

# APPLICANTS' HANDBOOK

FOR USE BY APPLICANTS FOR  
MASTER CERTIFIED BUSINESS APPRAISER (MCBA)  
CERTIFIED BUSINESS APPRAISER (CBA)  
ACCREDITED-IBA (AIBA)



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## Forward

The Applicants' Handbook has been written to assist applicants for IBA professional Business Valuation designations in understanding and meeting the requirements for achieving them.

Long experience has proven conclusively that many applicants who fail to achieve the designation they seek fail not because of limitations in their appraisal skills or ability, but because they fail to follow carefully the criteria set forth for the award of the designation. For this reason, applicants are admonished to read and comply fully with the requirements laid down here.



Howard A. Lewis, Executive Director  
Institute of Business Appraisers.  
August 4, 2008

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Warren S. Burkholder, Chairman,  
IBA Qualifications Review Committee  
August 27, 2010

# IBA APPLICANTS' HANDBOOK

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# IBA APPLICANTS' HANDBOOK

## 1 INTRODUCTION

### 1.1 Purpose & Goals

The purpose of this guide is to assist the appraiser in his application for either the *Certified Business Appraiser* (CBA), or *Accredited-IBA* (AIBA) designation. Its goal is to provide background information based on the experience of the Institute of Business Appraisers Qualifications Review Committee in helping many applicants. This guide is *not* intended to offer a checklist for the performance of appraisals, nor to present an example of the only way a good appraisal can be performed.

### 1.2 Accreditation is not intended to be easy

Achieving professional accreditation in business valuation by the IBA is not easy. Since accreditation as a Certified Business Appraiser suggests to the public that the holder is a fully qualified business appraiser, the written examination is designed to thoroughly test the knowledge of applicants on all aspects of business valuation. The review of applicant demonstration reports is neither perfunctory nor casual. Each reviewer is aware of the high degree of credibility afforded Certified Business Appraisers, and is sworn to ensure that only competent appraisers are awarded accreditation. While the AIBA designation is intended to be an indication of an intermediate level of competence, junior to that indicated by the CBA designation, its achievement is nonetheless intended to be challenging.

*Master Certified Business Appraiser* is the designation reserved for only the most experienced and highly qualified business appraisers. The achievement of this designation is open only to those CBAs who have accumulated long education, experience, and a high degree of skill, and the excellence of whose work has been recognized by their peers.

*Certified Business Appraiser* is the senior designation of the two currently recognized by the IBA. It is the original journeyman-level designation created by the IBA shortly after it was founded, in 1978.

*Accredited-IBA* was established more recently, in 1997, in response to the need for an intermediate-level designation that could serve as a stepping-stone to the CBA level of competence.

The AIBA and CBA designation are similar in the following respects:

- Both are difficult to obtain, though the requirements for AIBA are slightly less rigorous than for the CBA
- Both require the applicant to be a member-in-good-standing of the IBA.
- Both require the filing of a written application.
- Both require that the applicant have a 4-year college degree or equivalent.
- Both require that the applicant provide references as to his/her good character.
- Both require submission of demonstration reports, though they differ in the number and comprehensiveness of demonstration reports.
- Both require that the designee complete regular continuing education.

The AIBA and CBA designations differ in the following respects:

- Degree of Difficulty: Because it is considered to indicate only an intermediate level of competence, the AIBA designation is slightly easier to achieve than the more senior CBA designation.
- Demonstration Reports: The CBA designation requires the demonstration of a high degree of skill and competence by the submission of two demonstration reports covering a full-range of business valuation skills; whereas the AIBA designation requires only the submission of a single demonstration report covering a less-than-full range of business valuation skills.
- Specialized Business Valuation Education: the CBA designation requires no particular course of specialized study in business valuation, though it unlikely that an applicant could achieve the designation with such study. The AIBA designation requires the successful completion of the IBA 8001 course of study, an 8-day workshop in fundamentals of business valuation.

### 1.3 **Effective Date**

The requirements set forth here are effective as of the date of issuance, March 1, 2001.

### 1.4 **Requirements Subject to Change**

The requirements for Master Certified Business Appraiser, Certified Business Appraiser, and Accredited-IBA are subject to change from time to time in order to meet the increasing sophistication of the business valuation industry, and the expanding body of knowledge it entails. Applicants are advised to check with IBA Headquarters to ensure that they have the current requirements before submitting applications for professional designations.



## 2 THE ACCREDITATION PROCESS – MASTER CERTIFIED BUSINESS APPRAISER

The Master Certified Business Appraiser is the highest professional designation awarded in the business valuation industry, and recognizes the extraordinary competence of a few highly skilled and experienced individuals whose work has been widely accepted by clients and acknowledged by their most senior professional colleagues. It is a designation not commonly available except to the best-of-the-best professional appraisers, and is intended to indicate to users of appraisal services that the holder has achieved a high distinction of competence in his profession.

### 2.1 Requirements for Accreditation as a Master Certified Business Appraiser

- a. Education: Applicant must possess a 4-year college degree and a 2-year post-graduate degree or equivalent and provide proof of this to the IBA in the form specified by the Executive Director.
- b. Appraisal Experience and Tenure: Applicant must have held the Certified Business Appraiser designation for not less than ten years, and must have fifteen- years full-time experience as a business appraiser. Applicant's experience must include valuation of a variety of business types and appraisals for a variety of purposes. Proof in support of an applicant's appraisal experience and tenure shall be provided in the form specified by the Executive Director.
- c. Recognition by Other Professional Societies. Applicant must hold a journeyman level professional designation awarded by one or more compeer professional business appraisal societies. Acceptable professional designations include those issued by the American Society of Appraisers (Accredited Senior Appraiser – Business Valuation), the National Association of Certified Valuation Analysts (Certified Valuation Analyst), and the American Institute of Certified Public Accountants.
- d. References: Applicant must provide satisfactory references from three individuals who have known the applicant for not less than ten years, who hold the professional designation Master Certified Business Appraiser, and who, based on their extensive personal knowledge and comprehensive review of the applicant's work-product, will vouch for 1) the excellence of his analytical skills and appraisal work-product, 2) his professional and ethical character, and 3) his contribution to the betterment of the profession of business valuation.
- e. Membership in IBA: Applicant must be a member-in-good-standing of the Institute of Business Appraisers.

### 2.2 Application for Accreditation

#### 2.2.1 Application Form

Application for Accreditation shall be made to The Institute of Business Appraisers by Petition for Award of Master Certified Business Appraiser Designation. Such petition must fully set forth and document the manner in which the applicant believes that the requirements as to education, references, and appraisal experience and tenure have been met.

### 2.2.2 Review of Petitions for Award of Designation

Petitions for Award of Master Certified Business Appraiser Designation will be reviewed by the Executive Director or his/her designee(s), and either approved or dis-approved at his/her sole discretion, based on the information provided by the applicant.

### 2.2.3 Payment of Fees

Petition for Accreditation shall be accompanied by payment of a fee of \$595.

### 3 THE ACCREDITATION PROCESS – CERTIFIED BUSINESS APPRAISER

#### 3.1 Requirements for Accreditation as a Certified Business Appraiser

- a. Education: Applicant must possess a 4-year college degree or equivalent and provide proof of this to the IBA in the form provided by the Institute. In addition to the 4-year college degree, the applicant must have successfully completed at least 90 classroom hours of upper level course work. At least 24 hours of this coursework must have been in courses offered by the Institute of Business appraisers, the remainder must have been offered by the IBA or other professional business valuation society. In lieu of the 90-classroom hour requirement, the applicant may demonstrate 5 years full-time, active experience as a business appraiser as set forth in Sect. 3.1(b). Applicant shall provide proof in support of his educational achievement or experience in the form specified by the Executive Director.
- b. Appraisal Experience and Tenure: Applicant must have 5 years full-time active experience as a business appraiser, or have met the education requirement in Sect. 3.1(a). Applicant's experience must include valuation of a variety of business types and appraisals for a variety of purposes. Proof in support of an applicant's appraisal experience and tenure shall be provided in the form specified by the Executive Director.
- c. References: Applicant must provide four satisfactory references, two references as to his personal character; and two references as to his professional competence as a business appraiser.
- d. Membership in IBA: Applicant must be a member-in-good-standing of the Institute of Business Appraisers.
- e. Written Examination: Applicant must pass a comprehensive written examination on current business valuation theory and practice. Content and administration of the examination shall be as described below under the heading "Written Examination." The written examination requirement may be waived by holders of journeyman level designations in business valuation from compeer organizations recognized by the Institute of Business Appraisers, upon application to the IBA.
- f. Demonstration Reports: Applicant must submit two Demonstration Reports demonstrating a high degree of skill, knowledge and judgment as a Business Appraiser. The Adequacy of demonstration reports shall be determined as set forth below under "Review of Demonstration Reports"

#### 3.2 Application for Accreditation

##### 3.2.1 Application Form

Application for Accreditation shall be made to Institute of Business Appraisers on a form supplied by the Institute. An application form may be obtained from IBA headquarters by calling 800-299-4130.

##### 3.2.2 Payment of Fees

Application for Accreditation shall be accompanied by payment of a fee of \$595. Information on the current application fee may be obtained by telephoning IBA headquarters at 800-299-4130.

### 3.3 Written Examination

#### 3.3.1 Time and Place for Examination and Proctoring

The written examination shall be administered at such time and place, as the Executive Director shall from time-to-time determine. To the extent practical, convenient to the Institute, and for an additional fee, headquarters staff may arrange for written examinations to be proctored by qualified individuals for applicants for whom regularly scheduled examinations are not convenient. Applicants wishing to obtain information on the time and place of the CBA Written examination or wishing to schedule a proctored examination may contact headquarters for further information at 800-299-4130.

#### 3.3.2 Preparation Course for CBA Written Examination

The Institute makes available as a part of its regular educational curriculum a 1-day course offered especially to assist applicants in preparing for the CBA written examination. Information is available from IBA Headquarters.

#### 3.3.3 Form of Examination

The written examination consists of multiple choice, short answer, narrative answer, and/or case analysis questions in any combination. The current written examination is timed for six hours, though the Executive Director may from time to time change the format of the examination or the time allowed for completion.

#### 3.3.4 Subjects Covered on CBA Written Examination

The examination will test the applicant's knowledge of all current business valuation theory and practice, and cover, but not be limited to, the following general topics:

- IBA Business Appraisal Standards
- Standards of value
- Definitions of value
- Purposes and uses for business appraisals
- Financial theory
- Time-value-of-money calculations
- Present value
- Use of publicly traded stocks as guideline companies
- Use of IBA database in application of the direct market data method
- Basic statistical techniques
- Use of liquidation value
- Appraiser certification
- Forecasting future earnings and revenue
- Development of capitalization rates and discount rates
- Use of excess earnings method to value intangibles
- Valuation of fixed assets
- Adjustment of financial statements
- Use of common sense and good judgment
- Application of adjustments for control and marketability

- Performance of appraisals for gift and estate tax purposes
- History of IBA
- Application of three basic appraisal approaches
- Economic and industry research and analysis

### 3.3.5 Passing Grade

A passing grade on the written exam shall be 75% correct answers.

### 3.3.6 Notification of Examination Results

Applicants will be notified whether they passed or failed the examination by mail or email approximately 6 weeks following the date of the examination. Applicants are requested not to telephone headquarters to inquire about their examination before 6 weeks have elapsed.

### 3.3.7 Explanation of Written Examination Results

Applicants may at the discretion of the Institute be provided with a description of the general topical areas of the examination where they gave incorrect answers. However, no detailed analysis of incorrect answers will be provided.

### 3.3.8 Appeal of Failing Examination Grades

The decision of the graders shall be final. Applicants may re-take the written examination within one year without payment of an additional fee, or after one year upon additional payment of the regular examination fee.

## 3.4 Reading List

The following reading list is provided to applicants as a guideline. Each item on the reading list is required reading, and applicants may be tested on any information contained in any of the sources on the list. Simply reading this material may give the applicant a general understanding of business valuation theory and practice, but no assurance is offered that merely reading books will qualify an applicant as a competent business appraiser.

Books and Other Publications. Most publications are available from the Institute of Business Appraisers. For out-of-print publications, go to Amazon.com

#### Texts:

- Desmond, Glenn and Marcello, John, *Handbook of Small Business Valuation Formulas*, (Marina Del Rey: Valuation Press, Inc., 1993)
- Jones, Jeffrey D, and West, Thomas L., Eds., *Handbook of Business Valuation*, (New York: John Wiley & Sons, 1999)
- Miles, Raymond C., *Basic Business Appraisal*, (New York: John Wiley & Sons, 1984)
- Pratt, Shannon P, and Niculita, Alina., *Valuing a Business*, 5<sup>th</sup> Ed. (Chicago: Irwin Professional Publishing, 2007)
- Pratt, Shannon P; Fishman, Jay; and others, *Guide to Business Valuations*, (Ft. Worth: Practitioners Publishing Company, 2007)

- Pratt, Shannon P., *Valuing Small Businesses and Professional Practices*, 3rd Ed. (Homewood, Illinois: Business One Irwin, 1997)
- Pratt, Shannon P., *Cost of Capital: Theory, Measurement, and Applications* (New York: John Wiley & Sons, 2002)
- Trugman, Gary R., *Understanding Business Valuation: A Practical Guide to Valuing Small to Medium Sized Businesses*. (New York: American Society of Certified Public Accountants, 2002)
- Zukin, James H., Ed., *Financial Valuation: Businesses and Business Interests*, (New York: Maxwell Macmillan, 1990)

#### Periodicals:

- *Business Appraisal Practice*, Business Appraisal Technical Journal of the Institute of Business Appraisers
- *Business Valuation Review*, Schilt, James H., Editor, monthly publication of the American Society of Appraisers, Washington, DC.
- *Business Valuation Update*, Pratt, Shannon P., Ed., monthly publication of Business Valuation Resources, 4475 W. Scholls Ferry Road, Suite 101, Portland, OR 97225, 1-888-287-8258.

### 3.5 Review of Demonstration Reports

After being notified by IBA headquarters that he has passed the written examination, the applicant will be invited to submit two demonstration appraisal reports.

In order to become accredited as a Certified Business Appraiser, applicants must submit sample appraisal reports, which fully demonstrate the high degree of knowledge, skill and judgment required for accreditation as a Certified Business Appraiser.

#### 3.5.1 Nomenclature

These reports are called *demonstration reports*. Reports will be reviewed by a competent reviewer member of the Qualifications Review Committee (QRC) and forwarded to the Chairman of the QRC for further review and concurrence. Upon approval of demonstration reports, applicants will be recommended by the QRC for accreditation. Applicants will receive a written *Reviewer's Report to Applicant*.

#### 3.5.2 Sample Reports – the *Business Appraisal Reports Guide* (BARG)

In order to assist applicants in preparing effective demonstration reports, the IBA has published a series of sample business valuation appraisal reports, the *Business Appraisal Reports Library*.

#### 3.5.3 Course on Report-writing Available

The IBA makes available a special course on the preparation of written business valuation appraisal reports, Course number 1010, "Writing Business Valuation Appraisal Reports." Applicants are advised that this course may be helpful in developing the skill level necessary to complete satisfactory Demonstration Reports.

#### 3.5.4 Number of Reports Required and Form

Number of Reports. Each applicant must submit 2 demonstration reports, as required to fully demonstrate all aspects of business valuation, as described below. The reason for requiring applicants to submit 2 reports is because it is normally impossible to demonstrate the full range of comprehensive appraisal skills necessary to become accredited as a Certified Business Appraiser in a single report. For example, it would be difficult to demonstrate the valuation of a controlling interest, and a non-controlling interest in the same report. Applicants should strive to make the 2 demonstration reports complementary, rather than duplicative.

Form. Reports must be in the form of *Formal Written Appraisal Reports* as defined in IBA Business Appraisal Standard 5 §5.1 *et seq.*

Format. Each report must be printed or copied on at least 20 lb. white bond paper, unbound, and fastened only by a binder-clip. Special paper, card-stock covers, or bindings may not be included and do not affect the review. The name of the applicant, name (pseudonym) of the subject company, and date of valuation shall be clearly printed on the cover of each report. The use of color printing is encouraged for charts, graphs, or other illustrative materials, though the actual text of the report must be printed in black type on white paper.

Confidentiality. Applicants must use “search and replace” features of word-processors to alter the names of parties, the subject company, and other information which might reveal the actual names, in order to protect the confidentiality of the information contained in the demonstration reports. Marking out of names or other information with a black marker is not permitted. Applicants should replace actual names with pseudonyms, e.g. “Joe Jones,” “Bob Smith,” “John Doe,” etc. rather than replace names with “XXXXXXXXXX,” or “\*\*\*\*\*,” in order to preserve the context and readability of the Demonstration Report for the Reviewer. The name of the company may be similarly disguised by changing it to “ABC Corp.,” “XYX Co.,” “ACME Sales,” “National Manufacturing,” or something similar.

Reports will not be returned to Applicant.

#### 3.5.5 Reports Must be Exclusively Work of Applicant

Demonstration reports must be the sole and exclusive work of the applicant. No other individual may contribute significantly to the preparation of Demonstration Reports. In particular, supervisors may not submit the work of subordinates as their own work, even though they have directed or supervised the work of the subordinates. Applicants may not copy the work of others, and are expected to perform the analysis and write the narrative sections of the report in their own words without the assistance of others. Applicants found to have submitted the work of others will be referred to the IBA Ethics and Disciplinary Committee for action. Applicants may not submit reports as their own work that they have merely supervised or reviewed, but that are substantially the work of others. Demonstration Reports from applicants found to have copied substantial text from the IBA Business Appraisal Reports Library will be rejected.

#### 3.5.6 Time for Review

In most cases reviews will be completed and applicants notified of the results of the review within 90 days of receipt at IBA headquarters. Applicants may call IBA headquarters after 90 days to check on

the progress of the review, but not before.

Applicants who telephone IBA headquarters before 90 days have elapsed will be instructed to call back after the allotted time.

Once demonstration reports are received at IBA headquarters, they are subjected to a preliminary review to ensure that all requirements have been met with respect to form and format, and given a cursory review to ensure that they contain material purporting to comprise all three basic approaches to valuation, valuation of both controlling and non-controlling interests, etc. When this cursory review has been completed, the demonstration reports are sent to a reviewer member of the Qualifications Review Committee for formal review and comment.

In order to keep applicants advised of the progress of their demonstration reports, IBA Headquarters will send a postcard to the applicant on the day that the demonstration reports are received at IBA Headquarters, on the day that the applicant's demonstration reports are mailed to the Reviewer, and again on the day that they are received by the Chairman.

### 3.5.7 Reviewers' Report to Applicant

Upon examination by a reviewer, each applicant will be sent a letter advising whether the demonstration reports were satisfactory or unsatisfactory. In most cases, this letter will be accompanied by a Reviewers' Report to Applicant. The Reviewers' Report to Applicant will identify unsatisfactory or disqualifying aspects of the demonstration reports. In the event that the demonstration reports are found unsatisfactory, and to the extent practical, the Reviewers' Report to Applicant will offer suggestions to the applicant on how to correct the deficiencies in the reports. Though QRC Reviewers perform a comprehensive examination of demonstration reports, and often prepare lengthy Reviewers' Reports, the Reviewers' Report is not intended to identify every defect in demonstration reports in every case, and in every case the applicant is absolutely responsible for submitting satisfactory demonstration reports. Consequently, unmentioned errors may be noted for the first time by the reviewer in resubmitted reports.

### 3.5.8 Re-Submittal of Revised Demonstration Reports

Demonstration reports found unsatisfactory by the QRC may be revised, and resubmitted as demonstration reports. If in the discretion of the Qualifications Review Committee, it is appropriate for an applicant to resubmit only a portion of a report, the Reviewer may so instruct the applicant.

### 3.5.9 Appeal of Unsatisfactory Demonstration Reports

Applicants may appeal an unsatisfactory finding by the QRC to the Executive Director by submitting a written Notice of Appeal and Request for Reconsideration, stating the reasons why reconsideration should be granted. Such Notice of Appeal and Request for Reconsideration must be received by headquarters within 30 days of the date notification was sent to the applicant. The decision of the Executive Director is final.

## 3.6 Demonstration Reports - Content

### 3.6.1 Demonstration Reports vs. Other Reports

Demonstration reports are just that, *demonstrations*. They are intended to *demonstrate* that the applicant possesses the required high degree of skill, knowledge and judgment required for certification. Demonstration Reports must be comprehensive in order to demonstrate the full range of appraisal



skills required of a Certified Business Appraiser.

Reports prepared for clients often fall short of demonstrating the full range of appraisal skills and knowledge, instead focusing on the range of skill and knowledge appropriate for the particular assignment. If necessary, reports prepared for other purposes can be expanded to include whatever is necessary to serve as Demonstration Reports.

If necessary, applicants may modify actual client reports to include such approaches or methods as needed to demonstrate the full range of appraisal skills described below. An applicant may include and develop a value indication from a not-normally-used method, and in the reconciliation of values section accord it no weight or influence, explaining in the report that it was included for demonstration purposes only.

Appraisal reports that consist of little more than an analysis of the discounts applicable to the value of the underlying assets, such as an appraisal of a non-controlling interest in a limited partnership owning real estate (sometimes known as FLP Appraisals), are not suitable as demonstration reports for purposes of this section.

### 3.6.2 Production Values Count

The appearance of an appraisal report is an important contributor to the credibility of the appraisal result. Accordingly, applicants must demonstrate skill in preparing appraisal reports with high production values.

Reports must have numbered pages, correct grammar, and professional appearance. Reports submitted without page numbers on every single page except the cover page, will be rejected. (Every single page includes all exhibits, appendices, and other attachments). A suitable table of contents is required. A proportional *serifed* typeface, such as Times Roman, or Garamond, is preferred because it is easier to read than fixed pitch typefaces such as Courier. Exhibits must be identified by an exhibit number and clearly linked to the narrative of the report.

The effective use of charts and graphs is important and encouraged. Failure to present graphical information effectively may be disqualifying. Report sections must be numbered or otherwise delineated. The narrative of the report must fully explain the relevance of all charts, tables, exhibits, and other presentations. If the role of these presentations in the appraisal process cannot be identified, they are extraneous and should be omitted.

Embedding tables and charts at the point of reference is preferable to attaching them as appendices. Material that is not referred to in the report should not be included. Background material and lengthy tables may be appended if necessary. All included materials must support the analysis and conclusions of the appraiser or be otherwise explained.

Sources must be identified in all cases, and footnotes are preferable to endnotes. Footnotes, and bibliographic or other references must conform to the form given in *A Manual of Style*<sup>1</sup> or other standard reference.

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<sup>1</sup> *A Manual of Style*, 12<sup>th</sup> Edition, Revised, (Chicago: The University of Chicago Press, 1969).

Reports must be competently proofread. Material spelling errors, math errors, non-sequiturs, and punctuation errors are disqualifying.

### 3.6.3 Use of Plain Language

Reports must be written in plain language. Sentences must be complete. Short sentences are better than long sentences. Active voice is more effective than passive. Use of correct business valuation vocabulary and terminology is required. Brief, concise paragraphs are more effective than long discourses. Names given to appraisal approaches and methods must be consistent with forms found in the literature sources cited above.

### 3.6.4 Emphasis on Analytical Skills

Because Certified Business Appraisers must possess strong analytical abilities, the review of demonstration reports places great emphasis on demonstration of competency in research, data collection, analysis of data, development of supportable conclusions, logical thinking and clear and concise reporting of results. Failure to demonstrate a high degree of knowledge and skill in these areas may be disqualifying.

### 3.6.5 Use of Appraisal Software in Demonstration Reports

Skill in the operation of appraisal software is not required for accreditation. In general, the use of appraisal software programs is discouraged for demonstration reports, and inclusion of direct printouts from such software in demonstration reports is normally disqualifying. The demonstration reports must be the sole work of the applicant, and not the work of software developers or authors. The report narrative must be written in the applicant's own words, and not copied from other sources.

Commercially available appraisal software can occasionally be somewhat useful to experienced appraisers who are familiar with its limitations, but can often lead inexperienced appraisers toward trouble. Experience in reviewing hundreds of demonstration reports has shown conclusively that reliance on appraisal software does nothing to enhance demonstration reports, and often leads the reviewer to wonder whether the applicant was using the software to cover a lack of fundamental appraisal knowledge and skill.

Even the best software programs have limitations, and in actual appraisal practice, there are few instances that require any kind of software beyond a modern word processor and spreadsheet. Further, reviewers look to the ability of the applicant to perform the necessary computations and prepare the necessary narrative, not the software.

### 3.6.6 Conformance to IBA Standards

Demonstration appraisals and reports must conform entirely to the *IBA Business Appraisal Standards*.

### 3.6.7 Demonstration of Business Valuation Methodology

Applicants must demonstrate a comprehensive knowledge of current business valuation methodology.

#### 3.6.7.1 Demonstration of Fundamental Approaches to Valuation

Applicants must demonstrate competence in the application of each of the three basic approaches to value.

#### 3.6.7.2 Asset (Cost) Approach

Applicants must demonstrate competence in the application of the Asset Approach by applying one or more methods under this category, including a method addressing the Liquidation Value where appropriate.

Applicants must demonstrate competence in dealing with the valuation of both tangible and intangible assets.

#### 3.6.7.3 Income Approach

Applicants must demonstrate competence in the application of the Income Approach by applying one or more methods under this category, including the Single-Period Capitalization Method, Multiple-Period Discounting Method, or others as appropriate.

Applicants must demonstrate competence in development of capitalization rates or discount rates as appropriate, and in matching the income stream to the appropriate rate of return.

#### 3.6.7.4 Market Approach

Applicants must demonstrate competence in the application of the Market Approach by applying the Direct Market Data Method (sometimes called the IBA Database Method), and the Publicly Traded Guideline Company Method.

Applicants must demonstrate competence in searching for comparables and in the analysis of data contained in the IBA or similar database, as appropriate.

#### 3.6.8 Valuation of Controlling Interest and Non-Controlling Interest

Applicants must demonstrate competence in 1) the valuation of a controlling interest and in 2) the valuation of a non-controlling interest.

#### 3.6.9 Adjustment for Marketability and Control

Applicants must demonstrate competence in the application of adjustments for control and marketability (liquidity), and must demonstrate the development of both an adjustment for control, and an adjustment for lack of marketability.

#### 3.6.10 Forecast of Earnings

Applicants must demonstrate competence in the forecasting of future revenue and earnings. In developing a forecast for the future operating performance of the subject company, applicants must fully justify their estimates, and explain the basis for their projections. The use of a weighted average of historical performance is not adequate to demonstrate skill in the development of a meaningful forecast of future performance, absent the empirical support of the weights assigned to historical performance.

#### 3.6.11 Analysis of Subject Industry

Applicants must demonstrate competence in the research and analysis on the subject industry, and in the analysis of findings on the value of the subject firm.

#### 3.6.12 Analysis of Economic Conditions

Applicants must demonstrate competence in the analysis of economic factors that affect the value of the subject and in describing *how* economic factors affect the value of the subject company.

### 3.6.13 Support of Subjective Factors

Applicants must demonstrate competence and judgment in the development of subjective factors, such as capitalization and discount rates, adjustments for control and marketability, weighting of value indications, selection of growth rates, etc.

Support of subjective factors must include discussion of applicable empirical information, description of the range of probable values, discussion of *why* the value for the subject falls where applicant believes it does, listing of all factors taken into consideration by the applicant, and comparison to appraisal literature. Absent an appropriate level of support, statements such as “In the opinion of the appraiser, a capitalization rate (discount rate, minority discount, specific risk premium, etc) is appropriate for the subject,” will be disqualifying.

Examples of inadequate (disqualifying) support for subjective factors:

- “After considering all relevant factors, we have concluded that a subjective risk factor of 11.2% is appropriate for the subject.”
- “In the opinion of the appraiser, a capitalization rate of 25% will be suitable for the subject.”
- When compared to the other approaches, the income approach should be given the greatest weight.”
- In view of the growth potential for the subject, an average annual growth rate of 6% is appropriate.”
- “The average control premium observed in the Mergerstat Studies was 35%, so this is what we will use for the subject.”
- “Numerous authorities suggest a range of discount rates from 20% to 35%, so for this subject we will use the average of these, or 27.5%.”
- “Average annual growth rate for the last five years is 8.9%, so we will project future income at this rate.”

### 3.6.14 Reconciliation of Indicated Values

Applicants must demonstrate competence in the reconciliation or weighting of the various indications of value.

## 4 THE ACCREDITATION PROCESS – ACCREDITED-IBA

### 4.1 Summary of Requirements for Accreditation by IBA designation

- Education: Applicant must possess a 4-year college degree or equivalent and provide proof of this to the IBA in the form provided by the Institute. Applicant must have successfully completed IBA Course 8002, the 8-day workshop in Valuing Closely Held Businesses, or hold a journeyman level designation in business valuation from compeer organizations recognized by the Institute of Business Appraisers, upon application to the IBA.
- References: Applicant must provide four satisfactory references, two references as to his personal character; and references as to his professional competence as a business appraiser.
- Membership in IBA: Applicant must be a member-in-good-standing of the Institute of Business Appraisers.
- Written Examination: Applicant must pass a comprehensive written examination on current business valuation theory and practice
- Demonstration Reports: Applicant must submit one Demonstration Report demonstrating his competence as a Business Appraiser.

### 4.2 Application for Accreditation

#### 4.2.1 Application Form

Application for Accreditation shall be made to The Institute of Business Appraisers on a form supplied by the Institute. An application form may be obtained from IBA headquarters by calling 800-299-4130.

#### 4.2.2 Payment of Fees

Application for Accreditation shall be accompanied by payment of a fee set by the Institute of Business Appraisers. Information on the current application fee may be obtained by telephoning IBA headquarters at 800-299-4130.

### 4.3 Written Examination

#### 4.3.1 Time and Place for Examination and Proctoring

The written examination will in most cases be administered on the final day of the 8002 course, but may also shall be administered at such time and place, as the Executive Director shall from time-to-time determine.

#### 4.3.2 Form of Examination

The written examination may consist of multiple choice, short answer, narrative answer, and/or case analysis questions in any combination.

#### 4.3.3 Subjects Covered on AIBA Written Examination

The examination will test the applicant's knowledge of all current business valuation theory and practice, and cover, but not be limited to, the following general topics:

- IBA Business Appraisal Standards
- Standards of value
- Definitions of value
- Purposes and uses for business appraisals
- Financial theory
- Time-value-of-money calculations
- Present value
- Use of publicly traded stocks as guideline companies
- Use of IBA database in application of the direct market data method
- Basic statistical techniques
- Use of liquidation value
- Appraiser certification
- Forecasting future earnings and revenue
- Development of capitalization rates and discount rates
- Use of excess earnings method to value intangibles
- Valuation of fixed assets
- Adjustment of financial statements
- Use of common sense and good judgment
- Application of adjustments for control and marketability
- Performance of appraisals for gift and estate tax purposes
- History of IBA
- Application of three basic appraisal approaches
- Economic and industry research and analysis

#### 4.3.4 Passing Grade

A passing grade on the written exam shall be 75% correct answers.

#### 4.3.5 Notification of Examination Results

Applicants will be notified whether they passed or failed the examination by mail or email approximately 6 weeks following the date of the examination. Applicants are requested not to telephone headquarters to inquire about their examination before 6 weeks have elapsed.

#### 4.3.6 Explanation of Written Examination Results

Applicants may at the discretion of the Institute be provided with a description of the general topical areas of the examination where they gave incorrect answers. However, no detailed analysis of incorrect answers will be provided.

#### 4.3.7 Appeal of Failing Examination Grades

The decision of the graders shall be final. Applicants may re-take the written examination within one

year without payment of an additional fee, or after one year upon additional payment of the regular examination fee.

#### 4.4 Reading List

The reading list for the AIBA designation is the same as for the CBA designation. [see Sect. 3.4]

#### 4.5 Review of Demonstration Reports

After being notified by IBA headquarters that he has passed the written examination, the applicant will be invited to submit one demonstration appraisal report.

In order to be awarded the AIBA designation, applicants must submit a sample appraisal report that demonstrates an intermediate level of business valuation knowledge, skill and judgment.

##### 4.5.1 Nomenclature

These reports are called *demonstration reports*. Reports will be reviewed by a competent reviewer member of the Qualifications Review Committee (QRC) and forwarded to the Chairman of the QRC for further review and concurrence. Upon approval of demonstration reports, applicants will be recommended by the QRC for accreditation. Applicants will receive a written *Reviewer's Report to Applicant*.

##### 4.5.2 Sample Reports – the *Business Appraisal Reports Library* (BARL)

In order to assist applicants in preparing effective demonstration reports, the IBA has published a series of sample business valuation appraisal reports, the *Business Appraisal Reports Library*.

##### 4.5.3 Course on Report-writing Available

The IBA makes available a special course on the preparation of written business valuation appraisal reports, Course number 1010, "Writing Business Valuation Appraisal Reports." Applicants are advised that this course may be helpful in developing the skill level necessary to complete satisfactory Demonstration Reports.

##### 4.5.4 Number of Reports Required and Form

Number of Reports. Each applicant for the AIBA designation must submit 1 demonstration report, as described below.

Form. Demonstration Reports must be in the form of *Formal Written Appraisal Reports* as defined in IBA Business Appraisal Standard 5 §5.1 *et seq.*

Format. Each report must be printed or copied on at least 20 lb. white bond paper, unbound, and fastened only by a binder-clamp. Special paper, card-stock covers, or bindings may not be included and do not affect the review. The name of the applicant, name (pseudonym) of the subject company, and date of valuation shall be clearly printed on the cover of each report. The use of color printing is encouraged for charts, graphs, or other illustrative materials, though the actual text of the report must be printed in black type on white paper.

Confidentiality. Applicants must use "search and replace" features of word-processors to

alter the names of parties, the subject company, and other information which might reveal the actual names, in order to protect the confidentiality of the information contained in the demonstration reports. Marking out of names or other information with a black marker is not permitted. Applicants should replace actual names with pseudonyms, e.g. “Joe Jones,” “Bob Smith,” “John Doe,” etc. rather than replace names with “XXXXXXXXXX,” or “\*\*\*\*\*,” in order to preserve the context and readability of the Demonstration Report for the Reviewer. The name of the company may be similarly disguised by changing it to “ABC Corp.,” “XYX Co.,” “ACME Sales,” “National Manufacturing,” or something similar.

#### 4.5.5 Reports Must be Exclusively Work of Applicant

Demonstration reports must be the sole and exclusive work of the applicant. No other individual may contribute significantly to the preparation of Demonstration Reports. In particular, supervisors may not submit the work of subordinates as their own work, even though they have directed or supervised the work of the subordinates. Applicants may not copy the work of others, and are expected to perform the analysis and write the narrative sections of the report in their own words without the assistance of others. Applicants found to have submitted the work of others will be referred to the IBA Ethics and Disciplinary Committee for action. Applicants may not submit reports as their own work that they have merely supervised or reviewed, but that are substantially the work of others. Demonstration Reports from applicants found to have copied substantial text from the IBA Business Appraisal Reports Library will be rejected.

#### 4.5.6 Time for Review

In most cases reviews will be completed and applicants notified of the results of the review within 90 days of receipt at IBA headquarters. Applicants may call IBA headquarters after 90 days to check on the progress of the review, but not before.

Applicants who telephone IBA headquarters before 90 days have elapsed will be instructed to call back after the allotted time.

#### 4.5.7 Reviewers’ Report to Applicant

Upon examination by a reviewer, each applicant will be sent a letter advising whether the demonstration reports were satisfactory or unsatisfactory. In most cases, this letter will be accompanied by a Reviewers’ Report to Applicant. The Reviewers’ Report to Applicant will identify unsatisfactory or disqualifying aspects of the demonstration reports. In the event that the demonstration reports are found unsatisfactory, and to the extent practical, the Reviewers’ Report to Applicant will offer suggestions to the applicant on how to correct the deficiencies in the reports. Though QRC Reviewers perform a comprehensive examination of demonstration reports, and often prepare lengthy Reviewers’ Reports, the Reviewers’ Report is not intended to identify every defect in demonstration reports in every case, and in every case the applicant is absolutely responsible for submitting satisfactory demonstration reports. Consequently, unmentioned errors may be noted for the first time by the reviewer in resubmitted reports.

#### 4.5.8 Re-Submittal of Revised Demonstration Reports

Demonstration reports found unsatisfactory by the QRC may be revised, and resubmitted as demonstration reports. one time only. If in the discretion of the Qualifications Review Committee, it is appropriate for an applicant to resubmit only a portion of a report, the Reviewer may so instruct the applicant.



#### 4.5.9 Appeal of Unsatisfactory Demonstration Reports

Applicants may appeal an unsatisfactory finding by the QRC to the Executive Director by submitting a written Notice of Appeal and Request for Reconsideration, stating the reasons why reconsideration should be granted. Such Notice of Appeal and Request for Reconsideration must be received by headquarters within 30 days of the date notification was sent to the applicant. The decision of the Executive Director is final.

### 4.6 Demonstration Reports - Content

#### 4.6.1 Demonstration Reports vs. Other Reports

Demonstration reports are just that, *demonstrations*. They are intended to *demonstrate* that the applicant possesses the required high degree of skill, knowledge and judgment required for certification. Demonstration Reports must be comprehensive in order to demonstrate the full range of appraisal skills required of a Business Appraiser.

Reports prepared for clients often fall short of demonstrating the full range of appraisal skills and knowledge, instead focusing on the range of skill and knowledge appropriate for the particular assignment. If necessary, reports prepared for other purposes can be expanded to include whatever is necessary to serve as Demonstration Reports.

If necessary, applicants may modify actual client reports to include such approaches or methods as needed to demonstrate the full range of appraisal skills described below. An applicant may include and develop a value indication from a not-normally-used method, and in the reconciliation of values section accord it no weight or influence, explaining in the report that it was included for demonstration purposes only.

#### 4.6.2 Production Values Count

The appearance of an appraisal report is an important contributor to the credibility of the appraisal result. Accordingly, applicants must demonstrate skill in preparing appraisal reports with high production values.

Reports must have numbered pages, correct grammar, and professional appearance. Reports submitted without page numbers on every single page except the cover page, will be rejected. A suitable table of contents is required. A proportional *serifed* typeface, such as Times Roman, or Garamond, is preferred because it is easier to read than fixed pitch typefaces such as Courier. Exhibits must be identified by an exhibit number and clearly linked to the narrative of the report.

The effective use of charts and graphs is important and encouraged. Failure to present graphical information effectively may be disqualifying. Report sections must be numbered or otherwise delineated. The narrative of the report must fully explain the relevance of all charts, tables, exhibits, and other presentations. If the role of these presentations in the appraisal process cannot be identified, they are extraneous and should be omitted.

Embedding tables and charts at the point of reference is preferable to attaching them as appendices. Material that is not referred to in the report should not be included. Background material and lengthy tables may be appended if necessary. All included materials must support the analysis and conclusions of the appraiser or be otherwise explained.

Sources must be identified in all cases, and footnotes are preferable to endnotes. Footnotes, and bibliographic or other references must conform to the form given in *A Manual of Style*<sup>2</sup> or other standard reference.

Reports must be competently proofread. Material spelling errors, math errors, non-sequiturs, and punctuation errors are disqualifying.

#### 4.6.3 Use of Plain Language

Reports must be written in plain language. Sentences must be complete. Short sentences are better than long sentences. Active voice is more effective than passive. Use of correct business valuation vocabulary and terminology is required. Brief, concise paragraphs are more effective than long discourses. Names given to appraisal approaches and methods must be consistent with forms found in the literature sources cited above.

#### 4.6.4 Emphasis on Analytical Skills

Because Business Appraisers must possess strong analytical abilities, the review of demonstration reports places great emphasis on demonstration of competency in research, data collection, analysis of data, development of supportable conclusions, logical thinking and clear and concise reporting of results. Failure to demonstrate a high degree of knowledge and skill in these areas may be disqualifying.

#### 4.6.5 Use of Appraisal Software in Demonstration Reports

Skill in the operation of appraisal software is not required for accreditation. In general, the use of appraisal software programs is discouraged for demonstration reports, and inclusion of direct printouts from such software in demonstration reports is normally disqualifying. The demonstration reports must be the sole work of the applicant, and not the work of software developers or authors. The report narrative must be written in the applicant's own words, and not copied from other sources.

Commercially available appraisal software can occasionally be somewhat useful to experienced appraisers who are familiar with its limitations, but can often lead inexperienced appraisers toward trouble. Experience in reviewing hundreds of demonstration reports has shown conclusively that reliance on appraisal software does nothing to enhance demonstration reports, and often leads the reviewer to wonder whether the applicant was using the software to cover a lack of fundamental appraisal knowledge and skill.

Even the best software programs have limitations, and in actual appraisal practice, there are few instances that require any kind of software beyond a modern word processor and spreadsheet. Further, reviewers look to the ability of the applicant to perform the necessary computations and prepare the necessary narrative, not the software.

#### 4.6.6 Conformance to IBA Standards

Demonstration appraisals and reports must conform entirely to the *IBA Business Appraisal Standards*.

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<sup>2</sup> *A Manual of Style*, 12<sup>th</sup> Edition, Revised, (Chicago: The University of Chicago Press, 1969).

#### 4.6.7 Demonstration of Business Valuation Methodology

Applicants must demonstrate a comprehensive knowledge of current business valuation methodology.

##### 4.6.7.1 Demonstration of Fundamental Approaches to Valuation

Applicants must demonstrate competence in the application of as many of the three basic approaches to value as can be appropriately brought to bear on the subject company.

##### 4.6.7.2 Asset (Cost) Approach

If appropriate to the subject company, applicants must demonstrate competence in the application of the Asset Approach by applying one or more methods under this category, including a method addressing the Liquidation Value where appropriate.

Applicants must demonstrate competence in dealing with the valuation of both tangible and intangible assets.

##### 4.6.7.3 Income Approach

If appropriate to the subject company, applicants must demonstrate competence in the application of the Income Approach by applying one or more methods under this category, including the Single-Period Capitalization Method, Multiple-Period Discounting Method, or others as appropriate.

If appropriate to the subject company, applicants must demonstrate competence in development of capitalization rates or discount rates as appropriate, and in matching the income stream to the appropriate rate of return.

##### 4.6.7.4 Market Approach

If appropriate to the subject company, applicants must demonstrate competence in the application of the Market Approach by applying the Direct Market Data Method (sometimes called the IBA Database Method), and one or more additional market-based methods.

If appropriate to the subject company, applicants must demonstrate competence in searching for comparables and in the analysis of data contained in the IBA or similar database, as appropriate.

#### 4.6.8 Valuation of Controlling Interest and Non-Controlling Interest

Applicants must demonstrate competence in the valuation of a controlling interest and/or the valuation of a non-controlling interest.

#### 4.6.9 Adjustment for Marketability and Control

If appropriate to the subject company, applicants must demonstrate competence in the application of adjustments for control and marketability (liquidity), and must demonstrate the development of both an adjustment for control, and an adjustment for lack of marketability.

#### 4.6.10 Forecast of Earnings

Applicants must demonstrate competence in the forecasting of future revenue and earnings. In developing a forecast for the future operating performance of the subject company, applicants must fully justify their estimates, and explain the basis for their projections. The use of a weighted average of historical performance is not adequate to demonstrate skill in the development of a meaningful forecast of future performance, absent the empirical support of the weights assigned to historical

performance.

#### 4.6.11 Analysis of Subject Industry

Applicants must demonstrate competence in the research and analysis on the subject industry, and in the analysis of findings on the value of the subject firm.

#### 4.6.12 Analysis of Economic Conditions

Applicants must demonstrate competence in the analysis of economic factors that affect the value of the subject and in describing *how* economic factors affect the value of the subject company.

#### 4.6.13 Support of Subjective Factors

Applicants must demonstrate competence and judgment in the development of subjective factors, such as capitalization and discount rates, adjustments for control and marketability, weighting of value indications, selection of growth rates, etc.

Support of subjective factors must include discussion of applicable empirical information, description of the range of probable values, discussion of *why* the value for the subject falls where applicant believes it does, listing of all factors taken into consideration by the applicant, and comparison to appraisal literature. Absent an appropriate level of support, statements such as “In the opinion of the appraiser, a capitalization rate (discount rate, minority discount, specific risk premium, etc) is appropriate for the subject,” will be disqualifying.

Examples of inadequate (disqualifying) support for subjective factors:

- “After considering all relevant factors, we have concluded that a subjective risk factor of 11.2% is appropriate for the subject.”
- “In the opinion of the appraiser, a capitalization rate of 25% will be suitable for the subject.”
- When compared to the other approaches, the income approach should be given the greatest weight.”
- In view of the growth potential for the subject, an average annual growth rate of 6% is appropriate.”
- “The average control premium observed in the Mergerstat Studies was 35%, so this is what we will use for the subject.”
- “Numerous authorities suggest a range of discount rates from 20% to 35%, so for this subject we will use the average of these, or 27.5%.”
- “Average annual growth rate for the last five years is 8.9%, so we will project future income at this rate.”

#### 4.6.14 Reconciliation of Indicated Values

Applicants must demonstrate competence in the reconciliation or weighting of the various indications of value.

## 5 REACCREDITATION AND CONTINUING EDUCATION REQUIREMENTS

### 5.1.1 Application

The Institute of Business Appraisers Reaccreditation and Continuing Education Requirements apply to all holders of the Master Certified Business Appraiser, Certified Business Appraiser, and AIBA designations.

### 5.1.2 Continuing Education Requirements

All holders of the designations set forth in Sect. 5.1.1 above must complete 24 hours of continuing professional education in business appraisal, or other acceptable professional development, each 24 months.

### 5.1.3 Acceptable Professional Development Activities

- Volunteer activities on behalf of the Institute of Business Appraisers or other compeer professional organization recognized by the IBA. Such activities include but are not limited to mentoring applicant appraisers and service on technical committees. Credit will be given on an hour-for-hour basis.
- Teaching or lecturing on business appraisal or a related subject in a formal classroom setting in a class sponsored by the IBA or other compeer professional organization recognized by the IBA. Ten hours credit for each hour of teaching or presentation.
- Presenting technical material to a plenary session of a national conference on business valuation sponsored by the IBA or other compeer professional organization recognized by the IBA. Ten hours credit for each hour of teaching or presentation.
- Writing technical articles on business appraisal for publication in the technical journal of the IBA or other compeer professional organization recognized by the IBA. 16 hours for each article published.

### 5.1.4 Acceptable Continuing Education

Acceptable continuing education includes attendance at formal classroom courses offered by the IBA or other compeer professional organization recognized by the IBA, or attendance at the national business valuation conference of the IBA or other compeer professional organization recognized by the IBA. Credit awarded on an hour-for-hour basis.

### 5.1.5 Procedure for Submitting Evidence of Education or Professional Development

Satisfactory evidence of completion of the continuing education or professional development requirement shall on the form provided by the IBA.