



What is the CEIV and why does it matter for fair value measurements?



Over the past decade, fair value measurements have played an important role in financial statements. During this time, concerns have emerged from the SEC and other capital market regulators over the quality, consistency and transparency of valuations performed for financial reporting purposes.

In addition, questions have arisen over the qualifications, training and expertise of the professionals performing these fair value measurements. These concerns have been compounded by the fact that the current regulatory environment does not require fair value measurement preparers to possess a credential or adhere to any uniform set of professional standards. In response, some of the largest valuation professional organizations¹ (VPOs) have co-developed the Certified in Entity and Intangible Valuations (CEIV) credential.

This document provides a brief introduction and overview of the CEIV credential. It also highlights areas where fair value measurements may be impacted as a result of these new standards.



What is the CEIV?

The CEIV is a specialized credential that provides appraisers with additional technical expertise and knowledge required to perform valuations of business interests and intangible assets for financial reporting purposes. This credential builds on the body of knowledge covered by existing valuation designations, such as the ASA, ABV, CBV, or CFA, with additional training in the areas of:

- Fair value accounting and the regulatory environment;
- Technical guidance related to valuations for financial reporting;
- Use of the valuation report in the audit process; and
- The mandatory performance framework.



In addition to completion of the required CEIV training, candidates must also demonstrate that they have achieved sufficient professional experience. After obtaining the credential, CEIV holders are required to adhere to the MPF and meet ongoing education and credential maintenance requirements.



What is MPF?

The Mandatory Performance Framework (MPF or the Framework) underpinning the CEIV credential establishes best practices to follow in the preparation of business entity and intangible asset fair value measurements. The MPF also requires the valuation professional to provide sufficient documentation within the work file to support a conclusion of value such that an experienced professional, not involved in the engagement, could review and understand the significant inputs, analyses, and outputs.

The Framework covers nearly every aspect of a valuation engagement, providing guidance on the following:

- Types of engagements;
- Engagement letters;
- Management interviews;
- The valuation report; and
- Documentation requirements.



¹These VBO include the American Institute of Certified Public Accountants (AICPA), American Society of Appraisers (ASA), and Royal Institution of Chartered Surveyors (RICS).

In addition to the above areas, the Framework also speaks to requirements pertaining to professionalism, competence, professional skepticism, and ethics.

As part of the recertification process, CEIV holders must participate in a periodic Quality Monitoring Program to assess whether engagements are performed in accordance of the MPF.



What FV measurements are impacted?

The MPF applies to the valuations of business interests, intangible assets, inventory and non-financial liabilities (such as deferred revenue) for financial reporting purposes. It is expected that the MPF will commonly affect fair value measurements in the following situations:

- Goodwill and indefinite lived intangible asset impairment testing under ASC 350 (**Goodwill and Other Intangible Assets**);
- Application of the purchase method under ASC 805 (**Business Combinations**);
- Valuation of business interest inputs in ASC 718 (**Stock Compensation**) and ASC 505 (**Equity**); and
- Valuations of portfolio company investments held by private equity, venture capital, and other investment companies.



What are the likely impacts?

The most significant impact resulting from the roll-out of the CEIV credential will be an improvement in the quality, consistency and robustness of fair value measurement deliverables. As a result, working with a CEIV credentialed appraiser, may reduce the risk of audit issues arising in fair value measurements.

As valuation specialists adopt the MPF, management may observe an increase in the scope of work, level of rigor, and amount of documentation performed in financial reporting valuations. While the MPF covers nearly every aspect of a business or intangible asset valuation, management will likely see the most pronounced changes in the following areas:

- Projected financial information (PFI)²;
- Discount rates³;
- Royalty rate assumptions⁴; and
- General documentation requirements.



As the CEIV credential becomes more widely adopted, it is recommended that finance teams, proactively discuss the potential impacts on future fair value measurements with their valuation provider and audit team to minimize potential surprises.

As of September 2018, the MPF does not impact stand alone real and personal property valuations; nor does it apply to the valuation of financial instruments. However, in the summer of 2018, the AICPA issued a working draft titled Financial Instruments Performance Framework for the Certified in Valuation of Financial Instruments Credential, which suggest a likely expansion of scope in the near future.

² Appraisers are required to take a greater level of ownership of PFI and will likely need more support than in the past

³ Inputs, such as company specific risk premiums, which were previously supported qualitatively, will now require some level of quantitative support.

⁴ The MPF will likely require a greater level of analysis and documentation of royalty agreements that are used as support for royalty rate assumptions.

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