

Improving standards

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A new credential for business valuers in the USA has international implications, says Steve Choi

A company's financial statements offer information that investors and creditors can use to evaluate its performance. Investors and creditors, in their role as capital suppliers, rely on these to assess the profitability and safety of their investments.

Over the past decade, more and more emphasis has been put on fair value estimates as a basis for measuring items in financial statements; however, valuation work products prepared by individuals in this time have faced increasing scrutiny due to quality issues and a lack of consistency and reliability in valuation results and products.

Experts scrutinised

The [US Securities and Exchange Commission \(SEC\)](#) has expressed concern that those performing fair value measurements for its registrants lack appropriate training, qualifications and experience to make such estimates for the purposes of US financial statement reporting. Criticisms include:

- the lack of a unified identity for valuation experts
- no requirement for individuals to be a member of any professional organisation in order to perform valuations
- varied valuation credentials
- lack of analytical consistency and transparency in valuation work products
- lack of consistent qualifications and experience for valuation credentials
- no consistent enforcement and disciplinary mechanisms for valuation experts.

In response to these criticisms, RICS representatives have been working with representatives from the [American Institute of Certified Public Accountants \(AICPA\)](#) , [the American Society of Appraisers \(ASA\)](#) , [the Appraisal Foundation](#) , [the International Valuation Standards Council](#) and several major international public accounting firms to develop a shared credential for the business valuation profession, known as the [Fair Value Quality Initiative](#) .

Public interest

The principle of the shared credential is consistent with RICS' mandate to protect the public interest by ensuring standards and professionalism in the business valuation sector. The credential aims to develop the following three components.

- **Performance framework:** this will provide valuation practitioners with guidance on the level of work, rigour and documentation required when performing fair value assessments. The application of the performance framework will promote a greater understanding of a valuation practitioner's use of judgement and estimates, as well as improve the level of consistency and transparency by focusing on how much documentation is prepared by valuation practitioners.

- **Qualifications:** requirements will be developed for business valuation professionals to obtain and retain the fair value measurements credential. This will address the necessary work experience, base knowledge and continuing education requirements to be a credential holder. In addition, professionals wishing to attain the credential will need to pass a common assessment that will be developed by RICS, AICPA and ASA.
- **Quality control:** establishing such a process will regulate credential holders. It will review continuing professional education requirements, complaints received and valuation assignments performed. Regulation is vital, as having standards without the ability to enforce them would make them meaningless. This will provide confidence to the markets and regulators that valuations will be high in quality.

The SEC challenged the valuation profession to increase its professionalism. All the organisations involved in the Fair Value Quality Initiative have thus spent substantial time and resources on developing a credential that will be a gold standard for the valuation profession. Some may argue that the survival of the US valuation profession depends on its ability to increase credibility with stakeholders and regulate itself successfully.

Framework

To ensure consistency and transparency in the fair value measurement process, the organisations have developed a performance framework, qualifications and quality control for the new business valuation credential.

Public consultation on the performance framework began in June, and the credential is expected to be launched before the end of the year; it currently focuses only on business and intangible asset valuations for US financial reporting purposes, but it is hoped that it will have wider applications.

Leigh Miller, FRICS, a partner and the National Director of Ernst & Young's [Valuation and Business Modelling](#) group in the USA and a member of RICS Governing Council, says: 'The Fair Value Quality Initiative was focused just on SEC registrants since this was our mandate from the regulators. The intent was to address their concerns and not overstep claiming the franchise for all valuations.'

'That said, we hope the performance framework and the new credential will gain traction in other spaces for valuation and also generate demand for comparable usage in other asset classes.'

Longer-term efforts will involve financial instruments, property and machinery and business assets. This new credential is US-centric at the moment but has global implications, given the convergence between US [Generally Accepted Accounting Principles](#) and [International Financial Reporting Standards](#) over the past decade.

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Further information

- Related competencies include [Valuation](#) , [Valuation of businesses and intangible assets](#).
- This feature was taken from the RICS *Property journal* (July/August 2016).