This is a high level summary of issues likely to be relevant to companies and international groups with operations in the UK and Europe or that are considering transactions in the UK and Europe. The following overview was prepared by VRG member firm Valuation Consulting LLP Partner, Kelvin King.

Valuations in the UK and Europe are generally required because of either tax, a transaction, dispute, litigation or investment, and can be broadly grouped by needs; financial and reporting, tax, fiduciary and legal purposes. There are instances where valuations are required for compliance or regulatory purposes (some on a recurring basis).

FINANCIAL REPORTING
UK financial reporting is mostly based on EU adopted IFRS and UK FRS for financial statements not applying IFRS. All listed companies in the EU must report in IFRS and with the new FRS 102 UK GAAP accounting standard private UK companies are required to adopt fair value financial reporting.

Shares and or options issued as compensation – as part of a business combination or acquisition when management is given shares or share options as part of a capital structure you must determine the fair value of the shares and or options issued.

Asset impairment – after an acquisition PPA companies are required to test assets for impairment on an annual or more frequent basis (IAS 32/39 and IFRS13).

VALUATIONS FOR TAX OR STATUTORY PURPOSES
Open market value and fair market value are the commonly used terms in tax law.

When are Independent Valuations Needed
Valuation of share options as compensation and reward – management and staff are often given stock or options. In respect of Enterprise Management Incentive (EMI), Share Incentive Plan (SIP), Long-Term Incentive Plans, Growth Share Plans, Company Share Option Plans (CSOP), Unapproved Share Options, Employee Share Schemes (ESS) and Deferred Share Purchase Plans, HMRC’s Shares and Assets Valuation (SAV) where two Partners of VC held senior positions, will negotiate on the valuation. SAV has withdrawn two of its longstanding non-statutory valuation agreement procedures.

The remuneration of Private Equity executives can be complex and valuations of future payments, including carrying interests may be required.
Business combinations, valuation of legal entities – when acquiring a business with operations in multiple countries it may be necessary to value the entities by country in order to determine their tax basis as well as the appropriate level of deferred taxes.

Transfer pricing, valuation of intangibles, value of debt – IR authorities and the Organization for Economic Cooperation and Development (OECD) have recently revised their guidelines to address concerns, particularly with respect to intellectual property (IP) valuations in a transfer pricing context. VC has extensive experience advising multi-national clients about the value of their intellectual property, brands, trademarks, patents and copyright technology and many other intangible assets, in respect of transfer pricing particularly with regard to the recent Base Erosion and Profit Shifting (BEPS) rules of OECD. Common methods for valuing IP in this area include Income Methods, Comparable Uncontrolled Transaction Method, Comparable Profits Method and the Profit Split Method.

LEGAL PURPOSES
When is an Independent and or Expert Witness Role Needed

• Directions in Agreements – independent valuations including those of a final and binding nature are required and advised under unquoted company’s constitutional documents, shareholder agreements and Articles of Association.

• Court Work – Valuation and Royalty Rate appraisal is required when acting as Expert Witness in matters of alleged intellectual property infringement and in the determination of loss of profit, reasonable royalty and damages. VC Partners have acted for Governments as Expert Witness and are also well known for presenting testimony worldwide in cases of shareholder dispute and matrimonial divorce when a business interest or such as copyright of an author or artist and or image right of a personality may be a valuable and important consideration.

FIDUCIARY AND COMMERCIAL OPINIONS

• Fairness Opinions – arms-length, related party and other types of transactions such as M&A, sale of substantial assets, forbearance agreements, new debt financings, affiliate transactions and winding down operations routinely obtain an independent fairness opinion for material transactions to serve as a form of defense and legal protection for the board on both sides of a deal.

• Portfolio Valuations for Funds and Europe’s Alternative Investment Fund Directive – key changes introduced to AIFMD mean EU AIFM’s will be required to have independent risk management and valuation functions. Article 19 sets the stage for the independent expert role in providing and or supporting “proper and independent valuation… at a frequency which is… appropriate… performed by an external valuer or the AIFM itself provided… valuation is functionally independent”. VC Partners satisfy through ICAEW and RICS valuer registration and regulation acknowledged independent expert credentials to “effectively perform the valuation function”.

• Commercially Driven Opinions – valuations for restructurings; insolvency, distress and recovery; banking reviews; joint ventures and assisting M&A, Initial Public Offerings, Bond issuance, strategic options, and Information Memoranda for investment are commonplace.

To learn more about how VC can work with your company, we welcome you to visit us online at www.vrg.net or contact Kelvin King at kelvking@valuationconsulting.com or Tel: +44 (0) 20 7420 0007.