

The valuation profession

At a crossroads

Highlights

- A professional framework for those performing valuations for financial reporting purposes would provide the valuation profession with a unified identity. This would reduce expectation gaps between the profession and management, auditors, standard setters, and regulators.
- Having a professional valuation framework will also help inspire confidence in the quality and consistency of the work performed.
- The profession has a chance to set a course for the future by agreeing on the building blocks of a robust infrastructure, and making quality its primary objective.

It is time for the valuation profession to chart a course that leads to a unified professional framework.

- The expanded use of fair value and similar measurements in financial reporting and the global economic crisis have put a spotlight on the valuation profession. A closer look at the profession's structure has caused more than one high-profile stakeholder to voice concerns over fundamental aspects of the valuation profession as a whole. We share certain of these concerns.
- While there are many high-quality valuation specialists, there is no single professional framework governing the valuation profession in terms of conduct, education, credentialing, and performance. And, there are few, if any, formal repercussions when low-quality valuations are performed.
- The valuation profession must face a critical decision: Does it continue with the status quo? Or does it mandate broad changes in order to enhance its professional standing, inspire additional confidence in its work, and maintain public trust in the valuation profession by producing consistently high-quality valuations for financial reporting purposes?
- We believe the time has come for the valuation profession to explore how best to govern its ranks by creating a robust professional infrastructure for those who perform valuations for financial reporting purposes.

What does it mean to be a "valuation professional"?

There is no single professional organization governing the valuation profession, nor are there any requirements for a valuation professional to be credentialed or belong to a professional organization.

The increasing complexity of the financial markets, the expanded use of fair value and similar measurements, and the global economic crisis have thrust the valuation profession into the spotlight. These events have led the SEC staff, among others, to question whether the profession has an appropriate infrastructure in place to support its newfound role as a critical contributor to the workings of the capital markets.

Who comprises the valuation profession?

The valuation profession consists of individuals with varying levels of expertise, education, credentialing, and specialization. Professionals provide valuation expertise in four primary categories: real estate, tangible assets, business valuations, and financial instruments. Additionally, professionals provide valuation expertise with a variety of end user objectives such as financial reporting, acquisition strategy, tax assessment, and litigation support.

There was a time when a single valuation professional might have been able to value an entire balance sheet covering all of these categories. But the emergence of complex valuation techniques to value increasingly complex items has made the use of multiple specialists a much more common—and sometimes necessary—occurrence.

What organization governs the profession?

Within the U.S. there are a number of professional organizations with members who provide valuation services. Each organization has its own requirements for membership, which may include certain education, experience, or credentialing requirements. Thus, there is no single organization that governs the valuation profession. Most importantly, there is no requirement for anyone to belong to a professional organization in order to provide valuation services in the public capital markets.

What accreditation requirements exist?

When a valuation professional elects to obtain a valuation credential, there are several to choose from, some of which are specific to particular specialties. But overall, credentialing requirements are inconsistent between the various professional organizations. Minimum education and work experience requirements generally exist, but vary depending on the organization. And where credentialing exams are required, they often vary by organization in terms of scope and intensity.

What standards are valuation professionals subject to?

Each of the existing professional organizations generally publishes standards of conduct, typically covering topics like independence and conflicts of interest. But they vary depending on the organization.

There are also limited performance standards that guide valuation professionals in their work. The few that do exist are general guidelines that could be interpreted and applied in great variation.

Further, there are generally no mandatory qualifications, little ongoing enforcement of standards and credentials, and few, if any, formal repercussions for noncompliance with standards or low-quality valuations.

The implications of not having a unified professional framework

The absence of a single professional framework makes it more difficult for those who hire valuation professionals—and those who use their work—to easily ascertain whether the valuation professional possesses the requisite skills to perform a high-quality valuation. Additionally, there is risk that the lack of a framework could impact the quality, efficiency, and effectiveness of valuations being performed.

The importance of a robust professional framework

A set of widely-recognized professional standards would provide clarity on what it means to be a “valuation professional.”

Establishing a professional framework

Technical valuation standards will only achieve their purpose if applied by professionals with sufficient education, experience, and credentials—elements that are governed by a professional framework.

We believe that establishing a professional framework is something best accomplished on a national level. This is primarily due to the significant differences in education and credentialing globally, as well as the difficulties of global enforcement.

A national organization whose professional standards govern valuation professionals who issue valuation reports for financial reporting purposes would elevate the profession's brand and enhance market confidence in the professionals' work.

To be effective, a professional framework should include:

Code of conduct

A code of conduct would provide valuation professionals with consistent guidelines governing professional behavior. It should cover topics like independence, conflicts of interest, and due professional care.

Education and credentialing

A consistent credentialing process should be in place for those performing valuation reports for financial reporting. The credential could be based on education, experience, examination, or some combination. Equally important are continuing professional education requirements so that the credentials remain relevant and meaningful. Finally, consideration should be given to whether

the credentials would be required only of the individual signing the valuation report or of other members of the valuation team, such as those who make key decisions.

Performance standards

Valuation professionals must be able to apply judgment based on their knowledge and experience. Performance standards should provide guidelines for the level of analysis to be applied and work to be performed to issue a valuation report.

Quality review

To adequately regulate the profession, a governing professional organization should institute a robust quality review process that will promote high-quality valuations. It should also have a meaningful disciplinary mechanism for members who do not comply with the standards of conduct and performance.

In conclusion

There are many highly qualified valuation professionals who adhere to best practices, are guided by an acute sense of integrity, and consistently produce high-quality valuations. But, there is no consistent mechanism to guide and enforce valuation professionals' behavior.

Consistent with many other professions, valuation professionals that issue valuation reports for financial reporting purposes should have a widely recognized set of professional standards to which they must adhere. That will inspire confidence in the quality of their work, maintain the public's trust in the profession, and provide clarity on what it means to be a "valuation professional."

Questions and answers

Q: Given the current differences in credentials, education, and experience, how would the profession transition to an infrastructure that mandates some or all of those?

A: There is no simple solution. It is essential for the national organization that establishes the professional framework to include representation from all specialties, and collaborate with existing professional organizations. This will help it to devise a transition plan that is reasonable and fair, and recognizes the existing wealth of experience within the profession.

Q: What are the benefits of instituting a professional framework for the valuation profession?

A: The primary benefit of a professional framework, including performance standards, a code of conduct, education and credentialing, and quality reviews, is enhanced user and regulator confidence in the valuations performed. That enhanced confidence would extend to auditors, who assess the quality of the valuations performed, as well as the qualifications of the specialist performing the valuation, as part of their procedures when auditing financial statements.

Q: What are some examples of performance standards that should be included in a professional framework for the valuation profession?

A: Subjectivity and professional judgment are key aspects of a valuation of simple or complex products. While accepting this fact, it is critical that certain performance standards be part of a professional framework. Performance standards could include:

- A principles-based framework that provides guidance on acceptable valuation methodologies for different product types;
- Guidance regarding the appropriateness of the model used for processes such as cash flow projections and discounting;
- Factors to evaluate related to the reasonableness of underlying data inputs used in developing fair value estimates; and
- Requirements regarding documentation of the process used to develop and support assumptions utilized in developing fair value estimates.

The implementation of performance standards would promote a greater level of consistency in both the methodology and the documentation.

Contact Information

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