and Litigation Expert*, Issue 50, August/September, 2014.

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engagements can be completed under the Scope of Work Rule of USPAP.⁷ In their letter, Glass and Fishman state:

USPAP emphasizes that it is the *appraiser's responsibility* to determine whether a reduced scope of work for an assignment (such as a calculation engagement) is appropriate for the intended use of that assignment's results.

Herein lies the problem. There is no question it is the appraiser's responsibility *within the valuation engagement report* as to the consideration and selection of potential valuation methodologies, assumptions made within those methodologies, and the reconciliation of preliminary opinions of value under various methodologies. Allowing the appraiser to determine whether a reduced scope of work is appropriate for a particular business valuation assignment is an entirely different issue. It is like allowing each individual driver to determine his or her own speed limit on the highway.

The Scope of Work Rule requires "credible assignment results" with the term "credible" defined in USPAP as "worthy of belief." A calculated value is not worthy of belief because, as certain proponents have told us, it is "always incomplete" and is not the "actual value." Consider the fundamental principle of USPAP (from the Preamble):

The purpose of USPAP is to promote and maintain a high level of public trust in the appraisal practice by establishing requirements for appraisers. It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.

⁷ "Calculation Engagements and USPAP," Letter to the Editor from Carla G. Glass, CFA, FASA, and Jay E. Fishman, FASA, *Business Valuation Update*, Vol. 24, No. 12, December 2018, published by Business Valuation Resources, LLC.

A calculation engagement does not indicate the "actual value" due to its limited analysis, single-method requirement, and omission of other applicable valuation methodologies. This does not "promote and maintain a high level of public trust" in that the calculation engagement offers a supposedly accurate value upon which a transaction/settlement could be based. The public trust is violated if any action is taken based on the artificially low or high value in a calculation engagement. Furthermore, in addition to violating the directives of the Preamble, calculation engagements also violate the "credible appraisal" requirements of Standard 9 of USPAP, a fact not addressed in the rebuttal article, webinar, and conference presentation. As noted earlier, it is good enough for some individuals that a calculation engagement "can be reliable" and is "not always unreliable." *I believe the rest of us should hold ourselves to a higher standard than this. The public certainly does.*

Furthermore, the following quote from an article by one proponent creates even more confusion as to the appropriateness of a calculation engagement under USPAP:

USPAP allows for only one explicit type of value, "opinion of value/conclusion."

What are we supposed to do with this? The SSVS clearly limits the use of the term "conclusion" to a valuation engagement and prohibits the use of this term for a calculation engagement. Yet the "only one explicit type of value" USPAP allows is a "conclusion," which Glass and Fishman believe *can* be a calculation engagement. So a calculation engagement is *not* a "conclusion of value" under the SSVS, but it *is* a "conclusion of value" under USPAP. Are we back to the Law of Noncontradiction again? I'm sure appraisers, clients, attorneys, and judges will be able to grasp this dichotomy quickly and efficiently.

Other voices. Other voices have now joined the pro-calculation chorus in an attempt to legitimize this travesty. Consider the following comments⁸:

⁸ Alan S. Zipp, CPA, ABV, CVA, CBA, JD, "Valuation or

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1. “[T]he credibility of the opinion is based on the foundation supporting the opinion.” I agree 100% with this statement. I also agree 100% with the rebuttal authors’ comments that the calculation engagement (and, by necessity, its foundation) is “always incomplete,” not the “actual value,” “not sufficient,” “not reliable,” “not believable,” lacks “reasonable certainty,” etc.
2. “Credibility is not based on the label defining the appraisal, i.e., a valuation or a calculation.” While it is true that the mere label “valuation engagement” does not guarantee credibility if the report is poorly done, it is equally true that the label “calculation engagement” guarantees a single-method approach, the lack of consideration of other potentially relevant valuation methodologies, the lack of reconciliation of potentially different values under different methodologies, the lack of even *knowing* whether other valuation methodologies employed would have resulted in a different value, the lack of a totally independent decision by the appraiser as to the valuation methodology used, the lack of rigor and analysis required in a valuation engagement, etc. As such, even the perfectly executed calculation engagement lacks credibility as you simply have not done the necessary analysis nor investigated the necessary methodologies to know whether you have the “actual value.”
3. “The scope of a calculation engagement may be comprehensive.” This sounds familiar. Do you want “may be” comprehensive or “is” comprehensive?
4. “[N]othing in the standards restricts the calculation engagement from following the detailed guidance applicable to a valuation engagement.” This says that nothing in the

SSVS restricts you from doing a calculation engagement that includes more than its basic requirements. This is like saying that nothing in the Internal Revenue Code restricts you from paying more than you owe in income taxes each year.

5. “Litigation cases using calculation engagements.” Unlike others who say to not use a calculation engagement for litigation purposes, this statement suggests that a calculation engagement may be appropriate when the appraiser “is denied access to the business facilities and discussion with management when the nonbusiness spouse engaged him or her in acrimonious divorce litigation.” The article also states that a calculation engagement is the “only alternative” when a business owner will not reveal the identity of his clients to the appraiser due to the proprietary nature of such information. I have never done a valuation or been in court in this author’s home state; however, in North Carolina and South Carolina, we have subpoenas and depositions that are quite effective in compelling this kind of information from ornery and uncooperative business owners. Make no mistake, the headwinds of litigation can be very strong for the business appraiser and a firm hand on the tiller is required; however, immediately rushing into the arms of the calculation engagement should never be the response the instant a slight breeze kicks up. The day we allow the parties to dictate document production and appraisal quality to the court is the day we let the inmates run the asylum.

Dumbing down. Calculation engagements are a dumbing down of the business valuation process as they prevent the use of the full set of analytical skills a competent appraiser possesses. One of if not the greatest skill required of a business appraiser is the ability to reconcile two or more disparate indications of value at the end of a report and determine which methods require

Calculation: A Bad Appraisal Is Still a Bad Appraisal,” *Business Valuation Update*, Vol. 24, No. 11, November 2018, published by Business Valuation Resources, LLC.

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which weighting and why those weightings are appropriate. None of this analysis is required in a calculation engagement.

How important is the reconciliation process? Let's hear from some of the leading practitioners in the industry, starting with Gary Trugman, CPA/ABV, MCBA, ASA, MVS:

At the end of the valuation process, the valuation analyst must choose a value based on the various methodologies that were used. In a perfect world, all the methods used would result in the same value, making the choice easy. Unfortunately, we do not live in a perfect world. The likelihood of all of the values even coming close to one another is slim. This is the part of the assignment that will determine if the valuation analyst understands valuation.⁹

Because the single-method shortcoming of the calculation engagement eliminates the reconciliation part of the assignment, there is no way to "determine if the valuation analyst understands valuation."

Or Dr. Shannon Pratt, CFA, FASA, MCBA, MCBC, CM & AA:

[I]n many cases, business valuation approaches and methods generate apparently inconsistent value indications. Ideally, the analyst will use two or more approaches in the subject valuation, and these approaches will yield virtually identical value indications. In practice, of course, this rarely happens. Experienced analysts expect to derive a range of value indications when alternative valuation approaches are used. The final value opinion regarding the subject

business enterprise or business interest should be derived from the analyst's reasoning and judgment of all the factors considered and from the impartial weighting of all of the market-derived valuation evidence.¹⁰

Again, the single-method shortcoming of the calculation engagement: (1) ignores Dr. Pratt's advice to use two or more valuation approaches; (2) prevents the "analyst's reasoning and judgment of all the factors considered"; and (3) does not allow for the "impartial weighting of all of the market-derived valuation evidence."

Or James R. Hitchner, CPA/ABV/CFF, ASA:

There are only three approaches to value any asset, business or business interest: (1) the income approach; (2) the market approach; and (3) the asset approach. All three approaches should be considered in each valuation. Once the analyst has made the computations of value under the methods selected, a conclusion of value must be reached and documented in the report. If more than one method was selected, the weight or reliance, either quantitative or qualitative, to be given to each method should be disclosed. The conclusion section of the detailed valuation report should reconcile the valuation methods and specify the rationale for the conclusion of value. Many analysts will look at each one of the methodologies, decide which ones are believed to result in the most valid answer, and then pick a value based on that qualitative valuation evidence.¹¹

9 Gary R. Trugman, CPA/ABV, MCBA, ASA, MVS, *Understanding Business Valuation, A Practical Guide to Valuing Small to Medium Sized Businesses*, 5th edition, © 2017 by the American Institute of Certified Public Accountants Inc.

10 Shannon P. Pratt, CFA, FASA, MCBA, MCBC, CM & AA, and Alina V. Niculita, CFA, MBA, *Valuing a Business, The Analysis and Appraisal of Closely Held Companies*, 5th edition, © 2008 by The McGraw-Hill Companies Inc.

11 James R. Hitchner, CPA/ABV/CFF, ASA, *Financial Valuation, Applications and Models*, 4th edition, © 2017 by John Wiley & Sons Inc.

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Yet again, the single-method shortcoming of the calculation engagement: (1) ignores Hitchner's advice to consider all three valuation approaches; (2) eliminates the disclosure of the quantitative or qualitative weight or reliance given to each method; (3) eliminates the need for the reconciliation of multiple methods; (4) eliminates the specification of the "rationale for the conclusion of value"; and (5) eliminates this use of "qualitative judgment" by the analyst.

With a calculation engagement, the reconciliation process is irrelevant and nonexistent—you simply take the one value you calculated under your single methodology and ignore whether other methodologies would have resulted in a different value. But who cares? You didn't have to do as much work, and you saved your client some money.

The public trust. Even worse than the dumbing-down aspect of a calculation engagement is its disservice to and deception of the public (clients, attorneys, and the courts). With users that may already be skeptical of appraisers in general, appraisers have an obligation to provide a trustworthy, reliable, and credible valuation product to the public. *Calculation engagements do not meet that standard of trust.* A pretrial settlement made on an artificially low calculated value is a significant and material injustice to the nonowner spouse, yet the AICPA and other BV organizations stand by silently and allow this to happen simply because the calculation engagement complies with their required standards. *There is no way to justify this outcome. We have to do better than this.*

While the standards require explanation of the limitations of a calculation engagement to the client, the simple fact is that, even if such explanations are made, the vast majority of clients see a large report with a value and have no understanding or concept of how that value was determined—they rely totally on the expert they have paid. They have no idea of the significant difference between a calculation of value and a

conclusion of value as, frankly, they sound like the same thing. The only word they hear is "value," and the only thing they see is a number.

And it's not only clients. Many appraisers and judges cannot distinguish between the two, either. This fact was recognized during the webinar: "I recently testified in a case where there was really no understanding by either the expert on the other side or by the judge. I don't blame judges in this case because a lot of times they don't have any background in this subject matter, so sometimes they have to look to what the experts say. If the experts are not clear, then the judges will not be clear. In this recent case, the judge was really misled by the expert on the other side who was saying he was giving a calculation and not a fair market value appraisal. Then later he changed his mind and said, 'Yeah, it is a fair market value,' but then he said he was doing a valuation engagement." *All of this needless confusion could be eliminated if calculation engagements were not allowed.*

And let's be realistic: Hired gun appraisers are out there. If you haven't run into one yet, you haven't been doing business valuations long enough. The calculation engagement is pure catnip for the hired gun as it allows him or her to knowingly submit an inaccurate and favorable value for his or her client yet still claim to be an upright and honest appraiser who is in full compliance with the standards. While the hired gun can also do this with a valuation engagement, it is much easier to do it with a calculation engagement because the standards condone the exclusion of the methodologies that result in the undesirable values. Calculation engagements or not, hired guns will always exist, but why do we make it so much easier for them by allowing the calculation option?

Just because numerous BV organizations allow the use of the calculation engagement does not mean it's a credible product worthy of the public's trust. In creating this low-cost option for clients, no one foresaw its significant drawbacks,

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or, if they did, they ignored them. When certain calculation proponents helped draft the SSVS, they “had no idea people would be using calculation engagements in litigation.” Now, however, calculation engagements are being used by the IRS to challenge taxpayer valuation engagements and have also begun to seep into reported court cases, allowed by judges who do not understand the limitations and shortcomings of the calculation engagement but allow them because the AICPA and other BV organizations permit them. Other practitioners in favor of calculation engagements add fuel to the fire by having no qualms whatsoever about sailing into court with a calculation engagement.

Because of the virtually limitless freedom given to appraisers to use calculations in any context they see fit, this cancer has and will continue to spread. This will result in the deterioration of the quality of business appraisal work product, an increasing amount of unjust settlements and transactions, and a continued and justifiable erosion of the public’s trust in business appraisers. Combine this with the increasing popularity of canned valuation software programs and low-cost overseas valuation providers and you have an industry that is losing its tradition of independent analysis and is sliding toward commoditization and robotic computations that require little or no original thought—not a good combination for an industry trying to attract younger practitioners.

A plea for help. Even calculation proponents acknowledge the controversy the calculation engagement creates: “This is a subject that keeps getting hotter as time goes on,” “I had no idea calculation engagements would create this kind of uproar in the marketplace,” and “[T]his topic seems to continually vex our readers.” There is a good reason this issue is controversial and confusing: *Calculation engagements are a terrible product.* And here’s a prediction: *The controversy and confusion are not going away—they will get worse.* We are reasonable appraisers out here who want to do the right thing. We just need

some logical support for the use of calculation engagements. *So far, we don’t have any.*

Remember: We all understand and agree that all the BV organizations allow calculation engagements and they can be used for any purpose based on the business appraiser’s best judgment. These, however, are *not* acceptable answers to the “always incomplete,” not the “actual value,” “not sufficient,” “not reliable,” “not believable,” lacks “reasonable certainty,” potentially biased, *FAQ 39* nonsense, violates USPAP, dumbed down, and lack of public trust issues. The original intent to provide a low-cost option may have been a noble gesture, but in practice the calculation engagement is a deceptive disservice to clients and the public. It is time for the business valuation profession to admit its mistake and kill these things for good before they cause even more harm. ♦

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