NACVA

National Association of Certified Valuators and Analysts

The Core Body of Knowledge for Business Valuations

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SUBJECT MATTER	New BOK Percentage Emphasis on CVA Exam
I. OVERVIEW	**4.0%**
A. Purpose for business valuation	0.5%
1. Financial accounting	
2. Tax valuations	
3. Litigation	
4. Merger and acquisition	
B. Standards of value	1.5%
1. Definitions of standards of value, including	
a) Fair market value (U.S. based definition as starting point)	
b) Statutory fair value	
c) Financial reporting fair value	
(1) IFRS	
(2) U.S. GAAP	
d) Investment (strategic) value	
e) Intrinsic (fundamental) value	
2. Relationship between purpose of the valuation and standard of value	
C. Premise of value	0.5%
1. Going concern	
2. Assemblage of assets	
3. Liquidation (orderly or forced)	
D. Principles of value	1.0%
1. Value is determined as of specific point in time	
2. Value reflects prospective cash flow	
3. Value reflects the level of risk into the rate of return	
4. Value is influenced by liquidity	
E. Levels of value	0.5%
1. Lack of control (minority vs. control)	
2. Marketable vs. non-marketable	
3. Strategic and investment value	
II. PROFESSIONAL RESPONSIBILITIES AND STANDARDS	**4.5%**
A. NACVA Standards	1.5%
B. Ethical considerations	1.0%
C. Communicating and reporting analysis and results	1.0%
D. Roles of the valuation analyst in litigation services	1.0%

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III. ENGAGEMENT ACCEPTANCE AND PLANNING	**3.0%**
A. Defining the engagement	1.0%
1. Valuation date and its importance	
2. Structure of the entity	
3. Interest being valued	
4. Purpose and objective of valuation	
5. Standard of value and premise of value	
6. Conflict checks	
B. Engagement Letters	1.0%
1. Purpose	
2. Content	
C. Acceptance	1.0%
1. Experience	
2. Staffing	
3. Expectations	
IV. QUALITATIVE ANALYSIS	**9.0%**
A. International Sources of Data	1.5%
B. Economic Environment	1.5%
1. Macro-environment	
2. Micro-environment	
3. Relationship of economic activity to the valuation	
C. Industry background	3.0%
1. Economic data	
2. Structure, trends, and life cycle	
3. Market and competitive analysis	
D. Company background	3.0%
1. Company structure and ownership	
2. Site visit and interviews with key personnel	
3. History and nature	
4. Economic data (cost structure, pricing power, marginal analysis)	
5. SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats)	
V. QUANTITATIVE ANALYSIS	**15.5%**
A. Financial statements	4.5%
1. Source (audited/reviewed/compiled/tax returns/internal)	
2. Number of years to obtain	
3. Common size	
4. Trend analysis	
5. Ratios	
6. Comparative analysis	
a) Specific company	
b) Industry averages	

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B. Adjustments to financial statements	4.5%
1. Normalizing	
a) Control vs. non-control	
b) Discretionary	
c) Reasonable compensation analysis	
d) Extraordinary/non-recurring	
2. Operating vs. non-operating items	
3. Off-balance sheet and unrecorded items	
C. Statistical Analysis	3.0%
1. Measures of central tendency (arithmetic, harmonic, geometric means)	
2. Measures of dispersion (including variance and standard deviation)	
3. Statistical strengths of numerical relationships (including covariance, correlation, coefficient of determination, and coefficient of variation)	
4. Linear regression	
D. Types of benefit streams and selection	3.5%
1. Selection of appropriate time periods (including mid-year convention)	
2. Selection of appropriate type of income/cash flow	
3. Growth assumptions	
a) Trend line projected	
b) Constant	
c) Erratic	
d) Level	
e) Declining growth approaches	
4. Historical vs. projection based on considerations	
5. Relating effects due to economic/industry events and trends	
VI. VALUATION APPROACHES	**28%**
A. Income approach	10%
1. General theory	
2. Defining applicable income/cash flow	
3. Sources of data	
4. Capitalization vs. discount rates	
5. Commonly used methods	
a) Discounted economic income/cash flow method (DCF) (multi-stage model)	
(1) The method is applied using cash flow available to invested capital	
(2) The method is applied using cash flow available to equity	
b) Capitalized economic income/cash flow method (CCF), including Gordon Growth Model (constant growth model)	
(1) The method is applied using cash flow available to invested capital	
(2) The method is applied using cash flow available to equity	
c) Excess earnings (cash flow) method	
d) Dividend paying capacity	

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B. Market approach	8.0%
1. General theory	
2. Commonly used methods	
a) Transactions in subject company's stock	
b) Transactions/sales of companies similar to subject	
(1) Guideline public companies	
(a) General theory	
(b) Selecting guideline companies	
i) Sources of data	
ii) Size adjustments	
(c) Equity vs. invested capital (including multiples)	
(d) Selection of appropriate time periods	
(e) Selection of appropriate multiples	
i) Adjusting for growth, size, and company specific risk	
(2) Guideline merged and acquired companies	
(a) General theory	
(b) Sources of data/relevant transactional databases	
(c) Consideration of the selection of data points	
C. Asset Approach	6.0%
1. General theory	
2. Sources of data	
3. Commonly used methods	
a) Book value	
b) Net tangible value	
c) Adjusted net asset method (intangible and tangible assets)	
d) Excess earnings method	
e) Liquidation method (forced or orderly)	
4. Identifying and valuing intangible assets	
a) Approaches and methods	
b) Estimated life	
c) Impairment	
5. Off-balance sheet and unrecorded items (including tax issues)	
D. Sanity Checks	2.0%
1. General theory	
2. Sources of data	
3. Commonly used methods	
a) Industry formulas ("Rules of Thumb")	
b) Justification of purchase	
E. Reconciliation of indicated values	2.0%

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VII. COST OF CAPITAL CONCEPTS AND METHODOLOGY, AND OTHER PRICING MODELS	**17.5%**
A. Capital asset pricing model (CAPM)	6.0%
1. Risk free rate	
2. Equity risk premium	
3. Beta (ß) including un-levered and re-levered	
B. Build-up method and Modified CAPM	5.5%
1. Risk free rate	
2. Equity risk premium	
3. Beta (ß) including un-levered and re-levered	
4. Size risk premium	
5. Industry risk premium	
6. Company specific risk	
7. Long-term sustainable growth	
8. Other	
C. Weighted average cost of capital	4.0%
D. Converting after tax risk rates to pre-tax rates	1.0%
E. Other recognized methods (e.g. Gordon Growth, Arbitrage Pricing, Fama-French Three Factor, Market Multiples, Risk Rate Component Model)	1.0%
VIII. DISCOUNTS, PREMIUMS, AND OTHER ADJUSTMENTS	**13%**
A. Levels of value and effect on discounts and premiums	2.0%
1. Synergistic value	
2. Control value	
3. Non-controlling, marketable value	
4. Non-controlling, non-marketable value	
B. Adjustments for Control Issues	3.5%
1. General theory	
2. Sources of data	
3. Ownership characteristics	
4. Magnitude	
5. Relationship to how benefit stream is defined	
C. Adjustments for Marketability Issues	3.5%
1. General theory	
2. Sources of data	
3. Ownership characteristics	
4. Restrictions on transferability	
5. Magnitude	
6. Models	
D. Discounts and premiums—understanding the empirical studies	2.0%
E. Subsequent events	1.0%
F. Other valuation discounts and adjustments (e.g. Key Person, Blockage, Restrictive Agreement, Lack of Voting, Lack of Liquidity, Contingent Liabilities)	1.0%

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		SUBJECT MATTER	New BOK Percentage Emphasis on CVA Exam
IX.		**SPECIAL PURPOSE VALUATION**	**5.5%**
	A.	Intangible assets	2.0%
	B.	Debt securities	0.5%
	C.	Convertible securities	0.5%
	D.	Preferred stock	0.5%
	E.	Stock options	0.5%
	F.	Voting vs. Non-voting stock	0.5%
	G.	Professional vs. practice goodwill	0.5%
	H.	Other special purpose valuations (e.g. Fair Value, Mergers and Acquisitions, Pension Benefits, Insurance policies)	0.5%
		Total	**100%**

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Appendices for Valuations in the United States

APPENDIX I

In the United States, the following bodies issue statements on professional responsibilities, qualifications, and regulations:

A. NACVA—National Association of Certified Valuators and Analysts
B. AICPA—American Institute of Certified Public Accountants
   1. Code of Professional Conduct
   2. Statement on Standards for Consulting Services, No. 1
   3. Statement on Standards for Valuation Services, No. 1
C. ASA—American Society of Appraisers
D. IBA—Institute of Business Appraisers
E. The Appraisal Foundation (USPAP—Uniform Standards of Professional Appraisal Practice)
   1. General and ethical
   2. Standard No. 9
   3. Standard No. 10
F. IRS—Internal Revenue Service
   1. Circular 230
   2. Business Valuation Guidelines
   3. Preparer penalties and disbarment
G. SEC—Securities and Exchange Commission
   1. Sarbanes-Oxley Act of 2002 and related SEC Rules
H. FASB—Financial Accounting Standards Board
I. DOL—Department of Labor
J. Ethical considerations
   1. Advocate vs. expert
   2. Independence
K. Other Applicable rules, requirements, and authoritative sources

APPENDIX II

In the United States, financial statement adjustments include changes to put the statements in compliance with Generally Accepted Accounting Principles (GAAP)

APPENDIX III

In the United States, use of the excess earnings method should include consideration of the Treasury Method.

APPENDIX IV

In the United States, examples of transactional databases include:

1. BIZCOMPS®
2. Institute of Business Appraisers
3. Pratt's Stats
4. Done Deals
5. Mergerstat
6. Others

APPENDIX V

In the United States, Morningstar/Ibbotson and Duff & Phelps are two standard sources of risk rates.

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APPENDIX VI

In the United States, examples of business entities include:

1. S-corporation
2. C-corporation
3. Partnership
4. Limited liability company
5. Proprietorship
6. Pass-through entities—tax effecting of the benefit stream

Special issues for the various forms should be considered.

APPENDIX VII

In the United States, case law directly related to business valuations is found for:

1. Income taxation
2. Estate and gift taxation
3. Employee Stock Ownership Plans
4. Family law
5. Commercial law
6. Other

APPENDIX VIII

In the United States, special valuation issues arise when reporting Fair Value for financial reporting purposes.

APPENDIX IX

In the United States, the Federal Rules of Civil Procedure (Rule 26) provide judicial guidance.

APPENDIX X

In the United States, there are several special classes of securities:

1. Preferred stock
2. Convertible instruments
3. Stock options and other derivative instruments

— Approved by the Valuation Credentialing Board
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