

FAIR VALUE™

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DETERMINING IF THE BUSINESS APPRAISER IS QUALIFIED

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Introduction. Another article in this issue of *Fair Value* deals with the process needed to make the jointly-retained business valuation a success in dispute situations. This article explores the analysis needed to choose a qualified business appraiser at the beginning of the process. This article will examine the various valuation certifications available in the field and briefly summarize some of the requirements needed to attain a designated status. For information on the full requirements of each organization, interested parties should contact them directly.



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case law and techniques impacting valuations for different purposes. Also, there are continual advancements in methodology and approach. However, business valuation is also an “easy entry” profession, with a wide degree of variability in the background, training and experience of practitioners. Business valuation practitioners range from experts to part-timers to complete novices. Virtually anyone can take a weekend course on the basics, and on the next Monday hang out their valuation expert shingle. However, the quality of a business valuation and its findings are directly related to the skill, training and experience of the professional. A



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Business Valuation is an Easy Entry Field. Business valuation is an increasingly specialized field, with a variety of guidelines,

certification is of little value if the appraiser holding that certification does not know, understand, or have significant experience in business valuation.

Business Valuation Certifications. These days, every profession is experiencing a surge in certifications and credentials and business valuation is no exception. The rapid growth in the need for qualified and trained business valuers has led to the development of four national certifications in the field, each of which provides education and testing programs. All four groups provide training for prospective business appraisers and have certifications that strive to enhance valuation professionalism. The four bodies include:

- *Accredited Senior Appraiser (ASA)* designation in business valuation, which is awarded by the American Society of Appraisers, a not-for-profit professional society.
- *Certified Business Appraiser (CBA)* designation of the Institute of Business Appraisers, a not-for-profit professional society.
- *Accredited in Business Valuation (ABV)* certification of the American Institute of Certified Public Accountants, a not-for profit professional society.
- *Certified Valuation Analyst (CVA)* designation of the National Association of Certified Valuation Analysts, a for-profit organization.

A fifth organization, the Association for Investment Management and Research (AIMR), is a not-for-profit professional society that awards the *Chartered*

BUSINESS APPRAISER (continued)

Financial Analyst (CFA) designation. While not specifically a business valuation certification, the CFA includes in-depth valuation training of both public and private companies and is among the most prestigious of all certifications in the field of corporate finance and on Wall Street.

American Society of Appraisers. The American Society of Appraisers is the oldest multidisciplinary appraisal society in the United States (predecessor organization founded in 1936). It has separate certifications in the fields of business valuation, technical valuation (e.g., patents, trademarks, software and other intangible assets), real property, machinery and equipment, personal property and fine arts. The American Society of Appraisers offers two certifications in the field of business valuation, *Accredited Senior Appraiser* (“ASA”), and *Accredited Member* (“AM”), to candidates who first pass an extensive approval and certification process. The only difference between the ASA and the AM designations is the experience requirement. In addition to other requirements, in order to earn the ASA, the candidate must first possess at least five years full-time experience preparing business valuations. In contrast, the AM requires two years. All candidates for either designation must take and pass four three-day courses, each of which includes a comprehensive proctored examination. As a prerequisite to taking these courses, the individual must already have a solid grounding in accounting and finance.

Once the experience and education requirements have been met, the ASA or AM candidate must also pass an exam on ethics, as well as one concerning the Uniform Standards of Professional Appraisal Practice (USPAP) which is mandated by Federal Law. After successfully meeting these requirements, the candidate must submit two actual valuation reports to the Society’s International Board of Examiners for review for technical competency. This Board carefully reviews the valuations to ensure that they meet the Society’s *Business Valuation Standards*, USPAP, and are sound, well supported, and professionally prepared.

The American Society of Appraisers and the Institute of Business Appraisers (discussed later) are the only two certifying bodies that have an actual, real world report review requirement. All of the experience and training in the world does not mean an appraiser is competent or can prepare a professional, supported business valuation. Banister Financial believes strongly in this process, as all three senior firm professionals (George B. Hawkins, Michael A. Paschall, and Gary R.

Gerlach) serve on the American International Board of Examiners of the American Society of Appraisers. Once a professional earns the ASA designation they must recertify every five years.

The ASA is also actively involved in promoting standards for the business valuation profession. Candidates, members and accredited senior members of the ASA are required to adhere to the Society’s rigorous Business Valuation Standards, which set forth the mandated report content and definitions. In addition, the ASA has a rigorous code of ethics that must be followed. This code of ethics (all of the following societies discussed also have one) establishes a high degree of professionalism. Finally, the American Society of Appraisers is the only society representing business appraisers that is a member of The Appraisal Foundation, the body mandated by Congress to issue and enforce appraisal standards. The American Society of Appraisers and all of the other valuation certifying bodies to be discussed have continuing education requirements.

Institute of Business Appraisers. The Institute of Business Appraisers (IBA) offers its members the potential to earn accreditation as a Certified Business Appraiser (CBA) after demonstrating competence and professionalism in business valuation. In addition to other requirements, candidates must pass a 3.5-hour written examination covering the theory and practice of business appraisal, and must then submit two business appraisal reports for review. Unlike the ASA, which requires a minimum of five years valuation experience, the IBA does not require a minimum of experience in the field. This is a key shortcoming in this designation. The IBA also offers a less rigorous professional designation, Accredited by IBA (“AIBA”), developed to encourage IBA members and others in the appraisal community to obtain additional education and to start them on the road to the Certified Business Appraiser CBA designation. Members must adhere to a code of ethics and report content standards.

American Institute of Certified Public Accountants. The American Institute of Certified Public Accountants (AICPA) is the national society of certified public accountants. In 1996 the AICPA approved a new specialty certification for business valuation, the Accredited in Business Valuation (ABV) designation. Beginning in the late fall of 1997, the first ABV certifying exam was offered nationally for CPA’s. To earn the ABV designation, a candidate must hold a valid CPA certificate and license, and pass an all day examination on business valuation theory. In addition,

BUSINESS APPRAISER (continued)

the candidate must fill out an application, with a paragraph description of each of ten valuation assignments in which he or she had “substantial experience.” Substantial experience is defined as:

“Defining the engagement/project objectives, planning the specific procedures appropriate to the engagement/project, developing a basis for a conclusion and documenting a conclusion.”

Unlike the ASA and the IBA certifications, a weakness of the AICPA’s ABV designation is its lack of a requirement to submit actual valuation reports for review for technical competency. Additionally, the ABV’s requirement of substantial experience in ten valuation assignments is very modest, compared to the minimum of five years full-time valuation experience to earn the ASA accreditation. Furthermore, the “substantial experience” requirement for accreditation does not appear to require that the person actually had full responsibility for the engagement. This appears to allow for the possibility that the person might have played a minor role in the assignment. The AICPA presently has no mandated report content standards.

National Association of Certified Valuation Analysts. A for-profit organization, the National Association of Certified Valuation Analysts (NACVA) is one of the youngest of the credentialing bodies, having been formed in 1991. The NACVA offers its members the opportunity to earn the Certified Valuation Analyst (CVA) accreditation in business valuation. To earn the CVA certification, the candidate must, among other requirements, attend a five-day training program and then pass a proctored two-part examination. In addition, the candidate must hold a valid CPA certificate. Unlike the American Society of Appraisers, however, there is no experience requirement to earn the CVA. Therefore, it is possible to earn the CVA designation yet have no experience in business valuation. Similarly, there is no requirement to submit copies of actual business valuations for review for technical competency, as is required by the American Society of Appraisers and the Institute of Business Appraisers. CVA candidates are, however, required to prepare and submit a business valuation based on case study materials about a fictitious company supplied by the NACVA. The CVA also has other designations. Members must adhere to a code of ethics and report content standards.

Experience is What Counts. Ultimately, the most important factors in business valuation are qualified experience and the ability to demonstrate experience through evidenced valuation reports that are

technically competent. One can have many years of experience, yet still be incompetent in producing a reliable valuation. We frequently encounter “local experts” who are accepted by family law judges as the local authority on valuation, even though a review of the methods they use would find these “experts” basically incompetent and out of sync with modern valuation techniques. Experience in and of itself does not make one an expert. Likewise, the fact that one has testified in court repeatedly does not mean these “experts” know what they are doing and are competent in valuation.

Association for Investment Management and Research. Another key certification is the Chartered Financial Analyst (CFA) designation, which although not directly aimed at business valuation specifically, is in many ways directly applicable. The CFA certification is issued by the Association of Investment Management and Research (AIMR) and is considered the premiere certification in the fields of investment banking, mergers and acquisitions, investment management, and securities analysis. In these fields, the CFA program is so highly regarded that is difficult or impossible to advance in a career without it. Because of the quality of the program many states now exempt CFA holders from having to pass securities licensing exams. Since 1963, a total of approximately 41,000 CFA charters have been issued. During 1999 alone more than 70,000 candidates were enrolled in the CFA program worldwide (70 countries). This represents explosive growth over the organization’s 38-year history.

To earn the CFA designation, candidates must pass a grueling three-year program of study in financial analysis, corporate finance, the valuation of equities (stocks), fixed income (bonds), and derivative securities (options and futures), investment analysis, accounting, statistical analysis, economic analysis, and portfolio management. Successful candidates must pass a comprehensive all-day examination each year before proceeding to the next year. The CFA program, while it is primarily focused on publicly traded companies, has a heavy emphasis on valuation, and also covers privately held company topics. Additionally, the CFA program provides comprehensive training in financial, economic and industry analysis, and forecasting. The program requires extensive readings from leading researchers in the fields of finance, economics, and portfolio management. Beyond stocks, bonds and derivative securities, the CFA candidate is also exposed to extensive readings concerning investments in real estate, real estate securities, venture capital, and international securities.

BUSINESS APPRAISER (continued)

While the CFA is not directly focused solely on valuation, we at Banister Financial believe it is equally important to earn the CFA (in addition to the ASA) to meet the challenges of dealing with the rapidly increasing complexity of corporate finance arrangements. Many business valuers also hold the CFA designation, and among most national business valuation firms, either the CFA and/or the ASA is usually required to hold a senior business valuation position.

Conclusion: Which Certification? All of the above certifications are aimed by their respective organizations at increasing the level of professionalism in the field. This goal is to be commended and there is certainly no intent to belittle the role of any one certification or the genuine interest by their members towards this end. In fact, our firm has had individuals with all of these qualifications.

However, on the two most important issues, demonstrated actual business valuation experience and expertise through valuation report competency, the *Accredited Senior Member (ASA)* in Business Valuation designation is clearly the superior designation to users seeking to retain a qualified, experienced and competent business valuator. The American Society of Appraisers' educational programs, certification requirements, adherence to rigorous standards of valuation content, and the requirement of demonstrated long-term experience and technical competency make it the leader in the profession and in assuring the client base that the valuator is staying abreast of a rapidly changing and highly technical field. This is why Banister Financial requires its professionals to earn the ASA certification as an essential element in providing our clients the finest professional valuation advice. Similarly, we believe the *Chartered Financial Analyst (CFA)* designation is

equally critical to have the skills to tackle the most complex of corporate finance assignments. But we don't stop there in our own firm. All of our professionals hold graduate degrees, either an MBA or a law degree. We believe that these are equally important aspects in having the breadth of knowledge necessary to meet the complexities of business valuation assignments.

Qualifications Alone are Not Enough. Having the best qualifications in the world, however, does not mean that a business appraiser is the right candidate for the jointly-retained business valuation. As is discussed in more detail elsewhere in this issue, the appraiser must also have the highest character and integrity. He or she must be willing to listen, yet be able to see past the various points of view and attempts at manipulating his or her opinion of value. Ultimately the qualified appraiser must be willing to take a stand on value, even if it not what clients want to hear. This individual must have the ability to effectively and clearly articulate and support the findings in a professional valuation report, both in writing as well as orally, in meetings with the parties or in court. ♦

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