

<p style="margin: 0;">ASA</p> <p style="margin: 0;">Business Valuation Standards</p>
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This release of the approved *ASA Business Valuation Standards* of the American Society of Appraisers contains all standards approved through February 2022, and is to be used in conjunction with the *Uniform Standards of Professional Appraisal Practice* (USPAP) of The Appraisal Foundation and the *Principles of Appraisal Practice and Code of Ethics* of the American Society of Appraisers. Periodic updates to these Standards are posted to ASA’s website www.appraisers.org/about/standards-ethics-and-policies.

The *ASA Business Valuation Standards*, including Statements on Business Valuation Standards, Advisory Opinions and Procedural Guidelines have been published and/or revised as indicated in the following Table of Contents.

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AMERICAN SOCIETY OF APPRAISERS
ASA Business Valuation Standards

General Preamble

- I. The American Society of Appraisers, through its Business Valuation Committee, has adopted these *ASA Business Valuation Standards* and Definitions (“the Standards”) in order to maintain and enhance the quality of business valuations for the benefit of the business valuation profession and users of business valuations.
- II. The American Society of Appraisers, in its *Principles of Appraisal Practice and Code of Ethics*, and The Appraisal Foundation, in its *Uniform Standards of Professional Appraisal Practice* (“USPAP”), have established authoritative principles and a code of professional ethics. These Standards incorporate the *Principles of Appraisal Practice and Code of Ethics* and the relevant portions of USPAP, either explicitly or by reference, and are designed to clarify them and provide additional requirements specifically applicable to the valuation of businesses, business ownership interests, securities and intangible assets.
- III. These Standards incorporate all relevant business valuation standards adopted by the American Society of Appraisers through its Business Valuation Committee.
- IV. These Standards provide minimum criteria to be followed by business appraisers in developing and reporting the valuation of businesses, business ownership interests, securities and intangible assets.
- V. If, in the opinion of the appraiser, the circumstances of a specific business valuation assignment dictate a departure from any provision of any Standard, such departure must be disclosed and will apply only to the specific provision.
- VI. These Standards are designed to provide guidance to ASA members and to provide a structure for regulating the development and reporting of business valuations through uniform practices and procedures. Deviations from the Standards are not intended to form the basis of any civil liability and should not create any presumption or evidence that a legal duty has been breached. Moreover, compliance with these Standards does not create any special relationship between the appraiser and any other person.

AMERICAN SOCIETY OF APPRAISERS
ASA Business Valuation Standards

**BVS-I General Requirements for Developing a
Business Valuation**

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the general requirements for developing the valuation of businesses, business ownership interests, securities and intangible assets.
- C. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. Appropriate definition of the assignment

- A. Business valuation is the act or process of determining the value of a business enterprise or ownership interest therein.
- B. In developing a valuation of a business, business ownership interest, security, or intangible asset, an appraiser must identify and define, as appropriate:
 - 1. The client and other intended users
 - 2. The purpose or intended use of the appraisal
 - 3. The type of engagement as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C
 - 4. The business enterprise to which the valuation relates
 - 5. The type of entity (e.g., corporation, limited liability company, partnership or other)
 - 6. The state or jurisdiction of incorporation, if applicable
 - 7. The principal business location (or headquarters)
 - 8. The business interest under consideration
 - 9. The standard of value applicable to the valuation (e.g., fair market value, fair value, investment value, or other)
 - 10. The premise of value (e.g., going concern, liquidation, or other)
 - 11. The level of value (e.g., strategic control, financial control, marketable minority, or nonmarketable minority) in the context of the standard of value, the premise of value, and the relevant characteristics of the interest
 - 12. The effective (or “as of”) date of the appraisal
 - 13. Any extraordinary assumptions used in the assignment
 - 14. Any hypothetical conditions used in the assignment

- C. The nature and type of the engagement must be defined. An acceptable type of engagement will generally be one of the three types detailed below. Other types of engagements should be explained and described.
1. Appraisal
 - a. An Appraisal is the act or process of determining the value of a business, business ownership interest, security, or intangible asset.
 - b. The objective of an appraisal is to express an unambiguous opinion as to the value of a business, business ownership interest, security or intangible asset which opinion is supported by all procedures that the appraiser deems to be relevant to the valuation.
 - c. An appraisal has the following qualities:
 - (1) Its conclusion of value is expressed as either a single dollar amount or a range
 - (2) It considers all relevant information as of the appraisal date available to the appraiser at the time of performance of the valuation
 - (3) The appraiser conducts appropriate procedures to collect and analyze all information expected to be relevant to the valuation
 - (4) The valuation considers all conceptual approaches deemed to be relevant by the appraiser
 2. Limited appraisal
 - a. The objective of a limited appraisal is to express an estimate as to the value of a business, business ownership interest, security or intangible asset. The development of this estimate excludes some additional procedures that are required in an appraisal.
 - b. A limited appraisal has the following qualities:
 - (1) Its conclusion of value is expressed as either a single dollar amount or a range
 - (2) It is based upon consideration of limited relevant information
 - (3) The appraiser conducts only limited procedures to collect and analyze the information that such appraiser considers necessary to support the conclusion presented
 - (4) The valuation is based upon the conceptual approach(es) deemed by the appraiser to be most appropriate
 3. Calculation
 - a. The objective of a calculation is to provide an approximate indication of value of a business, business ownership interest, security or intangible asset based on the performance of limited procedures agreed upon by the appraiser and the client.
 - b. A calculation has the following qualities:
 - (1) It's result may be expressed as either a single dollar amount or a range
 - (2) It may be based upon consideration of only limited relevant information
 - (3) The appraiser collects limited information and performs limited analysis
 - (4) The calculation may be based upon conceptual approaches agreed upon with the client

III. Information collection and analysis

The appraiser shall gather, analyze and adjust the relevant information necessary to perform a valuation appropriate to the nature or type of the engagement. Such information shall include:

- A. Characteristics of the business, business ownership interest, security or intangible asset to be valued, including rights, privileges, conditions, quantity, factors affecting control and agreements restricting sale or transfer
- B. The nature, history and outlook of the business
- C. Historical financial information for the business
- D. Assets and liabilities of the business
- E. The nature and conditions of relevant industries that have an impact on the business
- F. Economic factors affecting the business
- G. Capital markets providing relevant information; e.g., available rates of return on alternative investments, relevant public stock market information and relevant merger and acquisition information
- H. Prior transactions involving the subject business, or involving interests in, the securities of, or intangible assets in the subject business
- I. Other information deemed by the appraiser to be relevant

IV. Approaches, methods and procedures

- A. The appraiser shall select and apply appropriate valuation approaches, methods and procedures.
- B. The appraiser shall develop a conclusion of value pursuant to the valuation assignment as defined, considering the relevant valuation approaches, methods and procedures, the information available and appropriate premiums and discounts, if any.

V. Documentation and retention

The appraiser shall appropriately document and retain all information relied on and the work product used in reaching a conclusion.

VI. Reporting

The appraiser shall report the appraisal conclusions to the client in an appropriate written or oral format. Other than preliminary communications of results to a client, reporting on valuation calculations, or reporting on engagements that do not result in conclusions of value, the report must meet the requirements of Standard 10 of the Uniform Standards of Professional Appraisal Practice. In the event the assignment results in a Comprehensive Written Business Valuation Report, the report shall meet the requirements of BVS-VIII Comprehensive Written Business Valuation Report.

AMERICAN SOCIETY OF APPRAISERS
ASA Business Valuation Standards

BVS-II Financial Statement Adjustments

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for making financial statement adjustments in the valuation of businesses, business ownership interests, securities and intangible assets.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- D. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. Conceptual framework

- A. As a procedure in the valuation process, financial statements should be analyzed and, if appropriate, adjusted. Financial statements to be analyzed include those of the subject entity and any entities used as guideline companies.
- B. Financial statement adjustments are modifications to reported financial information that are relevant and significant to the appraisal process. Adjustments may be appropriate for the following reasons, among others:
 - 1. To present financial data of the subject and guideline companies on a consistent basis
 - 2. To adjust from reported values to current values
 - 3. To adjust revenues and expenses to levels that are reasonably representative of continuing results
 - 4. To adjust for non-operating assets and liabilities, and any revenues and expenses related to the non-operating items
- C. Financial statement adjustments are made for the sole purpose of assisting the appraiser in reaching a conclusion of value.

III. Documentation of adjustments

All adjustments made should be fully described and supported.

AMERICAN SOCIETY OF APPRAISERS
ASA Business Valuation Standards

BVS-III Asset-Based Approach to Business Valuation

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the use of the asset-based approach (and the circumstances in which it is appropriate) in the valuation of businesses, business ownership interests, securities and intangible assets, but not the reporting thereof.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- D. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. The asset-based approach

- A. The asset-based approach is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods based on the value of the assets net of liabilities.
- B. In business valuation, the asset-based approach may be analogous to the cost approach of other appraisal disciplines.
- C. Assets, liabilities and equity relate to a business that is an operating company, a holding company, or a combination thereof (a mixed business).
 - 1. An operating company is a business that conducts an economic activity by generating and selling, or trading in a product or service.
 - 2. A holding company is a business that derives its revenues from a return on its assets, which may include operating companies and/or other businesses.
 - 3. The asset-based approach should be considered in valuations conducted at the enterprise level and involving:
 - a. An investment or real estate holding company
 - b. A business appraised on a basis other than as a going concern

Valuations of *particular ownership interests* in an enterprise may or may not require the use of the asset based approach.

- D. The asset-based approach should not be the sole appraisal approach used in assignments relating to operating companies appraised as going concerns unless this approach is customarily used by sellers and buyers. In such cases, the appraiser must support the selection of this approach.

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ASA Business Valuation Standards

BVS-IV Income Approach to Business Valuation

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the use of the income approach in the valuation of businesses, business ownership interests, securities and intangible assets, but not the reporting thereof.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- D. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. The income approach

- A. The income approach is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods through which anticipated benefits are converted into value.
- B. Both capitalization of benefits methods and discounted future benefits methods are acceptable. In capitalization of benefits methods, a representative benefit level is divided or multiplied by an appropriate capitalization factor to convert the benefit to value. In discounted future benefits methods, benefits are estimated for each of several future periods. These benefits are converted to value by applying an appropriate discount rate and using present value procedures.

III. Anticipated benefits

- A. Anticipated benefits, as used in the income approach, are expressed in monetary terms. Anticipated benefits may be reasonably represented by such items as dividends or distributions, or various forms of earnings or cash flow.
- B. Anticipated benefits should be estimated by considering such items as the nature, capital structure and historical performance of the related business entity, the expected future outlook for the business entity and relevant industries, and relevant economic factors.

IV. Conversion of anticipated benefits

- A. Anticipated benefits are converted to value by using procedures that consider the expected growth and timing of the benefits, the risk profile of the benefits stream and the time value of money.
- B. The conversion of anticipated benefits to value normally requires the determination of a capitalization factor or discount rate. In that determination, the appraiser should consider such factors as the level of interest rates, the rates of return expected by investors on alternative investments and the specific risk characteristics of the anticipated benefits.

- C. In discounted future benefits methods, expected growth is considered in estimating the future stream of benefits. In capitalization of benefits methods, expected growth is incorporated in the capitalization factor.
- D. The capitalization factors or discount rates should be consistent with the types of anticipated benefits used. For example, pre-tax factors or discount rates should be used with pre-tax benefits, common equity factors or discount rates should be used with common equity benefits and net cash flow factors or discount rates should be used with net cash flow benefits.

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ASA Business Valuation Standards

BVS-V Market Approach to Business Valuation

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the use of the market approach in the valuation of businesses, business ownership interests, securities and intangible assets, but not the reporting thereof.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- D. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. The market approach

- A. The market approach is a general way of determining a value indication of a business, business ownership interest, security or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities or intangible assets that have been sold.
- B. Examples of market approach methods include the Guideline Public Company Method (see SBVS-1) and the Guideline Transactions Method (see SBVS-2).

III. Reasonable basis for comparison

- A. The business, business ownership interest, security or intangible asset used for comparison must serve as a reasonable basis for comparison to the subject.
- B. Factors to be considered in judging whether a reasonable basis for comparison exists include:
 - 1. A sufficient similarity of qualitative and quantitative investment characteristics
 - 2. The amount and verifiability of data known about the similar investment
 - 3. Whether or not the price of the similar investment was observed in an arm's-length transaction, or in a forced or distressed sale

IV. Selection of valuation ratios

- A. Comparisons are normally made through the use of valuation ratios. The computation and use of such ratios should provide meaningful insight about the value of the subject, considering all relevant factors. Accordingly, care should be exercised with respect to issues such as:
 - 1. The selection of the underlying data used to compute the valuation ratios
 - 2. The selection of the time periods and/or the averaging methods used for the underlying data

3. The computation of the valuation ratios
 4. The timing of the price data used in the valuation ratios (in relationship to the effective date of the appraisal)
 5. How the valuation ratios were selected and applied to the subject's underlying data
- B. In general, comparisons should be made by using comparable definitions of the components of the valuation ratios. However, where appropriate, valuation ratios based on components that are reasonably representative of ongoing results may be used.

V. Rules of thumb

Rules of thumb may provide insight into the value of a business, business ownership interest, security or intangible asset. However, value indications derived from the use of rules of thumb should not be given substantial weight unless they are supported by other valuation methods and it can be established that knowledgeable buyers and sellers place substantial reliance on them.

AMERICAN SOCIETY OF APPRAISERS
ASA Business Valuation Standards

BVS-VI Reaching a Conclusion of Value

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for reaching a final conclusion of value in the valuation of businesses, business ownership interests, securities and intangible assets.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- D. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. General

- A. The conclusion of value reached by the appraiser shall be based upon the applicable standard of value, the purpose and intended use of the valuation, and all relevant information available as of the valuation date in carrying out the type of engagement for the assignment.
- B. The conclusion of value reached by the appraiser will be based on value indications resulting from one or more methods performed under one or more appraisal approaches.

III. Selection and weighting of methods

- A. The selection of and reliance on appropriate methods and procedures depends on the judgment of the appraiser and not on any prescribed formula. One or more approaches may not be relevant to a particular situation, and more than one method under an approach may be relevant.
- B. The appraiser must use informed judgment when determining the relative weight to be accorded to indications of value reached on the basis of various methods, or whether an indication of value from a single method should be conclusive. The appraiser's judgment may be presented either in general terms or in terms of mathematical weighting of the indicated values reflected in the conclusion. In any case, the appraiser should provide the rationale for the selection or weighting of the method or methods relied on in reaching the conclusion.
- C. In assessing the relative importance of indications of value determined under each method, or whether an indication of value from a single method should dominate, the appraiser should consider factors such as:
 - 1. The applicable standard of value
 - 2. The purpose and intended use of the valuation
 - 3. Whether the subject is an operating company, a real estate or investment holding company, or a company with substantial non-operating or excess assets

4. The quality and reliability of data underlying the indication of value
5. Such other factors that, in the opinion of the appraiser, are appropriate for consideration

IV. Additional factors to consider

As appropriate for the valuation assignment as defined, and if not considered in the process of determining and weighting the indications of value provided by various procedures, the appraiser should separately consider the following factors in reaching a final conclusion of value:

- A. Marketability or lack thereof, considering the nature of the business, the business ownership interest, security or intangible asset
- B. The effect of relevant contractual and/or other legal restrictions
- C. The condition of the market(s) in which the appraised interest might trade
- D. The ability of an owner of the appraised interest to control the operation, sale, or liquidation of the relevant business
- E. Such other factors that, in the opinion of the appraiser, are appropriate for consideration

AMERICAN SOCIETY OF APPRAISERS
ASA Business Valuation Standards

BVS-VII Valuation Discounts and Premiums

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the use of discounts and premiums whenever they are applied in the valuation of businesses, business ownership interests, securities and intangible assets.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- D. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.
- E. This Standard applies at any time in the valuation process, whether within a method, to the value indicated by a valuation method, or to the result of weighting or correlating methods.

II. The concepts of discounts and premiums

- A. A discount has no meaning until the conceptual basis underlying the base value to which it is applied is defined.
- B. A premium has no meaning until the conceptual basis underlying the base value to which it is applied is defined.
- C. A discount or premium is warranted when characteristics affecting the value of the subject interest differ sufficiently from those inherent in the base value to which the discount or premium is applied.
- D. A discount or premium quantifies an adjustment to account for differences in characteristics affecting the value of the subject interest relative to the base value to which it is compared.

III. The application of discounts and premiums

- A. The purpose, applicable standard of value, or other circumstances of an appraisal may indicate the need to account for differences between the base value and the value of the subject interest. If so, appropriate discounts or premiums should be applied.
- B. The base value to which the discount or premium is applied must be specified and defined.
- C. Each discount or premium to be applied to the base value must be defined.
- D. The primary reasons why each selected discount or premium applies to the appraised interest must be stated.
- E. The evidence considered in deriving the discount or premium must be specified.
- F. The appraiser's reasoning in arriving at a conclusion regarding the size of any discount or premium applied must be explained.

AMERICAN SOCIETY OF APPRAISERS
ASA Business Valuation Standards

BVS-VIII Comprehensive Written Business Valuation Report

I. Preamble

- A. This Standard must be followed only in the preparation of comprehensive written business valuation reports developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. A business valuation report may be less comprehensive in content provided that the report complies with the minimum content required by Standard 10.2 of USPAP.
- C. The purpose of this Standard is to define and describe the requirements for the written communication of the results of a business valuation, analysis, or opinion, but not the conduct thereof, which may reflect the three types of engagements defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- D. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. Signature and certification

- A. An appraiser assumes responsibility for the statements made in a comprehensive written report and accepts that responsibility by signing the report. To comply with this Standard, a comprehensive written report must be signed by the appraiser. For the purpose of this Standard, the appraiser is the individual or entity undertaking the appraisal assignment under a contract with the client.
- B. Clearly, at least one individual is responsible for the valuation conclusion(s) expressed in a report. A report must contain a certification, as required by Standard 10 of USPAP, in which the individual(s) responsible for the valuation conclusion(s) must be identified.

III. Assumptions and limiting conditions

The following assumptions and/or limiting conditions must be stated:

- A. **Pertaining to bias.** A report must contain a statement that the appraiser has no interest in the asset appraised, or other conflict that could cause a question as to the appraiser's independence or objectivity; or, if such an interest or conflict exists, it must be disclosed.
- B. **Pertaining to data used.** Where appropriate, a report must indicate that an appraiser relied on data supplied by others, without further verification by the appraiser, as well as the sources that were relied on.
- C. **Pertaining to validity of the valuation.** A report must contain a statement that a valuation is valid only for the valuation date indicated and for the purpose stated.

IV. Definition of the valuation assignment

The precise definition of the valuation assignment is a key aspect of the report. The following are components of such a definition and must be included in the report:

- A. The business interest being valued must be clearly defined, such as “100 shares of the Class A common stock of the XYZ Corporation” or “a 20 percent limited partnership interest in the ABC Limited Partnership.” The existence, rights, and/or restrictions of other classes of ownership in the subject business must also be adequately described if they are relevant to the conclusion of value.
- B. The purpose and use of the valuation must be clearly stated, such as “a determination of fair market value for ESOP purposes” or “a determination of fair value for dissenters' rights purposes.” If a valuation is being performed pursuant to a particular statute, the statute must be referenced.
- C. The standard of value used in the valuation must be stated and defined.
- D. The premise or basis of value, such as valuation on a going concern or liquidation basis, must be defined.
- E. The level of value, such as marketable minority or nonmarketable minority, must be defined.
- F. The effective date and the report date must be stated.
- G. Other elements as outlined in BVS-I General Requirements for Developing a Business Valuation, Section II.B, as appropriate.

V. Business description

A comprehensive written business valuation report must include a business description that covers relevant factual matters related to the business, such as:

- A. Form of organization (e.g., corporation, partnership, or other)
- B. History
- C. Products and/or services
- D. Markets and customers
- E. Management
- F. Major assets, both tangible and intangible, and major liabilities
- G. Outlook for the economy, industry, and business
- H. Past transactional evidence of value
- I. Sensitivity to seasonal or cyclical factors
- J. Competition
- K. Sources of information used
- L. Such other factual information as may be required to present a clear description of the business and the general context within which it operates

VI. Financial analysis

- A. An analysis and discussion of a firm's financial statements is an integral part of a business valuation and must be included in a comprehensive written business valuation report. Exhibits summarizing balance sheets and income statements for a period of years sufficient to the purpose of the valuation and the nature of the subject company must be included in the valuation report.
- B. Any adjustments made to the reported financial data must be fully explained.
- C. If projections of balance sheets or income statements are used in the valuation, key assumptions underlying those projections must be included and discussed.
- D. If appropriate, the company's financial results in comparison to those of the industry in which it operates must be discussed.

VII. Valuation methodology

- A. The valuation method or methods selected, and the reasons for their selection, must be discussed. The steps followed in the application of the method(s) selected must be described. The description of the methodology and the procedures followed must contain sufficient detail to allow the intended user of the report to understand how the appraiser reached the valuation conclusion.
- B. The report must include explanations of how factors such as discount rates, capitalization rates, or valuation multiples were determined and used. The rationale and/or supporting data for any premiums or discounts must be clearly presented.

VIII. Comprehensive written business valuation report format

The comprehensive written business valuation report must clearly communicate pertinent information, valuation methods and conclusions in a logical progression, and must incorporate the other specific requirements of this Standard, including the signature and certification provisions.

IX. Confidentiality of the report

No copies of the report may be furnished to persons other than the client without the client's specific permission or direction unless ordered by a court of competent jurisdiction.

AMERICAN SOCIETY OF APPRAISERS
Business Valuation Standards

BVS-IX Intangible Asset Valuation

I. Preamble

- A. This Standard must be followed in all valuations of intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA) or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the valuation of intangible assets.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- D. This Standard incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. Principles

In developing an intangible asset valuation, an appraiser must:

- A. Identify the intangible asset to which the valuation relates.
- B. Identify and define the applicable items of BVS-I General Requirements for Developing a Business Valuation, Section II.B.

III. Valuation methodology

In valuing an intangible asset, the appraiser should consider appropriate approaches and methods. Approaches that should be considered in valuing intangible assets are as follows:

- A. Income Approach.
 - 1. The appraiser should identify the economic benefits that are reasonably attributable to the subject intangible asset, and the risks associated with realizing those benefits.
 - 2. The appraiser should consider the economic benefit provided by the amortization of the asset's value for income tax purposes, where applicable.
 - 3. The appraiser should consider whether the economic life of the intangible asset is different from its legal or regulatory life.
- B. Market Approach. The appraiser should consider relevant differences between the subject and guideline assets as well as respective market conditions.
- C. Cost Approach. The appraiser should consider direct and indirect costs associated with reproduction or replacement, as the case may be, as well as any loss of value due to functional or economic obsolescence, or reduced life expectancy.

IV. Factors

In valuing an intangible asset, the appraiser should consider:

- A. The bundle of legal rights, protections and limitations pertaining to the intangible asset to be valued.
- B. The history of the intangible asset.
- C. The intangible asset's expected remaining economic (useful) and legal life.
- D. The economic benefits, direct or indirect, that the intangible asset is expected to provide to its owner during the asset's life.
- E. Previous or existing litigation involving the intangible asset.
- F. The distinction between an undivided interest and a fractional interest in the intangible asset resulting from, e.g., shared ownership or a licensing agreement.
- G. The feasibility and character of potential commercial exploitation of the intangible asset.
- H. Additional factors relating to the specific type of intangible asset to be valued, as appropriate.

See Appendix A below for illustrations of several intellectual property intangible assets.

APPENDIX A to BVS-IX: INTELLECTUAL PROPERTY EXAMPLES

The purpose of this Appendix is to illustrate asset type valuation factors in the context of intellectual property, and to provide guidance to be considered in the valuation of the indicated assets.

I. Patents. A patent is a published, public document that grants an inventor or assignee specific rights such as excluding others from making, using, or selling an invention, design or discovery within a specific jurisdiction for a term of years. For an intangible asset such as a patent, the appraiser should consider the following factors, as applicable (in addition to meeting all the other requirements of ASA Business Valuation Standard BVS IX: Intangible Asset Valuation):

- A. Scope of protection, such as jurisdictional coverage, status of registrations and maintenance fee payments, breadth of patent claims and alternatives to the patented invention.
- B. Risks of patent exploitation, such as infringement, invalidity, existence of technological or economic barriers to successful commercialization, or alternative innovations that could reduce the patent's economic benefit.
- C. Public and private information that may be available regarding the subject patent and comparable or competing technologies, such as data from the United States Patent & Trademark Office [USPTO], public disclosure filed with the Securities and Exchange Commission ("SEC") and market research.
- D. In valuing a portfolio of patents, the appraiser should consider the relevant synergies enabled by the aggregation of rights, such as:
 - 1. Elimination of blocking patent rights
 - 2. Obtaining design freedom, reducing the likelihood of infringement
 - 3. Attainment of a broader, or more versatile or desirable mix of commercialization possibilities

II. Trade Secrets. A trade secret is information that a business keeps secret in order to gain an advantage over competitors. For an intangible asset in the nature of a trade secret, the appraiser should consider the following factors, as applicable (in addition to meeting all the other requirements of ASA Business Valuation Standard BVS IX: Intangible Asset Valuation):

- A. The reasonableness and effectiveness of measures taken to ensure secrecy.
- B. The possibility that the secret could be legitimately discovered and/or developed by competitors, such as through independent research, development or engineering.
- C. If potentially patentable, the potential benefits, costs and risks of patenting versus holding the trade secret as a trade secret.

III. Trademarks. A trademark is a word, symbol or device that is used to denote a source of goods or services. For an intangible asset in the nature of a trademark, the appraiser should consider the following factors, as applicable (in addition to meeting all the other requirements of ASA Business Valuation Standard BVS IX: Intangible Asset Valuation):

- A. The ability to extend the trademark to related products or services, i.e., without infringing on the trademarks of others.
- B. The nature and extent of protections afforded by any registrations, including whether applicable renewals are in effect.
- C. Possibility of abandonment due to non-use.
- D. Possibility of the mark becoming generic.
- E. Public and private information that may be available regarding the subject trademark and comparable or competing marks, such as USPTO data, public disclosure filed with the SEC, market analysis and research and surveys.

IV. Copyrighted Works. A copyright is a creative expression, such as a writing, recording, play, or work of art, which is protected by law against unpermitted copying. For an intangible asset in the nature of a copyrighted work, the appraiser should consider the following factors, as applicable (in addition to meeting all the other requirements of ASA Business Valuation Standard BVS IX: Intangible Asset Valuation):

- A. Scope of protection, such as jurisdictional coverage, status of registrations and renewals, and whether the copyright relates to the original work or a particular derivative thereof.
- B. Public and private information that may be available regarding the copyrighted work, and comparable or competing works.

AMERICAN SOCIETY OF APPRAISERS
Statements on ASA Business Valuation Standards

SBVS-1 Guideline Public Company Method

I. Preamble

- A. Statements clarify, interpret, explain, or elaborate on Standards. Statements have the full weight of Standards.
- B. This Statement must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- C. The purpose of this Statement is to define and describe the requirements for the use of guideline public companies in the valuation of businesses, business ownership interests, securities and intangible assets, when applicable, under BVS–V Market Approach to Business Valuation.
- D. This Statement applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- E. This Statement incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. Conceptual framework

- A. Market transactions in the securities of publicly traded companies can provide objective, empirical data for developing valuation ratios for use in business valuation.
- B. The development of valuation ratios from guideline public companies should be considered in the valuation of businesses, business ownership interests, securities and intangible assets to the extent that adequate and relevant information is available.
- C. Guideline public companies are companies with shares traded in the public securities markets that provide a reasonable basis for comparison to the investment characteristics of the company (or other interest) being valued. Ideal guideline companies are in the same industry as the subject company; however, if there is insufficient market evidence available in that industry, it may be necessary to select other companies having an underlying similarity to the subject company in terms of relevant investment characteristics such as markets, products, growth, cyclical variability, and other relevant factors.

III. Search for and selection of guideline companies

- A. When using the Guideline Public Company Method, a thorough, objective search for guideline public companies is required to establish the credibility of the valuation analysis.
- B. The search procedure must include criteria for screening and selecting guideline public companies.
- C. Empirical data can be found in market-based valuation ratios of guideline public companies that are engaged in the same business, in similar lines of business, or in businesses that share other relevant investment characteristics with the subject company.

IV. Financial data of guideline public companies

- A. It is necessary to obtain and analyze financial and operating data on selected guideline public companies, as available.
- B. Adjustments to the financial data of the subject company and guideline public companies should be considered to minimize differences in accounting treatments when such differences are significant.
- C. Unusual or nonrecurring items should be analyzed and adjusted as appropriate.

V. Valuation ratios derived from guideline public companies

- A. Comparisons are made through the use of valuation ratios. The computation and use of such ratios should provide meaningful insight about the value of the subject company, considering all relevant factors. Accordingly, care should be exercised with respect to issues such as:
 - 1. The selection of the underlying data used to compute the valuation ratios
 - 2. The selection of the time periods and/or the averaging methods used for the underlying data
 - 3. The computation of the valuation ratios, which may be derived by relating prices of the guideline public companies to the appropriate underlying financial, operating, or physical data of the respective guideline companies
 - 4. The timing of the price data used in the valuation ratios (in relationship to the effective date of the appraisal)
 - 5. How the valuation ratios were selected and applied to the subject's underlying data
- B. In general, comparisons should be made using comparable definitions of the components of the valuation ratios. However, where appropriate, valuation ratios based on components that are reasonably representative of ongoing results may be used.
- C. Several valuation ratios may be selected for application to the subject company. These ratios may require adjustment for differences in qualitative and quantitative factors between the guideline public companies and the subject.
- D. One or more indications of value may result from the use of the Guideline Public Company Method. The appraiser must consider the relative importance or weight accorded to each of the indications of value used in arriving at the opinion or conclusion of value.

VI. Other factors and considerations

Adjustment may be necessary to the ratios or values for factors relating to the subject interest that may not have been considered earlier in the appraisal, such as:

- A. Degree of control
- B. Degree of marketability and liquidity
- C. Strategic or investment value issues
- D. Size, depth of management, diversification of markets, products and services, and relative growth and risk

AMERICAN SOCIETY OF APPRAISERS
Statements on ASA Business Valuation Standards

SBVS-2 Guideline Transactions Method

I. Preamble

- A. Statements clarify, interpret, explain, or elaborate on Standards. Statements have the full weight of Standards.
- B. This Statement must be followed in all valuations of businesses, business ownership interests, securities and intangible assets developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- C. The purpose of this Statement is to define and describe the requirements for the use of guideline transactions in the valuation of businesses, business ownership interests, securities and intangible assets, when applicable, under BVS–V Market Approach to Business Valuation.
- D. This Statement applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I General Requirements for Developing a Business Valuation, Section II.C.
- E. This Statement incorporates the General Preamble to the *ASA Business Valuation Standards*.

II. Conceptual framework

- A. Transactions involving the sale, merger or acquisition of businesses, business ownership interests, securities and intangible assets can provide objective, empirical data for developing valuation ratios for use in business valuation.
- B. The development of valuation ratios from guideline transactions of significant interests in companies (or intangible assets, if applicable) should be considered in the valuation of businesses, business ownership interests, securities and intangible assets to the extent that sufficient and relevant information is available.
- C. Guideline transactions are transactions involving companies (or interests) that provide a reasonable basis for comparison to the investment characteristics of the company (or interest) being valued. Ideal guideline transactions are in the same industry as the subject company. However, if there is insufficient transactional information available in that industry, it may be necessary to select transactions involving other companies having an underlying similarity to the subject company in terms of relevant investment characteristics such as markets, products, growth, cyclical variability and other relevant factors. Prior transactions in the company being valued may also be considered to be guideline transactions.

III. Search for and selection of transactions in guideline companies

- A. When using the Guideline Transactions Method, a thorough, objective search for transactions of interests in companies similar to the company being valued is required to establish the credibility of the valuation analysis.
- B. The search procedure must include criteria for screening and selecting guideline transactions.
- C. Empirical data can be developed from guideline transactions involving controlling or minority interests in publicly traded or closely held companies or intangible assets.
- D. Empirical data can be developed from valuation ratios of guideline transactions involving companies (or interests) in the same business, in similar lines of business, or in businesses that share other relevant investment characteristics with the subject company (or interest) when sufficient information is available regarding the transactions.

IV. Financial data of guideline companies

- A. It is necessary to obtain and analyze relevant financial and operating data of the companies involved in guideline transactions, as available.
- B. Adjustments to the financial data of the subject company and the companies in the guideline transactions should be considered to minimize differences in accounting treatments when such differences are significant.
- C. Unusual or nonrecurring items should be analyzed and adjusted, as appropriate.

V. Valuation ratios derived from guideline transactions

- A. Comparisons are made through the use of valuation ratios. The computation and use of such ratios can provide meaningful insight about the value of the subject, considering all relevant factors. Accordingly, care should be exercised with respect to issues such as:
 - 1. The selection of the underlying data used to compute the valuation ratios
 - 2. The selection of the time periods and/or the averaging methods used for the underlying data
 - 3. The computation of the valuation ratios, which may be derived by relating prices in guideline transactions to the appropriate underlying financial, operating, or physical data of the respective companies (or interests) involved in the transactions
 - 4. The timing of the price data used in the valuation ratios (in relationship to the effective date of the appraisal)
 - 5. How the valuation ratios were selected and applied to the subject's underlying data
- B. Several valuation ratios may be selected for application to the subject company. These ratios may require adjustment for differences in qualitative and quantitative factors between the companies (or interests) involved in the guideline transactions and the subject.
- C. Guideline transactions typically involve a specific buyer and a specific seller. Information regarding both the buyer and seller in a guideline transaction may be necessary in order to draw valuation inferences from the transaction.
- D. One or more indications of value may result from the use of the Guideline Transactions Method. The appraiser must consider the relative importance or weight accorded to each of the indications of value used in arriving at the opinion or conclusion of value.

VI. Other factors and considerations

Adjustments may be necessary to the ratios or values for factors that have not been considered earlier in the appraisal, such as:

- A. Degree of control
- B. Degree of marketability and/or liquidity
- C. Timing differences between market transactions and the valuation date
- D. Strategic or investment value issues
- E. Size, depth of management, diversification of markets, products and services, and relative growth and risk

AMERICAN SOCIETY OF APPRAISERS
ASA Advisory Opinions

AO-1 Financial Consultation and Advisory Services

It is the opinion of the Business Valuation Committee that the *ASA Business Valuation Standards* and the *Uniform Standards of Professional Appraisal Practice* of The Appraisal Foundation, as they apply to business valuation issues, are intended to apply to appraisals that are formally developed and presented opinions of value performed as the primary or ultimate objective of an appraisal engagement. These standards are not intended to apply to financial consultation or advisory services where there is no expression of an opinion value, or the primary or ultimate objective is not to express an opinion of value, including but not limited to, fairness opinions, solvency opinions, pricing of securities for public offerings, feasibility studies, transfer pricing studies, lifing studies of intangibles, estate planning or estate tax services, economic damage analysis and quantification, litigation consulting, royalty rate studies for intangibles and similar engagements.

AMERICAN SOCIETY OF APPRAISERS

Procedural Guidelines

PG-1 Litigation Support: Role of the Independent Financial Expert

I. Preamble

- A. Business valuation professionals are frequently engaged as independent financial experts for purposes of assisting in dispute resolution, litigation, or potential litigation. To preserve and enhance the quality of the services of such experts, the American Society of Appraisers, through its Business Valuation Committee, has adopted this Procedural Guideline.
- B. This Procedural Guideline incorporates, where appropriate, all relevant Business Valuation Standards and Statements on Standards adopted by the American Society of Appraisers through its Business Valuation Committee.
- C. This Procedural Guideline suggests specific procedures that may be used by experts. It is not binding.
- D. This Procedural Guideline is designed to offer guidance to ASA members providing litigation-support services. Deviations from this Procedural Guideline are not designed to be or intended to be the basis of any civil liability, and should not create any presumption or evidence that a legal duty has been breached, or create any special relationship between the expert and any other person.

II. Performance of litigation support services

- A. Litigation support services include any professional assistance provided to a client in a matter involving pending or potential litigation or dispute resolution proceedings before a trier of fact.
- B. In rendering litigation support services, the expert may be retained to provide an expert opinion on the financial effects of facts and assumptions. In addition to forming an expert opinion, the expert may value a business, project future financial results, analyze the performance of a business operation, interpret financial data, opine on an impaired stream of earnings, or render other similar types of professional services.
- C. In providing litigation-support services, an independent financial expert may play a role as:
 - 1. **Expert.** One who is qualified by knowledge, skill, experience, training, or education in performing business valuation services and/or related financial analyses.
 - 2. **Expert Witness.** An expert who is engaged to explain technical, scientific, or specialized knowledge in order to assist the trier of fact in understanding evidence.
 - 3. **Arbitrator.** An expert who serves as a trier of fact in an alternative dispute resolution context.
 - 4. **Court-Appointed Expert.** An expert who is engaged by a court to assist the trier of fact.
 - 5. **Consulting or Advisory Expert.** An expert who is engaged to review another expert's work product or who is engaged to advise the client, lawyer or another expert witness about technical matters relating to the subject litigation, but who will not be called to testify at trial, and may or may not be independent. Accordingly, this Procedural Guideline may not apply to such an expert.

- D. The expert should obtain a clear understanding of the type of the assignment.
- E. When planning the scope of work for a particular engagement, the expert should obtain an understanding of the nature of the dispute, the events giving rise to the claim, as well as the economic context and industry outlook impacting the business and/or individual central to the assignment.
- F. The expert should obtain sufficient relevant data to afford a reasonable basis for the conclusions reached and/or recommendations made.
- G. Sufficient information and documentation should be gathered by such means as inspection, inquiry, computation and analysis to ensure that the expert's analysis and conclusion(s) are properly supported. The expert should exercise professional judgment in determining the extent of the information and documentation necessary to support the conclusion.
- H. The expert witness, arbitrator or court-appointed expert should maintain integrity, objectivity and independence.
- I. The following examples represent some of the many types of cases in which an expert may provide litigation-support services in the area of business valuation and related financial analysis:

1. Business valuation

- a. Determination of "fair value" of minority shares in dissenting stockholder and oppression suits
- b. Income, property, gift tax, and estate tax issues, including the determination of fair market value in non-arm's length transactions, allocation of purchase price among different categories of assets, corporate reorganizations, rollovers, stockholder benefits, deemed dispositions, gifts and bequests, capital gains, etc.
- c. Valuation of shares held by an Employee Stock Ownership Plan
- d. Separation and divorce
- e. Partner/shareholder disputes
- f. Business valuations
- g. Buy-sell agreements

2. Quantification of financial loss or damages

- a. Breach of contract and tort, including:
 - (1) measuring damages for lost profits and loss of goodwill
 - (2) defining relevant markets and calculating market share
 - (3) restating or reconstructing financial records
 - (4) developing profit and cost relationships
 - (5) creating pro-forma financial statements
- b. Personal injury and fatality claims, including the quantification of impaired earnings
- c. Insurance claims, including business interruption and disturbance losses
- d. Condemnation/expropriation of business or property
- e. Trespass and conversion
- f. Professional malpractice
- g. Anti-trust/unfair competition
- h. Intellectual property-infringement damages
- i. Bankruptcy and reorganization

III. Conducting the assignment

- A. In performing the engagement, the expert should consider the appropriate method(s) to be adopted and procedures to be applied.
- B. The expert should consider key assumptions and hypothetical conditions, determining the reasonableness and appropriateness thereof. The use of unwarranted assumptions may impair the objectivity — actual or perceived — of the expert.
- C. The expert should consider the necessity of relying on the work of a specialist. When there is such reliance, the expert may wish to consider the specialist's independence and competency. If the expert relies upon a specialist, the conclusions drawn should be documented. Any written opinion or report from a specialist should be retained on file.
- D. Work performed in the course of an engagement should be documented and files should be maintained in an organized manner. The form and extent of work papers should suit the circumstances and needs of the engagement for which they are prepared.
- E. The expert should evaluate the necessity of obtaining a client representation letter and, if possible and applicable, a representation letter from management or other representatives of the underlying business.
- F. The expert should either retain on file, or have access to, all information relied upon.
- G. When the expert has determined that an engagement letter is required, the engagement letter should be retained on file. When no engagement letter has been received, the expert's file should include a summary of the nature and function of the assignment.
- H. When the expert has determined that a client representation letter and/or a management representation letter is necessary, this (these) letter(s) should be retained on file.
- I. The method(s) selected by the expert should be documented along with the reasons for selection. In addition, the specific procedures should be documented along with the reasons for selection. The expert should document key areas considered and significant assumptions made. A copy of calculations, explanations and documentation supporting the final conclusion should be retained in the file.
- J. The expert should follow the rules of the applicable jurisdiction.

IV. Preparation of an expert report

- A. An expert report is often considered to constitute any communication, written or oral (and not in draft or preliminary form) that is prepared by an expert and that contains a conclusion pertaining to a review, analysis, or quantification of business value, damages, or economic loss and that is to be used in litigation or arbitration proceedings.
- B. It is recommended that the individual(s) responsible for the preparation of the expert report be identified.
- C. To the extent that it is both possible and appropriate, an expert report should contain, as a minimum, the following information:
 - 1. **Identity of client.** The expert's client(s) should be clearly identified.
 - 2. **Description of assignment.** The expert report should contain a clear description as to the specific nature of the expert's assignment.

3. **Effective date(s) or effective time period(s).** Value(s) or damages should be expressed as of a specific date or time period. In damage claims, the damages may relate to past, present and/or future economic losses.
4. **Intended use.** If not already included in the description of the nature of the assignment, the intended use of the expert report should be clearly stated, and use for other purposes should be precluded.
5. **Definitions.** The expert report should contain the expert's definition of key terms not commonly defined. The expert should define or explain terms such as (but not limited to) "damages," "economic loss," "loss of profits," "lost contribution margin."
6. **Documents and information.** The expert report should identify significant documents and information relied upon and, if applicable, those reviewed but not relied upon.
7. **Limitations.** If the expert was unable to obtain, or was otherwise denied access to, documents, information, and/or interviews, or where the information provided was incomplete, this limitation should be clearly disclosed in the expert report. It may also be appropriate to disclose the reasons for this limitation. To the extent that such limitation would restrict the ability of the expert to form an opinion, it may be necessary to express a qualified opinion, a disclaimer, or a denial of an opinion, depending on the specific circumstances.
8. **Relevant chronology.** When relevant, the expert report should summarize the chronology of events giving rise to the claim(s) in the litigation. The chronology of events, as set out in the expert report, should be consistent with the effective date or time period.
9. **Relevant context and financial analysis.** When relevant, the expert report should include an appropriate description of factors such as those listed in BVS VIII Comprehensive Written Business Valuation Report, Section V, and a financial analysis such as the one described in BVS VIII, Section VI.
10. **Methodology.** The expert report should contain a description of the method(s) adopted and the reason(s) for their use.
11. **Analysis.** The expert report should provide adequate description in clear terms of how the expert determined value, quantified economic losses, damages, etc.
12. **Assumptions.** The expert report should clearly state and identify the basis of all assumptions, hypothetical conditions and limiting conditions that affected the analyses, opinions and conclusions (see USPAP 10-2(a)(x)).
13. **Conclusion.** The expert report should clearly state the conclusions of the expert.
14. **Report date.** The expert report should be dated as of the day on which it is completed or issued.
15. **Exhibits, appendices, graphs, charts, schedules and tables.** The use of visual aids in the body of, or appending, the expert report should be made in an objective, unbiased and professional manner, so that they can be properly interpreted by the trier of fact and others connected with the litigation or arbitration.

V. Retention of work papers and report

- A. The expert should retain fully-documented work papers for each engagement, whether in hard copy or electronic copy. The expert should also retain summaries of oral reports or testimony (or a transcript of testimony) and all other data, information and documentation necessary to support the expert's opinions and conclusions. Summaries of key meetings, discussions and correspondence should be retained on file.
- B. The expert should maintain custody of the work papers, or make appropriate retention, access, and retrieval arrangements with the party having custody of those work papers. The expert should retain the work papers for a period of at least five (5) years after preparation, or at least two (2) years after final disposition of any judicial proceeding (including arbitration) in which testimony was given, whichever period expires last.
- C. A copy of the final issued expert report should be retained on file for a period of at least five (5) years after preparation, or at least two (2) years after final disposition of any judicial proceeding (including arbitration) in which testimony was given, whichever period expires last.

AMERICAN SOCIETY OF APPRAISERS
Procedural Guidelines

PG-2 – Valuation of Partial Ownership Interests

I. Preamble

- A. Business valuation professionals are frequently engaged as independent financial appraisers for purposes of valuing fractional or partial ownership interests. To preserve and enhance the quality of the services of such appraisers, the American Society of Appraisers, through its Business Valuation Committee, has adopted this Procedural Guideline.
- B. This Procedural Guideline incorporates, where appropriate, all relevant Business Valuation Standards and Statements on Standards adopted by the American Society of Appraisers through its Business Valuation Committee.
- C. The purpose of this Procedural Guideline is to define and describe the considerations and procedures that may be used in valuing partial ownership interests in businesses, securities or other fractional interests in tangible or intangible property. It is not binding.
- D. Deviations from this Procedural Guideline are not designed to be or intended to be the basis of any civil liability, and should not create any presumption or evidence that a legal duty has been breached, or create any special relationship between the appraiser and any other person.

II. General principles

- A. Partial ownership interests are interests of an enterprise or an asset of less than 100 percent. Partial ownership interests may exist in various business entities and assets such as corporations, limited liability companies, partnerships, and as direct fractional ownership of certain tangible and intangible assets.
- B. Partial ownership interests comprise a spectrum of positions, from nearly total control (e.g., a 95 percent stock ownership position in a corporation, or the sole general partner of a limited partnership) to almost complete lack of control (e.g., a small block of non-voting corporate stock).
- C. It is not possible to categorize partial interests in simple terms.
 - 1. Generally, a partial ownership position in an entity or asset that is less than 50 percent may be classified as a noncontrolling or minority interest. Similarly, an interest of greater than 50 percent often confers control. An exact 50 percent interest may have both control characteristics (such as blocking power) and lack of control characteristics (such as inability to proactively cause an action to be taken).
 - 2. The degree of ownership does not always indicate the degree of control.
 - a. Governance documents, loan covenants, securities attributes (e.g., preferences, voting versus non-voting, etc.) and other factors may confer control of an entity even if the interest at issue is less than 50 percent.

- b. A 60 percent limited partner may have no control over a partnership if removal of the general partner requires a two-thirds majority vote of the limited partnership interests.
 - c. A 2 percent ownership position might be in a position of limited control if there are two other owners of 49 percent each who are at odds with one another. The same 2 percent owner would be in a completely different position if there was only one other owner of 98 percent, or 49 other owners each owning 2 percent.
 - d. Three interests of one-third (33 1/3 percent) each provides yet another set of potential valuation dynamics.
 3. A complete listing of all the different potential combinations and permutations of ownership structure and characteristics is beyond the scope of this Procedural Guideline.
 - D. Development of value for a partial interest can be a very different process from valuing the underlying entity or asset as a whole. In addition, valuation of partial interests may or may not be a direct function of the value of the underlying entity or asset as a whole.
 1. It is the responsibility of the appraiser to determine if valuation of the underlying asset(s) or entity as a whole is required in order to develop credible appraisal results for the partial interest.
 2. If ownership of a partial interest does not provide the ability to liquidate an entity, cause its sale or gain access to any of the assets, valuation of the whole may not be relevant to the analysis. However, if investors or market participants would nonetheless consider the value of the whole irrespective of their inability to cause liquidation or sale of the entity or assets, then valuation of the whole, either on a going concern or liquidation premise, may be appropriate to consider in the analysis.
 3. If ownership of a partial interest does provide the ability to cause liquidation of the underlying entity or sale of the underlying asset, and value of the entity or asset depends primarily on the asset-based approach, it may be appropriate to obtain qualified appraisals of any real estate or personal property.
 - E. Valuation of partial ownership interests is often dependent on contractual provisions. Consequently, rights and restrictions contained in documents such as articles of incorporation, bylaws, partnership agreements, tenant-in-common agreements, option agreements, buy-sell agreements or shareholder agreements may be relevant to the analysis. Similarly, value may be a direct or indirect function of applicable laws and regulations.
 - F. Appraisers should be aware that the standard (type) and premise of value can have a material effect on the value of a partial ownership interest. For example, valuation of a minority shareholding under the “fair value” standard of value may be very different from its value under the “fair market value” standard of value.

III. Factors to consider

A number of factors may be appropriate to consider in valuing partial ownership interests. The following list is not intended to be all-inclusive. Items on the list may or may not be applicable in specific valuation situations.

- A. The purpose and definition of the valuation engagement in accordance with BVS–I General Requirements for Developing a Business Valuation, including the applicable standard (type) and premise of value.
- B. Factors related to the underlying enterprise or asset, including:
 - 1. The value of the underlying enterprise or asset, if applicable.
 - 2. Enterprise-level or asset-level tax effects, if relevant.
- C. Factors related to the subject partial interest, including:
 - 1. Provisions in the organizational and governance documents that affect the rights, restrictions, marketability and liquidity of the subject interest. Documents to consider may include partnership agreements, articles of incorporation, bylaws, operating agreements, buy-sell agreements, investment letter stock restrictions, option agreements, lock-up requirements or others that may be relevant.
 - 2. Applicable laws and regulations. Business examples include statutory rights to demand dissolution of a corporation under state law, restrictions on transfer pursuant to SEC Rule 144, and many others. An asset example is included the right to partition.
- 3. The existing ownership structure and configuration.
- 4. Access to, availability of, and reliability of information regarding the underlying asset or entity.
- 5. The relevant pool of potential buyers, if any.
- 6. Market data on transactions in similar markets, if any. Potentially similar markets might include private placements in publicly or privately syndicated entities (including restricted stock transactions, pre-IPO transactions, and transactions in publicly traded limited partnerships) or tenants-in-common arrangements, etc.
- 7. Expected holding period for an investment in the subject interest, including consideration of such factors as:
 - a. The extent to which the expected holding period may be uncertain.
 - b. Defined expiration or termination dates contained in the governing documents, or other external factors, that may precipitate a foreseeable liquidation or sale of the underlying entity.
 - c. Analysis of the age, health and other characteristics of the other owners and/or key managers, which could provide information about the possible timing of a sale or liquidation by the controlling owner(s).
 - d. The history of transactions (if any) involving partial (or possibly controlling) interests of the subject enterprise or asset, including recapitalizations or stock repurchases that have provided liquidity to shareholders.
 - e. The potential market for similar enterprises or assets (e.g., is the industry consolidating?).

- f. The emerging attractiveness of the entity for equity offering, sale, merger or acquisition.
 - g. Provisions in the governing documents or buy-sell agreements, or under law or regulation either prohibiting, restricting or allowing transfer of the subject interest.
 - h. Rights and powers attributable to the subject interest that may enable a sale of the subject entity, asset or the interest itself, against the will of the other owners.
 - i. Historical actions of management and/or the directorate, which may provide information about their policy and intentions regarding eventual sale of the entity or asset, or receptivity to a potential sale or repurchase of partial interests.
 - j. The existence, depth and functioning of markets that might be available for interests similar to the subject interest.
 - k. The appropriateness of considering a range of expected holding periods and exit possibilities.
8. Expected economic benefits associated with the subject interest, which come in the form of interim benefits (dividends or distributions) and a terminal cash flow when the investment is sold or liquidated.
- a. Expected interim dividends or distributions to the interest, which may differ from the expected benefits (cash flows) generated by the entity or asset as a whole. Interest-level benefits may be affected by such factors as:
 - (1) The history of dividends or distributions, including both timing and amounts.
 - (2) Current or expected future distribution policy.
 - (3) Preferential dividend claims.
 - (4) Enterprise-level and/or interest-level tax characteristics.
 - (5) The outlook for one-time and/or irregular dividends or distributions.
 - (6) Circumstances with controlling owners that may increase (or decrease) the likelihood of future interim benefits.
 - b. The expected terminal cash flow at the end of the expected holding period(s), which may be a function of such factors as:
 - (1) Possible future transactions involving the enterprise or asset as a whole, or transactions in the subject interest itself.
 - (2) Current (valuation date) value and expected growth in value of the enterprise or asset to the end of the expected holding period(s).
 - (3) Growth in value may be a function of expected earnings retention (distribution policy) and the amount of and effectiveness of expected reinvestment in the entity or asset.

9. Required return for investing in the subject interest. The required return may consider risks other than risks related to the enterprise or asset as a whole, including for example:
 - a. The expected length and uncertainty of the holding period.
 - b. The likelihood of dividends or distributions (i.e., expected distribution policy).
 - c. The costs of due diligence efforts required to acquire the subject partial interest.
 - d. The costs of monitoring the investment over the expected holding period, including issues related to the expected receipt of timely and reliable information concerning the investment.
 - e. Required returns on similar investments or investments with similar investment-specific liquidity and holding period characteristics.
 - f. The risk of tax liabilities from pass-through profits without guaranteed tax distributions in entities such as limited liability companies, Subchapter S corporations or partnerships.
 - g. The difficulty and cost of marketing the subject interest.
 - h. The risk of involuntary dilution when no preemptive rights are provided in the articles of incorporation or bylaws of a corporation.
 - i. The degree of control conveyed by the subject interest.
 10. Ownership-level tax effects, if relevant.
 11. Prior transactions in the subject interest, entity or asset, and their relevance to a given assignment.
- D. Interaction of the factors listed above, and their cumulative impact on the degree of control, marketability and liquidity of the subject interest.

IV. Approaches, methods and procedures

- A. Appraisers should consider all three approaches to value (asset-based, income and market) when valuing partial interests. If an approach is excluded in an assignment the appraiser should explain the reason for such exclusion in the appraisal report.
- B. It may be appropriate for the appraiser to obtain the assistance of legal counsel in order to gain a reasonable familiarity and understanding of the legal and regulatory environment that may influence or affect value. Similarly, it may be appropriate for the appraiser to obtain input from counsel regarding governing documents and agreements.
- C. If discounts or premiums are applied at the partial ownership level the appraiser should explain how the discounts or premiums were developed, as required by BVS–VII Valuation Discounts and Premiums.
- D. If the income approach is used at the partial ownership level the appraiser should develop and support any assumptions concerning the expected benefits to be received, the expected or required holding period(s) and the appropriate required rate of return on the investment given

- the risks associated with the subject ownership position. To the extent applicable the provisions of BVS-IV Income Approach to Business Valuation should be followed.
- E. If the market approach is used at the partial ownership interest level, several other sections of the Standards may be applicable.
1. Discounts for lack of marketability (or discount rates) are sometimes developed, for example, by reference to or analysis of restricted stocks of public companies, options on public securities (such as long-term equity anticipation securities), pre-IPO transactions in private companies that later went public, or other public securities. When using such methods, the appraiser should follow the guidance of SBVS-I Guideline Public Company Method as well as BVS-V Market Approach to Business Valuation and BVS-VII Valuation Discounts and Premiums.
 2. Similarly, appraisers using studies of transactions in the secondary market for private partnership interests to develop discounts for lack of marketability (or discount rates) should follow the guidance of SBVS-II Guideline Transactions Method, as well as BVS-V and BVS-VII.
 3. If transactional premium studies involving public companies (e.g., control premium studies) are utilized by the appraiser to support discounts for lack of control (minority discounts), the provisions of SBVS-I and BVS-VII should also be applied.
- F. When reconciling the final value conclusion for a partial interest, regardless of the method(s) employed, the appraiser may wish to consider one or more tests of reasonableness for the concluded value of the partial interest, such as:
1. Calculating the implied internal rate of return for the subject interest at the concluded price over the relevant range of expected holding periods, and comparing the implied internal rate of return to expected returns of similar investments, if available.
 2. Calculating the implied dividend or distribution yield for the investment based on the expected dividend or distribution policy of the enterprise, and comparing the implied dividend or distribution yield with expected yields on similar investments, if available.