

# Alert

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## What Should You Look for When Choosing a Valuation Firm?

### How to Know if Your Valuation Provider is Qualified

*“Consider how long the firm has been in existence and the collective experience of its professionals.”*

In the current climate of corporate governance, management is being held to a higher level of accountability. Due to concerns over independence and conflicts of interest, many companies have elected to engage outside specialists for non-audit services, such as valuation work. Additionally, the Financial Accounting Standards Board (FASB), in its efforts to improve transparency in financial reporting, has been emphasizing fair value recognition in recent pronouncements. All indications show that this move to fair value accounting is likely to continue in future standards. As fair value requirements continue to increase, finding a reputable valuation provider has become a concern for many companies. What should you look for when choosing a valuation firm? How do you know if your valuation provider is qualified? The following factors should be considered when selecting a valuation firm:

#### INDEPENDENCE

The independence of the valuation provider is critical to selecting a valuation firm. The firm should be experienced in providing independent and objective opinions of value. We confine our association with clients entirely to value-related advisory services. In particular, we neither act as a broker nor dealer upon successful completion of a transaction for compensation. Our opinions are free from conflicts of interest and credible to lenders, shareholders, auditors, regulators, and courts.

With respect to services such as fairness opinions, the independence of the provider becomes even more important. The NASD is concerned about investment banks providing fairness opinions on deals from which they stand to collect a material success fee. For this reason, the NASD issued a new rule (Rule 2290) earlier this year which addresses disclosures and procedures concerning the issuance of fairness opinions.

#### CREDENTIALS

The valuation firm's professionals should be credentialed. Designations which are relevant to the valuation profession include chartered financial analyst (CFA), accredited senior appraiser (ASA), accredited in business valuation (ABV), and member of the Appraisal Institute (MAI).

#### EXPERIENCE

Consider how long the firm has been in existence and the collective experience of its professionals. Are engagements staffed with senior professionals? The firm's professionals should also have experience providing expert testimony with respect to valuation matters.

What types of engagements has the firm completed? A reputable firm will be experienced in complex engagements. Valuations for SFAS 141, 142, and 144 purposes, in particular, require the judgment and skill of an experienced valuation professional. Does the firm have experience working with audit firms? Have the firm's engagements, such as allocation of purchase price

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#### VRC NEWS

We are pleased to announce the completion of our new web site, [www.valuationresearch.com](http://www.valuationresearch.com). Check out our new user-friendly site for information on our services and professionals as well as articles on financial reporting and tax issues.

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assignments, passed audit review? In recent years, the valuation industry has experienced a significant increase in time allocated to auditors in the review process. Given the complexity of many valuation assignments, communication between a company's audit team and its outside valuation experts has become critical.

*“Valuation specialists should be versed in current accounting requirements as well as pending accounting pronouncements.”*

#### SUPPORTABLE VALUATIONS

A reputable valuation firm is able to provide supportable valuations that can withstand scrutiny from the Securities and Exchange Commission (SEC), the Internal Revenue Service (IRS), and other regulatory bodies.

Valuations of fixed assets should comply with the Uniform Standards of Professional Appraisal Practice (USPAP). In addition to complying with USPAP standards, our professionals are able to meet the requirements prescribed by the Financial Institutions Reform, Recover, and Enforcement Acts of 1989 (FIRREA).

#### KNOWLEDGE OF EMERGING ISSUES

Valuation specialists should be versed in current accounting requirements as well as pending accounting pronouncements. Members of our professional staff belong to the Appraisal Issues Task Force (AITF), a group of valuation professionals which meet on a regular basis to discuss valuation issues. Members of the FASB and the SEC are usually present at these meetings. Our professionals have provided input to the FASB with respect to valuation matters pertaining to financial reporting rules.

#### RELY ON THE EXPERTS

At Valuation Research, our professionals average more than 20 years of experience. Our professional staff has the knowledge and expertise to handle the most complex valuation assignments. For more information on our services, contact your Valuation Research representative or John Bintz at (312) 214-3213. **VR**

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