

EUROPEAN BUSINESS VALUATION STANDARDS

2ND EDITION – 2026



TEGOVA

The European Group
of Valuers' Associations

Second edition
ISBN 9789081906098
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CONTENTS

Preface.....	9
Introduction.....	11
Members of the European Business Valuation Standards Board, Secretariat.....	15
Acknowledgements.....	17

A. EUROPEAN BUSINESS VALUATION STANDARDS **19**

A.1. EVS-BV STANDARDS	21
Framework and Scope	21
1. Objective	21
2. Scope	21
3. Positioning of the Standards	22
4. Users	22
EVS-BV 1 Market Value	23
1. Introduction	24
2. Scope	24
3. Definition of Market Value and Application	24
4. Highest and Best Use	26
5. Assumptions and special assumptions	27
6. Other matters	28

EVS-BV 2 Bases of Value other than Market Value	29
1. Introduction	30
2. Scope	30
3. Basis of value	30
4. Equitable value	31
5. Fair value	31
6. Synergistic value	33
7. Investment value	33
8. Liquidation value	34
9. The specific definitions of bases of value under Commission Delegated Regulation (EU) 2018/345 of 14 November 2017	36
EVS-BV 3 The Qualified Valuer	39
1. Introduction	40
2. Scope	40
3. General	40
4. The qualified business valuer	41
5. Application	41
EVS-BV 4 The Valuation Process	44
1. Introduction	45
2. Scope	45
3. Terms of engagement	45
4. Liaison with client's advisers, auditors and others	46
5. Application	47
6. Purposes of valuation	49
7. Business and market analysis	49
8. Choice of the appropriate business valuation approaches and methods	52
9. General observations	52
10. Conclusion on the opinion of value	54
11. Supporting the valuation	54
EVS-BV 5 Reporting the Valuation	55
1. Introduction	56
2. Scope	56
3. Valuation Report – definition	56
4. The Valuation Report	56
5. Valuation review	58

A.2. Governance Standards	61
European Valuers’ Code of Conduct	61
The Code	61
TEGOVA’s Educational Requirements for Business Valuers (TER-BV)	63
1. Introduction	63
2. Outline syllabus	64

B. GUIDANCE **67**

B.1. VALUATION METHODOLOGY	69
1. Introduction	70
2. Scope	70
3. Definitions	71
4. General observations	71
5. Application	72
6. Using more than one valuation method	82
B.2. GUIDANCE NOTES	85
EVGN-BV 1 Content of the Valuation Report	85
1. Introduction	86
2. Scope	86
3. Matters covered	86
EVGN-BV 2 Control Premium, Discount for Lack of Control and Discount for Lack of Marketability	92
1. Introduction	93
2. Definitions of premiums and discounts	93
3. Scope	94
4. Application of premiums and discounts	95

EVGN-BV 3 Discount Rates in the Discounted Cash Flow Method	99
1. Introduction	100
2. Scope	100
3. Commentary on discount rates	100
4. Capital Asset Pricing Model (CAPM)	102
5. Weighted Average Cost of Capital (WACC)	106
6. Build-up method	108
EVGN-BV 4 Valuation Uncertainty	109
1. Introduction	110
2. Scope	110
3. Application of valuation approaches and methods	111
4. Recommendations on risk mitigation	112
5. Recommendations on reporting valuation uncertainty	112
EVGN-BV 5 ESG in Business Valuation	114
1. Introduction	115
2. ESG and bases of value	116
3. Materiality (substantiality) of ESG for the purposes of business valuation	116
4. Quantitative consideration of ESG factors when applying valuation approaches	118
5. Qualitative consideration of ESG factors	121
6. Information environment and availability of ESG data in listed companies and small and medium-sized enterprises	123
7. ESG information and data quality	124
8. Uncertainty related to ESG factors and scenario analysis	125
9. ESG in Valuation Reports and limits on liability	126
EVGN-BV 6 Valuation of Startups and Scaleups	127
1. Introduction	128
2. Scope	128
3. Identification of Startups and Scaleups	129
4. Application of valuation approaches and methods	132
5. Adjustments, discounts and premiums	139
6. Reporting	140

C. BACKGROUND AND RESOURCES

143

C.1. European Union Legislation and Business Valuation	145
1. General Introduction	146
2. Valuation for EU Company Law	150
3. Valuation of Credit Institutions	157
4. Valuation of Insurance and Reinsurance Institutions	159
5. Valuation for Investment Funds	163
6. Valuation for Taxation Legislation	165
7. Valuation for Transfer Pricing	170
8. Valuation for State Aid Rules	173
9. Valuation and Environmental, Social, and Governance (ESG) factors	177
10. Valuation for Insolvency Proceedings or Restructuring Plans	179
11. Schedule of EU Legislation	181
C.2. Recognition of TEGOVA Qualification	188
1. REV-BV: The mark of excellence in business valuation	188
2. Application and Awarding Procedures	188
C.3. Membership of TEGOVA	190
C.4. Glossary	198

PREFACE

In 2020, TEGOVA published the first ever truly European Business Valuation Standards. The motivation at the time was the demand of many of our members who were eager to have the same high quality and reliable standards for their business valuation practices as they did for property valuation. That demand is even stronger today due to TEGOVA's rapid increase in membership since then – generally and in terms of business valuation – and given the increasing consciousness of the interrelation between property and business valuation.



But there is now a new factor: geopolitics. The fact that the European Union is the last remaining pillar of the 'rules-based world order', does not save or excuse it from protecting itself and its citizens. 'Strategic autonomy' is no vain concept. It means that, in an ever more hostile world, the goods and services that are essential to competitive excellence must be developed and nurtured at home.

And the same goes for their valuation.

All European Valuation Standards are designed in lock-step with EU law and serve to enhance EU policy, helping it irrigate the Internal Market. Nowhere is this more so than with business valuation, given the now dominant position of EU regulation in the economic sphere. European Business Valuation Standards 2026 integrate the EU law component of all Standards and Guidance covered and, as always, provide a section on 'European Union Legislation and Business Valuation' helping our 70 000 valuers from almost all the EU and candidate Member States to understand the impact of EU law on the markets and businesses they scrutinise.

We believe that European Business Valuation Standards 2026 combined with the just-published European Intangible Asset Valuation Standards 2026, will make a significant contribution to the resilience of our “ever-closer Union”.

A handwritten signature in black ink, appearing to read 'Paulo Barros Trindade', with a long horizontal stroke extending to the right.

Paulo Barros Trindade REV REV-BV
Chairman of the Board of TEGOVA

INTRODUCTION

The first edition of European Business Valuation Standards included best practices prior to 2020 and was based on the assumption that the economy would develop in a business-as-usual pattern. The changes in business and consumer behaviour caused by the pandemic, the war in Ukraine and its impact on the flow of goods and services, the efforts of Russia and China to change the world order, as well as massive new EU legislative initiatives, are modern realities affecting the sustainability of businesses in ways that no one could have predicted at the time. Although these factors may not significantly affect the key standards, there is an urgent need to provide appropriate guidance on how to interpret them in the light of what our EVS real estate colleague Jeremy Moody has called “the Era of Risk”. Given that the above phenomena’s greatest impact is on European companies, it is doubtful that other international standard setters will pay them the necessary attention.



These Standards have been shaped by the imperative of giving proper attention to the digital economy, key to Europe’s future. This is most immediately evident in the Guidance, starting with what is no longer there:

Intangible asset valuation has taken on such importance, also in the priorities of the European authorities, that we have completely detached it from EVS-BV and created the recently published European Intangible Asset Valuation Standards 2026.

Taking into account current developments, this second edition of EVS-BV has been supplemented with three new Guidance Notes:

Startups and scaleups are a very special valuation challenge, because they typically have negative cash flows, limited or no historical financial data, and sometimes lack valuable tangible assets. Those factors reduce the usefulness of traditional valuation approaches because startups cannot provide the financial performance indicators on which the value estimates of those approaches are based. That’s why specific methods for startup valuation, based

more on qualitative than quantitative criteria, are used and are in consequence described and explained in EVS-BV.

Valuation uncertainty is a marker of our times, causing us to produce guidance that addresses the definition of valuation uncertainty, explores both quantitative and qualitative methods for its assessment, provides strategies for risk mitigation, and outlines best practices for reporting uncertainty in valuation reports.

ESG factors have become established as a guiding and institutional framework which investors, creditors, regulators and other market participants can use to assess business risk, sustainability and the long-term economic efficiency of enterprises. In this light, the guidance does not change the underlying principles of business valuation laid down in the Standards. Rather, it reflects changes in the datasets and analytical perspectives that market participants use to manage their expectations for future financial benefits and the related risks. In this sense, the ESG guidance should be regarded as an analytical framework which allows certain aspects of the economic results and risk exposure of an enterprise to be assessed.

EVS Taxonomy

There has always been a hierarchy of norms in the Blue Books, but these were not delineated clearly enough. Following on EVS-IA 2026, EVS-BV 2026 is designed under the new **EVS Taxonomy**, dividing all Blue Books into three parts:

- A. Normative** – valuers must comply
- B. Guidance** – advice to valuers on how to proceed, but not mandatory
- C. Background and Resources** – Background offers useful contextual knowledge for valuers, but does not constitute guidance. Resources comprise supporting information and reference material

In **EVS-BV 2026**, the Taxonomy takes the form of:

A. European Business Valuation Standards

- A.1. EVS-BV Standards
- A.2. Governance Standards
 - European Valuers' Code of Conduct
 - TEGOVA's Educational Requirements for Business Valuers (TER-BV)

B. Guidance

- B.1. Valuation Methodology
- B.2. Guidance Notes

C. Background and Resources

- C.1. European Union Legislation and Business Valuation
- C.2. Recognition of TEGOVA Qualification
- C.3. Membership of TEGOVA
- C.4. Glossary

On each page, the colour of the vertical band and the wording at top clearly indicate the text's position in the hierarchy.

The structure and content of EVS-BV 2026

The first section, **European Business Valuation Standards**, establishes mandatory principles, analytical frameworks and procedural expectations necessary to conduct credible, transparent and technically sound valuations of business assets.

The second section, **Guidance**, covers identification and classification of business assets, evidence and data reliability and guidance on valuation approaches and broadly recognised methodologies.

The third section, **Background and Resources**, includes European Union Legislation and Business Valuation, which provides background on the applicable EU legal framework and assists valuers in assessing how legal constraints may affect businesses and their valuation, as well as a Glossary of key terms.

Users

EVS-BV 2026 is intended for application by professional valuers possessing appropriate competence and experience in the valuation of businesses, as it addresses matters requiring specialised analysis, methods and enhanced professional judgement.

Entry into force

EVS-BV 2026 is effective from **1 July 2026**.



Ivars Strautiņš REV REV-BV

Chairman

European Business

Valuation Standards Board

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ACKNOWLEDGEMENTS

The authors of these Standards wish to express special thanks:

To Jeroen Dewispelaere, Astrid de Bandt and Rasmus Van Heddeghem of the leading EU law firm & DE BANDT for their high-precision work on Part C.1., European Union Legislation and Business Valuation

And to the Blue Book's designers, Chloé Bodart, Martin Lannoo and Olivier Berquin of Hoet&Hoet whose work speaks for itself



A. EUROPEAN BUSINESS VALUATION STANDARDS

A.1. EVS-BV STANDARDS

Framework and Scope

1. Objective

These Standards establish mandatory principles, analytical frameworks and procedural expectations necessary to conduct credible, transparent and technically sound business valuations.

2. Scope

- 2.1. The Standards cover business valuation issues, with 'business' understood as:

"An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities."

(Definition of a Business in Amendments to IFRS 3, Commission Regulation (EU) 2023/1803 of 13 August 2023)

- 2.2. Within the scope of these standards the word "business" can be used to refer to the business as a whole (i.e. a company or enterprise), as well as any interests in a business (i.e. full ownership, controlling or minority shareholding interests). Although in these standards it should generally be clear from the context which meaning is intended, where there is potential for confusion or a need to make a clear distinction between the alternative meanings, additional words are used.
- 2.3. These Standards are relevant for valuations performed for transactions, financial reporting, financing, regulatory processes, dispute resolution, restructuring, insolvency, and other purposes recognised by law, regulation, or established professional practice.

3. Positioning of the Standards

- 3.1. These Standards establish requirements and interpretative guidance specific to business valuation and constitute an autonomous valuation framework.
- 3.2. Where these Standards provide requirements specific to business valuation, such requirements shall prevail over any general valuation provisions.

4. Users

These Standards are for application by professional valuers possessing appropriate competence and experience in business valuation, as they address matters requiring specialised analysis, methods and enhanced professional judgment.

EVS-BV 1 Market Value

Business valuers must use the following definition of Market Value:

“The estimated amount for which a business should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction¹ after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion.”

1. Introduction
2. Scope
3. Definition of Market Value and Application
4. Highest and Best Use
5. Assumptions and special assumptions
6. Other matters

1 TEGOVA’s universally usable common guidance-definition of ‘in an arm’s length transaction’ is ‘between parties acting independently of each other’.

1. Introduction

While the subject business may have different values for different market participants, its Market Value represents the estimated price in the market at the valuation date, based on neutral assumptions, providing a common basis of valuation for both buyers and sellers.

2. Scope

EVS-BV 1 considers Market Value in the context of business valuation including valuation of majority or minority interests and specific ownership rights.

3. Definition of Market Value and Application

3.1. European Business Valuation Standard 1 – Definition of Market Value

‘Market Value’ means:

“The estimated amount for which a business should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion.”

For the purpose of interpretation of ‘arm’s length transaction’, TEGOVA has a universally usable common guidance-definition:

“The estimated amount for which a business should exchange on the date of valuation, in a transaction between a willing buyer and a willing seller acting independently of each other after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion.”

3.2. Application

- 3.2.1. Market Value is a key concept in establishing an informed expectation as to the price for an asset. It represents an estimate of the amount that could reasonably be expected to be paid, that is, the most probable price in market conditions at the date of valuation.

The nature of the market in which that value is determined will differ according to the subject of the transaction while market conditions will vary with changes in

supply and demand, changing knowledge, technology, rules, trends, expectations, credit conditions and other circumstances.

EVS-BV 1 considers Market Value in the context of business, including interests in business.

3.2.2. The estimated Market Value **can** differ from the price which might be achieved in the transaction, although the valuation analysis is based on the relevant market data which can be obtained and reasonable assumptions from the market perspective. There might be a number of reasons for such differences, because a buyer and seller might consider other or additional assumptions and agree on various specific contracting terms, including acquisition-related synergies, which might influence the transaction price.

3.2.3. Key concepts in the definition of Market Value:

3.2.3.1. *The estimated amount ...* – Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation on the assumptions of the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer.

3.2.3.2. *... should exchange ...* – It is an estimated amount in a hypothetical transaction, rather than a predetermined or actual sale price. It is the price at which the market would expect a transaction to be completed on the date of valuation and that meets all the other elements of the Market Value definition.

3.2.3.3. The use of “*should*” conveys that sense of reasonable expectation in a hypothetical transaction between a hypothetical seller and buyer. The valuer must make realistic assumptions about market conditions and estimate a Market Value which is reasonably obtainable.

3.2.3.4. *... on the date of valuation ...* – This requires that the estimated Market Value be specific to a given date; a value is a judgment at a particular point in time. This is normally the date on which the hypothetical sale is deemed to take place and is usually, therefore, different from the date the valuation is actually prepared. As markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances at the required date of valuation, not at a past or future date. The definition also assumes simultaneous binding agreement on terms and completion of the contract of sale without any variation in price that might otherwise be made in a Market Value transaction at the valuation date.

- 3.2.3.5. “... between a willing buyer and a willing seller...” – This assumes a hypothetical buyer and seller, not the actual ones. These persons are motivated, but not compelled, to transact. They are neither over-eager nor prepared to hold out for a price not considered reasonable in the current market. The requirement that they both be willing to make the transaction creates the tension between them in which Market Value can be determined.
- 3.2.3.6. “... after proper marketing ...” – The business would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably achievable. The length of exposure may vary with market conditions, but must be sufficient to allow the business to be brought to the attention of an adequate number of potential purchasers.
- 3.2.3.7. “... ‘arm’s length’ or ‘acting independently of each other ...’” – means that parties are unrelated, e.g. do not have a particular or special relationship (as might be the case, for example, with parent and subsidiary companies) which could make the price level uncharacteristic of the market or inflated by any element of special value.
- 3.2.3.8. “... each had acted knowledgeably ...” – This presumes that both the willing buyer and willing seller are reasonably well informed about the nature and characteristics of the business and its potential, as well as its inherent risks and the state of the market at the date of valuation.
- 3.2.3.9. “... prudently ...” – Each party is presumed to act in their own self-interest with that knowledge, and to seek the best price prudently from their perspective. Prudence is assessed by referring to the state of the market at the date of valuation, not with the benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell a business in a declining market. In such cases, as for other transactions in markets with changing prices, the prudent person will act in accordance with the best market information available at the time.
- 3.2.3.10. “... and without being under compulsion ...” – This establishes that each party is motivated to undertake the transaction, but is neither forced nor coerced to complete it. Each freely enters into and completes the transaction.

4. Highest and Best Use

- 4.1. The concept of “highest and best use” is commonly applied in property valuation when the Market Value basis is applicable, but could also be relevant to business

valuation, to support selection of going concern or liquidation scenario, as an appropriate scenario in the specific valuation engagement (see below).

- 4.2. IFRS 13 for Fair Value Measurement as adopted (incorporated into EU law) by Commission Regulation (EU) 2023/1803 of 13 August 2023 defines the concept of highest and best use as *“the use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (e.g. a business) within which the asset would be used”* (IFRS 13, Appendix A).
- 4.3. If relevant, the result of the highest and best use analysis serves as a criterion for determining whether the business is to be valued under a ‘going concern’ scenario or ‘liquidation’ scenario. Its application should not be mandatory.
 - 4.3.1. **Going concern scenario** – The business valuation scenario under going concern premise assumes that the business will continue running normally in the future, using all of its assets to generate income. This typically concerns the sale of an established business which will continue operating under the new ownership.
 - 4.3.2. **Liquidation (disposal) scenario** – In this scenario, the business assets will no longer be used to generate earnings under current business circumstances. Rather, the situation requires that the assets be sold individually. Assets can be sold assuming either orderly sale, when the seller has enough time for marketing to attract the best possible offers, or forced sale, when the assets must be disposed of immediately and presuming lack of appropriate time for marketing and other constraints imposed on the seller.

5. Assumptions and special assumptions

- 5.1. The valuer must undertake investigations and analysis to the extent necessary to produce a professional valuation for the purpose instructed. Where the information provided or available is limited or restricted, the valuer must make reasonable assumptions to enable an opinion of value to be reported in the absence of full data or knowledge.
- 5.2. In contrast to the assumption described in 5.1., valuers may make a special assumption when they assume, usually on instruction, a fact or circumstance that is different from those that are reasonably achievable at the date of valuation. The result will be a Market Value (or other Basis of Value) on a special assumption.
- 5.3. Any assumptions and/or special assumptions must be clearly stated in the Valuation Report.

6. Other matters

- 6.1. **Documentation** – The definition of Market Value should be recorded in both the terms of engagement and the Valuation Report.
- 6.2. **Transaction costs and taxes** – Market Value is the estimated total value of a business and excludes the additional costs that may be associated with the sale or purchase of the business as well as any expected taxation imposed on the transaction.

EVS-BV 2 Bases of Value other than Market Value

The valuer must establish the purpose for which the valuation is required before using any basis of value other than Market Value. Except as required by European and national law and regulation in any particular case, the valuer must only use recognised bases of valuation that are compatible with the purpose of the valuation and, in doing so, honour the principles of transparency, coherence and consistency. Such other bases of value may need to be used as required by law, circumstances or a client's instructions where the assumptions underpinning Market Value are not appropriate or cannot be met. The result will not be a Market Value.

1. Introduction
2. Scope
3. Basis of value
4. Equitable value
5. Fair value
6. Synergistic value
7. Investment value
8. Liquidation value
9. The specific definitions of bases of value under Commission Delegated Regulation (EU) 2018/345 of 14 November 2017

1. Introduction

- 1.1. Although the majority of professional valuations will be on the basis of Market Value, there are circumstances in which alternative bases of value may be required or more appropriate. It is essential that both the valuer and the users of valuations understand the distinction between Market Value and other bases of value, together with the effects that differences between these concepts may create in the valuer's approach to the valuation and in the resulting reported value.
- 1.2. Sometimes clients may require valuations to be performed as required by law or for any other purposes where strict application of EVS-BV is not appropriate. In such case, a clear and transparent definition of the basis used must be expressly stated, and the valuer must explain the reason for deviating from the EVS-BV defined basis of value. If, in the opinion of the valuer, a departure from this standard is necessary and appropriate, such departure shall be disclosed and the reason for it clearly set forth in the Valuation Report. If the resultant valuation does not reflect a sum that would equate to a valuation prepared on the basis of Market Value, this should be stated in the Valuation Report.

2. Scope

EVS-BV 2 considers Bases of value other than Market Value in the context of business valuation including valuation of majority or minority interests and specific ownership rights.

3. Basis of value

- 3.1. A basis of value is a statement of the fundamental assumptions for determining the value of the business for a defined purpose and should be distinguished from the methods or techniques used to implement a selected basis of value.
- 3.2. "Value" does not equal the actual price paid in a specific transaction between identified parties. At an individual level, the value of a business reflects its usefulness to that person given her/his resources and opportunities. In a competitive market context, it is rather an estimate of the amount that could reasonably be expected to be paid - the most probable price under market conditions at the valuation date.

4. Equitable value

4.1. Definition

The estimated amount for which the business would exchange in an orderly transaction between identified knowledgeable and willing parties, reflecting their respective interests at the valuation date.

4.2. Application

- 4.2.1. Equitable value (also known as *Fair Value for non-financial purposes*) may generally be used as a basis of valuation for interests in a business as between specific, identified participants in an actual or potential transaction. As such, it may often result in a value different to the Market Value.
- 4.2.2. Equitable value is particularly relevant where it is reasonable to expect that an identified buyer and seller would transact at an amount different from Market Value due to their respective interests, objectives or constraints.
- 4.2.3. The essential difference between Equitable value and Market Value definitions lies in the nature of the parties to the transaction: Equitable value contemplates identified parties and their respective interests; Market Value reflects the perspective of hypothetical market participants under general market conditions.

5. Fair value

5.1. Definition

“The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

Definition by IFRS 13 Fair Value measurement incorporated into EU law by Commission Regulation (EU) 2023/1803 of 13 August 2023.

5.2. Application

- 5.2.1. Although the definition of fair value adopted under International Financial Reporting Standards (IFRS 13) primarily concerns the measurement of assets and liabilities, including equity instruments, this definition also applies to the valuation of an entity’s own equity for financial reporting purposes.

- 5.2.2. The application of fair value to equity is permissible and appropriate when required by the applicable accounting standards, including in the context of investments in subsidiaries, associates, or joint ventures where fair value measurement is applied instead of the consolidation method (in accordance with IFRS 10 and IFRS 28).
- 5.2.3. In accordance with IFRS 13 requirements, the determination of fair value reflects the perspective of market participants. Therefore, when valuing equity or other non-financial items, the valuer shall consider only those characteristics of the item being measured that market participants would take into account when pricing the item at the measurement date. These characteristics must be relevant, observable, and available to market participants, excluding entity-specific factors not reflected in market transactions.
- 5.2.4. While it is generally reasonable to expect that Market Value and fair value will produce similar outcomes, valuers must be mindful of the key distinctions between these bases of value:
- ▶ Fair value incorporates synergies that are available to identifiable market participants but would not necessarily be reflected in a transaction on the open market.
 - ▶ Fair value reflects the perspective of a specific buyer for internal financial reporting purposes, particularly when this buyer is not representative of the open market.
 - ▶ Market Value excludes or discounts speculative or uncertain income streams, or adopts a more conservative stance based on general buyer caution, whereas fair value (under IFRS 13) may include such income streams if they are observable, justifiable, and consistent with the behaviour of informed market participants.
 - ▶ Size-related discounts or premiums, such as blockage factors, and modifications to quoted prices from active markets are excluded from fair value.
- 5.2.5. These differences between Market Value and fair value concepts can result in materially different valuation conclusions, especially when assessing income projections, risk profiles, or strategic advantages.

6. Synergistic value

6.1. Definition

Synergistic value is the value arising from combining the subject business with one or more businesses or interests in a business, such that the combined value exceeds the sum of their individual values.

6.2. Application

- 6.2.1. Synergistic value is a key consideration in mergers and acquisitions, as it may significantly impact the price a buyer is willing to pay for a target company. It arises from:
- ▶ **Operational synergies:** Reduced operating costs due to economies of scale, elimination of redundancies, improved efficiency, increased revenue and pricing power through expanded market reach, and higher growth potential, translating into higher expected profit and cash flows.
 - ▶ **Financial synergies:** Lower cost of capital due to improved creditworthiness or diversification of funding sources, tax benefits and higher debt capacity, translating into either higher expected profit and cash flows, or lower discount rates.
- 6.2.2. In valuations on a Market Value basis, **buyer-specific** synergy effects are generally **excluded**, as their recognition would require a specific buyer / seller assumption. The valuer should consider synergistic value as a basis of value only if the information received from management provides reliable evidence of synergy effects, or where expressly instructed as a special assumption.
- 6.2.3. Where used, synergistic value should be declared in the Valuation Report, describing the nature of the synergies, associated costs, expected timing probability and the approach taken to avoid double counting.

7. Investment value

7.1. Definition

The value of a business to a particular identified party for investment, and/or operational purposes, reflecting that party's specific assumptions, objectives and constraints.

7.2. Application

- 7.2.1. Investment value is based on the investor's specific assumptions and interests, which are usually different from the market participant view and current market expectations.
- 7.2.2. This subjective concept relates a specific business to a specific investor, group of investors, or entity with identifiable investment objectives and/or criteria. Selecting the investment value basis is typically driven by the specific context of the valuation. Key criteria may include the transaction-specific context (such as mergers & acquisitions, business combinations or strategic investment), investor's specific objectives (e.g. strategic growth, diversification, vertical/horizontal integration), and regulatory or tax benefits. Such valuations are intended to determine the value of a business for a specific individual investor with her/his own actual concerns, rather than a hypothetical party.
- 7.2.3. A Valuation Report prepared on the basis of investment value may differ from one based on Market Value. It must make clear that it is prepared only for the particular party to whom it is addressed, that it contains specific requirements and assumptions relating solely to that party and that it is not to be relied on by third parties. The report must record the criteria required and the information provided by the instructing party.

8. Liquidation value

8.1. Definition

Liquidation value is the estimated amount recoverable from the disposition of the business under a specified liquidation scenario (i.e. orderly or forced sale) net of liquidation costs and reflects the proceeds expected from piecemeal or collective asset liquidation.

8.2. Application

- 8.2.1. Liquidation value applies when either the valuation is undertaken in a liquidation scenario, or the result of the highest and best use analysis performed by the valuer clearly indicates that the liquidation value of the business is higher than the value resulting from a valuation on a going concern basis.

8.2.2. There are two scenarios of the liquidation value concept that can result in different valuation figures:

- ▶ **Orderly Liquidation Value (OLV)** assumes appropriate marketing time and typical sale processes for the assets, supported by market evidence.
- ▶ **Forced Liquidation Value (FLV)** assumes lack of appropriate time for marketing and other seller constraints, typically resulting in lower proceeds than under an orderly process.

Under the Forced Liquidation scenario, the valuer estimates the amount for which the subject of valuation would be sold at an auction. The liquidation procedure is based on a short time frame and attracts a small pool of buyers, which means that the seller is likely to receive lower proceeds than under an orderly sale basis.

8.2.3. The need for a valuation on a forced sale basis usually arises when the seller is under compulsion to sell, is under significant pressure to sell or a strict time limit is otherwise imposed. When assessing the Forced Liquidation Value, the valuer may apply a reduction in the form of a forced sale discount to the observable market price of the asset. For assets without liquid markets, the valuer shall consider observable prices on markets where similar assets are traded or model calculations using observable market parameters, with appropriate illiquidity discounts.

8.2.4. In carrying out a valuation of a business where the value relates to an equity interest whose holder has the option to liquidate the enterprise, the valuer may perform the highest and best use analysis to determine whether liquidation yields a higher value than the going-concern premise, subject to any legal restrictions.

8.2.5. In assessing liquidation value, the valuer must consider the applicable insolvency framework under national law, including procedures for asset disposals and operational measures (e.g. termination or amendment of contracts), and take into account any constraints arising from civil and labour law. The valuer does not provide legal advice or assurance of compliance and, where relevant, relies on legal advice or representations from the instructing party; any related assumptions shall be disclosed in the Valuation Report.

8.2.6. Liquidation value shall be reported net of liquidation costs, including third-party fees, legal and administrative costs, and any taxes or levies directly attributable to the disposals.

9. The specific definitions of bases of value under Commission Delegated Regulation (EU) 2018/345 of 14 November 2017

The following basis of value definitions apply to valuations performed within the EU recovery and resolution framework for credit institutions and investment firms. Although they have common attributes with the bases of value discussed above, valuers must pay attention to the specifics of interpretation that follow Commission Delegated Regulation (EU) 2018/345.

9.1. Disposal value

9.1.1. Definition

The disposal value should generally be understood as equivalent to the observable market price that could be obtained on the market for a particular asset or group of assets and may reflect a discount that is appropriate in view of the amount of assets being transferred.

9.1.2. Application

- 9.1.2.1. Where an entity's situation prevents it from holding an asset or continuing a business, or where the sale is otherwise considered necessary by the resolution authority to achieve the resolution objectives, the expected cash flows shall be referenced to disposal values expected within a given disposal period.
- 9.1.2.2. The disposal value shall be determined by the valuer on the basis of the cash flows, net of disposal costs and net of the expected value of any guarantees given, that the entity can reasonably expect in the currently prevailing market conditions through an orderly sale or transfer of assets or liabilities.
- 9.1.2.3. Where appropriate, having regard to the actions to be taken under the resolution scheme, the valuer may determine the disposal value by applying a reduction for a potential accelerated sale discount to the observable market price of that sale or transfer. To determine the disposal value of assets which do not have a liquid market, the valuer shall consider observable prices on markets where similar assets are traded or model calculations using observable market parameters, with discounts for illiquidity reflected as appropriate.

- 9.1.2.4. The valuer shall have regard to factors that might affect disposal values and disposal periods, including the following:
- a) the disposal values and disposal periods observed in similar transactions, adequately adjusted to take into account differences in the business model and in the financial structure of the parties to those transactions
 - b) advantages or disadvantages of a particular transaction that are specific to the parties involved or to a subset of market participants
 - c) particular attributes of an asset or business that may only be relevant to a potential purchaser, or to a subset of market participants
 - d) the likely impact of expected sales on the entity's franchise value
- 9.1.2.5. For parts of a group of assets or of a business that are likely to be liquidated under ordinary insolvency procedures, the valuer may consider the disposal values and disposal periods observed in auctions involving assets of a similar nature and condition. The determination of expected cash flows shall take into account illiquidity, the absence of reliable inputs for the determination of disposal values, and the resulting need to rely on valuation methodologies based on unobservable inputs.

9.2. Hold value

9.2.1. Definition

Hold value means the present value, discounted at an appropriate rate, of cash flows that the entity can reasonably expect under fair, prudent and realistic assumptions from retaining particular assets and liabilities, considering factors affecting customer or counterparty behaviour or other valuation parameters in the context of resolution.

9.2.2. Application

- 9.2.2.1. Hold value applies where the entity envisages retaining the assets as a going concern after the application of the resolution tool. The continuation of the entity as a going concern requires forward-looking considerations supported by business forecasts and, where available, restructuring plans.
- 9.2.2.2. The hold value assumes that the subject entity retains the asset or liability; no presumed exchange (either real or hypothetical) is assumed. The value-driving inputs and assumptions made by the valuer under the scenario

that the entity retains the asset or liability differ from those that would be assumed under a hypothetical exchange between a willing buyer and willing seller.

9.3. Franchise value

9.3.1. Definition

Franchise value means the net present value of cash flows that can reasonably be expected to result from the maintenance and renewal of assets and liabilities or businesses and includes the impact of any business opportunities, as relevant, including those stemming from the different resolution actions that are assessed by the valuer.

9.3.2. Application

- 9.3.2.1.** Franchise value may be higher or lower than the value arising from the contractual terms and conditions of assets and liabilities existing at the valuation date.
- 9.3.2.2.** The franchise value includes the effects from the maintenance and renewal of assets and liabilities (including a refinancing of an open portfolio) or from a continuation or resumption of business in the context of resolution actions.
- 9.3.2.3.** Furthermore, consideration of potential second-round effects (“boomerang effects”) of the resolution might be needed when deriving franchise values. This idea is based on the principle that imposing losses on a large number of creditors could damage the institution’s originally positive franchise value with core clients and may compromise its overall viability.

EVS-BV 3 The Qualified Valuer

Each valuation carried out in accordance with these Standards must be undertaken by a qualified business valuer.

Business valuers will at all times maintain the highest standards of honesty and integrity and conduct their activities in a manner not detrimental to their clients, the public, their profession, or their respective national professional valuation body.

The business valuer must be able to show professional skill, knowledge, diligence and ethical behaviour appropriate to the type and scale of valuation and must disclose any factor which could compromise an objective assessment. Each valuation must provide an informed and independent opinion of value supported by a recognised basis or bases of valuation.

1. Introduction
2. Scope
3. General
4. The qualified valuer
5. Application

1. Introduction

For a client to be able to rely on a valuation, it must be professionally prepared by a suitably skilled, competent and experienced business valuer able to give an objective opinion.

2. Scope

This Standard requires that the valuation be undertaken, and the Valuation Report prepared, by a qualified business valuer. All business valuers contributing to a report must have sufficient expertise and work to professional standards and, where considering valuation issues, must meet the requirements of this Standard.

3. General

- 3.1.** A valuation must be undertaken by a qualified business valuer having the professional knowledge, competence and ability to give an objective opinion consistent with the requirements of EVS-BV including the European Valuers' Code of Conduct.
- 3.2.** When expertise beyond the business valuer's competence is required, to avoid confusion as to responsibilities and potential issues of contractual liability, valuers are advised that the client should, wherever possible, instruct the expert directly, rather than the valuer instructing the expert.
- 3.3.** Valuations which are to be in the public domain or which will be relied on by third parties are frequently subject to statute or regulation. There are often specific requirements that a business valuer must meet in order to be deemed suitable to provide a truly objective and independent opinion of value. However, there are no specific statutory or regulatory criteria for most valuations and it will therefore be for business valuers to satisfy themselves that they possess the requisite skills, knowledge, competence and independence for each instruction undertaken.
- 3.4.** In all cases the onus is on the business valuer to ensure that he/she is aware of potential conflicts of interest and can meet the requirement of independence (see European Valuers' Code of Conduct).

4. The qualified business valuer

(All references to 'business valuer' in this book are to a 'qualified business valuer')

4.1. Definition – A qualified business valuer is a natural person, whether self-employed or employed by a valuation company or other legal entity, who is responsible for undertaking business valuations and who can demonstrate:

- ▶ The holding of:
 - ▶ a university degree in a business-related field (i.e., management, economics, finance or accounting); or
 - ▶ a university degree not related to management, economics, finance or accounting and a Master of Business Administration (MBA) from an accredited university; or
 - ▶ an internationally recognised professional finance certificate and/or business valuation certificate.
- ▶ Business valuation experience covering a period of not less than three years and knowledge of the specific industry, market, economy, etc. relevant to the valuation
- ▶ Adherence to the European Valuers' Code of Conduct or to another equally stringent ethical code
- ▶ The holding of professional indemnity insurance appropriate to the business valuation work undertaken

4.2. Enhanced competence – Qualified business valuers must maintain and enhance their professional knowledge through a relevant programme of continuous professional development (CPD).

4.3. Where required by home country legislation or regulation, the business valuer must hold any licence/ certificate to practise as a business valuer or membership of a relevant professional association.

5. Application

5.1. General

Business valuers must ensure that they meet the requirements of the instruction with professional standards of knowledge, competence and independence. It follows that a business valuer who is asked to undertake an instruction must make

initial enquiries of the client as to the nature of the instruction and purpose of the valuation. Confirmation of the details of the instruction will be required in writing as will the provision and acceptance of the terms of engagement (see EVS-BV 4). The valuer must be able to meet the requirements of the client and adhere to the rules, legislation and codes of conduct relevant to the task.

5.2. Independence of the valuer and conflicts of interest

- 5.2.1. Any actual or potential conflict must be disclosed in writing to the client who may then choose whether or not to confirm the appointment. In the event of confirmation, the circumstances of the conflict must be clearly stated in the Valuation Report.
- 5.2.2. There may be circumstances where the business valuer, despite the client's wishes, will still decline to accept the instructions.
- 5.2.3. Where joint business valuers are appointed, each is subject to the same requirements of independence and objectivity set out above.

5.3. The business valuer's liability

- 5.3.1. The business valuer has been instructed to undertake a professional task, advising as to the value of a business, or of legal interest/s in that business on which the client can expect to rely in taking decisions. Thus, the valuer's role is one that potentially carries liability, as deficiencies may result in loss to the client and legal action against the valuer.
- 5.3.2. Depending on the circumstances and the national legal system, that liability may arise where loss follows a failure to apply skill and care, breach of contract or otherwise.
- 5.3.3. The extent of that liability may be defined by the written instructions and the terms of engagement as well as by the drafting of, and qualifications in, the Valuation Report.
- 5.3.4. Business valuers may seek to limit their contractual liability. Unless it is clear that a third party needs to have access to the report, its use could be limited to the client and liability to third parties expressly excluded.
- 5.3.5. However, in a number of countries there are strict limits, statutory or otherwise, to the limitation of liability and, before attempting to draft clauses intended to

do this, business valuers are advised to take legal advice as to the likely effect of any limiting clauses.

- 5.3.6.** As professionals, business valuers' fundamental duty is to their clients. Any limitations on their liability should not be at the expense of the professionalism of the valuation.
- 5.3.7. Professional indemnity insurance** – As the level of liability for the business valuer arising from a valuation (together with any costs of associated legal action or interest accruing over the period of a dispute) may often be greater than the valuer's personal or corporate assets, professional indemnity insurance is available in many countries. Recognising that such cover is an assurance to the client, many professional associations make the maintenance of appropriate cover a condition of qualified membership. However, it is not universally available and, even where available, is not required in all countries.

EVS-BV 4 The Valuation Process

The terms of engagement and the basis on which the valuation will be undertaken must be set out in writing and agreed before the valuation is reported. The valuation must be researched, prepared and presented in writing to a professional standard. The work undertaken must be sufficient to support the opinion of value reported. The records retained following the completion of a valuation must be sufficient to enable verification of the work performed and to demonstrate that the analysis, evaluations and professional judgment exercised were appropriate for the type and scale of the valuation.

1. Introduction
2. Scope
3. Terms of engagement
4. Liaison with client's advisers, auditors and others
5. Application
6. Purposes of valuation
7. Business and market analysis
8. Choice of the appropriate business valuation approaches and methods
9. General observations
10. Conclusion on the opinion of value
11. Supporting the valuation

1. Introduction

A valuation must be professionally prepared on the basis of sufficient and relevant evidence, having regard to the purpose of the valuation, the subject of valuation and the basis of value. The valuer shall undertake such investigations and analysis as are necessary to support a properly reasoned and documented opinion of value capable of withstanding professional scrutiny.

2. Scope

This Standard sets out the procedural requirements of the valuation process leading to the Valuation Report. It covers, inter alia, the terms of engagement, the gathering and assessment of relevant information, financial and business analysis, modelling, the selection and application of appropriate valuation approaches and methods, the support for the value conclusion, and the retention of sufficient records.

3. Terms of engagement

- 3.1.** Terms of engagement are the agreed terms of the valuation assignment between the valuer and the client. Once verbal or written instructions to provide valuation services have been received, the valuer shall set those instructions out in writing and submit the proposed terms of engagement to the client or prospective client. The terms of engagement shall be prepared for each instruction and shall clearly and accurately reflect the nature and purpose of the valuation assignment, including the extent of investigations to be undertaken and any relevant limitations, assumptions or reliance on information provided by others.
- 3.2.** Detailed terms of engagement must be agreed in writing.
- 3.3.** The main agreed terms of engagement must be stated in the Valuation Report.
- 3.4.** The agreed terms of engagement may require amendment during the course of the assignment. Any such amendment must be recorded in writing to avoid misunderstanding and consequential dispute.
- 3.5.** Failure to agree written terms of engagement will result in non-compliance with EVS-BV and may give rise to misunderstanding, disputes, or difficulty in demonstrating the scope of the valuer's instructions and compliance with these Standards.

3.6. The minimum terms to be submitted and agreed include:

- ▶ The client's identity
- ▶ Any intended user of the Valuation Report other than the client
- ▶ The purpose and intended use of the valuation
- ▶ The precise extent of the business or ownership interest being valued
- ▶ The basis or bases of value
- ▶ The valuation date
- ▶ Any actual or potential conflict of interest, and any previous involvement with the entity or the parties involved
- ▶ The valuer's identity and status
- ▶ The assumptions and special assumptions
- ▶ The scope and extent of the investigations to be undertaken, including any material limitations
- ▶ The extent of reliance on information provided by the client, the client's representatives or third parties
- ▶ Any reliance on the services of other professionals
- ▶ Any restriction on the use, publication, circulation or reliance upon the Valuation Report
- ▶ The extent to which a duty of care will be provided
- ▶ A statement that the valuation will be prepared in compliance with EVS-BV and, if not, the nature of any departure
- ▶ The fee for valuation services

3.7. Terms as set out in 3.6 above are minimum requirements. Valuers shall revise and expand the terms as appropriate or necessary to reflect the law, regulation, professional requirements, custom and the circumstances of the particular assignment.**4. Liaison with client's advisers, auditors and others****4.1.** The valuer may need to liaise with the client's advisers and other relevant professionals to obtain necessary information and to clarify matters relevant to the valuation assignment. Where the valuation is prepared for financial reporting purposes, the valuer shall, where appropriate, liaise closely with the client's auditors and other relevant advisers to ensure that the work undertaken is fit

for its intended purpose, is consistent with the applicable financial reporting framework, and reflects the appropriate basis of value.

- 4.2. The valuer shall exercise professional judgment in determining whether, and to what extent, information provided by the client or third parties may be relied upon. Where material information has not been verified, the Valuation Report shall, where relevant, explain any resulting limitation on the valuation conclusion or the extent to which reliance may be placed upon it.

5. Application

- 5.1. Unexpected events, including legal disputes, may arise many years after the valuation assignment has been completed. The context of the instruction, the reasons for any special terms, and the conditions on which the valuation was undertaken may then be difficult to establish unless they were contemporaneously recorded in writing. Such records also help to identify whether the valuation has been used for purposes other than that for which it was prepared.
- 5.2. A clear and concise record, prepared and agreed before the valuation work is undertaken, also helps to ensure that the client and the client's professional advisers are able to assess whether the service to be provided is what they require.
- 5.3. **Use of specialists and other professional assistance** – Business valuers may need to rely on the work of other professionals, including a real estate valuer or a plant, machinery and equipment valuer in respect of assets owned by the business, legal advisers, tax advisers or technical experts. Prior approval must be obtained from the client where work is sub-contracted to specialist valuers or where other substantial third-party professional assistance is required. Such approval must be recorded in writing, and the Valuation Report must disclose the nature and extent of that reliance.
- 5.4. **Use by third parties** - There is a risk that a valuation prepared for one purpose may be provided to third parties for another purpose. The terms of engagement must therefore state clearly any restriction on the use, circulation, publication or reliance upon the Valuation Report and must identify any third parties who are permitted to rely upon it. Unless expressly agreed otherwise, no duty of care is assumed to persons other than the client.
- 5.5. **Valuations not in line with EVS-BV** – Where a valuer is asked to carry out a valuation on a basis that is not in accordance with these Standards, the client must be advised at the outset of the assignment, or as soon as such a situation becomes apparent, that the Valuation Report will identify and explain the relevant departure from EVS-BV.

- 5.6. Valuations carried out with limited information or subject to special assumptions** - Circumstances may arise in which information is limited, access to the management or ownership is restricted, or the time available to the valuer is constrained. In such cases, the terms of engagement shall state the relevant limitations, assumptions or special assumptions under which the valuation will be performed, and the Valuation Report shall clearly explain them together with any material effect they may have on the valuation conclusion.
- 5.7.** Where a valuation is undertaken on the basis of special assumptions, the terms of engagement shall state clearly the purpose and context of the valuation, the extent of any restrictions on enquiries or investigations, the special assumptions adopted, the extent of any reliance on the accuracy of information provided by others, and the nature of any departure from these Standards.
- 5.8. Using external data sources** - The valuer is expected, as a matter of professional diligence, to undertake a thorough investigation of the subject business to develop a reliable and fit-for-purpose business model based primarily on entity-specific information. However, detailed internal information may not always be obtainable, and certain inputs or assumptions – including macroeconomic data, industry indicators, or market evidence – may need to be supplemented or derived from external sources. In addition, the use of external data may be inherently required by the valuation methodology selected (notably in market-based or comparable approaches).
- 5.8.1.** When using external data sources, the valuer shall:
- ▶ Clearly document the decision to use external data
 - ▶ Identify and describe the specific external source(s) relied upon
 - ▶ Justify the selection of those sources by reference to relevance, reliability, and general acceptance within the applicable valuation framework
 - ▶ Include an explicit statement in the Valuation Report that the valuer does not assume responsibility for the accuracy or completeness of third-party data sources used, nor for any data included in such sources that may not be relevant to the subject valuation.
- 5.9. Valuation date and availability of financial information** - The valuation date must be a specific date stated in the terms of engagement, as agreed with the client or otherwise determined by the purpose of the valuation, applicable law, regulation, contract, or court order.
- 5.9.1.** Where financial information is not publicly available as at the valuation date, the valuer shall obtain from management appropriate financial information prepared as at that date. Such information may include interim financial statements,

management accounts, trial balances, asset registers, or other relevant financial records.

- 5.9.2. Where financial information as at the valuation date does not exist or cannot reasonably be prepared (for example, the specific date is defined by the court, the valuation date is set in the past, the client and valuer do not have access to the management, etc.), the valuer may use the latest available financial information closest to, but no later than, the valuation date. In such cases, the Valuation Report shall state what information has been used, any limitation arising from the absence of financial information as at the valuation date, and the extent to which that limitation may have a material impact on the valuation conclusion.

6. Purposes of valuation

- 6.1. Valuers shall identify and understand the purpose of the valuation in order to determine the issues relevant to the assignment. The purposes for which the valuation of a business or any interest in it may be required include, *inter alia*:
- ▶ Transactional purposes
 - ▶ Financial reporting
 - ▶ Legal, taxation and regulatory purposes
 - ▶ Internal strategic and managerial decision-making
 - ▶ Insolvency and financial distress procedures
 - ▶ Lending and credit risk assessment
 - ▶ Investment evaluation and portfolio management
 - ▶ Dispute resolution and litigation support
 - ▶ Insurance and risk management
- 6.2. The valuer must undertake investigations to the extent necessary to produce a professional valuation for the purpose instructed.

7. Business and market analysis

- 7.1. **The importance of analysing the business and market** – Where applicable, the valuer shall obtain, evaluate, and integrate information relating to both the internal and external environment of the subject business, and reflect these findings within the financial and operational modelling that supports the valuation conclusion.

This process shall ensure that the valuation reflects the specific characteristics, opportunities, and risks associated with the business's context.

7.2. Internal environment – The valuer shall assess factors internal to the business, including but not limited to:

- ▶ **Business model structure:** Revenue generation mechanisms, cost drivers, scalability and operational leverage
- ▶ **Organisational capabilities:** Management quality, workforce structure, and technological infrastructure
- ▶ **Historical and projected performance:** Revenue stability, profitability, working capital needs, and capital expenditure
- ▶ **Asset base:** Tangible and intangible assets, including intellectual property, brand equity, or proprietary processes
- ▶ **Operational risks:** Dependencies on key customers, suppliers or personnel

7.3. Analysis of financial statements for valuation purposes – The valuer shall analyse, and where necessary adjust, the historical financial statements of the subject business, and where relevant, those of comparable companies in order to establish a consistent basis for valuation analysis. Such analysis may include:

- ▶ Understanding the relationships between the income statement, balance sheet and cash flow statement, in order to identify trends over time, risks inherent in the subject business operations and value drivers
- ▶ Mark-to-market assessment of the extent to which the accounting values of material assets and liabilities reflect their underlying economic characteristics, where relevant
- ▶ Adjustment of historical financial statements for valuation purposes, to reflect the underlying economic characteristics of the business. The adjustments shall be documented and explained in the Valuation Report.

The valuer shall analyse financial information in both absolute monetary and relative terms.

7.4. External environment – The valuer shall analyse the macroeconomic, industry, and market conditions that influence the business's operations and risk profile, including:

- ▶ **Macroeconomic context:** Inflation, interest rates, exchange rate exposure, and GDP trends in relevant jurisdictions
- ▶ **Industry landscape:** Competitive intensity, market size and growth, regulation, and technological disruption

- ▶ **Regulatory and legal factors:** Jurisdictional compliance requirements, policy changes, and licensing frameworks
- ▶ **Market sentiment and capital availability:** Access to funding, investor confidence, and systemic risk conditions

7.5. Business modelling – Business modelling is a critical procedure in the selection of the most suitable valuation approach and method. The valuer shall develop or assess a business model that quantifies the principal drivers of the business, so that the estimates of the growth components (revenues, profit, depreciation, capital expenditure [CAPEX], working capital etc.) are derived from the business modelling.

Any projections used shall be based on the analysis of the business, the economy, the industry, the market, historical performance, financial statement analysis and management plans. The valuer shall assess whether such projections and plans are reasonable, internally consistent and, where appropriate, consistent with external evidence. The key assumptions used shall be identified, supported and explained.

7.6. Integration into business modelling – The valuer shall ensure that insights derived from the internal and external environment analysis are incorporated into the underlying business model used for valuation. Specifically:

- ▶ **Financial forecasts** (e.g. revenue, margins, capital requirements) shall reflect realistic assumptions supported by the analysis performed.
- ▶ **Discount rates, capitalisation rates, and multiples** shall be consistent with the risk, growth and market characteristics of the business.
- ▶ **Scenario and sensitivity analysis**, where uncertainty is material, shall be used to assess the robustness of the valuation conclusion under plausible changes in internal or external conditions.

7.7. Documentation requirements – The Valuation Report shall document, to the extent material to the valuation conclusion:

- ▶ The key findings of the internal and external environmental analysis
- ▶ The manner in which these findings have informed or altered the business model
- ▶ The data sources, assumptions, and rationale used in building and applying the model
- ▶ Any limitations, uncertainties, or material risks associated with the modelling approach

8. Choice of the appropriate business valuation approaches and methods

- 8.1.** The valuer shall select the valuation approach (es) that are most appropriate to the valuation assignment. Such selection must be consistent with the basis of value, the purpose of the valuation, the characteristics of the subject business or ownership interest, the relevant market context, and the availability and reliability of the information required for their application.
- 8.2.** There are three principal approaches used in business valuation:
- ▶ Income Approach
 - ▶ Market (Comparison) Approach
 - ▶ Asset-based Approach.
- 8.3.** Each of these approaches may include one or more valuation methods. The valuer shall assess whether, in the circumstances of the particular assignment and having regard to the nature of the business, the purpose of the valuation, market characteristics and the available data, a given approach or method is applicable and sufficiently reliable, and shall explain the reasons for the selection of the approach or approaches and method or methods adopted.
- 8.4.** Where more than one approach or method is used, the valuer shall consider the results obtained, assess their relative reliability, and reconcile them in reaching the final opinion of value.

9. General observations

9.1. Business to be valued

- 9.1.1.** Depending on the purpose of valuation, the subject of the valuation will be the entire enterprise or an ownership interest in the business, including full ownership, a controlling interest, or a minority shareholding interest.
- 9.1.2.** The valuation of the business undertaking or equity interest in the business must take account of, inter alia, buy/sell agreements, stock transfer restrictions, restrictive clauses in articles of association or corporate charter or partnership agreement, whether the interest valued is a majority or minority interest, and other rights, restrictions or features that may affect the value.
- 9.1.3.** In the valuation process, it is necessary to consider the ownership interest that is the subject of valuation and the ownership rights attaching to it. Depending

on the valuation method used and whether the minority or majority ownership interest is being valued, the application of a control premium or discount for lack of control may be appropriate.

9.2. Valuation uncertainty

9.2.1. At the valuation date, the valuer shall assess valuation uncertainty arising from (i) the availability and quality of evidence, (ii) model dependence and parameter dispersion, and (iii) market conditions (e.g., thin/volatile markets, structural breaks).

9.2.2. Where valuation uncertainty is material to users' decision-making, the valuer shall reflect it by:

- a) reporting a reasoned range and/or scenario analysis, and/or
- b) including a material-uncertainty statement in the Valuation Report.

Valuation uncertainty concerns the measurement of value at the valuation date and is distinct from the business risks that are already reflected in cash flows, discount rates or pricing multiples.

9.3. Risk and discount/capitalisation rates (principles)

The valuer must disclose the construction of discount and capitalisation rates, including, where applicable, the risk-free rate, equity risk premium, country/sector-specific premiums, size effects, beta and leverage assumptions, the target capital structure, and tax rate. The valuer shall ensure that such rates are consistent with the cash flows, the basis of value, and the currency and inflation assumptions adopted in the valuation. Sources, estimation choices and any calibration performed shall be stated succinctly.

9.4. Allocation across complex capital structures

Where equity value is to be allocated across multiple classes of equity or securities with differing contractual rights, the valuer shall prioritise and select a framework within which equity value is allocated across multiple classes. The Valuation Report shall reconcile the allocation with the contractual rights (preferences, participation, conversion, options) and avoid double counting.

10. Conclusion on the opinion of value

- 10.1.** The final valuation result is usually expressed as a single value. However, depending on the purpose of valuation (e.g. for the acquisition process), the nature of the assignment, or the existence of material valuation uncertainty, and where it is provided for in the terms of engagement, the final opinion of value may be stated as a range of values. In such case the valuer must state a reasoned range of values and explain the rationale in the Valuation Report.
- 10.2.** The overall conclusion on opinion of value shall be consistent with:
- ▶ The basis of value
 - ▶ The purpose and intended use of the valuation
 - ▶ The subject of valuation (controlling or minority interest, total equity or specific number of shares, etc.)
 - ▶ The assumptions and any special assumptions adopted; and
 - ▶ The valuation approaches, methods and evidence on which the valuation conclusion is based

11. Supporting the valuation

- 11.1.** The data retained following the completion of the valuation must be sufficient to enable verification of the work performed and to demonstrate that the analyses, judgments, assumptions, valuation approaches and methods adopted were appropriate for the type, scale and purpose of valuation.
- 11.2.** The figures and conclusions reported must be supported and not merely stated. The valuation shall reflect the valuer's investigations, analysis, and professional judgment, based on relevant information drawn from appropriate sources, so as to provide a reasoned, properly documented and considered opinion.

EVS-BV 5 Reporting the Valuation

The valuation must be presented in clear written form to a professional standard, transparent as to the instruction, purpose, approaches, bases, methods and conclusions of the valuation, as well as to the use to which it is to be put, as shown in the agreed terms of engagement.

1. Introduction
2. Scope
3. Valuation Report - definition
4. The Valuation Report
5. Valuation review

1. Introduction

The valuation, as determined by the valuer, must be clearly and effectively conveyed to the client and other intended users. The Valuation Report is the document on which the client will rely in taking decisions. It is therefore important that it be exact. Any caveats and reservations expressed therein must also be exact.

2. Scope

This Standard deals with the Valuation Report in which the valuer informs the client of the value determined.

3. Valuation Report – definition

The Valuation Report is the comprehensive communication of the valuer's professional judgment of value to the client. It is a document detailing the scope, key assumptions, valuation methods, and conclusions of an assignment. The Report provides a professional opinion of value supported by a recognised basis or bases of valuation within the framework of European Business Valuation Standards.

4. The Valuation Report

4.1. General

- 4.1.1. A Valuation Report must be in writing, prepared and presented in a reliable and comprehensible manner for clients and users.
- 4.1.2. The Valuation Report must record the instructions for the assignment, the basis and purpose of the valuation, the analytical processes applied, valuation methodology and the results of the analysis that led to the opinion of value.
- 4.1.3. The Valuation Report must provide a clear and unequivocal opinion as to value, at the date of valuation with sufficient detail to ensure that all matters agreed with the client in the terms of engagement and all other key areas are covered.
- 4.1.4. The Report must not be ambiguous, must not mislead the reader in any way or create a false impression.

- 4.1.5.** The Report must be objective. Decisions may be made and finances committed or withdrawn on the strength of it. If the valuer has strong opinions about the merits or weaknesses of the subject business, these should be expressed in a reasoned and objective way that will enable the reader to understand the conclusions reached.
- 4.1.6.** Where the valuer has been instructed despite a potential conflict of interest, that potential conflict must be stated with a record that it was notified to the client along with details of the measures taken to ensure that the potential conflict did not adversely affect the valuer's objectivity.

4.2. Contents of the Valuation Report

- 4.2.1.** The form and detail of the Report will be a matter for the valuer's discretion but must meet the specific instructions from the client and have regard to the purpose of the valuation and the use that the client proposes to make of it.
- 4.2.2.** A Valuation Report should adequately report all matters set out within the terms of engagement. Other matters that may be addressed in the Valuation Report are set out in EVGN-BV 1 "Content of the Valuation Report".
- 4.2.3.** Special issues — in some cases it may be necessary to refer to special issues which would usually have been recorded within the terms of engagement, for example:
- ▶ The business is valued on a stand-alone basis, without valuation of the subsidiaries, or valuation of the non-operating assets, which are included in the Report at their book value, including any potential or actual impact on value of these items at the specified date of valuation
 - ▶ Any special or synergistic value that may exist and whether such value is available only to the current owner or whether it would pass to a new owner in the event of the transfer of the business
 - ▶ Any unusual market conditions at the specified date of valuation and whether any valuation uncertainty relating to the projections or market conditions or other specified factors has been taken into account or ignored in reaching an opinion of value
 - ▶ Any recent or proposed changes to the business, the immediate or local environment or legislation that might have an impact on value, and where such an impact is reported, the extent of that impact. Matters that might be included within this category include potential loss or gain of permits, changes in tax regulations, etc.

- 4.2.4.** Valuers must confirm whether in undertaking the valuation they have become aware of matters that could affect the value reported. Such matters might include pending litigation, or pending expiry of the certificates and licences required by authorities to run the business.
- 4.2.5.** As the valuation is prepared with reference to a specific date of valuation, the valuer must state that the valuation is valid at this date only.
- 4.2.6.** All Valuation Reports must include a statement to the effect that the valuer who signed it is responsible to the client for the valuation and has conformed to the requirements of these European Business Valuation Standards. The valuer must state the extent of, and reasons for, any departure from these Standards or state why any key part of the valuation process has been omitted.

5. Valuation review

- 5.1.** A valuation review is an assessment of another valuer's report, not a revaluation, taking the form of a Valuation Review Report.
- 5.2.** The review objective is to provide an assessment of the compliance of the valuation work under review with European Business Valuation Standards by:
- ▶ Examining the documents relied on and assessing their proper and accurate use
 - ▶ Identifying any nonconformities and their impact on the conclusions
- 5.3.** Apart from the elements needed to achieve the review objectives, the Valuation Review Report shall state at least:
- ▶ The identity of the client and other intended users
 - ▶ The intended use of the review results
 - ▶ The professional independence requirements applicable to the reviewing valuer and a statement that the reviewing valuer is able to express an unbiased opinion without influence from any third party
 - ▶ Whether or not discussions with the original valuer have taken place
 - ▶ The assumptions and special assumptions in the valuation review
- 5.4.** The scope of the review work must be clearly stated, in a manner that must not be misleading to either the contracting parties or any independent competent third party with legitimate access to the contract governing the scope of work.

- 5.5.** The Review Report must be clearly presented and must contain sufficient information so as not to mislead the client and the intended users about the review results.
- 5.6.** The internal or external reviewing valuer must be:
- ▶ A qualified valuer possessing a high level of professional knowledge and technical skill
 - ▶ Independent of the valuer who originally performed the valuation
 - ▶ In possession of (at least) all the facts and information relevant to the business on the date of valuation on which the first valuer relied. If the reviewing valuer does not have this information, or has it only partially, this must be clearly stated.

A.2. GOVERNANCE STANDARDS

European Valuers' Code of Conduct

TEGOVA expects valuers in its member associations to adhere, as a matter of personal responsibility, to this Code which is founded on:

- ▶ The principles of professional behaviour and
- ▶ The expectation of clients that a valuation will be prepared professionally by a qualified valuer

Valuers are to uphold and demonstrate professional standards in their work and so safeguard the trust placed in them by clients to whom a duty of care is owed, by regulatory authorities, and, more generally, by society.

This TEGOVA Code embeds the values of:

- ▶ Fairness
- ▶ A proper professional respect for others and for standards
- ▶ Responsibility and trustworthiness

Such professional standards extend beyond the requirements of law (which bear on all persons) and require a duty of care to the client and respect for others, acting to the best of the valuer's ability without discriminating against individuals in respect of their nationality, ancestry, race or social origin, colour, religion, belief or political opinion, marital status, gender, gender expression or sexual orientation, age or disability.

A breach of this Code may give rise to disciplinary action by the relevant member association and possible loss of the valuer's status under TEGOVA Recognition Programmes.

The Code

- A. The valuer shall act with honesty, integrity and diligence at all times with a duty of care to the instructing party and all others expected to rely on the valuation advice.

- B. The valuer shall exercise professional judgment objectively and independently in undertaking work and, as relevant, honour the duties of a professional to a court, tribunal or equivalent forum.
- C. The valuer shall maintain a level of professional knowledge and technical skill that is at least that required by the professional valuation body of which the valuer is a member, or, for valuers who are recognised by TEGOVA Recognition Programmes, by those requirements, keeping up to date with professional matters and relevant current developments so as to be competent in professional practice.
- D. The valuer shall be transparent and accountable to clients in undertaking professional work for them.
- E. The valuer must avoid all actual or potential conflicts of interest regarding the asset in question, the valuation process and the result of the valuation, must not have any direct or indirect interest in the asset and must not be related to either the buyer or the seller of the asset. The valuer must inform the instructing party in writing when a conflict of interest arises and before issuing the Valuation Report.
- F. When the client commissioning the Valuation Report is a credit institution, the valuer must not be involved in the loan application, assessment, decision or administration and must not be guided or influenced by the borrower's creditworthiness.
- G. The valuer shall not disclose privileged or confidential information.
- H. The valuer must have or be subject to a procedure for handling complaints that may be made concerning professional conduct and must advise instructing parties in writing of its existence.

Where a valuation is to be signed in the name of a valuation company rather than by a named individual valuer, this Code applies to the company and also to any individual employed by the company to undertake valuation work.

TEGOVA's Educational Requirements for Business Valuers (TER-BV)

1. Introduction

- 1.1. TEGOVA seeks to ensure high standards of professional competence in business valuation. In support of this, TEGOVA requires each Member Association to set educational standards for its members that are at least as demanding as TEGOVA's Educational Requirements for Business Valuers (TER-BV).

TER-BV were first introduced by TEGOVA in 2020 as a basic requirement for every business valuer accepted to practice by a Member Association.

- 1.2. Professional services delivered by Business Valuers across Europe and the world vary considerably and some may be specialists in specific sectors. Some geographical areas will be affected by factors that do not apply elsewhere. Risks and returns may vary according to geographical location and there are local specificities in related disciplines such as law and taxation; however, the fundamentals of strategy, economics, finance and business valuation constitute a common body of knowledge that is critical to their work. The TER-BV framework is designed to accommodate both the fundamental body of knowledge and knowledge of local specificities. The Member Association is charged with the responsibility to interpret the TER-BV in ways consistent with national requirements as well as exemption rules.
- 1.3. TEGOVA provides additional and separate requirements in respect of its Recognised European Business Valuer (REV-BV) programme.
- 1.4. The subject areas within the TER-BV are grouped into three levels of knowledge expected of the business valuer:
 - a) Understanding
 - b) General Knowledge
 - c) In-depth Knowledge

2. Outline syllabus

2.1. Business valuers must have an **understanding** of:

- ▶ Fundamentals of Economics
- ▶ Business Strategy

2.2. Business valuers must have **general knowledge** of:

- ▶ Data Analytics for Finance
- ▶ Financial Accounting and Reporting
- ▶ Assessing Business Performance/Financial Statement Analysis
- ▶ Taxation Issues Relevant to Business Valuation*
- ▶ Business Law and Financial Regulation Relevant to Business Valuation*

** Denotes general knowledge relative to the country or sector of practice*

2.3. Business Valuers must have **in-depth knowledge** of:

- ▶ Financial Modelling
- ▶ Strategic Finance/Corporate Finance Policy
- ▶ Mergers, Acquisitions and Other Forms of Restructuring
- ▶ Business Valuation Methodology
- ▶ European Business Valuation Standards (EVS-BV)
- ▶ Methodology for the Valuation of Intangible assets
- ▶ European Intangible Asset Valuation Standards (EVS-IA)

B. GUIDANCE

B.1. VALUATION METHODOLOGY

1. Introduction
2. Scope
3. Definitions
4. General observations
5. Application
6. Using more than one valuation method

1. Introduction

- 1.1. Technically speaking, methodology is a system of methods used in a particular area of study or activity.
- 1.2. In valuation, the term methodology is used to describe the process by which a valuer undertakes the valuation of the business. Thus, for a given valuation, methodology includes the selection by the valuer of the approach or approaches to be applied, the choice of method(s) and the use of models or techniques in order to interpret the valuation inputs and reach conclusions based on them.
- 1.3. There is a hierarchy of definitions: approaches, methods and models. An approach is the first level in a hierarchy of definitions. The three recognised approaches in business valuation are Market (Comparable), Income and Asset-based approaches. All of these are based on the underlying economic principles of price formation and the choice of approach will vary depending on the purpose and nature of the valuation. Each of these principal valuation approaches includes different detailed methods of application and within these methods, there are different models. Some models are quantitative in nature, others more qualitative but all are techniques that allocate value to the component characteristics of a business.
- 1.4. The appropriate valuation technique depends on the basis of value adopted, the purpose of the valuation, availability of the relevant market data and the nature of the subject business.
- 1.5. EVS-BV does not impose any specific valuation methodology, as (unless there is legislation or statute applicable) it is a matter for the professional judgment of the valuer in each case, according to the nature of the business and the context and purpose of the valuation. In addition, methodology can be expected to evolve in the future as a result of many influences, including market behaviour and advances in calculation and analytical tools – it would be inappropriate to attempt to restrict future evolution by insisting on valuers retaining certain of today's recognised methods.

2. Scope

- 2.1. This section refers to business valuation methodologies for any purpose, as detailed in the following sub-sections.
- 2.2. The intention in this section is not to set out rules to be rigidly followed or to attempt to provide a valuation textbook, but rather to express the generally accepted methodologies applied throughout Europe.

3. Definitions

Valuation approach – A general way of determining the value of a business, using one or more valuation methods.

Valuation method – The particular procedure, based on one or more valuation approaches, used by the valuer to arrive at the determination of value.

Valuation technique – Describes how to perform the steps of a valuation method. It is a specific analytical process for analysing or processing data, conducted within a valuation method.

4. General observations

4.1. Company and Enterprise – although there are some differences in definitions, unless the context of a particular valuation requires otherwise, these terms are used synonymously in business valuation:

- ▶ **Enterprise** – any entity engaged in an economic activity, irrespective of its legal form. This includes self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.
- ▶ **Company** – an enterprise constituted under civil or commercial law, including cooperative societies, and other legal persons governed by public or private law, save for those which are non-profit-making.

4.2. The value of a business is usually expressed by reference to equity value or enterprise value, as follows:

- ▶ **Equity value** is the estimated net value, available to all of the company's shareholders.
- ▶ **Enterprise value** is the sum of the company's equity, plus interest-bearing debt less excess cash and cash equivalents, if any.
- ▶ **Equity interest** is the specific financial value of an ownership interest after deduction of liabilities.
- ▶ **Participating interest** – is the rights in the capital of other undertakings, whether or not represented by certificates, which, by creating a durable link with those undertakings, are intended to contribute to the activities of the undertaking which holds those rights.

- ▶ **Interest-bearing debt** includes both long-term and short-term debts, unless the short-term debts are included in the working capital and in such case, are not part of enterprise value. The cash and cash-equivalents should be deducted only if they are excess cash, otherwise they will be part of the working capital.
- 4.3. Operating and non-operating assets – the valuations are carried out on the basis of the value of the business as a whole. It is important to distinguish between:
- ▶ **Operating assets** – Assets necessary for the operation of the business. They should be incorporated in the valuation of the business as a whole.
 - ▶ **Non-operating assets** – Assets surplus to the core business. If they are defined by the terms of engagement, they should be valued at their net realisable Market Value and added to the Market Value of the core business, as obtained by the valuation method applied. If the valuation of non-operating assets is not part of the valuation engagement, it should be presented as a limitation in that specific case. Some examples of non-operating assets are surplus land, marketable securities, buildings rented to third parties, excess equipment and investments in related parties, etc.

5. Application

5.1. Introduction

- 5.1.1. This section deals with the most common methods of business valuation throughout Europe, based on one or more valuation approaches.
- 5.1.2. Unless there is applicable law, valuers should choose the valuation approach(es) and method(s) that, in their opinion, are the most appropriate to the business being valued, the purpose of the valuation and available data, so as to produce the most reliable value result.

5.2. Valuation methods within the Income Approach

The Income Approach is any valuation method whereby the value of the business is determined by capitalising or discounting the estimated future economic benefits to be derived from the business. The most commonly applied method under the Income Approach is the Discounted Cash Flow Method, whilst the Capitalisation Method might be applicable in some cases.

5.2.1. Discounted Cash Flow Method (DCF Method)

The Discounted Cash Flow Method (DCF Method) is a widely applied valuation method used to estimate the earning capacity of the subject business. The DCF method is based on present value calculations of expected cash flows projected over a specific period and including terminal value (residual value). The valuer will determine the type of cash flow, a time horizon, assumptions for the projections and an appropriate discount rate.

- 5.2.1.1. The projected cash flow could be in nominal terms (with inflation included) or real terms (without inflation), pre-tax or post-tax, before or after debt items, depending on various factors, such as the nature of the business, the purpose of valuation, business interest to be valued, available data, etc.
- 5.2.1.2. The projections shall be based on the analysis of the business, economy, industry, market, historical performance, analysis of financial statements and management plan. The valuer shall present and support the key assumptions used for projections.
- 5.2.1.3. In the DCF method, free cash flow, to the company or to the shareholders, is estimated each year over an explicit period of time (DCF period). The value of the business is the sum of the Present Value (PV) of the free cash flow over the DCF period and the PV of the terminal value and is adjusted for appropriate balance sheet items at the valuation date.
- 5.2.1.4. The length of the DCF period in the case of a going concern valuation reflects the time horizon within which the profitability of the company reaches a steady state. The DCF period typically depends on the number of years before the company can obtain a Return on Invested Capital (ROIC) that is greater than or equal to the cost of capital.
- 5.2.1.5. For those companies which, for different reasons, have to cease their activities at a known date in the future, the DCF period equals the remaining operational life.
- 5.2.1.6. The forecast of future cash flows or benefits is subject to many variables. It is therefore appropriate to model different hypotheses for the future business development, depending on the expected changes in critical variables affecting the business. The cash flow forecasts can be built up in stages on the basis of the probable future evolution of the business.
- 5.2.1.7. The valuer should identify the market for the subject business and have a close understanding of it and of the forces which drive it. The valuer will

also need to be aware of any changing cultural aspects, business trends, availability of debt and equity finance, and the economics of supply and demand for the sector; also the extent and distribution of any actual or potential competition, any possible changes in transport infrastructure and in geographical location or socio-economic profile of the customer base. The Valuation Report will incorporate the above factors in so far as they are relevant to the valuation.

- 5.2.1.8. The DCF valuation will differ depending on whether the objective is to establish enterprise value or equity value which will determine the type of cash flow to be projected, as follows:
- ▶ **Free cash flow (FCF)** also referred to as free cash flow to the firm (FCFF) is the amount by which a business's operating cash flow exceeds its working capital needs and capital expenditures and is available for distribution to all of the investors in the company (debt as well as equity providers). This type of cash flow is used for the valuation of enterprise value.
 - ▶ **Free cash flow to equity (FCFE)** is the cash left over after covering all operating expenses, reinvestment expenses, and financial obligations and is potentially available for distribution to a company's shareholders. This type of cash flow is used for the valuation of equity value.
- 5.2.1.9. The **terminal value** of the company is calculated at the end of the projected cash flow period. The method of calculation will differ depending upon whether the going concern premise is applicable or not, as follows:
- ▶ The business will continue beyond the forecast period (going concern premise) – The terminal value is calculated by capitalising the net cash flow for the last year of the DCF period, applying a capitalisation rate (discount rate minus long-term growth), or by multiplying the net operating profit of the last year or of the year n+1 by an appropriate multiplier based on an assessment of the likely industry multiples at this (more mature) stage of the development of the business.
 - ▶ The business is due to cease (not a going concern) – The terminal value represents the estimated value of the residual net assets which, at the end of the DCF period, could be released and the cash distributed to the shareholders.
- 5.2.1.10. The discount rate should be consistent with the selected type of cash flow and determined by the most common methods, such as the Capital Asset Pricing Model – CAPM. Depending on the type of projected cash flow, with or without debt payment:

- ▶ **The cost of equity (CAPM)** will be applied in the case of estimating the equity value; and
 - ▶ **The weighted average cost of capital (WACC)** should be applied when estimating the Enterprise Value.
- 5.2.1.11. The valuer should ensure that the calculation of the free cash flows is consistent with the forecast and expectations of the subject industry and with estimates of the future market positioning of the subject business and that of its main competitors. Valuers should assess the risk related to the commercial positioning of the business undertaking and adjust their discount rate accordingly.
- 5.2.1.12. Depending on the specific circumstances and uncertainties related to the subject business, industry and economy, the **sensitivity analysis** may be applied to test the DCF result, which shows how much the valuation result will change depending on changes in key assumptions used in the projections (for example, change of growth rate, margins, discount rate, residual growth, etc.).
- 5.2.1.13. Apart from the sensitivity analysis, it is also possible to develop several **cash flow scenarios** (for example, the most pessimistic, most probable, most optimistic), particularly if this type of analysis is stated in the terms of engagement.
- 5.2.1.14. The sensitivity analysis and development of several cash flow scenarios identify the specific risk factors that contribute the most to the overall risk. There are two general classes of risk to the company, business risk and financial risk:
- ▶ **The business risk** is the uncertainty of income due to fluctuation in sales, gross earnings and the level of the company's fixed operating costs.
 - ▶ **The financial risk** reflects the incidence of fixed financial costs or fluctuating interest rates, and their impact on returns to investors.

Each risk factor should be quantified and subjected to a thorough analysis. The sensitivity assessment must incorporate the probability associated with these risks and the variables influenced by, among other considerations, the company's historical performance, prevailing systemic conditions, and inherent structural characteristics.

- 5.2.1.15. Depending on the type of ownership interest being valued, the valuer should consider the application of Discounts for Lack of Control as well as Discounts for Lack of Marketability.

5.2.2. Income Capitalisation Method

The Income Capitalisation Method is simple in nature as it does not require forecasting the cash flow into the future. The valuer makes an assumption that adjusted sustainable earnings will be achieved, that no changes will take place in the net working capital and that capital expenditures will equal depreciation, so only replacement capital expenditures will be carried out.

- 5.2.2.1. In the Income Capitalisation Method, a representative or adjusted income level or cash flow is discounted by an appropriate capitalisation rate or multiplied by an income multiple (or capitalisation factor) to convert the income into value. The most commonly used cash flow/earnings-based techniques are:
- ▶ Capitalisation of appropriate and maintainable level of free cash flow as described previously
 - ▶ Capitalisation of adjusted maintainable earnings after tax
 - ▶ Capitalisation of adjusted earnings before interest and income tax (EBIT)
 - ▶ Capitalisation of adjusted earnings before interest, income tax, depreciation and amortisation (EBITDA)
- 5.2.2.2. The valuer must establish a representative level of one type of earning or cash flow which is sustainable in the future. The essential fact is that these are not the accounting values taken from the profit and loss statement, but rather the value adjusted to reflect economically normal and reproducible future revenues. The adjustments must eliminate the impact of temporary, unrepeatable, or accidental influences on revenues and expenses. Some examples of events that require adjustments are:
- ▶ Increase or decrease in revenues due to some exceptional situation or price fluctuations
 - ▶ Changes in the inventory accounting method
 - ▶ Change in raw material or fuel prices
 - ▶ Change in payroll costs due to changes in employee numbers, legislation or pressure from trades unions, taking into consideration the sustainable level of costs for the future

- ▶ Changes to depreciation by the additional inclusion of the value of some intangible assets such as patents, employee training expenses, trademarks, etc.
 - ▶ The influence of some non-recurrent factors such as fire, strikes, special penalties, reorganisations, capital gains resulting from the sale of assets etc.
 - ▶ The impact of redundant assets on revenues and costs
 - ▶ The impact of income tax changes
- 5.2.2.3. The adjustments should be made for a number of previous financial years (3-5 years). The valuer makes the selection of the adjusted net annual income or cash flow, which is to be capitalised, by deriving this from one relevant year (past, present or future), or alternatively by calculating a simple or weighted arithmetical average over the selected period. The important factor is that the business have the capacity to generate profits in the future, usually for an unlimited period of time.
- 5.2.2.4. The subject business's value is computed by capitalisation of the net adjusted annual income, using a selected capitalisation rate, or by multiplying it by a selected multiplier. The obtained value needs to be adjusted for appropriate balance sheet items at the valuation date.
- 5.2.2.5. The valuer must select a capitalisation rate or multiplying factor for the annual adjusted income or earnings that is consistent with the normal principles adopted when applying the DCF approach. Capitalisation rates and discount rates must be derived from market evidence as accurately as possible and are usually expressed as the rate of return that would be required by investors in a business with the same risk conditions. The capitalisation rate and the discount rate must be consistent with the bases of adjusted annual income used e.g. in nominal or real terms, pre-tax or post-tax, before or after debt payments, etc.
- 5.2.2.6. Depending on the type of ownership interest being valued, the valuer should consider the application of Discounts for Lack of Control as well as Discounts for Lack of Marketability.

5.3. Valuation methods within the Market (Comparable) Approach

The Market Approach compares the subject business to similar businesses, business ownership interests and securities that have been sold on the market. The

Market Approach includes two methods – the Comparable Transactions Method and Comparable Publicly Traded Companies Method.

The Market Approach should be applied if comparable transactions of companies and ownership interests or publicly traded companies are similar to the subject business, based on the criteria defined by the valuer, and if appropriate data are available and reliable.

The three most common sources of data used in the Market Approach are public stock markets in which ownership interests of similar businesses are traded, the acquisition market in which controlling or minority interests are bought or sold, and evidence of prior transactions in the ownership of the subject business. Accordingly, the sources of input data define whether the Comparable Transactions Method or the Comparable Publicly Traded Companies Method will be used within the Market Approach.

5.3.1. The Comparable Transactions Method

The Comparable Transactions Method is based on transactions involving the sale, merger or acquisition of businesses (or business ownership interests) that provide a reasonable basis for comparison to the characteristics of the business (or business ownership interest) being valued. If appropriate, the valuer may also consider prior transactions with the subject business (or ownership interest) as comparables.

5.3.1.1. It should be noted that comparable transactions involve a specific buyer and a specific seller, therefore the information regarding both the buyer and seller and their specific motivations might be crucial in the selection of reliable comparables. However, if multiples of several transactions are within a reasonable range, they probably represent the perception of market participants i.e. the Market Value.

5.3.1.2. As in most cases the comparable transactions involve the sale of an entire business or the controlling interest in the companies, the application of a Discount for Lack of Control should be considered.

5.3.2. The Comparable Publicly Traded Companies Method

The Comparable Publicly Traded Companies Method is based on transaction data for shares of the companies traded in public securities markets that provide a reasonable basis for comparison to the characteristics of the company (or ownership interest) being valued.

- 5.3.2.1.** A significant advantage of this method is the availability of the comparable publicly traded company data, as the stock prices for the comparables can be obtained at the valuation date, and the financial information relevant for adjustments can be obtained close to the valuation date.
- 5.3.2.2.** The drawback of this method is that the underlying data are predicated upon sales of individual securities on a public stock exchange and typically reflect transactions with minority ownership interests. Therefore, to apply these data to the valuation of a majority interest in a privately held subject company, additional considerations on control premiums might be needed.
- 5.3.3.** The Market Approach in general is more applicable with data from a developed and liquid market. The ideal situation would be to have evidence of recent market transactions involving businesses identical to the subject company, but this is hardly ever the case.

Therefore, if there is insufficient transactional information available in that industry, it may be necessary to select transactions involving other companies involved in similar lines of business, or with relevant characteristics similar to those of the subject company (e.g. markets, products, growth trends, size or life cycle).

- 5.3.4.** As every business is unique in terms of the activity, size, business segments, market, financial performance, risks, growth, etc., the valuer may have to make several different adjustments to the valuation multiples obtained from comparables in order to apply them to the subject business.
- 5.3.5.** The comparison must be made in a meaningful manner and must not be misleading. Factors to be considered in assessing whether a reasonable basis for comparison exists include:
- ▶ The similarity to the subject business in terms of qualitative and quantitative business characteristics
 - ▶ The amount and verifiability of data on similar businesses
 - ▶ Whether the exchange prices of similar businesses represent transactions between unrelated and independent parties
 - ▶ Whether a sufficiently thorough, robust and unbiased search, based on objective criteria, for similar businesses has been carried out

- 5.3.6. The comparisons are made through the use of valuation multiples, selected to provide meaningful insight into the value of the subject business, considering all relevant factors. Accordingly, care should be taken with respect to:
- ▶ The selection of the input data used to compute the valuation multiples
 - ▶ The selection of the time periods and/or the averaging methods used for the input data
 - ▶ The computation of the valuation multiples, which may be derived by relating prices in comparative transactions to the appropriate financial, operating, or physical input of the comparable companies (or ownership interests) involved in the transactions
 - ▶ The timing of the sales price data used in the valuation ratios in respect of the valuation date
 - ▶ How the valuation ratios were selected and applied to the respective data of the subject business
- 5.3.7. Judgments have to be made about the selection of relevant valuation multiples, their calculations and adjustments, the timing of the price data in comparison to the valuation date and adjustments of financial statements if necessary in order to create a consistent basis and ensure the reliability of available market data.
- 5.3.8. Depending on the type of ownership interest being valued, the valuer should consider the application of Control Premiums and Discounts for Lack of Control.

5.4. Valuation methods within the Asset-based Approach

The Asset-based Approach provides a value indication of a business or of a business ownership interest using two methods – the Net Assets Method and Liquidation Value Method, which are based on the value of the assets net of liabilities.

In essence, these methods determine the net value of equity by deducting the adjusted value of liabilities from the adjusted value of assets. The adjustments typically include the revaluation of assets, including intangible assets, whether or not such assets are recognised in the balance sheet, as well as the revaluation of liabilities at their market values. The scope of the analysis should be specified in the terms of engagement.

The Asset-based Approach is generally relevant to the controlling ownership interest valuation, requiring special considerations in the valuation of minority interests in an enterprise, unless the law requires the Asset-based Approach to be

applied in the same way for controlling and minority interests, i.e. without adjustments for lack of control.

5.4.1. The Net Assets Method

The Net Assets Method is usually applied in valuation of businesses that derive their revenues from a return on tangible fixed assets, such as real estate holding companies. It can also be used in cases when appropriate market comparable data or reliable data for projections are not available, such as for valuation of start-up businesses or businesses with personal goodwill.

5.4.1.1. When carrying out a valuation of an operating business on a going concern basis, the Net Assets Method should not be the sole valuation method used, unless sellers and buyers in the industry customarily use it, or other methods are not applicable.

5.4.1.2. Where unidentifiable intangible assets of material significance exist (i.e. goodwill), as determined by the valuer's judgment, client instructions, or applicable legal requirements, a complementary method should be applied to capture their value. This ensures that the overall valuation reflects all tangible and identifiable intangible assets of the business, while unidentifiable intangible assets are assessed separately and not treated as part of the net asset base.

5.4.2. The Liquidation Value Method

The Liquidation Value Method is used for the valuation of businesses at the liquidation stage or where the value of assets in a liquidation exceeds the value of the business as a going concern.

5.4.2.1. In the valuation of a business with uncertain development prospects, where the value relates to an equity interest that includes the option to liquidate the enterprise, the valuer shall consider, in accordance with the highest and best use principle, whether liquidation value may exceed going concern value. Such consideration is not required where liquidation is precluded by applicable law.

5.4.2.2. Depending on the terms of engagement, the nature of the subject business, and the valuer's judgment, two general **asset liquidation scenarios** may be applied:

a) **an orderly liquidation**, where sufficient time is allowed to attract the best possible offers; or

b) **a forced liquidation**, where insufficient time is available to secure optimal offers.

5.4.2.3. Although the distinction between orderly and forced liquidation is fundamentally linked to time constraints, the notion of “sufficient” or “insufficient” time cannot be defined in absolute or objective terms, as it varies considerably depending on the asset class. For example, inventories or listed securities may require only days or weeks to achieve an orderly sale, while specialised industrial property or a large hotel complex may require months or even years. “Sufficient” or “insufficient” time is further influenced by factors such as the maturity and depth of the market, the geographic location, the size of the asset or transaction, applicable legal or regulatory constraints, and prevailing economic conditions.

5.4.2.4. In an orderly liquidation, the business has adequate time to maximise the proceeds from the sale of its assets through a controlled wind-down. Furthermore, the business may continue to generate income during this period, and such income must also be considered in the valuation.

5.4.2.5. In a forced liquidation arising from financial distress, legal compulsion, or other strict time constraints, the valuation must explicitly state that it is prepared on a forced liquidation premise, with values reduced to reflect the shortened marketing period.

5.4.2.6. Both scenarios require deductions for any liquidation costs that may arise, including compensation payable to employees made redundant, settlement of outstanding debts, and costs incurred in collecting receivables.

6. Using more than one valuation method

6.1. In some countries it is normal practice or even a legal obligation for some valuation purposes in some instances to value a business using two or more different methods, which therefore give a number of different resulting values. The valuer then considers the various results and makes a professional judgment as to the final value to be reported. In contrast, in other countries the valuer is expected to use just one method.

6.2. No general rule can be set out as to whether the use of a single method or several methods leads to a more accurate and reliable valuation. However, when valuers

have used only a single method it is recommended that they at least check their conclusions against other market indicators, if they exist. For example, where a business has been valued using a method within the income approach, the valuer will often want to compare the resulting value with the indicative value calculated using valuation ratios (multiples) determined, based on the comparable transactions or the share pricing metrics of publicly traded companies.

- 6.3.** When more than one approach and method is used, the valuer should compare the results obtained, check their reasonableness and decide which one provides the more reliable indication of value in order to choose the method which will be the basis for the final valuation result. The valuer should provide the rationale and justification for the valuation methods used and the final opinion of value. The value conclusion reached should be stated and supported in the Valuation Report.

B.2. GUIDANCE NOTES

EVGN-BV 1 Content of the Valuation Report

1. Introduction
2. Scope
3. Matters covered

1. Introduction

Valuations are provided to different clients, for different reasons and applying different valuation approaches and methods. Accordingly, the content, length and detail of the Valuation Report will depend on the purpose of the valuation and on the client's profile and needs. EVS-BV 5 therefore sets out only the minimum requirements for inclusion in a Valuation Report, leaving any additional content to the valuer's professional judgment.

2. Scope

EVGN-BV 1 provides guidance on matters that may be relevant to the content of a particular Valuation Report, but which may not be specifically addressed in the terms of engagement or in EVS-BV 5.

3. Matters covered

A Valuation Report may address the following matters, which need not necessarily be presented in the same manner or in the same order:

A. The basis of the instruction and the valuation

A.1. The business

- ▶ The legal name and registered address of the company whose business is the subject of the valuation
- ▶ The interest being valued, including whether the valuation relates to 100% of the equity, a specified number of shares, a percentage equity interest, a controlling interest, a minority interest, or the enterprise value of the business

A.2. The client

- ▶ The client and the instruction – the name of the client and details of the valuer's instruction; where appropriate, a copy of the terms of engagement may be included as an annex
- ▶ Third-party reliance – where it has been agreed that identified third parties may rely on the Valuation Report, the names of those third parties

A.3. The valuer

- ▶ The status of the valuer, including whether the valuer is internal or external and whether the valuer is regarded as independent
- ▶ The involvement of any third-party specialist valuers or advisers
- ▶ The valuer's statement that the facts stated in the Valuation Report are, to the best of the valuer's knowledge, true and correct
- ▶ The valuer's statement as to whether there are any potential conflicts of interest; where any such conflicts exist, the client's written acknowledgement and the measures taken to ensure that the valuer's objectivity has not been impaired

A.4. The scope of work

- ▶ The purpose of the valuation
- ▶ The requisite basis of value (for example, Market Value), clearly stated and defined by reference to EVS-BV or to the law or regulation governing that basis of value
- ▶ Any special assumptions to be made, within the meaning of EVS-BV 1
- ▶ The valuation date, being the date at which the value is assessed
- ▶ The date of the Valuation Report

A.5. The available information

- ▶ The sources of the data underlying the valuation and the procedures undertaken to verify that information, including the documents received, any important documents not made available, and the results of the valuer's review
- ▶ Disclosure of any reliance placed on information obtained from the client, third parties, or other external sources

A.6. Miscellaneous

- ▶ **Limiting conditions** – a statement of any scope limitations or other limiting conditions affecting the valuation process or the valuer's opinion
- ▶ **Assumptions** – a statement of any material assumptions made in relation to documents or information that were not available
- ▶ **Investigations not carried out** – a statement of any investigations not carried out, the results of which might have affected the value
- ▶ **Caveats** – Any caveats relevant to the business or to the valuation.

- ▶ **Audit disclaimer** – a statement that the valuation does not include an audit of financial information provided by management and that the valuer does not accept responsibility for auditing the accuracy or completeness of that information
- ▶ **Limitation of liability and reliance** – A statement of any agreed limitations on the valuer’s liability and any restrictions on the use of, circulation of, or reliance upon the Valuation Report, subject to applicable law and the terms of engagement

B. INTERNAL AND EXTERNAL ENVIRONMENT ANALYSIS

B.1. Business information

- ▶ General information, such as the subject business’s address, date of establishment, legal form and any material changes over time
- ▶ The nature of the business activity
- ▶ An overview of historical performance trends
- ▶ The portfolio of products and services
- ▶ The principal customer and supplier relationships and key terms of business
- ▶ The business assets, distinguishing between operating and non-operating assets
- ▶ The sources of finance and the principal financial liabilities

B.2. The legal aspects

- ▶ The ownership structure
- ▶ The rights, privileges, or restrictions attaching to the interest being valued
- ▶ The legal restrictions and conditions arising under the laws of the country in which the business operates, including the availability and status of any certificates, permits or licences required to conduct the business
- ▶ Any material contracts affecting the business or its development prospects, including licence agreements relating to the use of intangible assets
- ▶ Any pending litigation
- ▶ Material taxation issues
- ▶ Any material environmental, employment, labour-relations or other legal matters affecting the business

B.3. Historical financial performance analysis

- ▶ Analysis of historical financial performance in absolute amounts, stated in the relevant currency
- ▶ Analysis of historical financial performance in percentage terms
- ▶ Analysis of historical financial performance by reference to financial ratios
- ▶ Identification of any extraordinary, exceptional and/or non-recurring items

B.4. External environment analysis

- ▶ An overview of general economic trends
- ▶ Industry and sector analysis
- ▶ Market and competition analysis
- ▶ Any other relevant market information

B.5. ESG materiality statement

- ▶ A statement as to whether any environmental, social and governance (ESG) factors materially affect the business
- ▶ Where ESG factors are reasonably expected to have a material effect on the subject business's cash flows, capital expenditures, cost of capital, access to finance, regulatory costs, or market pricing:
- ▶ Identification of the material ESG factor(s) and the relevant transmission channel(s);
- ▶ A statement of the evidential basis, including relevant data and benchmarks; and
- ▶ An explanation of how such factors have been reflected in the valuation, whether through cash flows, the discount rate, risk premiums, multiples, or other adjustments.

B.6. Uncertainty and limitations

- ▶ Disclosure of any material valuation uncertainty and of any limitations affecting the analysis or the extent to which reliance may be placed on the Valuation Report

C. BUSINESS MODELLING

- ▶ The realistic assumptions underlying the financial forecasts (for example, revenues, profit margins, capital requirements), having regard to the results of the internal and external environment analysis
- ▶ Discount rates, capitalisation rates, and multiples consistent with the risk and growth characteristics of the business
- ▶ Where scenario or sensitivity analysis has been undertaken, an explanation of the robustness of the model under plausible changes in internal or external conditions

D. THE VALUATION

- ▶ **Methodology** – a brief description of the valuation approach(es), method(s) and techniques selected and the reasoning for their selection
- ▶ **Key assumptions** – an explanation of the key assumptions adopted, including assumptions relating to projections, market trends, inflation, financing requirements and credit conditions, by reference to the analyses undertaken and presented in the Valuation Report
- ▶ **Assumptions and special assumptions** – A detailed explanation of each assumption and special assumption made (for example, the going-concern assumption, the obtaining of additional production capacity, or the obtaining of necessary certificates and permits not in existence at the valuation date), or required by the characteristics of the business (such as the sale of non-operating assets or debt restructuring), including the manner in which the valuer has treated these matters in the valuation inputs adopted and their relationship to the valuation conclusion
- ▶ **Marketing/exposure assumption (where material)** – disclosure of any assumption adopted as to the appropriate marketing or exposure period for the relevant market segment, together with the supporting evidence
- ▶ **The value estimates** presented in a clear and unambiguous manner
- ▶ **Control premiums and marketability discounts** – the control premiums and discounts for lack of marketability adopted, where applicable
- ▶ **Reconciliation of valuation indications** – where more than one valuation approach or method has been applied, an explanation of the reconciliation of the resulting valuation indications and of the basis on which a single value conclusion has been reached
- ▶ **Recent transactions or agreed price** – where a recent transaction involving the subject business has occurred, or a provisionally agreed price has been disclosed to the valuer, a statement of the extent to which that information has been taken into account as evidence of value

- ▶ **Valuation uncertainty** – where material valuation uncertainty exists, an explanation of the principal sources of that uncertainty, the assumptions affected by it, and, where relevant, any scenario or sensitivity analysis undertaken

E. THE VALUE CONCLUSION

- ▶ A clear and unambiguous statement of the reported final value, together with confirmation that sufficient analyses and investigations have been conducted to support the reported value conclusion
- ▶ **Ranges, scenarios and sensitivity** – where a range or scenario analysis is presented, an explanation of the drivers at each end of the range, together with a concise sensitivity analysis of one or two key variables and the identification of the material sources of uncertainty.
- ▶ A statement that the valuation is valid as at the stated valuation date and for the intended purpose
- ▶ **Currency** – an indication of the currency used for the valuation and the exchange rate applied if the value is reported in a currency other than that of the country in which the business is located
- ▶ **Limitations on investigations and information** – disclosure of any investigations not undertaken, or information that was less complete than the valuer would normally require, where more complete information might have led to a different value conclusion
- ▶ **Limitations on use of the Report** – a statement of any limitations relating to publication, third-party reliance, or other use of the Valuation Report
- ▶ **Issue and signatures** – the date of issue and the signature of the valuer who conducted the valuation, together with the signature of the authorised representative of the valuer's firm where the instruction was accepted by a firm.

EVGN-BV 2 Control Premium, Discount for Lack of Control and Discount for Lack of Marketability

1. Introduction
2. Definitions of premiums and discounts
3. Scope
4. Application of premiums and discounts

1. Introduction

- 1.1. The business valuation result, obtained by applying specific valuation approaches and methods, will represent the value of a specific ownership interest, controlling or non-controlling, at a marketable or non-marketable level. Different valuation methods, applied in one valuation engagement, might result in different levels of control and marketability. In order to reach the level of value appropriate to the specific ownership interest, it might be necessary to adjust the preliminary valuation result by applying appropriate premiums or discounts.
- 1.2. Depending on the purpose of the valuation, its subject will be the entire business (100% ownership), a controlling interest or a minority shareholding interest in the company. Therefore, it is necessary to consider and understand the relevant ownership interest, the attached rights and the level at which control is obtained. Based on such facts and the valuation approaches and methods applied, the valuer should consider whether specific premiums or discounts are applicable.
- 1.3. During analysis of the nature of the ownership interest which is the subject of valuation, the valuer should also understand the level of its liquidity (marketability). In general, the greater the liquidity of the business (ownership interest), the greater the value. Thus, it might be necessary to adjust the valuation result obtained for a lack of marketability.
- 1.4. It is the valuer's responsibility to monitor the changes in the market and in valuation practice related to the application of premiums and discounts, to use appropriate sources and adjust the valuation result if necessary.

2. Definitions of premiums and discounts

- 2.1. Control is the power to direct the management and policies of a business enterprise. Generally, an ownership interest greater than 50% of the voting interest in a business enterprise is considered as a controlling (majority) interest, but it might be defined differently by local regulation or the company's statutes. This may lead to a situation where effective control over the company can be obtained with less than 50% of the voting rights. Alternatively, even if one person owns more than 50% of the voting rights and has operational control, there may be certain actions, such as winding up the business (i.e., putting everything in order before the business assets are realised so that the company can be dissolved), that may require more than a 50% affirmative vote, and may require an affirmative vote of a larger majority or of all owners.
- 2.2. Control premium is an increase applied to the value of an equity interest to reflect the additional rights and powers associated with control, measured as the excess

of the value of controlling interest over a comparable value of non-controlling interest in a business.

- 2.3. Discount for Lack of Control (DLOC)**, also known as a Minority Discount, is a reduction applied to the value of a non-controlling equity interest to reflect the absence of the rights and powers associated with control, relative to a controlling interest valuation basis.
- 2.4. Liquidity** is the ability to readily convert an asset, business, business ownership interest, or security into cash without significant loss of principal. In general, for listed companies, the ownership interest is more liquid than for privately held companies.
- 2.5. Discount for Lack of Marketability (DLOM)** is a reduction applied to the value of an ownership interest to reflect the limitations on its ability to be sold, transferred, or converted into cash, including the adverse effects such limitations may have on the price achievable in the market, the time required to complete a sale, and the costs associated with it.

3. Scope

- 3.1.** EVGN-BV 2 applies to the valuation approaches and methods which give a valuation result in accordance with the level of ownership interest which is the subject of the valuation, as defined by the valuation assignment.
- 3.2.** This Guidance Note provides additional commentary on EVS-BV Part B 1 Valuation Methodology. The application of premiums and discounts depends directly on the type of subject ownership interest and the valuation methods applied.
- 3.3.** The valuer must be able to understand the nature of the ownership interest and apply appropriate premiums or discounts if necessary, in order to adjust the valuation result obtained and reach the valuation conclusion at the appropriate controlling or non-controlling and marketable or non-marketable level of the subject ownership interest.
- 3.4.** The applied premiums and discounts must be clearly stated and explained in the Valuation Report, when presenting the results obtained by each valuation method and reporting the final value conclusion.

4. Application of premiums and discounts

- 4.1. Each valuation method will result in a specific level of value: controlling or non-controlling interest, marketable or non-marketable interest, depending on the assumptions and comparables used.
- 4.2. In general, if the valuation method results in a non-controlling level of value, the application of a control premium will be required in order to derive the valuation conclusion at a controlling ownership interest. If the valuation method gives a controlling level of value, in order to reach the value conclusion at non-controlling level, the application of Discount for Lack of Control (DLOC) will be necessary.
- 4.3. The amount of the control premium that an acquirer would likely pay to gain control of the company primarily depends on whether the buyer is able to enhance the value of the company. In most cases, a control premium is necessary when the target company's cash flows and profits are not being maximised. If a company is properly run, and new ownership would not create additional value, a control premium will not be necessary.

The size of the control premium a potential new owner is willing to pay depends on the incremental value that can be generated in the company based on possessing a controlling interest. It is influenced by several factors, such as the potential for increasing the value of the company, competition from other buyers, as well as the views and financial needs of the current stockholders. This control premium can be substantial when the controlling ownership enables a change of business strategy with significant positive impact on financial performance, market share, future growth, acquisition and merger deals, etc. The valuer should distinguish the factors that influence the control premium from the synergy premium factors, such as additional value created by crucial intellectual property, generation of new technology, or other assets that an acquirer wishes to own.

- 4.4. The main reason for the Discount for Lack of Control (DLOC), is that a minority shareholder does not usually have the ability to make management decisions such as the determination of management compensation and bonuses, amendment of articles of association, acquisition and liquidation of assets, dividend policy, sale of the company, election of the majority of the Management Board, etc.
- 4.5. When determining the discount for lack of control, a number of considerations need to be taken into account, including:
 - ▶ The size of the ownership interests - Usually the greater the size of the minority shareholding, the lower the discount from a control level

- ▶ The relationship between shareholders - In cases in which the company is controlled by a group of minority shareholders who act and vote in concert, it may appear that there should be no minority discount applied to the value of the shares of a member of that group, if the group collectively controls the company
 - ▶ The special provisions of the shareholders' agreement - If the shareholders' agreement contains provisions ensuring the liquidity of a minority interest (such as the option to sell the shares to existing shareholders or mandatory buy-back obligation of the company), the discount may be reduced
 - ▶ Provisions contained within the articles of incorporation of the company providing protection to minority interests - These protections represent reduced risk, and therefore reduce the discount
 - ▶ Discounts implicit in prior sales of minority shareholding interest - Discounts applied in the prior sales of the minority shareholder interest can be used as precedents to support the appropriate discount for the subject minority shares
 - ▶ Existing dividend policies and past history of dividend payouts - The regular distribution of dividends in the preceding years may indicate both expected return on investment and reduced risk associated with the minority shareholding, thereby reducing the discount
- 4.6.** Lack of marketability is usually associated with a non-controlling interest in a closely held business, which cannot be sold quickly and is therefore worth less than a non-controlling interest in a publicly held company with shares traded on a stock exchange. Therefore, the non-controlling, marketable interest usually relates to a minority interest in public companies, while a non-controlling, non-marketable interest is recognised in closely held companies.
- 4.7.** In general, interests in publicly traded companies are worth more than interests in identical privately held companies because they can be sold immediately to realise gains and avoid losses. Minority interests in private companies require greater discounts because the period of time needed to sell the position is potentially much longer than for the controlling interest in the same company.
- 4.8.** For some valuation purposes and bases of value, some national regulations and case law might prohibit the application of premiums and discounts. In such cases, the Valuation Report must contain an explanation of the specific situation and of the reasons for not adjusting the valuation result by appropriate premiums and discounts.
- 4.9. The Comparable Transactions Method** is typically based on transactions in entire businesses or controlling ownership interests, and therefore, this method results in a control value. If the valuation assignment requires estimating the controlling ownership interest, no adjustments are needed. However, if the

subject of valuation is a minority interest, the Discount for Lack of Control (DLOC) is necessary.

- 4.10. Depending upon whether the comparable transactions used in the valuation refer to public or private companies, the valuation result will be at a marketable or non-marketable level. If the subject of valuation is a non-marketable ownership interest and comparable transactions used in the valuation relate to the acquisition of privately held companies, the result obtained will be at the non-marketable level and the application of a Discount for Lack of Marketability (DLOM) will not be required.
- 4.11. **The Comparable Publicly Traded Companies Method** is based on transaction data for shares of companies traded in public securities markets, reflecting a high level of liquidity of such shares (high marketability level), but also a lack of control, since it reflects the price of minority holdings. Therefore, the application of this method will result in a non-controlling, marketable ownership interest.
- 4.12. If the subject of valuation is a minority, non-marketable ownership interest, the use of the comparable publicly traded companies method will only require the application of the Discount for Lack of Marketability (DLOM). However, if the assignment defines the controlling ownership interest to be valued, the valuation result should be adjusted (increased) by an appropriate control premium.
- 4.13. The level of value obtained by the Discounted Cash Flow Method or Income Capitalisation Method is normally at the control level since the assumptions for projections and the management plan typically reflect a controlling shareholding strategy.
- 4.14. If a non-controlling ownership interest is to be valued, the adjustments to cash flows that can only be implemented at the controlling level will not be applied, and the result of the discounted cash flow method or income capitalisation method will be a non-controlling level of value.
- 4.15. The **Asset-based Valuation Methods** by their nature, are relevant to the controlling ownership interest valuation, as they relate to the businesses that derive their revenues from a return on assets and in which the asset strategy is driven by the company's management. The application of this method might include the analysis of highest and best use and consideration of the going concern or liquidation scenarios, which are also subject to control powers and management decision-making processes.
- 4.16. In view of the main characteristics of the asset-based valuation methods, where the valuation result represents a controlling level, a Discount for Lack of Control (DLOC) should be considered when valuing a minority interest using these methods.

- 4.17.** If an investment holding business is to be valued, the liquidity of the investments held (both quoted and unquoted), and the size of the interest may be relevant and appropriate discounts should be considered.

EVGN-BV 3 Discount Rates in the Discounted Cash Flow Method

1. Introduction
2. Scope
3. Commentary on discount rates
4. Capital Asset Pricing Model (CAPM)
5. Weighted Average Cost of Capital (WACC)
6. Build-up method

1. Introduction

- 1.1. The discount rate is one of the essential inputs of the Discounted Cash Flow (DCF) method and is used to discount the projected cash flows to the present value at the valuation date. It is defined by the International Glossary as “a rate of return used to convert a future monetary sum into present value”.
- 1.2. In general, the discount rate reflects the time value of money and the risk of the returns on the specific investment. The higher the risk of investment, the higher the expected return.
- 1.3. Depending on the type of the projected cash flow, either the discount rate will be calculated as the cost of equity which is applicable for the valuation of equity value, or the weighted average cost of capital (WACC) will be used for the valuation of enterprise value.

2. Scope

- 2.1. EVGN-BV 3 provides guidance in determining the discount rate when applying the DCF method in business valuation, covered by EVS-BV Part B 1 Valuation Methodology, section 5.2.
- 2.2. There are different methods for determining the discount rate, such as the Capital Asset Pricing Model (CAPM), a Build-up method, a Dividend Growth Model, the Arbitrage Pricing Theory (APT), etc. This Guidance Note provides commentary on the application of the CAPM method to estimate the market-based discount rate. This is the widely applied method in European business valuation practice, and is also recognised by IFRS 13 Fair Value measurement.
- 2.3. EVGN-BV 3 also contains commentary on the application of the build-up method, relevant if there are insufficient appropriate market inputs to apply the CAPM method.

3. Commentary on discount rates

- 3.1. The discount rate should be consistent with the type of projected cash flow, in terms of the same currency, pre-tax or post-tax projections, expressed in nominal terms (with inflation) or in real terms (without inflation), including or excluding debt in cash flow projections. For instance, nominal after-tax cash flow should be discounted by an after-tax discount rate which includes the effect of inflation.

- 3.2. The sources and data used to determine the market-based discount rate need to be available to market participants at the valuation date, meaning that the valuer cannot consider information published after the valuation date.
- 3.3. Selection of the appropriate inputs for the discount rate will depend on the basis of value defined by the terms of engagement. If the valuer needs to estimate the Market Value of the business, the discount rate should be based on market inputs and reflect the market participant's view on different types of risk. In estimating the investment value of the business, the discount rate will reflect the specific rate of return expected by the particular investor.
- 3.4. Generally, investors select between alternative investments considering their different risk profiles and rates of return. In portfolio theory, two types of risks are recognised, defined by the International Glossary as follows:
- ▶ **Unsystematic Risk** is the portion of total risk specific to an individual security that can be avoided through diversification. It represents the risks of investing in a specific industry or company on the assumption that a rational investor will invest in a portfolio of stocks or various companies from different industries, in order to reduce these risks by diversifying.
 - ▶ **Systematic Risk** is the risk that is common to all securities and cannot be eliminated through diversification. Since this kind of risk involves the broad economy, such as recession, high inflation, war, etc., it cannot be avoided by investing in a diversified portfolio of stocks. The measure of systematic risk is the beta coefficient, showing the tendency of a stock's price to correlate with changes in a specific market index.
- 3.5. Since the projection of future cash flows always includes a certain level of uncertainty in terms of amount, growth, timing, etc., the valuer must exercise judgment as to whether to reflect risks in the projected cash flows and therefore, to not include the specific company risks in the discount rate, or alternatively, to express the additional risk by adjusting the market-based discount rate.
- 3.6. The projected cash flows are normally considered to be less risky if they are contractually based or projected as the most likely cash flow. Alternately, it is possible to reflect various levels of uncertainty by projecting different future scenarios and then deriving the probability-weighted cash flows. The valuer should determine an appropriate discount rate and make adjustments for additional risks or uncertainty if necessary, depending on the type of projected cash flow used in applying the DCF method in business valuation.

4. Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model (CAPM) is a part of capital market theory and the most common method used in European business valuation practice to determine the discount rate.

4.1. Cost of equity

- 4.1.1. If cash flow projections are based on the net after-tax equity basis, e.g. including interest and debt payments in the cash flow, the discount rate is to be determined as the cost of equity capital and the valuation result will be at the equity market-able level.
- 4.1.2. In accordance with CAPM, the basic formula for cost of equity calculation is the following:

$$E(R_i) = R_f + \beta \times ER$$

where:

$E(R_i)$ = cost of equity

R_f = risk-free rate

β = beta

ERP = equity risk premium (or market risk premium)

- 4.1.3. As the CAPM is part of capital market theory, securities are deemed to be held in a perfectly diversified portfolio, which may not be the case in business valuation, where the subject of valuation is a particular business interest. Therefore, where appropriate, the CAPM formula may be adjusted by adding the specific risk, often denoted as alpha (α). In such cases, the adjusted formula becomes:

$$E(R_i) = R_f + \beta \times ERP + \alpha$$

where:

$E(R_i)$ = cost of equity

R_f = risk-free rate

β = beta

ERP = equity risk premium (or market risk premium)

α = alpha (specific risk)

4.2. Risk-free rate

- 4.2.1. The starting point in the calculation of the cost of equity is to determine a risk-free rate at valuation date. The risk-free rate is defined as the rate of return available in the market on an investment free of default risk.
- 4.2.2. The risk-free rate normally increases in a period of increased inflation expectations, increasing the cost of equity, and normally decreases when inflation expectations decrease. In cases in which projections and discount rate need to be expressed in real terms, the risk-free rate should be adjusted by deduction of the long-term inflation rate.
- 4.2.3. Government bonds are widely recognised as representing minimum risk. An example is long-term AAA-rated Euro government bonds with different maturities. In business valuation, it is common practice to use risk-free bonds with 10-year or 20-year maturities. The reason for using longer term bond yields is that such yields more closely match the time period of the investment being valued.
- 4.2.4. The risk-free rate can be derived in different ways depending on the currency in which the projections are made and available data for such currency. For active and liquid local markets with regular issuance of long-term government bonds for 10 or more years, available close to the valuation date, such bonds can be a good representative of the risk-free rate in Euro or other local currency. If local government bonds are not long-term and/or are not published regularly, the common practice in Europe is to derive the risk-free rate starting with 10-year or 20-year German bonds and increase the yield to redemption by the appropriate country risk premium, as relevant for the subject of the valuation. If projections are in local currency other than the Euro, then additional adjustments of the risk-free rate in Euro are necessary to take account of different inflation rates between Euro and local currency.
- 4.2.5. The country risk premium can be derived by regressing the local country's equity market returns against the market returns of a country with a developed capital market. The valuer could use various sources for the country risk premium which are widely recognised and updated, or could calculate a country risk premium by comparing long-term German bonds, government bonds of the subject country and government bonds of other countries with similar credit rating, adjusted for differences.

4.3. Equity (market) risk premium

- 4.3.1. A return over and above the risk-free rate, the Equity Risk Premium - ERP (or Market Risk Premium) is recognised as a rate of return reflecting the additional risk of

equity instruments. It may be based on the historical returns sometimes used to indicate a market expectation of future long-term returns.

- 4.3.2.** If historical returns are used to measure future returns, the ERP is calculated by the following formula:

$$ERP = E(Rm) - Rf$$

where:

ERP = equity risk premium

E(Rm) = historical return on a fully diversified portfolio of equity securities, each year from 1926 to the valuation date

Rf = the rate of return expected on a risk-free security, representing the historical income return on government bonds over a specific period. This rate of return corresponds to the year of E(Rm)

- 4.3.3.** There are a number of available studies on ERP measurement using different sources. When using any of these sources, the valuer needs to understand how the source has calculated the ERP.
- 4.3.4.** Research shows that ERP follows the business cycle. The ERP can be calculated as a long-term average over the business cycle or based on current stock market levels. The reason for relying on long term data is better stability of returns over such period, including effects of extraordinary events (economic crisis, world war, recession, etc.) and more accurate calculations due to more numerous observations. On the other hand, more recent historical data may better reflect current market conditions and investors' expectations at the valuation date. However, such data may also be affected by extraordinary events that have significantly changed the economy and investors' expectations. Valuers should therefore justify the selected observation period and any adjustments made in deriving the ERP. In addition, valuers should be aware that selection of different time periods can lead to different results - e.g. returns from 1900-1950 give a lower ERP than returns from 1950-2000.
- 4.3.5.** Apart from using historical data, the ERP can also be calculated as an implied risk premium, derived from the market's expected return in the future.

4.4. Beta

- 4.4.1. Beta is another component of CAPM, representing the measurement of systematic risk. Beta is a function of the relationship between the return on an individual security and the return on the market as measured by a broad market index.
- 4.4.2. For the market index as a whole, the average beta, by definition, is 1.0, based on the investor's assumption that all unsystematic risk can be eliminated by holding a perfectly diversified portfolio of securities.
- 4.4.3. If a stock tends to have a positive excess return greater than the market, above the risk-free rate, and a negative excess return greater than the market, below the risk-free rate, then the stock's beta is greater than 1.0. Conversely, if the difference between the stock's return and the risk-free rate tends to be less than the difference between the market return and risk-free rate, the stock's beta is less than 1.0.
- 4.4.4. Securities with betas higher than 1.0 are considered as riskier than the market in comparison to securities with betas less than 1.0, which have systematic risks lower than the market.
- 4.4.5. In business valuation, beta is measured by regression of the subject company's excess returns against the excess returns on the market over a certain period of time, usually three to five years. If the subject company is not traded on the stock market, the published betas of similar companies whose shares are traded on a stock exchange market may be used (such companies are known as A-listed or guideline public companies). It is a valuer's responsibility to make an appropriate judgment when selecting the period of beta measurement depending on market circumstances and available data.
- 4.4.6. In order to derive the most relevant beta factor for the business, the valuer will normally select the most similar guideline public companies in the same industry using the same criteria as for the market approach (see *EVS-BV Part B1 Valuation Methodology, section 5.3.*) and select beta from the peer group. In that way, the same group of public companies will be used for the application of the comparable publicly traded companies method and for the calculation of the discount rate in the DCF method, improving consistency between two valuation methods.
- 4.4.7. The published beta, based on the price of the stock traded, is called 'levered' beta, because it reflects the actual financial leverage and tax regime of the guideline public company. In order to obtain the beta representing the industry target capital structure, the published beta needs to be unlevered, to get an asset beta, and then re-levered with the industry-representative capital structure or company capital structure.

4.5. Specific risk

- 4.5.1. The basic CAPM formula for the cost of equity calculation is based on the risk-free rate and equity risk premium adjusted by beta, all of which are related to the general economy of the country. Such cost of equity may be appropriate for a large public company. If the subject of valuation is a small closely held company, then an additional risk premium (specific risk) may be required.
- 4.5.2. The specific risk factor reflects a difference in risk between the large public company and small closely held company, which is primarily related to size, but some other specific risk components, such as liquidity, operating or business risk, may also be justified. As noted above, this premium may also be required due to the absence of diversification for most investors in small closely held companies.
- 4.5.3. Size premium, as a difference in returns between large and small companies, is measured by different studies, using historical returns on the market. Valuers should exercise their own judgment on whether to apply a size premium, since size premium studies have been subject to much criticism with commentators noting that the premium has not been readily apparent since 1980. As a result, a small size premium is not applied in some countries.
- 4.5.4. In addition to the size risk, it may be appropriate to incorporate other particular business-related factors into the specific risk, if they are not already captured by cash flow projections or by a discount for lack of marketability (see *EVGN-BV 2*). The valuer should be careful to avoid double counting e.g. if some uncertainty factors are already included in the projections, they should not be included as additional specific risk components in the discount rate. Also, if some assumptions used for projections are more optimistic from the market participant's view and not tested through multiple scenarios, such investment-specific factors may be captured in a higher discount rate. Examples are higher growth, profitability, dominance of one or a limited number of customers or suppliers, etc.

5. Weighted Average Cost of Capital (WACC)

If cash flow projections are based on the invested capital cash flow, e.g. without debt payment in the cash flow, the discount rate should be determined as the **Weighted Average Cost of Capital (WACC)** and the valuation result will be at the invested capital level (enterprise value).

- 5.1. Weighted Average Cost of Capital (WACC) is the overall required return of a business's capital providers, used as the discount rate for cash flows to debt and

equity, calculated as the market-value-weighted average of the cost of equity and the cost of debt.

- 5.2.** The basic formula to calculate an after-tax WACC is presented below:

$$\text{WACC} = (E/V \times Re) + ((D/V \times Rd) \times (1 - t))$$

where:

E = Market Value of the firm's equity

D = Market Value of the firm's debt

V = total value of capital (equity plus debt)

E/V = percentage of capital that is equity

D/V = percentage of capital that is debt

Re = cost of equity

Rd = cost of debt

t = Corporate tax rate

- 5.3.** The common valuation practice in WACC calculation is to apply the representative industry capital structure based on the analysis of publicly traded companies in the same industry, as representative of the optimal capital structure. However, as previously mentioned for beta factor (see above 4.4.6), it is generally more relevant for the subject business to select an industry capital structure from the peer group of guideline publicly traded companies, rather than to rely on general indicators by using databases based on a wider list of companies.
- 5.4.** If the subject of valuation is a minority interest, the valuer should consider whether to use the subject company capital structure or representative industry capital structure in the WACC calculation. If applying an industry capital structure, an appropriate discount for lack of control should be applied in the DCF method, since minority shareholders cannot change the capital structure, and the company will usually have a different capital structure.
- 5.5.** In estimating the cost of debt capital for WACC calculation purposes, the Market Value of debt should be applied. This might be different from the book value of the company's debt. It is common valuation practice to use the average interest rate in the local market as published by the central bank. However, if the company conducts business activities in various markets and could potentially raise debt in several countries, the valuer needs to consider several options and make a judgment as to which one will be appropriate in the specific case, being careful to calculate the cost of debt and the overall discount rate in the same currency.

6. Build-up method

A discount rate can be determined on the basis of the build-up method; this is less commonly used in business valuation practice but may be applicable where there are no appropriate market data for beta, or where there is no appropriate peer group, since this method does not require one.

- 6.1.** The formula for the build-up method is similar to the adjusted cost of equity calculation using CAPM, as modified to include specific risk factors. However, the build-up method excludes the beta factor, as follows:

$$E(R_i) = R_f + ERP + \alpha$$

where:

$E(R_i)$ = cost of equity

R_f = risk-free rate

ERP = equity risk premium (or market risk premium)

α = alpha (specific risk)

- 6.2.** The risk-free rate and equity risk premium are calculated in the same way as explained in sections 4.2. and 4.3.
- 6.3.** The specific risk considerations are presented above within the CAPM method, part A.5. Since the beta factor is not included in the build-up method, the systematic risk must be captured, usually by inclusion of an industry risk factor. Nonetheless, both the size premium and the specific risk associated with the business of the company should be considered and included in the appropriate way.
- 6.4.** As noted in the cost of equity calculation using CAPM, the valuer must be careful to avoid double counting risks, and must establish whether they are already adjusted in the cash flow projections, or if not, must exercise own judgment and estimate which type of specific risks need to be captured and at what level.
- 6.5.** In practice, the build-up method is usually used for estimating the value of smaller closely-held companies, with simple capital structures, largely equity-financed and with lower business risks.

EVGN-BV 4 Valuation Uncertainty

1. Introduction
2. Scope
3. Application of valuation approaches and methods
4. Recommendations on risk mitigation
5. Recommendations on reporting valuation uncertainty

1. Introduction

- 1.1. Recent years have been characterised by successive periods of heightened uncertainty and market instability. These have arisen from a combination of macroeconomic, geopolitical, financial, demographic and sector-specific factors, including armed conflicts, inflationary pressures, changes in interest rate environments, labour market constraints, supply chain disruptions, business relocations, and increased insolvency risk. In such circumstances, valuers may need to consider whether valuation uncertainty should be expressly addressed in the Valuation Report.
- 1.2. This Guidance Note provides recommendations and best practices for handling business valuations under uncertainty and reporting their impact on value to ensure the reliability of valuations. It addresses the definition of valuation uncertainty, explores both quantitative and qualitative methods for its assessment, provides strategies for risk mitigation, and outlines best practices for reporting uncertainty in valuation reports.

2. Scope

- 2.1. **Valuation uncertainty occurs when market uncertainty or other special circumstances prevent the valuer from making a valuation with the accuracy that would normally be expected at the valuation date.** This uncertainty arises from various factors including market volatility, data limitations, and the unique characteristics of the business being valued.
- 2.2. EVS-BV 5, 4.2.3 identifies as a special issue any unusual market conditions at the specified date of valuation and whether any valuation uncertainty relating to the projections, market conditions or other specified factors has been taken into account or ignored in reaching an opinion of value. Accordingly, where valuation uncertainty is relevant, valuers should disclose it in the Valuation Report, describe the factors giving rise to it, and explain how it has been reflected in the valuation conclusion.
- 2.3. There are several factors that make it difficult to determine the exact value of an asset or company. These factors include, but are not limited to:
 - ▶ Market situation: In times of economic, geopolitical, social or other uncertainties, the future cash flows are difficult to predict, market volatility increases. There may be short-term and unpredictable market shifts.

- ▶ **Data availability:** The reliable and accurate valuation of companies and other assets requires valid comparative data which reflect the market. If there is too little comparative data, or if it is based on a subjective assessment, it is difficult to determine the market value of an asset.
 - ▶ **Asset-specific characteristics:** In the case of unique, innovative or complex companies, valuers usually have fewer comparable benchmarks and data at his disposal. This automatically leads to a higher uncertainty in the valuation.
 - ▶ **Technological disruption:** Consider the impact of rapid technological changes on the business being valued, such as the risk of technological obsolescence, cybersecurity threats, and the uncertainty surrounding returns on technology investments. Valuers should assess how these factors might affect future cash flows, market comparables, and overall valuation uncertainty.
- 2.4. Therefore, valuers should disclose the degree of uncertainty in their valuation reports to provide transparency and help users of these reports understand potential fluctuations in stated market value.

3. Application of valuation approaches and methods

- 3.1. **The Market (Comparison) Approach.** Because market volatility distorts prices and valuation multiples, valuers should rely only on current, reliable market data.

Older transaction evidence often fails to reflect present-day conditions, so it should be avoided or treated with great caution.

Meaningful comparison becomes more difficult in uncertain markets, making it essential to select companies that genuinely share similar economic and operational characteristics before deriving multiples.

- 3.2. **The Income Approach.** Historical performance becomes a weaker basis for forecasting in periods of uncertainty, which makes a critical review of management projections essential.

Stable growth assumptions no longer hold in volatile environments, and for this reason the Direct Capitalisation Method is generally inappropriate.

Unpredictable earnings paths and discount-rate inputs call for a DCF analysis that models several scenarios and presents a range of possible value outcomes.

- 3.3. The Asset-based Approach.** Book values can diverge significantly from market values during unstable periods, so the Asset-based Approach should be applied with care.

When the reporting date does not reflect current market dynamics, the valuer may need to make substantial adjustments to asset values to arrive at a realistic and supportable conclusion.

4. Recommendations on risk mitigation

- 4.1. Apply multiple valuation methods to verify the plausibility of results across approaches. For cross-checking, use a combination of the discounted cash flow method (DCF) and the comparative value method, ensuring that conclusions derived from one method are supported by the other.
- 4.2. Adjust risk premiums to reflect heightened investor return requirements during periods of uncertainty. Since the market participant's expected return increases with investment risk, the applied premium must be modified accordingly to incorporate higher uncertainty into the valuation.
- 4.3. Update assessments at shorter intervals to capture and reflect the latest market conditions and economic data. More frequent updates ensure that observable market changes are properly represented in the determined value of the asset.
- 4.4. Focus on long-term fundamentals when short-term volatility is significant, grounding the valuation in long-term expectations of market development. This long-range assessment provides a more stable basis for determining value despite temporary disruptions.

5. Recommendations on reporting valuation uncertainty

- 5.1. When reporting valuation uncertainty, it is crucial to explicitly state the presence and nature of material uncertainty in the Valuation Report. Use clear, unambiguous language to describe the sources and potential impacts of uncertainty. Where possible, provide quantitative measures of uncertainty, such as sensitivity analysis results or scenario outcomes. If using probability-weighted scenarios, clearly explain the methodology and assumptions used.
- 5.2. Describe the market conditions and specific circumstances contributing to the uncertainty, explaining how these factors have been considered in the valuation process. Clearly state and justify the valuation approach(es) used in the context

of uncertainty. If multiple approaches yield significantly different results, explain the reasons and how these impact the final opinion of value.

- 5.3.** State all significant assumptions made, especially those related to areas of uncertainty, and highlight any limitations in the valuation process due to uncertainty. Where appropriate, report a range of values rather than a single point estimate, explaining the factors that could cause the actual value to fall at different points within this range.
- 5.4.** Emphasise the valuation date and the potential for rapid changes in value due to market volatility or uncertainty. If applicable, provide guidance on the potential need for frequent revaluations. Confirm that the valuation has been prepared in accordance with relevant valuation standards, stating that all required disclosures regarding uncertainty have been made. Clearly state the purpose of the valuation and any restrictions on its use, especially in the context of the reported uncertainty.
- 5.5.** If the terms of engagement and the purpose of the valuation require the valuation conclusion to be expressed as a single value, and the valuation is based primarily on the Income Approach, the valuer should explain how the relevant valuation uncertainty has affected, or has not affected, the key assumptions used in the valuation. These may include assumptions about the future development of the business, forecast cash flows, discount rates, terminal value, and any other material inputs affected by the uncertainty. The valuer should also perform and report an appropriate sensitivity analysis on the assumptions most exposed to uncertainty, so that the user of the report can understand the potential effect of changes in those assumptions on the stated value

EVGN-BV 5 ESG in Business Valuation

1. Introduction
2. ESG and bases of value
3. Materiality (substantiality) of ESG for the purposes of business valuation
4. Quantitative consideration of ESG factors when applying valuation approaches
5. Qualitative consideration of ESG factors
6. Information environment and availability of ESG data in listed companies and small and medium-sized enterprises
7. ESG information and data quality
8. Uncertainty related to ESG factors and scenario analysis
9. ESG in valuation reports and limits on liability

1. Introduction

- 1.1. Over time, environmental, social and governance (ESG) factors have become established as a guiding and institutional framework which investors, creditors, regulators and other market participants, including stakeholders who influence market behaviour, can use to assess business risk, sustainability and the long-term economic efficiency of enterprises.
- 1.2. This development does not change the underlying principles of business valuation laid down in EVS-BV 1 to EVS-BV 5. Rather, it reflects changes in the datasets and analytical perspectives that market participants use to manage their expectations for future financial benefits and the related risks. In this sense, ESG should be regarded as an analytical framework which allows certain aspects of the economic results and risk exposure of an enterprise to be assessed.
- 1.3. In the European context, ESG-related data can originate from the European Union's expanding regulatory framework for reporting and classifying sustainability, including the requirements for corporate sustainability reporting and the economic activity classification criteria. This kind of information can help valuers gain an understanding of the regulatory requirements and restrictions, transitional requirements and the information environment in which an enterprise operates.
- 1.4. The fact that ESG-related disclosures or classifications exist does not in itself mean that these need to be regarded as material for the purposes of business valuation. ESG factors should be considered in a valuation only when there are grounds for expecting that they will affect future economic benefits or the associated risks. They should only be taken into account insofar as their influence arises from the key assumptions and input data used in the valuation. In this regard, ESG factors do not constitute grounds for the automatic application of premiums, discounts or independent valuation adjustments or methodologies.
- 1.5. For the purposes of business valuation, ESG is not a standalone source of value, nor a separate value base, and it does not change the concept of Market Value or other recognised bases of value set out in the EVS-BV.
- 1.6. ESG factor-related adjustments are permissible only when supported by observed market behaviour or by justified expectations which conform with the actions of informed and prudent market participants. In the absence of such evidence, ESG factors should not be incorporated quantitatively, but only qualitatively – i.e. descriptively – into valuations.
- 1.7. For the purposes of business valuation, a clear distinction should be drawn between ESG as an analytical framework used to take into account market-relevant information and ESG as a legislative, regulatory or politically motivated programme. Regulatory initiatives, investment mandates or social expectations may affect the behaviour of enterprises, but they are only relevant to business

valuation if they lead to tangible economic effects or demonstrable changes in market behaviour.

- 1.8. The role of the valuer is to assess whether and to what extent ESG factors are reflected in market prices, transactions, financing conditions or other evidence relevant to the valuation.

2. ESG and bases of value

- 2.1. The determination of market value according to EVS-BV is based on assumptions and the behaviour of typical market participants operating in an informed, prudent manner and without compulsion. The importance of ESG factors for the purposes of business valuation is determined solely by how they are or could reasonably be reflected in the decisions and expectations of such market participants as at the valuation date.
- 2.2. The mere presence of ESG risks, opportunities or external effects does not automatically constitute an influence on Market Value. ESG factors become significant for valuations only if there is evidence or a justified expectation, supported by market data, that they will affect economically relevant elements such as income, expenditure, capital investments, financing conditions or perceptions of risk among market participants.
- 2.3. There is no blanket rule that strong ESG performance leads to higher Market Value, or that poorer ESG characteristics inevitably lead to devaluation. These outcomes are contextual and depend on the specific industry, geographical coverage, regulatory environment, business model and relevant time horizon. For this reason, valuers should avoid generalisation and should not apply standardised ESG adjustments.
- 2.4. For the purposes of business valuation, a clear distinction should be made between Market Value and other bases of value. ESG factors can lead to added value for individual investors due to specific objectives, restrictions or synergies. Such effects are specific to individual investors and should not be considered when determining the Market Value, unless they are widely shared by typical market participants.

3. Materiality (substantiality) of ESG for the purposes of business valuation

- 3.1. The significance of ESG factors for the purposes of business valuation depends on their materiality in the context of valuation. Materiality in valuation is different from materiality in the context of non-financial reporting or regulatory disclosure.

For the purposes of valuation, ESG materiality exists only when a given ESG factor has a reasonable likelihood of affecting the level, time distribution or risk of future economic benefits ascribed to an enterprise as they are seen by market players.

- 3.2.** The concepts used in sustainability reporting, including EU-specific approaches such as the principle of double materiality, determine the scope and content of disclosure and reporting addressed to the interested parties. For the purposes of business valuation, the criterion of financial materiality in the sense of Market Value remains the leading criterion. For this reason, the framework of accounting materiality may provide context, but cannot replace a valuer's assessment of materiality for the purposes of valuation.
- 3.3.** Assessment of the materiality of ESG factors depends on the specific features of an enterprise, including the nature of its business, sector, geographical exposure, regulatory environment, competitive position and the relevant time horizon. A factor that is material for one enterprise may be immaterial for another, even within the same sector.
- 3.4.** Industry-oriented materiality frameworks, including industry standards drawn up for the purpose of identifying ESG factors which are generally associated with economic performance in a given industry, can be used as supporting tools for the preliminary identification and structuring of the analysis.
- 3.5.** Such frameworks are assistive in nature. They can help the valuer to focus on potentially relevant ESG factors, but do not in themselves determine materiality for the purposes of valuation and do not determine the outcomes of the valuation.
- 3.6.** The depth and form of consideration of ESG factors should be proportionate to the scale, complexity and information environment of the enterprise being valued. Where limited information is available, preliminary factor selection tools, including materiality finders¹, can be used to structure the initial stage of the analysis.
- 3.7.** The use of such tools does not mean that all identified ESG elements are material for the purposes of business valuation, nor does it predetermine the means or the degree to which they are quantitatively considered.
- 3.8.** Determining the materiality of a specific ESG factor, and choosing a suitable means of reflecting it, remains a matter of professional judgment based on the individual circumstances and the expectations and behaviour of market participants.

¹ Preliminary tools or frameworks used to identify and prioritise ESG issues that are likely to be material (financially or strategically relevant) to a business.

4. Quantitative consideration of ESG factors when applying valuation approaches

- 4.1. In the identification and analysis of ESG factors for the purposes of business valuation, the analysis should be based on their economic essence, rather than on formal characteristics, designations or classifications.
- 4.2. When ESG factors are determined as material for the purposes of business valuation, their impact on the value of the enterprise should be reflected by input data and assumptions that correspond with the selected valuation approach. ESG factors can affect value only through established economic mechanisms.
- 4.3. Environmental factors are material insofar as they give rise to physical or transitional risks, regulatory restrictions or dependence on resources that have measurable economic consequences for an enterprise's activities.
- 4.4. Social factors are material when they impact the stability and availability of a workforce, business continuity, customer relationships or the sustainability of supply chains.
- 4.5. Governance factors are material when they affect strategic decision-making, risk management, compliance with legislative requirements or the reliability of financial and operational information.
- 4.6. The materiality of ESG factors for valuation purposes depends on the presence of a demonstrable link between the specific factor and the economic results of the enterprise, or the market perception of its risk and prospects.
- 4.7. When the impact of ESG factors cannot be reliably measured or cannot be tied to specific economic parameters, a qualitative consideration may be sufficient for the purposes of business valuation. Quantitative expression is only justified where a clear link can be shown between the individual ESG factors and the relevant input data for the valuation, such as revenue, expenditure, investment requirements and other elements that yield economic benefits. The mere existence of ESG policies, reporting or ratings is not sufficient grounds for quantitative expression.
- 4.8. When applying ESG factors, the valuer should act in accordance with the principles of materiality, proportionality, transparency, consistency and professional justification. ESG factors can only affect the value of an enterprise if there is an economically justified impact on the input data, assumptions or individual elements of the valuation model that correspond with the valuation approach selected and how such factors manifest in market behaviour. The ESG impact should be taken into account consistently and only once, avoiding double reporting. Where a given ESG factor has already been reflected through its impact on certain input data, it should not be restated in other elements of the valuation.

- 4.9.** When **income approach methods** are used, ESG factors can impact the revenue of an enterprise if they affect access to markets, consumer demand, pricing policy or contractual relations. They can influence operating expenditure, including through regulatory compliance requirements, use of resources and staff expenditure, as well as through management and control mechanisms. Capital expenditure may be affected when investments are needed to maintain activities or for risk limitation in accordance with market expectations or regulatory requirements. As a rule, such effects should be reflected in cash flow forecasts and the assumptions arising therefrom.
- 4.10.** Access to funding and the cost of capital can only be influenced by ESG factors if there is evidence that these factors are reflected in market conditions for financing, for example green financing, or decisions on the distribution of capital. Where the ESG effects manifest themselves primarily through financing conditions, and this is supported by observable differences in the cost of debt, contractual restrictions or the availability of financing, the valuer can take these into account using discounting parameters. ESG can only be considered in this way if the same risks have not already been included in the cash flow forecasts.
- 4.11.** ESG factors can also affect assumptions of terminal value where they relate to long-term sustainability and the economic viability of the business model. These can be considered only when there is economic justification and they conform with market expectations of an enterprise's long-term development.
- 4.12.** Within **the market (comparison) approach**, ESG factors can only be taken into account insofar as they are incorporated into observed market prices, market multiples or transaction parameters shaped by market participants. The mere existence of ESG risks, policies or disclosures does not automatically imply that they will be reflected in market price formation.
- 4.13.** The main channel by which ESG factors can have an influence when applying the market approach is the selection, exclusion or weighting of comparable enterprises or transactions. Differences in ESG exposure, the regulatory environment, business practices or governance structures may influence the degree of comparability between the enterprise being valued and potential market comparisons.
- 4.14.** When the ESG differences between enterprises are substantial and have implications for economic results or market perceptions, the valuer should consider whether certain market comparisons should be excluded or whether a more homogeneous group of comparable enterprises should be formed. ESG considerations can form the basis for a more precise selection of comparables, but not for mechanical or ad hoc adjustments of otherwise comparable valuation multiples.

- 4.15.** Adjustments to market multiples with regard to ESG factors are only permissible where there is clear, consistent and observable market evidence of such factors leading to systematic differences in price formation between otherwise comparable enterprises or transactions. In the absence of such evidence, ESG should be taken into account through the selection and interpretation of analogues or through qualitative analysis, but not through explicit numerical adjustments.
- 4.16.** When applying the market approach, the valuer should avoid the mechanical application of adjusting coefficients based on ESG ratings, rankings or indices where these are not supported by market behaviour. Such adjustments introduce a normative assessment to an approach that is essentially evidence-based and market-oriented.
- 4.17. The asset-based approach** to business valuation is founded on the principle of substitution, where the value of an enterprise is derived from the costs of reproduction or replacement of assets, adjusted for depreciation, obsolescence and current debts. Within this approach, ESG factors are relevant only insofar as they affect the costs of replacement or utilisation, useful economic life or resale value of specific assets and liabilities.
- 4.18.** Unlike the income and market approaches, the asset-based approach is not contingent on expectations of future cash flows or observed market prices. For this reason, ESG factors cannot be incorporated into assumptions of growth, discount parameters or market multiples. They can only be considered when they lead to clearly identifiable and quantifiable effects on the value of assets and liabilities or adjustments for physical, operational or economic depreciation.
- 4.19.** Under the asset-based approach, ESG considerations are specific to assets. They are significant only when they affect individual assets or liabilities in a way that would influence their realisable value, residual economic life or usefulness to a typical market participant.
- 4.20.** The presence of corporate ESG policies, strategies or disclosures does not in itself affect the value of assets when the asset-based approach is applied. Quantitative consideration is appropriate only when ESG factors lead to physical damage, regulatory restrictions, functional restrictions or mandatory financial commitments.
- 4.21.** Environmental factors are the most common source of ESG influence under the asset-based approach. These can include pollution, remediation or restoration liabilities, exposure to physical climate risks or regulatory requirements that restrict the use of the assets. When such factors lead to mandatory costs, restrictions on use or reduced economic life, their influence should be reflected by adjustments to replacement costs, depreciation allowances or recognition of specific liabilities.

- 4.22.** The environmental compliance costs necessary to bring assets into a state corresponding to the expectations of market participants should be included in the valuation of replacement costs. Speculative future investments or voluntary improvements that are not necessary to maintain the usefulness of assets should not be taken into account.
- 4.23.** Social factors generally have limited direct impact on the asset-based approach, insofar as they rarely affect the physical characteristics of assets. They are only relevant when they give rise to legally binding debts or restrictions affecting the use of the assets, such as health and safety requirements, mandatory labour conditions or the need for a specific social infrastructure.
- 4.24.** Governance factors can influence the application of the asset-based approach where failings in management have led to detectable asset devaluation, unrecorded liabilities or insufficient maintenance. In such cases, the effects should be reflected by making appropriate adjustments to the value of assets or by recognising the relevant liabilities. The quality of governance as an abstract characteristic does not affect value under the asset-based approach, unless it has led to specific economic consequences.
- 4.25.** The application of ESG considerations under the asset-based approach should be proportionate to the nature, scale and capital-intensity of the assets of the enterprise being valued. For capital-intensive enterprises, particularly in regulated or environmentally sensitive industries, ESG factors may be a substantial source of adjustments. For small and medium-sized enterprises (SMEs) with a limited asset base, ESG adjustments are normally limited to liabilities associated with compliance and the observable state of the assets. A lack of formal ESG reporting is not a ground for additional adjustments.

5. Qualitative consideration of ESG factors

- 5.1.** Where ESG factors cannot be reliably considered via quantitative input data and assumptions in an economically justified manner in valuation approaches, they can be considered for business valuation purposes by means of qualitative analysis. Qualitative assessment is a supplementary element in the valuation process: its aim is to provide a fuller understanding of the economic and risk context in which the enterprise operates, without leading to numerical corrections that are not supported by market evidence.
- 5.2.** The qualitative assessment of ESG factors should be aimed at the economic essence of the relevant environmental, social and governance aspects and at the way in which they can affect the sustainability of the business model, operational continuity, the regulatory environment or risk management. It should not be based on the formal existence or absence of ESG policies, rankings, declarations or

certifications, but on their potential significance from the viewpoint of behaviour and expectations of market participants.

- 5.3.** A valuer can, if necessary, use qualitative analysis to review factors such as, without limitation:
- ▶ The level of regulatory exposure and adaptability of an enterprise to legislative requirements
 - ▶ The dependence of the business on key resources, technologies or human capital
 - ▶ Supply chain sustainability and relations with major partners
 - ▶ The stability of management structures, internal control and decision-making processes
 - ▶ The existence of specific non-financial risks that may affect the operational continuity, goodwill or long-term economic prospects of an enterprise
- 5.4.** In order to support the consistency and scope of the analysis, the valuer may use industry-oriented frameworks to identify ESG themes that are usually associated with financially significant aspects within a particular sector. These frameworks, including the materiality finders, can serve as a guide to initially identify potential relevant ESG factors, particularly where the available information is limited or the business itself is highly complex.
- 5.5.** The use of such aids is wholly analytical and supportive in character. This does not mean that all identified themes are significant for the purposes of business valuation, nor does it predetermine the way in which or the extent to which they are taken into account. In all cases, determining the materiality of a specific ESG factor, and selecting a suitable means for considering it, remain questions of professional judgment based on the specific circumstances and the expectations and behaviour of market participants.
- 5.6.** Qualitative consideration of ESG factors is not in itself a reason for value adjustments. It supplements quantitative analysis and increases the transparency, consistency and comprehensibility of the valuation assumptions made. The depth and scope of qualitative consideration of ESG factors should be proportionate to the scale, public exposure and information environment of the enterprise being valued.
- 5.7.** In the case of small and medium-sized enterprises and private limited companies, qualitative consideration is a suitable way of considering ESG factors and tends to be the most common. For listed companies, on the other hand, it can serve as context or a supplement to quantitative observations based on market data.

6. Information environment and availability of ESG data in listed companies and small and medium-sized enterprises

- 6.1. When considering ESG factors in a business valuation, the valuer should take into account material differences in the information environment, the degree of public exposure and the applicable regulatory requirements for various categories of enterprise. These differences influence the volume, level of detail, reliability and verifiability of the ESG information available, and thus the way in which it can be used in a valuation analysis.
- 6.2. **Listed companies** operate in an environment with a high degree of public exposure and regulatory disclosure requirements. In the European context, these enterprises usually have an extensive, structured range of ESG information available, as a result of their disclosures under EU law². These legislative acts lay down the form and content of certain disclosures, but do not introduce valuation rules and do not change the principles of business valuation.
- 6.3. As a result, valuers of listed companies have a broader and more systematic dataset to help them identify and analyse potentially material ESG factors. This kind of information can assist both the qualitative and, where there is market evidence, quantitative consideration of ESG aspects, provided that their purpose and the limitations on their comparability in the context of valuation are taken into consideration.
- 6.4. In the case of listed companies, some of the ESG information may be subject to limited assurance or reasonable assurance provided by independent parties in accordance with the applicable regulatory framework. This kind of assurance can increase the reliability of individual elements of the information, but it does not change the character and purpose of that information, nor does it make that information automatically applicable for business valuation purposes.
- 6.5. The existence of mandatory ESG disclosures, rankings or formal regulatory compliance by listed companies does not in itself lead to particular valuation findings. For the purposes of business valuation, only those ESG factors that could be justifiably linked to economic parameters or to their perception by typical market participants are of importance.
- 6.6. **Small and medium-sized enterprises**, as well as private limited companies, usually operate in a limited publicity environment, and have significantly lower requirements for ESG disclosure. In most cases, the extended regulatory sustainability reporting requirements characteristic of listed companies do not

² Directive (EU) 2022/2464 on corporate sustainability reporting (CSRD), Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (EU Taxonomy Regulation) and Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), where applicable.

apply to them. The Corporate Sustainability Reporting Directive (CSRD) provides for a gradual and simplified regime for certain categories of enterprise, including the application of voluntary sustainability standards by SMEs.

- 6.7.** As a consequence, in the case of small and medium-sized enterprises, ESG information is often limited, non-standardised or not public, and is usually acquired through internal sources, management interviews, contractual relations, regulatory permits, operating data or indirect market observations. This limits the options for detailed quantitative modelling but does not exclude the consideration of ESG factors to the extent that they are of economic significance to an enterprise's activities.
- 6.8.** The lack of formalised ESG policies, reports or external rankings among SMEs should not by itself be interpreted as an independent indicator of increased risk or of an information deficiency requiring a separate valuation adjustment. For business valuation purposes, this should be considered as a feature of the information environment which determines the appropriate scope, depth and form of ESG analysis.
- 6.9.** When using ESG information, valuers should apply the principle of proportionality, taking into account the scale, complexity and level of public exposure of the enterprise being valued. Differences in the volume, quality and verifiability of the available ESG information between listed companies and SMEs should lead to an adaptation of the analytical approach, and not to the introduction of a priori assumptions, standardised adjustments or discriminatory treatment.
- 6.10.** In any case, the use of ESG information in business valuation should take into account its reliability, verifiability and comparability, as well as the way in which such information would be used by typical market participants when forming economic expectations and assessing risk.

7. ESG information and data quality

- 7.1.** Reporting ESG factors in business valuation depends on the existence, scope and reliability of the information. ESG data are often incomplete, non-standardised or prepared following different methodologies. A valuer should exercise professional discretion when assessing their significance and reliability and report all material limitations that may affect valuation assumptions or conclusions.
- 7.2.** In the European context, ESG information may include sustainability reports drawn up according to European Union requirements, public disclosures related to sustainability classifications and information derived from sustainable financing regulations. Resources like these can reinforce understanding of the positioning of the enterprise being valued and of the regulatory requirements and limitations under which it operates.

- 7.3.** When using ESG information, the valuer needs to consider its scope, the basis of preparation, the extent to which estimates and assumptions have been used, and any limitations on comparability between different enterprises, sectors or jurisdictions.
- 7.4.** Specialist reports, external analyses or certifications can be used to help analyse specific ESG matters. However, this does not transfer the responsibility for valuation findings to third parties. The EU Taxonomy criteria can be used as a guide when identifying technical thresholds, regulatory requirements or potential transition requirements in relation to specified economic activities.
- 7.5.** Compliance or non-compliance with the EU Taxonomy should not be regarded as a direct replacement for or indicator of value. Its significance for the purposes of business valuation depends on whether, and to what extent, it influences cash flows, investment requirements, the usability of assets or financing conditions as perceived by market participants.

8. Uncertainty related to ESG factors and scenario analysis

- 8.1.** ESG factors are often associated with a high degree of uncertainty, especially when their economic effects depend on future regulatory changes, technological development or the evolution of the market environment. When such uncertainty is significant for the purposes of valuation, the use of scenario analysis or sensitivity analysis may be appropriate, provided that the scenarios applied are justified and conform with the available market data.
- 8.2.** The scenarios should reflect reasonable and economically consistent alternatives which would have been considered by market participants as at the valuation date. They should not be speculative or reflect merely desirable regulatory outcomes, nor should they be a substitute for a valuation assessment based on mechanical modelling. When applying scenarios, valuers should clearly set out their assumptions, the likelihood of occurrence and their influence on value.
- 8.3.** Random or mechanical adjustments, including the application of general ESG risk premiums or discounts, are incompatible with the principles of EVS-BV and should be avoided. ESG uncertainty should not be compensated for by the simultaneous adjustment of cash flows and discount parameters for the same risks. Double counting of ESG effects through different elements of the valuation model should be avoided.
- 8.4.** When uncertainty related to ESG factors cannot be reliably assessed quantitatively, qualitative consideration and clear documentation may be sufficient for the purposes of business valuation.

9. ESG in Valuation Reports and limits on liability

- 9.1. A Valuation Report should clearly state whether and how ESG factors have been taken into account in the business valuation. If assumptions regarding ESG factors are material to the purposes of the valuation, they should be identified and explained in accordance with the requirements of EVS-BV 4. When ESG considerations are not material, they do not need to be described in detail.
- 9.2. The consideration of ESG factors by the valuer is not an assessment of compliance with regulatory requirements, the EU Taxonomy or sustainability criteria, nor an undertaking to express certainty, unless explicitly agreed as part of the valuation assignment. Valuation Reports should avoid using formulations which could justifiably be interpreted as certification of ESG performance or confirmation of compliance with EU legislation.
- 9.3. Valuation Reports should state whether ESG factors are considered qualitatively, quantitatively or as a combination of both, as well as explaining the reasoning for the chosen approach.
- 9.4. When the ESG information used is associated with limitations, valuation uncertainty or the use of third-party information, these circumstances should be clearly stated, so that the person relying on the valuation is able to assess the sensitivity of the results with regard to the relevant assumptions.

EVGN-BV 6 Valuation of Startups and Scaleups

1. Introduction
2. Scope
3. Identification of Startups and Scaleups
4. Application of valuation approaches and methods
5. Adjustments, discounts and premiums
6. Reporting

1. Introduction

1.1. Economic and social relevance of Startups and Scaleups

- ▶ The importance of Startups and Scaleups to economic growth and social welfare is increasing, particularly in economic environments driven by intangible assets, innovation, technology and data.
- ▶ Investors and other stakeholders as required by law, regulation or by contractual obligations require clear and transparent information on the value of their investments in such businesses.

1.2. Distinctive features and valuation challenges

- ▶ The valuation of Startups and Scaleups raises issues that may differ materially from those encountered in more established businesses. In particular, such valuations often involve practical and methodological challenges where there is limited operating history, high degree of uncertainty and probability of failure, evolving business models, or significant reliance on intangible and growth-related value drivers.

1.3. Purpose of this Guidance Note

- ▶ This Guidance Note sets out a framework for the valuation of Startups, Scaleups and other enterprises in the early stages of development or commercial scaling to support consistent, transparent and professionally reasoned valuation conclusions in specific circumstances.

2. Scope

2.1. Application and relationship with EVS-BV

- ▶ This Guidance Note is intended for valuation assignments in which Startup- or Scaleup-specific characteristics may materially affect the selection and application of valuation approaches, methods and assumptions. This Guidance Note should be read together with the European Business Valuation Standards.

2.2. Boundaries

- ▶ This Guidance Note does not establish a separate basis of value or a standalone valuation framework. Nor does it remove the need for the valuer's professional judgment in selecting the appropriate basis of value, valuation approaches,

methods and assumptions relevant to the purpose of the valuation and the specific circumstances.

3. Identification of Startups and Scaleups

3.1. Definition of Startups and Scaleups for valuation purposes

3.1.1. **Startups** are typically understood as early-stage businesses, often innovative and growth-oriented. The value is frequently driven by future potential rather than by established historical performance or existing tangible assets.

3.1.2. **Scaleups** are typically understood as businesses that have moved beyond the earliest stages of development and are entering a phase of accelerated commercial expansion, where value remains strongly influenced by growth expectations, scalability and execution risk, although supported to a greater extent by historical performance compared to Startups.

3.2. Characteristics commonly associated with Startups and Scaleups may include limited or non-existent operating history, elevated uncertainty regarding future development, unproven or partially proven customer demand, reliance on innovation, technology or intangible assets, and a business model capable of scaling with disproportionate growth expectations relative to cost. In the earlier stages of development, these characteristics may also be associated with a heightened risk of unsuccessful commercialisation or failure to achieve projected outcomes. These characteristics help explain the particular valuation issues addressed in this Guidance Note, but they should not be treated as strict definitional requirements.

3.3. Development stages of Startups and Scaleups

3.3.1. For the purposes of this Guidance Note, Startups and Scaleups may be categorised by broad stages of development. These stages are intended as an analytical framework to assist valuation and should not be treated as strict or exhaustive classifications. The stage of development of the entity may affect the nature and reliability of the evidence available to the valuer and, accordingly, the selection and application of valuation approaches and methods.

3.3.2. Financing is often closely linked to the development of Startups and Scaleups and may be relevant to valuation. At different stages, the business may rely on different sources and forms of capital, reflecting its uncertainty, operational maturity and degree of commercial validation. Successive rounds of financing may, in some circumstances, provide evidence of market confidence and progress towards

commercial maturity, but they should not be treated as standalone determinants of value. Their relevance should be assessed in light of the specific facts and circumstances, including the terms of the financing, the rights attached to the instruments issued, the extent of any dilution, and whether the transaction provides meaningful evidence of market participant assumptions at the valuation date.

3.3.3. Pre-seed stage

- ▶ At the pre-seed stage, the business is typically at the level of concept formation, research, proof of concept or very early product development.
- ▶ From a financing perspective, funding at this stage is often associated with founders, family offices, business angels, incubators, accelerators or other early-support mechanisms, reflecting the high level of uncertainty and the limited availability of conventional external finance.
- ▶ From a valuation perspective, operating history is minimal or non-existent, revenues are usually absent, and commercial viability may not yet have been tested. Valuation at this stage is therefore commonly affected by high uncertainty and may depend to a significant extent on future potential, recent transactions, milestone analysis or scenario-based assessment.

3.3.4. Seed stage

- ▶ At the seed stage, the business is typically focused on early product validation, prototype testing, initial market engagement or first commercial proof points.
- ▶ From a financing perspective, this stage is often associated with seed investors, business angels, venture capital seed funding, public innovation support or blended early-stage capital.
- ▶ From a valuation perspective, the business may begin to generate limited evidence of customer interest, technical feasibility or market acceptance, but operating evidence remains incomplete and forecasts remain highly sensitive to assumptions. Valuation may therefore continue to rely significantly on recent transactions, milestone analysis, scenario analysis and other methods suited to high uncertainty.

3.3.5. Emerging stage

- ▶ At the emerging stage, the business may have developed a prototype, initial product or service offering, and may have begun to generate feedback from early users, customers or commercial counterparties.
- ▶ From a financing perspective, the business may begin to access more structured early-stage funding, including venture capital or other growth-oriented investors willing to support commercial development.

- ▶ From a valuation perspective, technical risk may be reduced compared with the pre-seed or seed stage, but commercial, operational and execution risks often remain significant. Although revenues may still be limited and losses common, the business may provide a broader evidential basis for valuation than at the earliest stages.

3.3.6. Expansion stage

- ▶ At the expansion stage, the business has generally moved beyond initial validation and entered a phase of broader commercial development. A growing customer base, increasing revenues and clearer evidence of market acceptance may be observed.
- ▶ From a financing perspective, this stage may attract expansion capital, venture growth funding, strategic investors or other forms of development finance intended to support broader market penetration and operational build-out.
- ▶ From a valuation perspective, this stage may allow for more meaningful testing of management assumptions against operating evidence, although profitability, margins and long-term performance expectations may still be unstable.

3.3.7. High growth – Scaleup stage

- ▶ This stage is characterised by rapid commercial growth, expanding market presence and the availability of a broader range of operating and performance indicators.
- ▶ From a financing perspective, the business may have access to larger growth capital rounds, specialised Scaleup investors, strategic capital and, in some cases, more structured debt financing, depending on its business profile and cash flow visibility.
- ▶ From a valuation perspective, the business may provide sufficient evidence to support wider use of quantitative valuation methods, including income-based and market-based approaches, although adjustments may still be required to reflect differences in size, maturity, profitability, market coverage or capital structure relative to comparable businesses.

3.3.8. Mature growth stage

- ▶ At the mature growth stage, the business has typically achieved greater operational stability and a more established earnings or cash flow profile, even though it may continue to grow.
- ▶ From a financing perspective, the business may be capable of accessing a broader range of financing sources, including later-stage growth capital, private credit, bank financing or capital markets solutions, depending on its scale and financial characteristics.

- ▶ From a valuation perspective, historical and current operating evidence may provide a stronger basis for valuation, and the relationship between current performance and expected future results may be more readily assessed. Valuation at this stage may therefore permit broader reliance on income-based and market-based approaches, subject to the facts and circumstances of the case.

4. Application of valuation approaches and methods

4.1. Basis of value

- 4.1.1. The majority of valuations of Startups and Scaleups will be on the basis of Market Value. However, there can be circumstances in which alternative bases of value may be required or more appropriate. The valuer might need to reconsider and renegotiate with the client the applicable basis of value during the engagement, based on the circumstances, characteristics and development stage of the business, available information and applicable valuation approaches and methods.

4.2. Valuation approaches – General principles

- 4.2.1. The valuer should apply one or more of the commonly accepted valuation approaches described in EVS-BV4 as of the valuation date, taking into account observable market evidence and established market participant practice relevant to the determination of value.
- 4.2.2. The key criterion in selecting a valuation approach is that it should be appropriate to the nature, facts and circumstances of the target entity and consistent with the assumptions that market participants would reasonably adopt. Where appropriate, priority should generally be given to approaches that rely on observable market-based measures of risk and return.
- 4.2.3. After selecting the primary valuation approach or approaches, the valuer may apply additional approaches or methods as a means of cross-checking the value derived.

4.3. Market approach considerations

- 4.3.1. Under the market approach, the valuer may consider financing rounds, secondary transactions, comparable transaction data and comparable publicly traded companies, provided that they offer meaningful valuation evidence. Superficial similarity is not sufficient and comparability should be assessed by reference to relevant

economic characteristics, including business model, stage of development, growth profile, margin structure or unit economics, market position, geography and prevailing market conditions. Where relevant, the valuer should also consider whether the terms of the instruments or transactions, including preferences, conversion rights or other contractual features, materially affect comparability.

4.3.2. The Comparable Transactions Method

When applying the Comparable Transactions Method, the valuer should identify an appropriate set of transactions involving businesses or securities that are comparable to the target entity or to the interest being valued. The strength of the valuation indication derived from this method will depend on the degree of comparability of the selected transactions, the extent to which their terms reflect market participant assumptions, and whether the transactions were carried out on an orderly and arm's length basis. In assessing comparability, the valuer should consider the type and nature of the transaction, including whether it involved an equity sale, a financing round, a secondary transaction, debt financing or another form of capital raising, as well as any instrument-specific rights or transaction terms that may affect value.

4.3.3. The Comparable Publicly Traded Companies Method

Depending on the stage of development, industry and geography of the target entity, the Comparable Publicly Traded Companies Method may also be appropriate. Comparable companies may include direct competitors, companies in the same or a related industry, or companies with similar economic characteristics and performance metrics. In such cases, the valuer should apply valuation multiples that are appropriate to the size, risk profile, growth prospects and financial characteristics of the target entity. The selected multiple should be consistent with the relevant financial metric, the period to which that metric relates, and the level of value being assessed, whether historical, current or forecast. The valuer should also consider whether differences between public and private companies, including liquidity, scale, profitability and marketability, limit direct comparability or require additional judgment in the application of multiples.

4.4. Income approach considerations

- 4.4.1. Under the Income Approach, the valuer may apply methods based on expected future cash flows, earnings or other measures of anticipated economic benefit where these can be estimated on a reasoned basis. Particular care may be required where management forecasts depend heavily on unproven assumptions, long-dated outcomes or uncertain funding. The valuer should assess whether the

assumptions adopted in relation to growth, margins, reinvestment, timing and future capital needs are reasonable, supportable and internally consistent.

4.4.2. The Discounted Cash Flow (DCF) method

In the absence of significant or positive historical financial results the Discounted Cash Flow (DCF) method may be applied in the valuation of the target entity by reference to expected future cash flows or earnings, terminal value, and appropriate discount or capitalisation rates reflecting the risks inherent in the projections. In many entities in the early stages of development, however, reliable forecasting may be difficult because there are no current or near-term positive earnings or cash flows, and value may depend on uncertain development, research, regulatory, financing or commercial milestones. In such cases, particular care should be taken in assessing the reasonableness of the projections, the consistency of the assumptions adopted, and the extent to which future funding requirements or capital raises may affect the achievability of the forecast. The valuer should also consider whether terminal value assumptions are especially sensitive or disproportionate in the overall valuation conclusion. As the DCF method may involve a high degree of subjective judgment in such circumstances, its use may be inappropriate without corroborating support.

4.4.3. Scenario-based, milestone-based or probability-weighted methods

Where the value of the target entity depends on materially different possible outcomes, the valuer should apply scenario-based, milestone-based or probability-weighted methods as a distinct form of income approach analysis. Such methods may be particularly relevant where value depends on the success or failure of research, development, regulatory approval, market entry, financing or other critical milestones. In applying such methods, the valuer should consider whether the scenarios are realistic, the assigned probabilities are supportable, and the resulting cash flows, timing assumptions, capital requirements and terminal assumptions are internally consistent. The valuer should also take care to avoid double counting risk where such risk is already reflected in projected cash flows, discount rate, scenario probabilities or milestone assumptions. These methods may provide a more representative measure of value than a single forecast where the target entity is exposed to significant binary or asymmetric outcomes.

4.4.4. The probability-weighted DCF method

A probability-weighted DCF method may be particularly relevant in the valuation of early-stage Startups and Scaleups where materially different development paths are reasonably foreseeable. In such cases, valuation may be structured around a baseline scenario, often reflecting the business plan or central expectations of management, together with one or more alternative scenarios, such as an upside

case, a downside case or, where relevant, a failure case. The number and nature of scenarios will depend on the facts and circumstances of the target entity and should be sufficient to capture the principal sources of uncertainty affecting value.

A separate DCF analysis may be prepared for each scenario. The resulting values may then be weighted by reference to supportable probabilities of occurrence.

Given the high growth expectations often associated with early-stage businesses, particular care may be required in determining the forecast period for each scenario. The forecast horizon should be sufficient to allow the business to reach a development stage where terminal assumptions can be made on a reasoned basis. The valuer should also consider whether terminal value assumptions are proportionate in the context of the overall valuation conclusion.

The discount rate applied in each scenario should be appropriate to the risks inherent in the projected cash flows and should be determined on a reasoned basis. Where market-derived inputs are used, the valuer should consider whether adjustments are required to reflect differences between the target entity and the reference companies or data used. Particular care should be taken to avoid double counting risk where uncertainty has already been reflected in the scenario structure, probability weighting or cash flow assumptions.

4.4.5. Venture Capital (VC) method

The Venture Capital (VC) method may be considered in the valuation of early stage (pre-seed and seed stage) Startups and Scaleups, where current or near-term cash flows are not meaningful and thus value is expected to be realised principally at exit. The method estimates value by reference to an expected exit value at a future date and discounts that value back to the valuation date using a target rate of return intended to reflect the risks associated with the investment.

Under this method, interim cash flows are often not modelled explicitly and the valuation focuses primarily on entry value and expected exit value. The exit value is commonly estimated by applying an appropriate earnings or revenue multiple to a projected financial metric at the expected exit date, or by reference to other supportable exit assumptions. The discounted exit value is derived from the following formula:

$$\text{Discounted exit value} = \frac{\text{Estimated exit value}}{(1 + \text{Target return})^n}$$

The valuer should consider whether the projected exit timing, selected financial metric and exit multiple are reasonable and consistent with the characteristics of the target entity and with market participant assumptions.

The target rate of return used to discount the expected exit value should be selected with care. In practice, such rates are often higher than conventional costs of capital, reflecting the elevated risk, uncertainty and probability of failure commonly associated with early-stage investments. The valuer should not, however, apply target return rates mechanically by reference only to stage-based investor convention. Consideration should be given to the basis of value, the nature of the investment, the extent to which risk has already been reflected in the exit assumptions, and whether the selected return is consistent with the objective of the valuation.

The VC method may be informative where the investment case is driven mainly by expected exit outcomes and where other methods are constrained by the absence of reliable operating evidence. However, as the method depends heavily on exit assumptions, target return selection and investor return expectations, it should be applied with caution and, where possible, supported by other valuation approaches or methods.

4.4.6. Use of multiple income approach methods

Where more than one income approach method is applied, the valuer should ensure that the methods are used in a coherent and internally consistent manner. Differences between methods may arise from the treatment of risk, the use of scenario probabilities, the modelling of interim cash flows, the treatment of funding requirements, or the assumptions adopted as to exit, terminal value or timing. Such differences should be understood and explained clearly.

The valuer should take particular care to avoid double counting risk. Risk should not be reflected more than once through inconsistent use of discount rates, scenario probabilities, cash flow assumptions or exit assumptions. Where a probability-weighted DCF analysis is used alongside another income approach method, including the venture capital method, the valuer should assess whether the methods are conceptually compatible and whether the resulting indications of value can reasonably be compared or used as cross-checks.

Multiple income approach methods should not be combined mechanically. Where more than one method is considered relevant, the valuer should explain the purpose for which each method has been used, the relative weight attributed to each, and the reasons why one method may be regarded as more representative of value in the circumstances.

4.5. Asset-based approach considerations

4.5.1. Asset-based methods may be relevant in limited circumstances, where value of the business is driven by the value of its identifiable assets. In many valuations of Startups and Scaleups, however, such methods may have limited relevance because they do not fully capture commercial validation, execution progress, market timing or future optionality. Expenditure incurred should not be assumed to represent value without further analysis.

4.5.2. The net asset value method

Under the net asset value method, the value of the target entity is derived as the difference between the determined value of its assets and the determined value of its liabilities as at the valuation date.

This method is more likely to be relevant where the value of the business is driven mainly by its underlying assets rather than by its earnings, including asset-intensive companies and investment businesses. It may also be relevant in certain cases where a business does not generate an adequate return on its assets and greater value may arise from an orderly realisation of those assets than from continued operation.

Where enterprise value or asset-based value is used as the starting point, the valuer should also consider whether further allocation is required across different classes of instruments, taking into account ranking, dilution and the effect of instruments senior to the interest being valued.

4.6. Limited role of investor heuristics and simplified methods

Simplified investor methods or market heuristics may sometimes be encountered in early-stage transactions. Such approaches may assist in understanding market behaviour or negotiation practice, but they should not ordinarily be relied upon as sufficient, on their own, for a professional valuation conclusion.

4.7. Reconciliation of valuation indications and valuation conclusion

Where more than one method is applied, the valuer should consider the relative strength, relevance and consistency of the indications obtained. The final conclusion should not be derived by mechanical averaging. The valuer should explain the weight attributed to each method, particularly where one method is treated as primary and another as corroborative.

4.8. Other application and methodological considerations

4.8.1. Recent investment transactions and input calibration

Where the investment being valued was itself made recently, for example through a capital raise, investment round, equity financing or debt financing, the transaction price may provide an indication of Market Value or may serve as a basis for calibrating inputs to the valuation model. In such cases, the valuer should perform appropriate due diligence to assess whether the transaction price reflects the market price of the investment, having regard to the facts and circumstances of the transaction. Where the transaction is used for calibration purposes, the valuer should also consider changes in the target entity, its performance, market conditions and other relevant factors between the transaction date and the valuation date, including any distinction between signing and closing dates.

4.8.2. Recurring assignments

4.8.2.1. Consistency and changes in methodology

In recurring or periodic valuation assignments, consistency in the application of the selected valuation approach or approaches from one valuation date to another is generally desirable. Any material change in method, assumptions or valuation reasoning should be identified and explained clearly. The Report should distinguish, where relevant, between changes arising from new facts, evidence or market conditions and changes arising from the valuation approach or methodology itself. A change in methodology may nevertheless be appropriate where it results in a measurement that is more representative of the value of the entity in the circumstances, having regard to the business, the available evidence and market conditions at the valuation date. Where such a change is made, its basis should be clearly documented and explained, including the nature of the change and the reasons supporting it.

4.8.2.2. Backtesting

In recurring assignments, the valuer may consider, where relevant, whether subsequent liquidity events, financing rounds, secondary transactions or other market evidence provide useful feedback on prior valuation conclusions. Such review may assist in assessing the reasonableness of prior assumptions, methodologies and valuation judgments, and in identifying potential sources of bias or inconsistency in the valuation process.

Backtesting should not be understood as requiring prior valuations to coincide with subsequent transaction prices or outcomes. Its purpose is to support greater rigour, consistency and transparency in future valuations by considering whether

information that was known or reasonably knowable at the earlier valuation date was appropriately reflected in the valuation conclusion.

5. Adjustments, discounts and premiums

5.1. From enterprise value to equity value

Where the valuation is performed at the level of the business or enterprise, the valuer should consider whether adjustments are required in order to derive equity value. These may include, where relevant, non-operating assets, excess cash, surplus liabilities, contingent obligations and other items not fully reflected in the valuation method applied. Any such adjustment should be made consistently and without double counting.

5.2. Layered capital structures and instrument-level value

In Startup and Scaleup valuations, the capital structure may include multiple classes of equity or other instruments with differing economic rights. Where the subject of valuation is a specific class of shares or other financial instrument, the valuer should consider the effect of ranking or seniority, liquidation preferences, participation rights, conversion features, anti-dilution provisions, options, warrants, convertible instruments and other relevant contractual terms. A value conclusion at the level of the business or of equity as a whole may therefore require further analysis before value can be attributed to a particular class or instrument.

5.3. Restrictions, rights of transfer and marketability considerations

The valuer should consider whether transfer restrictions, rights of pre-emption, lock-up provisions, shareholder arrangements or other limitations affect the value of the interest being valued. Such matters, including any relevant marketability or liquidity considerations, should be assessed in the context of the subject interest, the basis of value and the assumptions adopted in the valuation.

5.4. Control, minority position and other ownership attributes

The valuer should consider whether the interest being valued carries control, shared control, minority rights or other governance features that may affect value. These may include voting rights, board representation, veto rights or other powers attached to the interest. Such characteristics should be considered in relation to the subject of valuation and may justify adjustments where appropriate, but such

adjustments should not be applied automatically. Reference may also be made to EVGN-BV 2 where relevant.

5.5. Startup/Scaleup-specific and ESG-related sources of adjustment

In Startup and Scaleup valuations, particular care may be required in considering matters such as funding dependence, milestone uncertainty, customer concentration, regulatory exposure, founder dependency or other business-specific factors. ESG-related matters may also require consideration where relevant, including obligations, risks or changing legal or regulatory requirements that may affect value. Such matters should be reflected in a manner consistent with the valuation method applied and should not be treated as separate adjustments where they have already been incorporated elsewhere in the analysis. Reference may also be made to EVGN-BV 5 where relevant.

5.6. Discounts and premiums: caution against formulaic use

Discounts and premiums should not be applied by formula or convention alone. Their application should depend on the rights and characteristics of the interest being valued, the basis of value and the level of value adopted. Where such adjustments are applied, the valuer should explain their rationale clearly.

6. Reporting

6.1. General reporting framework

In addition to the general reporting requirements of EVS-BV, the Valuation Report should explain clearly the matters that are material to the valuation of an early-stage business. The level of detail should be proportionate to the nature of the assignment, but sufficient to enable the reader to understand the basis of value, the subject of valuation, the methods applied and the reasoning supporting the conclusion.

6.2. Matters that should be explained in the Valuation Report

The Report should identify clearly the business or interest being valued, the valuation date and the basis of value adopted. It should describe the relevant characteristics of the business, the principal information considered, the methods applied, the main assumptions adopted and the basis on which the valuation conclusion

has been reached. Where relevant, it should also describe the capital structure and the rights attached to the interest being valued.

6.3. Reporting valuation uncertainty

Where valuation uncertainty is material, it should be reported appropriately in accordance with the relevant EVS-BV guidance. In Startup and Scaleup valuations, uncertainty may arise from limited historical information, sensitivity to key assumptions, uncertain commercial outcomes or the economic effect of complex capital structures. Such uncertainty should be described clearly without reducing the requirement for a reasoned valuation conclusion.

6.4. Transparency on judgment and evidence quality

The report should explain the extent to which the valuation depends on management information, forecasts, market evidence or other assumptions requiring significant professional judgment. Where the quality of the available evidence is limited or uneven, this should be stated clearly, together with its relevance to the valuation conclusion.

C.

BACKGROUND AND RESOURCES

C.1. EUROPEAN UNION LEGISLATION AND BUSINESS VALUATION

1. General Introduction	146
2. Valuation for EU Company Law	150
2.1 Valuation for Statutory Needs under EU Company Law	
2.2 Valuation for Company Accounts	
3. Valuation of Credit Institutions	157
4. Valuation of Insurance and Reinsurance Institutions	159
5. Valuation for Investment Funds	163
6. Valuation for Taxation Legislation	165
6.1 Value Added Tax (VAT)	
6.2 Indirect Tax on Raising Capital	
6.3 Corporate Tax	
7. Valuation for Transfer Pricing	170
8. Valuation for State Aid Rules	173
9. Valuation and Environmental, Social, and Governance (ESG) factors	177
10. Valuation for Insolvency Proceedings or Restructuring Plans	179
SCHEDULE OF EU LEGISLATION	181

Disclaimer – This text is intended as a brief overview of EU legislation as it may apply to, or be relevant for, business and/or business valuation. It provides signposts rather than guidance on what are often complex and technical subjects. Most of the legislation reviewed has been adopted in the form of Directives, meaning that Member States will generally have implemented it through their own national legislation. Similarly, many provisions of Regulations may be incorporated into, and/or supplemented by, domestic law. As a result, local specificities and interactions with other areas of national law are likely to be relevant. Where an issue is relevant to a valuation, valuers are therefore advised to seek further, specific information or appropriate professional advice.

It should also be underlined that the text is intended to provide general assistance to business valuers in their professional capacity only, and not in any other role, including that of business ownership.

The overview is based on the law as understood on 1 May 2026.

1. General Introduction

- 1.1. **European Union (EU) legislation and business valuation** – Since its creation, the EU has sought to promote the internal market in goods, services, labour, and capital, while ensuring fair competition. This objective has had a significant impact on businesses. In particular, a series of Regulations and Directives has established minimum standards applicable to businesses across the EU. A central aim, reiterated in these legislative instruments, is to reduce barriers to the freedom of establishment by harmonising core areas of national law. In some cases, they make specific provisions for valuation of businesses as whole, as well as of separate business assets. For a valuer to act in accordance with EVS-BV, it is therefore necessary to have at least a basic understanding of this EU legislative framework.
- 1.2. **The definition of business** – The importance of the EU legal framework is first and foremost illustrated by the fact that, for the definition of the notion of a business, the EVS-BV refer to the definition set out in Regulation 2023/1803, which adopts certain international accounting standards (IAS). In particular, pursuant to IFRS 3, as included in the Annex to Regulation 2023/1803, a business is defined as “[a]n integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities”.
- 1.3. **Business valuations imposed by EU legislation** – Over the past decades, the EU has been highly active in establishing minimum standards for companies across areas such as formation, capital maintenance and disclosure, takeover

bids, mergers and divisions, financial reporting and accounting, and access to company information. From a valuation perspective, many of these standards are directly relevant, as they trigger mandatory valuations in a wide range of contexts, including corporate transactions, financial reporting, financing arrangements, regulatory procedures, restructuring and insolvency processes, and other situations recognised by law or established professional practice. In addition, sector-specific EU rules govern the valuation of assets and liabilities of credit institutions, insurance undertakings, and investment funds, often prescribing valuation methodologies, independence requirements, or reporting standards. Business valuation is also frequently required in connection with taxation, transfer pricing, and State aid control, where valuation outcomes directly affect tax bases, profit allocation, and the assessment of economic advantage.

- 1.4. The harmonisation of the national rules on **company law** covers various matters.
- 1.5. For a long time, EU law mainly concentrated on regulating listed companies, including financial institutions and insurance undertakings. For instance, [Regulation 1606/2002](#) requires listed companies to prepare their consolidated accounts taking into account the fair market value of their business assets in accordance with the International Financial Reporting Standards (IFRS).
- 1.6. In recent years, the EU recognises that small and medium-sized enterprises (SMEs) are the backbone of Europe's economy and enables these companies to operate throughout the Union under a uniform legal framework. [Directive 2013/34/EU](#), known as the Accounting Directive, aims to reduce the administrative burden on small undertakings by introducing a simplified reporting regime for SMEs and a very light regime for micro-undertakings employing fewer than ten persons. Beyond establishing general financial reporting principles, such as the consistent application of accounting policies and measurement bases from one financial year to the next for limited-liability companies, the Directive also sets out a number of definitions that are of fundamental importance for business valuation.
- 1.7. Other instruments focus on specific legal entities and/or transactions. For instance, [Regulation 2157/2001](#) sets out a statute for a European company (Societas Europaea or SE) and requires, inter alia, an independent expert to certify that the company has assets at least equivalent to its capital in the case an SE is willing to convert into a public limited liability company. [Directive 2017/1132](#), as amended by [Directive 2019/2121](#), sets the statutory requirements towards limited liability companies and lays down rules on cross-border conversions, mergers and divisions. It requires a valuation by an independent expert for considerations other than in cash before the company is incorporated or is authorised to commence business. [Regulation 1435/2003](#) on the Statute for a European Cooperative Society (SCE) lays down a similar requirement. [Directive 2004/25/EC](#) sets out minimum standards for takeover bids (or changes of control) involving securities of EU companies.

- 1.8. The 2008 financial crisis revealed a significant lack of adequate tools at Union level to deal effectively with unsound or failing **credit institutions and investment firms**. Because many Member States had to inject public money into their banking systems to rescue banks, [Directive 2014/59/EU](#) aims to avoid 'bail-outs' that involve the use of taxpayers' money in future cases of bank failure and establishes common European rules for the recovery and restructuring of failing banks.
- 1.9. [Commission Delegated Regulations 2016/1075](#) and [2018/345](#) supplementing [Directive 2014/59/EU](#) recognise valuation as critical to resolution execution. These Regulations also lay down a number of specific provisions as regards the qualifications of the valuer, the criteria the valuer shall consider when performing the valuation and the contents of the valuation report.
- 1.10. To support the resolution authorities in the context of valuation, the European Banking Authority has developed a [Handbook on valuation for purposes of resolution](#) providing a non-exhaustive overview of selected aspects of valuation methodologies that could be used when conducting the valuation in accordance with the EU legal and regulatory framework.
- 1.11. Although income and corporate taxes have thus far been harmonised only to a very limited extent, national **tax rules** must nevertheless comply with EU law. In this regard, reference may be made to [Directive 2016/1164](#), which introduces an exit tax for taxpayers transferring their tax residence, business, or assets to a low-tax jurisdiction. This exit tax is calculated on the basis of the market value of the transferred assets at the time of exit, reduced by their value for tax purposes. This valuation must be carried out in accordance with the arm's length principle.
- 1.12. The arm's length principle is also a key element in the application of **State aid rules**. Under the State aid framework, the transfer of assets at a price exceeding their market value may be qualified as State aid. In this context, the CJEU has developed the so-called private vendor test to assess whether a sale carried out by a public authority involves State aid, by examining whether a private vendor operating under normal market conditions could have obtained the same or a higher price.
- 1.13. **EU legislation as part of the business valuation matrix** – A professional valuation relies on the valuer appraising the business in its context, researching and verifying all matters with a bearing on the value of the business. Legislation and policy relevant to the business and market are obviously part of that matrix. This is also attested in EVS-BV 4 where it is stated that the valuer shall analyse the macroeconomic and industry-specific conditions that influence the business's operations and risk profile, including regulatory and legal factors. Likewise, EVS-BV 5 provides that it may be necessary to include in the Valuation Report a reference to legislation that might have an impact on value.

- 1.14. Valuation services under EU legislation** – EU legislation not only affects businesses and business valuations, it also impacts the provision of valuation services as such.
- 1.15.** For instance, the freedom of establishment ([Article 49 TFEU](#)) and the freedom to provide services ([Article 56 TFEU](#)) preclude any national measure which, although applicable without discrimination on grounds of nationality, adversely affects access to the market for service providers or undertakings from other Member States and thereby restricts trade within the EU. Accordingly, Member States may not unduly restrict the provision of valuation services on their territory. This also implies that a valuer who is established and/or qualified in one Member State is, in principle, entitled to provide valuation services in another Member State.
- 1.16.** Valuers must also comply with EU competition rules. In particular, [Article 101 TFEU](#) prohibits agreements between undertakings that may affect trade between Member States and that have as their object or effect the prevention, restriction or distortion of competition within the internal market. Typical examples of such prohibited conduct concern the fixing of prices or the partitioning of markets.
- 1.17. Nature and impact of EU legislation** – EU legislation exists in various forms, the principal legal instruments being Regulations and Directives.
- 1.18.** A Regulation is a binding legislative act. It must be applied in its entirety across the EU.
- 1.19.** A Directive is a legislative act that sets out a goal that all EU Member States must achieve but leaves it to the individual Member States to devise their own laws on how to reach these goals. The effect of a Directive therefore depends on how it is drafted. For instance, in *Commission v UK* ([C-56/90](#)) the CJEU has ruled that where a Directive prescribes a specific outcome, such as a particular quality of bathing water, that outcome has to be achieved. In such a case, it is not sufficient for a Member State to take all practical steps. Conversely, when a more general ‘framework’ Directive does not specify outcomes so precisely, the compliance with that Directive and its assessment may turn more on the approach the Member States have taken. In this context, the CJEU ruled in *Marleasing* ([C-106/89](#)) that national legislation must, as far as possible, be interpreted “*in the light of the wording and the purpose of the directive in order to achieve the result pursued by the latter*”.
- 1.20.** Most of the EU legislation under review in the following sections has been made by Directives. Accordingly, a significant part of this common framework is not immediately apparent to actors operating primarily in their local markets. Nevertheless, even though much EU legislation is implemented through national measures, this does not diminish the EU’s central role as the source of many rules and principles that have a (in)direct impact on the valuation of businesses.

- 1.21. EU legislation and the EBVS** – The current standards provide a concise overview of the main policy areas and instruments that, directly or indirectly, affect business and/or business valuation. Given the breadth of EU legislation, which has expanded significantly and is likely to continue developing, this text does not seek to provide an exhaustive overview of all Regulations and Directives relevant to the valuation of specific businesses, but instead highlights the most significant areas.

2. Valuation for EU Company Law

2.1. Valuation for Statutory Needs under EU Company Law

- 2.1.1. Limited liability companies** – The statutory requirements towards limited liability companies are set by [Directive 2017/1132](#), which codifies and replaces a series of previous directives on certain aspects of European company law. It brings together rules on establishing public limited liability companies, determining the validity of their obligations and nullity, and maintaining and modifying their capital. In addition, it provides a general framework in relation to the disclosure of information on companies in business registers and the conversion, mergers and divisions of companies.
- 2.1.2.** Title I of the Directive lays down measures designed to ensure equivalent safeguards for the protection of the interests of shareholders and third parties with regard to the establishment and operation of limited liability companies, including a detailed set of rules on capital maintenance and capital alteration. These safeguards include the requirement to draw up an expert report on any consideration other than cash prior to the incorporation of the company or its authorisation to commence business (Article 49). Similarly, where shares are issued in return for consideration other than cash, an expert report must be prepared before the capital increase is carried out (Article 70).
- 2.1.3.** Such reports must be prepared by ‘experts’ that are independent of the company and appointed or approved by an administrative or judicial authority (Article 49(1)). The report must contain a description of each of the assets comprising the consideration as well as of the methods of valuation used and must state whether the values arrived at by the application of those methods correspond at least to the number and nominal value or, where there is no such value, to the accountable par and, where appropriate, to the premium on the shares to be issued for them (Article 49(2)). It must be published in the manner laid down by the laws of each Member State (Article 49(3)).

- 2.1.4. In addition, the independent experts shall examine the draft terms of mergers and divisions and draw up a written report to the shareholders, indicating whether in their opinion the share exchange ratio is fair and reasonable (Articles 96 and 142). Their statement shall (Article 96(2)):
- ▶ indicate the method or methods used to arrive at the share exchange ratio proposed;
 - ▶ state whether such method or methods are adequate in the case in question, indicate the values arrived at using each such methods and give an opinion on the relative importance attributed to such methods in arriving at the value decided on;
 - ▶ describe any special valuation difficulties which have arisen.
- 2.1.5. The Directive further requires the preparation of an independent expert report in the context of cross-border conversions (Articles 86f and 86s), cross-border mergers (Articles 125 and 133a), and cross-border divisions (Articles 160f and 160t). In each of these cases, the expert's opinion must be *"impartial and objective, and [...] given with a view to providing assistance to the competent authority in accordance with the independence and impartiality requirements under the law and professional standards to which the expert is subject"*.
- 2.1.6. **European company (SE)** – Regulation 2157/2001 on the Statute for a European company and Directive 2001/86/EC supplementing the Statute with regard to the involvement of employees in the European company enable a company to be established within the EU in the form of a public limited liability company known by its Latin name, 'Societas Europaea' (SE).
- 2.1.7. Several options are made available to undertakings of at least two Member States wishing to establish themselves as an SE, namely a merger, the establishment of a holding company, the formation of a subsidiary, or conversion into an SE. An SE must take the form of a company with share capital amounting to at least EUR 120,000.
- 2.1.8. The Regulation provides for the mandatory involvement of an independent expert in the following procedures relating to the formation and winding-up of an SE:
- ▶ to examine the draft terms of merger and draw up a single report to all the shareholders in the case of an SE formation by merger (expert to be appointed by a judicial or administrative authority in the Member State of one of the merging companies)(Article 22);

- ▶ to examine the draft terms of formation and draw up a written report for the shareholders of each company in the case of a formation of a holding SE (expert to be appointed by judicial or administrative authority in the Member State to which one of the companies promoting the operation or the proposed SE is subject)(Article 32(4));
 - ▶ to certify that the company has net assets at least equivalent to its capital plus those reserves which must not be distributed under the law or the Statutes in the case of conversion of an existing public limited liability company into an SE (expert to be appointed by a judicial or administrative authority in the Member State to which the company being converted into an SE is subject) (Article 37(6));
 - ▶ to certify that the company has assets at least equivalent to its capital in the case an SE is going to be converted into a public limited liability company (expert to be appointed by a judicial or administrative authority in the Member State to which the SE being converted into a public limited liability company is subject)(Article 66(5)).
- 2.1.9. European Cooperative Society (SCE) – Regulation 1435/2003** on the Statute for a European Cooperative Society (SCE) puts in place a legal statute for the SCE. It enables a cooperative to be established by persons resident in different Member States or by legal entities established under the laws of different Member States. With a minimum capital of EUR 30,000, these new SCEs can operate throughout the Union with a single legal personality, set of rules and structure.
- 2.1.10.** The Regulation provides for the mandatory involvement of an independent expert in the following procedures relating to the formation and winding-up of an SCE:
- ▶ in the case of formation by merger, the law applicable to the mergers of public limited liability companies concerning the rights and obligations of experts shall apply by analogy to the merger of cooperatives (Article 26);
 - ▶ to certify that the share-exchange ratio of the subscribed capital and the amount of any cash payment is respected in the case of conversion of an existing cooperative into an SCE (expert to be appointed by a judicial or administrative authority in the Member State to which the cooperative being converted into an SCE is subject)(Article 35(5));
 - ▶ to certify that the cooperative has assets at least equivalent to its capital in the case of conversion of an SCE into a cooperative (expert to be appointed by a judicial or administrative authority in the Member State to which the SCE being converted into a cooperative is subject)(Article 76).
- 2.1.11.** The law applicable to public limited liability companies in the Member State where the SCE has its registered office, concerning the appointment of experts and the

valuation of any consideration other than cash, shall apply by analogy to the SCE (Article 4(6)).

- 2.1.12. EU Inc.** – The European Commission launched a Proposal on the 28th regime corporate legal framework – ‘EU Inc’ which aims to establish a harmonised company law form, referred to as EU Inc., to be introduced into the national legal orders of all Member States. Under this framework, an EU Inc. particularly designed for startups and scaleups, could be registered within 48 hours, at a maximum cost of EUR 100, and without any minimum capital requirement.
- 2.1.13.** Under this Proposal, where contributions in kind are made to the share capital, a report by one or more independent experts must be drawn up prior to the issuance of shares in consideration for such contributions (Article 65(3)). The experts’ report must contain a description of each asset comprising the contribution in kind, as well as the valuation methods applied (Article 65(4)).
- 2.1.14.** The EU Inc. proposal also provides a specific Chapter X on insolvency proceedings applicable to EU Inc. companies which are innovative startups. Article 88 defines the scope of application of the simplified winding-up of EU Inc. innovative startups, and refers specifically to the criteria set out in the Commission Recommendation on the definition of innovative enterprises, startups and innovative scaleups, which was adopted on 18 March 2026.
- 2.1.15. Takeover bids** – Directive 2004/25/EC on takeover bids aims to establish minimum guidelines for the conduct of takeover bids involving shares admitted to trading on a regulated market established in the EU. It sets minimum standards for takeover bids or changes of control and aims to protect minority shareholders, employees and other interested parties. One of the measures implemented by the Directive to protect minority shareholders is that anyone gaining control of a company must make a bid at an “*equitable price*” at the earliest opportunity to all holders of securities (Article 5(1)). An “*equitable price*” is defined as “*the highest price the offeror paid for the securities during a 6- to 12-month period prior to the bid*” (Article 5(4)).

Legislation

Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE)

Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees

Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE)

Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids

Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law

Proposal on the 28th regime corporate legal framework – ‘EU Inc’

Commission Recommendation (EU) 2026/720 of 18 March 2026 on the definition of innovative enterprises, innovative startups and innovative scaleups

2.2. Valuation for Company Accounts

- 2.2.1. Statutory audits** – Companies are required to present a true and fair view of their financial position. To this end, the EU has introduced rules aimed at ensuring consistent and comparable financial reporting.
- 2.2.2.** [Directive 2014/56/EU](#) amending [Directive 2006/43/EC](#) on statutory audits of annual accounts and consolidated accounts, sets out the framework for all statutory audits and strengthens public oversight of the audit profession. A statutory audit is a legally required review of a company’s financial records. Such audits may be carried out only by statutory auditors or audit firms approved by the competent authorities of the Member States. Member States are required to maintain a public register of approved statutory auditors and audit firms.
- 2.2.3.** Statutory auditors and audit firms must be independent when carrying out statutory audits, and conflicts of interest must be avoided. An adequate internal organisation of statutory auditors and audit firms should contribute to preventing any threats to their independence.
- 2.2.4. Listed companies** – [Regulation 1606/2002](#) provides that all consolidated financial statements of listed companies in the EU must be prepared in accordance with international accounting standards (IAS). The IAS, including the International Financial Reporting Standards (IFRS), have been adopted by means of [Regulation 2023/1803](#).
- 2.2.5.** [Regulation 537/2014](#) lays down specific requirements for the statutory audits of listed companies, with a view to ensuring that such audits are of high quality and are carried out by statutory auditors and audit firms subject to particularly stringent standards. These requirements are intended to enhance the integrity, independence, objectivity, accountability, transparency, and reliability of statutory auditors and audit firms performing statutory audits of public-interest entities.

- 2.2.6. Limited liability companies (reporting other than under IFRS)** – Directive 2013/34/EU, known as the Accounting Directive, lays down requirements for the annual financial statements which apply to limited liability companies in the EU. It ensures the clarity and comparability of financial statements other than the IFRS and allows for exemptions or simplifications in financial reporting obligations in many areas for SMEs and micro-undertakings. The main requirements are the following:
- ▶ to ensure the disclosure of comparable and equivalent information, recognition and measurement principles should include the going concern, the prudence, and the accrual bases (Recital 16);
 - ▶ the principle of materiality should govern recognition, measurement, presentation, disclosure and consolidation in financial statements (Recital 17);
 - ▶ items recognised in annual financial statements should be measured on the basis of the principle of purchase price or production cost (Recital 18);
 - ▶ as systems of fair value accounting provide information that can be of more relevance to the users of financial statements than purchase price or production cost-based information, Member States should be allowed to permit or require fair value accounting for assets other than financial instruments (Recital 19);
 - ▶ estimates should be based on a prudent judgement of the management of the undertaking and calculated on an objective basis, supplemented by experience of similar transactions and, in some cases, reports from independent experts (Recital 22).
- 2.2.7. Financial institutions and insurance undertakings** – Directive 2003/51/EC amended Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings. This Directive refers to the “*fair value*” as a general basis of business valuation.
- 2.2.8.** As regards the annual report and the consolidated annual report, this Directive emphasises the importance of a fair review (Recital 9), including that Member States should be able to permit or require the application of fair value (Recital 8).
- 2.2.9.** Directive 91/674/EEC (as amended by Directive 2006/46/EC) on the annual accounts of insurance undertakings explains that in the case of investments other than land and buildings current value shall mean “*market value*” (Article 48(1)).

Legislation

Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3)(g) of the Treaty on the annual accounts of certain types of companies

Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts

Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions

Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings

Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards

Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings

Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC

Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings

Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts

Commission Regulation (EU) 2023/1803 of 13 August 2023 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council

3. Valuation of Credit Institutions

- 3.1. Banking capital requirements and regulation** – The Basel Accords are a series of international regulatory frameworks developed by the Basel Committee on Banking Supervision to strengthen the resilience of the global banking system, commonly referred to as Basel I, II, and III. This comprehensive set of standards, known as the Basel Framework, establishes minimum requirements for capital adequacy, risk management, and liquidity, with a primary focus on ensuring that banks hold sufficient high-quality capital to absorb losses. In this context, it provides a methodology for determining the amount of capital that lending institutions must hold against their liabilities, as well as an approach for assessing the value of physical and financial collateral securing lending activities.
- 3.2.** The EU has implemented these standards through binding EU legislation. These matters have been addressed in successive instruments on capital requirements, most recently the [Capital Requirements Regulation 575/2013](#) (CRR), as amended by [Regulation \(EU\) 2024/1623](#) (CRR III), and [Directive 2013/36/EU](#), as amended by [Directive \(EU\) 2024/1619](#) (CRD VI). This regulatory framework governs credit institutions and thus provides the basis for their operation within the internal market.
- 3.3.** Article 229(3) CRR regarding valuation principles for other eligible collateral provides that “*physical collateral other than immovable property*” shall be valued at its market value, defined as “*the estimated amount for which the property would exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction*”.
- 3.4. Recovery and restructuring of failing banks** – Because many Member States had to inject public money into their banking systems in the wake of the 2008 financial crisis, the EU has furthermore adopted the [Bank Recovery and Resolution Directive 2014/59/EU](#) (BRRD) as amended by [Directive \(EU\) 2019/879](#) (BRRD II) and more recently by [Directive \(EU\) 2026/806](#), which establishes common European rules for the recovery and restructuring of failing banks.
- 3.5.** [Commission Delegated Regulations 2016/1075](#) and [2018/345](#) recognize the crucial role of valuation both before and after resolution and lay down valuation specific provisions regarding:
- ▶ the definitions of “*disposal value*”, “*hold value*”, “*franchise value*”, “*equity value*” and “*independent value*” (Article 1 of Regulation 2018/345);
 - ▶ the list of qualifications, experience, ability, knowledge and resources the valuer should possess (Article 39 of Regulation 2016/1075);
 - ▶ the general criteria, sources of information and factors the valuer shall consider when performing the valuation (Articles 7 to 12 of Regulation 2018/345);
 - ▶ the contents of the valuation report (Article 6 of Regulation 2018/345).

- 3.6. The Regulations do not deal with valuation methodology but state that *“the valuer shall determine the most appropriate valuation methodologies which may rely on the entity’s internal models where the valuer deems it appropriate taking into account the nature of the entity’s risk management framework and the quality of data and information available”* (Article 7(2) of Regulation 2018/345).
- 3.7. To support the resolution authorities in the context of valuation, the European Banking Authority has developed a Handbook on valuation for purposes of resolution with a view to operationalising the valuation process. It aims to provide a non-exhaustive overview of selected aspects of valuation methodologies that could be used when conducting the valuation in accordance with the EU legal and regulatory framework, and of the related implementing process.
- 3.8. The provisions of Chapter 8.1.17 of that Handbook relating to the independence of valuers have been replaced by the Handbook of 19 December 2024 on independent valuers for resolution purposes. This new Handbook sets out best practices and high-quality methodologies and processes for the selection and appointment of independent valuers for resolution purposes.

Legislation

Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012

Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the content of recovery plans, resolution plans and group resolution plans, the minimum criteria that the competent authority is to assess as regards recovery plans and group recovery plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of write-down and conversion powers, the procedures and contents of notification requirements and of notice of suspension and the operational functioning of the resolution colleges

Commission Delegated Regulation (EU) 2018/345 of 14 November 2017 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for assessing the value of assets and liabilities of institutions or entities

EBA Handbook of 22 February 2019 on valuation for purposes of resolution

Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC

Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor

Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks

EBA Handbook of 19 December 2024 on independent valuers for resolution purposes

Directive (EU) 2026/806 of the European Parliament and of the Council of 30 March 2026 amending Directive 2014/59/EU as regards early intervention measures, conditions for resolution and funding of resolution action and Directive 2014/24/EU as regards valuation services in resolution

EBA Single Rulebook

4. Valuation of Insurance and Reinsurance Institutions

- 4.1. **Solvency II and Omnibus II** – The insurance and reinsurance sector is governed by the Solvency II regime established by the Solvency II Directive 2009/138/EC. This framework Directive requires the Solvency Capital Requirement of each insurance and reinsurance institution to be calculated at least once a year. It also provides specific rules for the valuation of assets and liabilities, including technical provisions for the business of (re)insurance.
- 4.2. The specific rules for the valuation of assets and liabilities are laid down in Article 75(1) of the Solvency II Directive stating that:

“Member States shall ensure that, unless otherwise stated, insurance and reinsurance undertakings value assets and liabilities as follows:

- a) *assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;*
- b) *liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.*

When valuing liabilities under point (b), no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.”

- 4.3.** Recital 46 of the Directive states that *“valuation standards for supervisory purposes should be compatible with international accounting developments, to the extent possible, so as to limit the administrative burden [...]”*.
- 4.4.** The Omnibus II Directive 2014/51/EU and Solvency II Delegated Regulation 2015/35 amended the Solvency II regime in a number of ways. For instance, Article 9(3) of Delegated Regulation 2015/35 provides that, where necessary, Article 75 of the Solvency II Directive prevails over international accounting standards adopted by the European Commission. In addition, Article 2 of the Regulation provides that valuations *“shall be based on the expertise of persons with relevant knowledge, experience and understanding of the risks inherent in the insurance or reinsurance business”* and that valuers have to provide certain qualification proofs.
- 4.5.** The key assumptions underlying the valuation of assets and liabilities of insurance and reinsurance undertakings, as well as approaches to be applied for different classes of assets and liabilities are explained in Chapter II of Delegated Regulation 2015/35, stating that insurance and reinsurance undertakings:
 - ▶ shall value assets and liabilities based on the assumption that the undertaking will pursue its business as a going concern;
 - ▶ shall value assets and liabilities in accordance with international accounting standards;
 - ▶ shall value individual assets and individual liabilities separately;
 - ▶ shall take into account the characteristics of the asset or liability where market participants would take those characteristics into account when pricing the asset or liability at the valuation date, including the condition and location of the asset or liability and restrictions, if any, on the sale or use of the asset;
 - ▶ as the default valuation method shall value assets and liabilities using quoted market prices in active markets for the same assets or liabilities;

- ▶ where the use of quoted market prices in active markets for the same assets or liabilities is not possible, shall value assets and liabilities using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences;
- ▶ use of quoted market prices shall be based on the criteria for active markets, as defined in international accounting standards;
- ▶ when using alternative valuation methods, as little as possible rely on undertaking-specific inputs and make maximum use of relevant market inputs;
- ▶ shall value at zero the goodwill and intangible assets other than goodwill, unless the intangible asset can be sold separately.

4.6. EIOPA Guidelines – Article 75(2) of the Solvency II Directive, as amended by Article 2(22) of the Omnibus II Directive, provides that the European Insurance and Occupational Pensions Authority (EIOPA) can develop technical standards on matters such as valuation, that can subsequently be adopted by the European Commission. On 14 September 2015, the EIOPA issued Guidelines on recognition and valuation of assets and liabilities other than technical provisions intending to facilitate convergence of professional practice across Member States and to support undertakings in recognising and valuing assets and liabilities.

4.7. Insurance Recovery and Resolution – The aim of the new Insurance Recovery and Resolution Directive 2025/1 (IRRD) is to set up a harmonised EU framework for the recovery and resolution of insurance and reinsurance undertakings, protecting policyholders and financial stability while limiting public financial support. According to the IRRD rules, which will apply from 30 January 2027, insurers and relevant authorities in the EU, must be better prepared for situations of significant financial distress, so that authorities can intervene early and quickly, including across borders.

4.8. Regarding valuation, Recital 41 of the IRRD provides:

“To protect the rights of shareholders and creditors, including policy holders, beneficiaries and claimants, it is necessary to lay down clear obligations concerning the valuation of the assets and liabilities of the undertaking under resolution and concerning the valuation of the treatment that shareholders and creditors, including policy holders, beneficiaries and claimants, would have received if the undertaking had been wound up under normal insolvency proceedings. It is therefore necessary to lay down that, before any resolution action is taken, a fair and realistic valuation of the assets and liabilities of the insurance or reinsurance undertaking is carried out. Such a valuation should be subject to a right of appeal.”

4.9. Recital 43 further provides:

“The valuation of assets and liabilities of failing insurance or reinsurance undertakings should be based on fair, prudent and realistic assumptions at the moment that resolution tools are applied. The value of liabilities should, however, not be affected in the valuation by the insurance or reinsurance undertaking’s financial state. [...] EIOPA should establish a framework of principles to be used in conducting such valuations and should allow for different specific methodologies to be applied by resolution authorities and independent valuers, as appropriate.”

4.10. According to article 24(6) of the IRRD, EIOPA shall submit regulatory technical standards to the European Commission by 29 July 2027.

Legislation

Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (Omnibus II)

Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

EIOPA Guidelines of 14 September 2015 on recognition and valuation of assets and liabilities other than technical provisions (EIOPA-BoS-15/113)

Directive (EU) 2025/1 of the European Parliament and of the Council of 27 November 2024 establishing a framework for the recovery and resolution of insurance and reinsurance undertakings and amending Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 and Regulations (EU) No 1094/2010, (EU) No 648/2012, (EU) No 806/2014 and (EU) 2017/1129

Directive (EU) 2025/2 of the European Parliament and of the Council of 27 November 2024 amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks and group and cross-border supervision, and amending Directives 2002/87/EC and 2013/34/EU

5. Valuation for Investment Funds

- 5.1. Different investment funds** – Investment funds are financial products that pool investors' capital and invest it through a portfolio of financial instruments. The most common investment funds in Europe are undertakings for collective investment in transferable securities (UCITS), which are marketed to retail investors. UCITS are regulated by [UCITS Directive 2009/65/EC](#), as amended by [Directive 2014/91/EU](#) and [AIFM II Directive 2024/927](#). Funds that are not regulated at EU level under the UCITS Directive, including real estate funds, hedge funds, and private equity funds, are classified as alternative investment funds (AIFs). These funds are generally intended for professional investors and are regulated by [AIFM Directive 2011/61/EU](#), as amended by the AIFM II Directive.
- 5.2. Valuation for UCITS** – The rules governing the valuation of assets and the calculation of the sale or issue price, as well as the repurchase or redemption price of UCITS units, must be laid down in national law, the fund rules, or the instruments of incorporation of the investment company (Article 85 of the UCITS Directive).
- 5.3.** In case of merger of UCITS, a depositary or an independent auditor approved in accordance with [Directive 2006/43/EC](#) on statutory audits of annual accounts and consolidated accounts should draw-up a report on behalf of all the UCITS involved (Article 42 of the UCITS Directive). This report should validate the valuation methods of the assets and liabilities of the UCITS, the calculation method of the exchange ratio set out in the common draft terms of merger as well as the actual exchange ratio and, where applicable, the cash payment per unit. In order to limit costs connected with cross-border mergers, it should be possible for the statutory auditor of the merging or the receiving UCITS to draw up a single report for all UCITS involved in the merger.
- 5.4. Valuation for AIFs** – The AIFM Directive lays down rules for the valuation of assets and the calculation of the net asset value per unit or share of alternative investment funds.
- 5.5.** The main rules of the AIFM Directive are:
- ▶ the process for valuation of assets and calculation of the net asset value should be functionally independent from the portfolio management and the remuneration policy of the AIFM and other measures should ensure the prevention of conflicts of interest and of undue influence on the employees (Recital 29);
 - ▶ the valuation procedures shall ensure that the assets are valued and the net asset value per unit or share is calculated at least once a year (Article 19(3));
 - ▶ subject to certain conditions and qualifications, AIFMs should be able to appoint an external valuer to perform the valuation function (Article 19(5)).

- 5.6.** The AIFM Directive has been supplemented by [Commission Delegated Regulation 231/2013](#), which complements the general framework and establishes benchmarks for AIFMs in developing and implementing appropriate and consistent policies and procedures for the proper and independent valuation of assets. In particular, it provides that the AIFM must determine and clearly describe the valuation methodologies it applies.

Legislation

Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (Text with EEA relevance)

Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

Commission Delegated Regulation (EU) 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision

Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions

Directive (EU) 2024/927 of the European Parliament and of the Council of 13 March 2024 amending Directives 2011/61/EU and 2009/65/EC as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services and loan origination by alternative investment funds

6. Valuation for Taxation Legislation

6.1. Value Added Tax (VAT)

- 6.1.1. VAT Directive** – VAT is a tax on the value added in the supply of goods and services. The applicable EU legal framework is laid down in VAT Directive 2006/112, which establishes a common system of VAT within the EU. The Directive sets out, inter alia, the scope of application of VAT (Articles 1 to 30), the way VAT is applied (Articles 31 to 92), the standard rates (Articles 93 to 105b), the applicable exemptions (Articles 131 to 166), and the right of deduction (Articles 167 to 192).
- 6.1.2. Importance for business valuation** – VAT can be a material consideration in business valuation, given its direct impact on cash flows and, consequently, on value. While many businesses are able to recover VAT on qualifying inputs, the timing mismatch between VAT payments and refunds may nonetheless create financing needs that affect working capital assumptions. Moreover, where a business or transaction party is not entitled to deduct VAT, irrecoverable VAT constitutes a real cost that must be reflected in projected cash flows and, ultimately, in the valuation at issue.
- 6.1.3. Taxable persons and transactions** – VAT is applied to all transactions carried out in the EU for consideration (payment) by a taxable person, i.e. any individual or body that supplies taxable goods and services in the course of business (Articles 9, 12 and 13). Imports are also subject to VAT. Taxable transactions include supplies of goods or services within a single Member State, intra-EU acquisitions of goods (goods supplied and dispatched or transported by a business in one Member State to a business in another) and imports of goods into the EU from outside (Articles 14 to 30).
- 6.1.4. Transfer of rights, shares and interests** – Member States may consider the transfer of the following rights, interests and shares as a transfer of goods: (i) certain interests in immovable property, (ii) rights in rem giving the holder thereof a right of use over immovable property and (iii) shares or interests equivalent to shares giving the holder thereof de jure or de facto rights of ownership or possession over immovable property or part thereof (Article 15(2)).
- 6.1.5. Treatment of non-operational business assets** – Article 16 of the Directive stipulates that the application by a taxable person of goods forming part of his business assets for his private use or for that of his staff, or their disposal free of charge or, more generally, their application for purposes other than those of his business, shall be treated as a supply of goods for consideration, where the VAT on those goods or the component parts thereof was wholly or partly deductible. However,

the application of goods for business use as samples shall not be treated as a supply of goods for consideration.

- 6.1.6. Cross-border transfer of tangible business assets** – The transfer by a taxable person of goods forming part of his business assets to another Member State is, in principle, treated as a supply of goods for consideration (Article 17(1)). However, certain exemptions to this rule apply (Article 17(2)).
- 6.1.7. Transfer of a going concern** – Member States may consider the transfer of “a *totality of assets or part thereof*” is not a supply of goods but instead treat the new owner as the successor of the transferor (Article 19). If the new owner is not wholly liable to tax, Member States may adopt measures to avoid distortion of competition or to prevent tax evasion or avoidance.
- 6.1.8. Taxable amount for the sale or disposal of business assets** – According to Article 74 of the VAT Directive, the taxable amount for the sale or disposal of business assets shall be the purchase price of the goods or of similar goods or, in the absence of a purchase price, the cost price, determined at the time when the application, disposal or retention takes place. This should be considered when valuing businesses with limited lives, whose terminal value constitutes sale of assets proceeds, as well as when applying asset based valuation approaches.

Legislation

Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax

6.2. Indirect Tax on Raising Capital

- 6.2.1. Prohibition of indirect taxes on raising capital** – Directive 2008/7/EC concerning indirect taxes on the raising of capital prohibits the levying of indirect taxes on contributions of capital and certain other transactions involving capital companies. This prohibition must be interpreted broadly, also including transactions not expressly covered by it (*IM Gestão de Ativos* (C-656/21)).

- 6.2.2. Levying of capital duty in certain Member States** – Pursuant to Article 7(1) of the Directive, however, Member States that charged a duty on capital contributions as at 1 January 2006 may continue to do so under the conditions set forth in the Directive. According to Article 11 of the Directive, the capital duty should be based on the actual value of the assets, after the deduction of liabilities and expenses borne by the company for the following types of capital contributions:
- ▶ the formation of a capital company;
 - ▶ an increase in the capital of a capital company by contribution of assets of any kind;
 - ▶ an increase in the assets of a capital company by contribution of assets of any kind, in consideration not of shares in the capital or assets of the company, but of rights of the same kind as those of members, such as voting rights, a share in the profits or a share in the surplus upon liquidation;
 - ▶ the transfer from a third country to a Member State of the centre of effective management of a capital company whose registered office is in a third country;
 - ▶ the transfer from a third country to a Member State of the registered office of a capital company whose centre of effective management is in a third country;

Legislation

Council Directive 2008/7/EC of 12 February 2008 concerning indirect taxes on the raising of capital

6.3. Corporate Tax

- 6.3.1. EU Business Taxation** – In its Communication on Business Taxation for the 21st Century, the European Commission stated that the EU requires a single corporate tax rulebook, with the objective of ensuring a fair allocation of the tax burden among businesses and between Member States. Through this initiative, the Commission seeks to remove barriers to the smooth functioning of the Single Market and to facilitate cross-border investment.
- 6.3.2.** Within this framework, key elements of the Global Agreement adopted under the auspices of the Organisation for Economic Co-operation and Development (OECD) on minimum effective taxation and the partial reallocation of taxing rights, are being implemented at EU level.
- 6.3.3. Minimum Effective Taxation** – Directive 2022/2523 establishes a minimum level of taxation for multinational enterprise (MNE) groups and large-scale domestic

groups in the EU to comply with the globally agreed minimum effective tax rate of 15%.

- 6.3.4.** The Directive applies to constituent entities located in a Member State that are members of an MNE group or of a large-scale domestic group which has an annual revenue of at least EUR 750 million (Article 2(1)). Under certain conditions, entities owned by a governmental entity, an international organisation, a non-profit organisation, a pension fund, or an investment fund are however excluded from the scope of application of the Directive (Article 2(3)).
- 6.3.5.** In order to ensure the minimum tax rate, the Directive imposes a top-up tax to be collected each time that the effective tax rate of a group in a given jurisdiction is below 15% by means of an allocation mechanism to determine which Member State should levy this tax (Articles 5-14).
- 6.3.6.** Article 14 specifies how the top-up tax amount is computed and allocated, requiring an assessment of the total value of tangible assets that comprises the sum of the net book value of tangible assets of all the constituent entities involved. The net book value of tangible assets means *“the average of the beginning and end values of tangible assets after taking into account accumulated depreciation, depletion and impairment, as recorded in the financial statements”* (Article 3(29)).
- 6.3.7.** Pursuant to Article 16(2), the tax base may be adjusted on the basis of amounts resulting from certain expenses, gains and losses. Gains or losses which result from applying fair value or impairment accounting, that may be determined on the basis of the realisation principle, in respect of an asset or a liability shall be excluded (Article 16(6)). The carrying value of an asset or a liability for the purpose of determining a gain or a loss shall be the carrying value at the time the asset was acquired or the liability was incurred, or on the first day of the fiscal year in which the election is made, whichever date is the latest.
- 6.3.8. Anti-Tax Avoidance Directive – Directive 2016/1164** preventing corporate tax avoidance contains measures against base erosion and profit shifting (BEPS), i.e. aggressive tax avoidance strategies that are intended to exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. It applies to all taxpayers that are subject to corporate tax in a Member State.
- 6.3.9.** The Directive lays down four sets of rules against BEPS:
- ▶ interest limitation rules to regulate the amount of interest that a taxpayer may deduct;
 - ▶ exit taxation rules that impose an exit tax when a taxpayer transfers its tax residence, business or assets to a low-tax jurisdiction;

- ▶ a general anti-abuse rule that obliges Member States to deny taxpayers the benefit of abusive tax arrangements;
 - ▶ controlled foreign company rules that reattribute the income of a low-taxed controlled foreign subsidiary to its more highly taxed parent company.
- 6.3.10.** Article 5(1) of the Directive provides that the amount of the exit tax is equal to the market value of the transferred assets, at the time of exit of the assets, less their value for tax purposes. The notion of “market value” is defined as “the amount for which an asset can be exchanged or mutual obligations can be settled between willing unrelated buyers and sellers in a direct transaction”.
- 6.3.11. Business in Europe: Framework for Income Taxation** – To complement the current framework, the European Commission has tabled a Proposal for a Directive on Business in Europe: Framework for Income Taxation (BEFIT) to simplify the tax environment in the internal market and to create a level playing field. In particular, the Proposal aims to introduce a common framework for corporate income taxation in the Union that would be mandatory for groups of companies which have annual combined revenues exceeding EUR 750 million. Amongst the key provisions, are provisions on the calculation of the preliminary tax result of each BEFIT group member (Chapter II) and provisions for the aggregation of the preliminary tax results and the allocation of the tax base (Chapter III). In addition, the Proposal sets out a simplified approach to transfer pricing compliance (Chapter IV).

Legislation

Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market

Communication from the Commission to the European Parliament and the Council of 18 May 2021 – Business Taxation for the 21st Century, COM/2021/251

Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union

Proposal of 12 September 2023 for a Council Directive on Business in Europe: Framework for Income Taxation (BEFIT)

7. Valuation for Transfer Pricing

- 7.1. Transfer pricing** – As a result of the integration of national economies and rapid advances in communications, the role of multinational enterprises (MNEs) in international cross-border trade has become increasingly significant. Consequently, intra-group transactions have multiplied, such that a substantial proportion of global trade now consists of transfers of goods and services, capital, and intangibles – such as intellectual property – within MNE groups. The determination of the prices applied to these intra-group transactions is referred to as transfer pricing.
- 7.2.** Transfer prices, however, do not necessarily correspond to market prices that would apply in so-called ‘uncontrolled’ transactions between unrelated parties acting independently. In practice, transfer prices may be manipulated, as MNEs have financial incentives to allocate profits to jurisdictions where they are subject to lower levels of taxation. It is therefore essential to determine transfer prices that appropriately reflect market conditions.
- 7.3. No harmonisation at EU level** – Transfer pricing rules are currently not harmonised in the EU.
- 7.4. OECD Transfer Pricing Guidelines** – In general, the Member States follow the principles laid down in the [OECD Transfer Pricing Guidelines](#), which are widely regarded as the prevailing international standard in this field. It should nonetheless be borne in mind that these guidelines have no autonomous status in EU law and are not binding on Member States unless they have been explicitly incorporated into national law (*Commission v Amazon.com (C-457/21 P)*). Moreover, the status, role, and consequently the application of the OECD Transfer Pricing Guidelines may vary from one Member State to another.
- 7.5. Arm’s Length Principle** – The central concept of the OECD Transfer Pricing Guidelines is the arm’s length principle. This principle is set out in point 1.6 of the Transfer Pricing Guidelines:

“By seeking to adjust profits by reference to the conditions which would have obtained between independent enterprises in comparable transactions and comparable circumstances (i.e. in ‘comparable uncontrolled transactions’), the arm’s length principle follows the approach of treating the members of an MNE group as operating as separate entities rather than as inseparable parts of a single unified business. Because the separate entity approach treats the members of an MNE group as if they were independent entities, attention is focused on the nature of the transactions between those members and on whether the conditions thereof differ from the conditions that would be obtained in comparable uncontrolled transactions. Such an analysis of the controlled and uncontrolled transactions, which is

referred to as a 'comparability analysis', is at the heart of the application of the arm's length principle."

- 7.6. Comparability analysis** – The application of the arm's length principle is generally based on a comparison of the conditions in a controlled transaction with the conditions in transactions between independent parties. There are two key aspects to the "comparability analysis" described in point 1.33 of the Transfer Pricing Guidelines:
- ▶ the identification of the commercial or financial relations between the associated enterprises, the conditions and economically relevant circumstances attaching to these relations in order that the controlled transaction is accurately delineated;
 - ▶ the comparison of the conditions and the economically relevant circumstances of the controlled transaction as accurately delineated with the conditions and the economically relevant circumstances of comparable transactions between independent enterprises.
- 7.7.** These two aspects are of course closely linked since the delineation of the controlled transaction necessarily has significant consequences on the result of the comparability analysis. The better the facts and circumstances of the transaction and the functions, assets and risks are defined, the more accurate the search for comparables will be.
- 7.8.** The economically relevant characteristics or comparability factors that need to be identified in the commercial or financial relations between the associated enterprises in order to accurately delineate the actual transaction can be broadly categorised as follows:
- ▶ the functions performed by the parties to the transaction;
 - ▶ the contractual terms of the transaction;
 - ▶ the economic circumstances of the parties and of the market in which the parties operate;
 - ▶ the nature of the goods and/or services supplied.
- 7.9. Transfer Pricing methods** – The OECD Transfer Pricing Guidelines set out both traditional transaction methods and transactional profit methods for determining whether the conditions governing transactions between associated enterprises are consistent with the arm's length principle. The traditional transaction methods include the comparable uncontrolled price (CUP) method, the resale price method, and the cost-plus method. The transactional profit methods comprise the transactional net margin method (TNMM) and the transactional profit split method.

- 7.10.** The Transfer Pricing Guidelines declare an express preference for traditional transaction methods, describing them as “*as the most direct means of establishing whether conditions in the commercial and financial relations between associated enterprises are arm’s length*”. At the same time, the guidelines emphasise that no method is suitable in every possible situation. Accordingly, point 2.2 identifies several factors relevant to the selection of the most appropriate method, including its suitability in light of the characteristics of the controlled transaction, the availability of reliable data, and the degree of comparability between the controlled and uncontrolled transactions.
- 7.11.** Transfer pricing adjustments related to the remuneration of intra-group services, even when set in such a way as to comply with the arm’s length principle, can be subject to VAT (*Arcomet Towercranes (C-726/23)*).
- 7.12. Towards a Transfer Pricing Directive** – As part of the Business in Europe: Framework for Income Taxation (BEFIT) initiative, the European Commission has adopted a [Proposal for a directive on transfer pricing](#). This proposal aims to incorporate the arm’s length principle into EU law and to harmonise key transfer pricing rules across the Member States.
- 7.13.** A number of reports of particular relevance for valuation in the context of transfer pricing have been referred to or endorsed by the European Commission. These include, in particular, the [Report on the Use of Comparables in the EU](#) and the [Report on the Use of Economic Valuation Techniques in Transfer Pricing](#) by the former EU Joint Transfer Pricing Forum (JTPF), as well as the [Study on Comparable data used for Transfer Pricing in the EU](#) and the [Study on the Application of Economic Valuation Techniques for Determining Transfer Prices of Cross Border Transactions between Members of Multinational Enterprise Groups in the EU](#).

Legislation

Study on Comparable data used for Transfer Pricing in the EU (Specific contract no. 5 under framework contract TAXUD/2014/CC/126)

Study on the Application of Economic Valuation Techniques for Determining Transfer Prices of Cross Border Transactions between Members of Multinational Enterprise Groups in the EU (Specific contract no. 6 under framework contract TAXUD/2014/CC/126)

JTPF Report on the Use of Comparables in the EU

JTPF Report on the Use of Economic Valuation Techniques in Transfer Pricing

OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022

Proposal of 12 September 2023 for a Council Directive on transfer pricing

8. Valuation for State Aid Rules

- 8.1. General** – In promoting the internal market, the EU has sought to regulate the extent to which public authorities may use subsidies as a protectionist tool capable of distorting the free functioning of that market. State aid rules have been a central element of this policy, providing a legal framework within which measures adopted by Member States may be assessed, approved, or prohibited.
- 8.2. The notion of State aid** – Article 107(1) TFEU sets out four cumulative conditions for a measure to be qualified as State aid. In particular, the measure must (i) give an economic advantage, (ii) be financed by the State or through State resources, (iii) selectively favor certain undertakings or the production of certain goods and (iv) distort competition and affect trade between Member States.
- 8.3.** The European Commission has issued the Notice on the notion of State aid that provides general guidance on all aspects of the definition of State aid. In particular, the Notice explains when public spending falls within, and outside, the scope of EU State aid control.
- 8.4. Business valuation and State aid** – In the context of business valuation, the main element will be to determine the existence/size of an economic advantage. In some cases, however, the valuation of assets may also be important in order to declare State aid compatible with the internal market.
- 8.5. Economic advantage** – The notion of “*advantage*” is not defined in the TFEU, but the CJEU has ruled that it is to be interpreted in a broad manner. It embraces not only positive benefits, but also interventions which mitigate the charges which are normally included in the budget of an undertaking and which, without being subsidies in the strict meaning of the word, are similar in character and have the same effect. In short, an advantage within the meaning of Article 107(1) TFEU can be defined as any benefit which an undertaking would not have obtained under normal market conditions.
- 8.6. The market economy operator** – Economic transactions carried out by public bodies (including public undertakings) do not confer an advantage, and therefore do not constitute State aid, if they are carried out in line with normal market conditions. To assess whether transactions carried out by public bodies takes place under normal market conditions, the European Commission and the CJEU developed the market economy operator (MEO) test. The purpose of this test is to assess whether the public bodies acted as a market economy operator would have done in a similar situation. If this is not the case, the beneficiary undertaking is deemed to have received an economic advantage that it would not have obtained under normal market conditions, thereby placing it in a more favourable position than its competitors.

- 8.7. This principle has been developed with regard to different economic transactions. The “*market economy investor principle*” is used to identify the presence of State aid in cases of public investment. The “*private creditor test*” has been developed to examine whether debt renegotiations by public creditors involve State aid, comparing the behaviour of a public creditor to that of hypothetical private creditors that find themselves in a similar situation. Finally, the “*private vendor test*” and the “*private buyer test*” are used to assess whether a sale or a purchase by a public body involves State aid, considering whether a private vendor or purchaser, under normal market conditions, would have executed a transaction at the same price.
- 8.8. The application of the MEO test depends on the available information. In this context, a distinction can be made between situations in which the transaction’s compliance with market conditions can be directly established through transaction-specific market data (e.g. where the transaction is carried out “*pari passu*” by public entities and private operators or where the transaction is carried out through a competitive, transparent, non-discriminatory and unconditional tender procedure in line with the principles of the TFEU on public procurement) and situations in which, due to the absence of such data, the transaction’s compliance with market conditions has to be assessed on the basis of a generally-accepted, standard assessment methodology. According to the European Commission’s Notice, “[s]uch a methodology must be based on the available objective, verifiable and reliable data, which should be sufficiently detailed and should reflect the economic situation at the time at which the transaction was decided, taking into account the level of risk and future expectations”.
- 8.9. **State-owned enterprises** – The European Commission issued a Guidance Paper on state aid-compliant financing, restructuring and privatisation of State-owned enterprises. This Guidance Paper provides a basis which must be complied with when carrying out financing, restructuring and/or privatisation of State-owned enterprises. It explains that when the privatisation is effected by an Initial Public Offering or sale of shares on the stock exchange, it is generally assumed to be on market conditions and not to involve State aid.
- 8.10. **Compensation for the provision of a service of general economic interest (SGEI)** – The granting of an advantage can be excluded as regards compensation for costs incurred to provide an SGEI (*Altmark* (C-280/00)). This exception is however subject to strict conditions. One of these conditions is that the SGEI provider should be selected following a public procurement procedure to select a tenderer capable of providing the service at the least cost to the community or, in the absence of such procedure, the level of compensation should be determined on the basis of an analysis of the costs which a typical undertaking, well-run and adequately provided with means to meet the public service requirements, would have incurred in discharging those obligations, taking into account the relevant receipts and a reasonable profit for discharging the obligations.

- 8.11.** The European Commission adopted a set of specific State aid rules, known as the SGEI Package, for SGEI compensations that do not meet the strict conditions of the *Altmark* judgment.
- 8.12.** Regulation 2023/2832 exempts from State aid rules compensation of up to EUR 750,000 per company over a three-year period that is granted as compensation for the provision of an SGEI. Aid below this threshold is deemed not to distort competition or affect trade between Member States.
- 8.13.** Decision (EU) 2025/2630 exempts Member States from the obligation to notify public service compensation to the European Commission. The exemption applies to compensations not exceeding an annual amount of EUR 20 million. Providers of SGEIs meeting certain social needs (e.g. healthcare, childcare, social and affordable housing), however, benefit from the exemption regardless of the amount of compensation (Article 2(1)). To be exempted from notification, the amount of compensation may not exceed what is necessary to cover the net cost incurred in discharging the public service obligations, including a reasonable profit, to be calculated under the following rules (Articles 5 and 6):
- ▶ The net cost may be calculated as the difference between costs and revenues. Alternatively, it may be calculated as the difference between the net cost for the undertaking of operating with the public service obligation and the net cost or profit of the same undertaking operating without it.
 - ▶ The costs comprise all the costs incurred in operating the SGEI. The costs allocated to the SGEI may cover all the direct costs incurred in operating the SGEI and an appropriate contribution to costs common to both the SGEI and other activities.
 - ▶ The revenue shall include at least the entire revenue earned from the SGEI, regardless of whether the revenue is classified as State aid within the meaning of Article 107(1) TFEU.
 - ▶ The notion of “*reasonable profit*” refers to the rate of return on capital that would be required by a typical undertaking considering whether or not to provide the SGEI, taking into account the level of risk. The rate of return on capital means the internal rate of return that the undertaking makes on its invested capital over the duration of the period of entrustment. The level of risk depends on the sector concerned, the type of service and the characteristics of the compensation. Where it is not appropriate to use the rate of return on capital, Member States may rely on profit level indicators other than the rate of return on capital to determine what the reasonable profit should be, such as the average return on equity, return on capital employed, return on assets or return on sales.

- 8.14.** The European Commission also adopted a Framework for assessing large compensation amounts granted to operators outside the social services field. Those cases have to be notified to the European Commission and may be declared compatible if they meet certain criteria. These rules establish, in particular, a precise methodology to determine the amount of compensation, a requirement for Member States to introduce efficiency incentives in compensation mechanisms and the requirement to comply with EU public procurement rules.
- 8.15. Tax rulings** – Tax rulings as such are not considered in breach with State aid rules, if the rulings simply confirm what would result from a normal application of the ordinary tax system. However, there will be an advantage when the public authorities grant an undertaking a favourable tax treatment which places them in a more favourable financial position than other taxpayers.
- 8.16. Tax rulings on transfer pricing** – Article 107(1) TFEU allows the European Commission to check whether the pricing of an integrated company corresponds to pricing under market conditions, in order to determine whether an advantage may have been granted to that undertaking (*Netherlands v Commission* (T-760/15 and T-636/16)). For the purposes of determining whether the tax ruling confers a selective advantage, the European Commission may recourse to the arm's length principle described in the OECD Guidelines on Transfer Pricing as an instrument for making that comparison, although it can do so to the extent only that it is provided for by the tax legislation of the Member State of the tax ruling (*Fiat Chrysler* (C-885/19 P and C-898/19 P)).

Legislation

Article 107(1) of the Treaty on the Functioning of the European Union

Communication from the Commission – European Union framework for State aid in the form of public service compensation (2011)

Commission Guidance Paper of 10 February 2012 on state aid-compliant financing, restructuring and privatisation of State-owned enterprises

Commission Notice of 19 July 2016 on the notion of State aid as referred to in Article 107(1) TFEU

Commission Regulation (EU) 2023/2832 of 13 December 2023 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid granted to undertakings providing services of general economic interest

Commission Decision (EU) 2025/2630 of 16 December 2025 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest and repealing Decision 2012/21/EU

9. Valuation and Environmental, Social, and Governance (ESG) factors

- 9.1. ESG in valuation reports** – Environmental, social and governance (ESG) factors have become an established reference framework used by investors, creditors, regulators, and other market participants to assess business risk, sustainability, and long-term economic performance of enterprises. Although ESG disclosures are typically non-financial in nature, they may have a material impact on business valuation and/or serve as a reference when identifying relevant technical thresholds, regulatory requirements, or potential transition obligations in relation to specific economic activities. This impact, and the manner in which ESG considerations should be reflected in valuation reports, is addressed in EVGN-BV 5.
- 9.2. ESG reporting in the EU** – In the European context, ESG-related data typically derive from the EU's expanding regulatory framework on sustainability reporting and classification, including the requirements on corporate sustainability reporting and the criteria for classifying economic activities. Such information enables assessors to better understand the regulatory obligations and constraints, transitional requirements, and the overall information environment in which an enterprise operates.
- 9.3. Sustainability Reporting** – Under Directive (EU) 2022/2464 on Corporate Sustainability Reporting (CSR Directive), ESG reporting has become mandatory for large companies, i.e. EU undertakings and non-EU issuers which on an individual or group basis has more than EUR 450 million net turnover, and more than 1,000 employees on average during the financial year. These undertakings are required to disclose the social and environmental risks they face, as well as the impacts of their activities on people and the environment. This sustainability reporting should include a brief description of the undertaking's business model and strategy, a description of the undertaking's policies in relation to sustainability matters, the principal actual or potential adverse impacts of the undertaking on sustainability matters and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts, and the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks.

- 9.4.** For businesses falling outside the scope of the CSRD Directive, voluntary ESG reporting may nonetheless serve as a useful tool to identify and address environmental, social, and governance risks.
- 9.5. Sustainability due diligence** – Directive (EU) 2024/1760 on corporate sustainability due diligence (CSDD Directive) aims to ensure that large EU and non-EU companies with a significant presence in the EU integrate sustainable and responsible practices in their domestic and international operations. The CSDD Directive, as amended by the Omnibus I Directive, applies now to EU undertakings, with a turnover of at least EUR 1,500,000,000 and a number of employees above 5,000. Under this Directive, in-scope companies are required to carry out risk-based human rights and environmental due diligence, including by setting out a description of their long-term approach and adopting a code of conduct containing rules and principles applicable to the company, its subsidiaries, and its business partners.
- 9.6. Sustainable investment** – The EU Taxonomy Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment aims to inform investors on whether an economic activity is environmentally sustainable by setting common EU-wide criteria. It amends Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector, which was adopted as part of the legislative framework for sustainable finance, in order to harmonise transparency rules for financial market participants and financial advisers. The regulation makes a clear distinction between sustainability risks (environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of an investment) and adverse impacts on sustainability factors (negative externalities on ESG conditions).
- 9.7. Omnibus I simplification package** – The aim of the Omnibus I package, proposed by the EU Commission in February 2025, is to reduce the regulatory burden for businesses operating in the EU and to increase EU competitiveness. In particular, the Omnibus I package contains:
- ▶ The “Stop-the-Clock” Directive 2025/794, which came into force in April 2025, and delays by two years the application of the CSR Directive for in-scope companies that have not yet started reporting.
 - ▶ The Omnibus I Directive 2026/470, which was adopted on 24 February 2026, and introduces more substantive amendments, including a narrowing of the scope of the CSR Directive and CSDD Directive, an exemption for financial holding undertakings, and the removal of a transition plan requirement.

Legislation

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

Directive (EU) 2025/794 of the European Parliament and of the Council of 14 April 2025 amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements

Directive (EU) 2026/470 of the European Parliament and of the Council of 24 February 2026 amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting requirements and certain corporate sustainability due diligence requirements

10. Valuation for Insolvency Proceedings or Restructuring Plans

- 10.1. Regulation 2015/848** – Regulation 2015/848 on insolvency proceedings helps to resolve conflicts of jurisdiction and laws and ensures the recognition of judgments across the EU.
- 10.2.** The relevant rules for business valuation assignments include the following:
- ▶ once a judgment opening insolvency proceedings in one Member State becomes effective, it must be recognised in all other Member States with the same effect;
 - ▶ proceedings take place in the courts of the Member State where the debtor's main interests are centred, and in general, the applicable law is that of the country in which the proceedings take place;

- ▶ if the debtor has a place of operation in another Member State than the one where the debtor's main interests are centred, that Member State may also open insolvency proceedings against the debtor, in so far as these 'secondary' proceedings are limited to the assets held in that Member State.

10.3. Directive 2019/1023 – Directive 2019/1023 on restructuring and insolvency aims to remove obstacles which result from differences between national laws and procedures concerning preventive restructuring, insolvency, discharge of debt, and disqualifications and to ensure that:

- ▶ enterprises and entrepreneurs that are in financial difficulties have access to effective national preventive restructuring frameworks which enable them to continue operating;
- ▶ honest insolvent or over-indebted entrepreneurs can benefit from a full discharge of debt after a reasonable period of time, thereby allowing them a second chance;
- ▶ the effectiveness of procedures concerning restructuring, insolvency and discharge of debt is improved.

10.4. Valuation as going concern – Where Member States opt to carry out a valuation of the debtor as a going concern, the going-concern value should take into account the debtor's business in the longer term, as opposed to the liquidation value. The going-concern value is, as a rule, higher than the liquidation value because it is based on the assumption that the business continues its activity with the minimum of disruption, has the confidence of financial creditors, shareholders and clients, continues to generate revenues and limits the impact on workers (Recital 49).

10.5. Valuation in restructuring cases – Judicial or administrative authorities shall decide on the valuation of a business if a dissenting affected party challenges the restructuring plan. For this purpose, judicial or administrative authorities may appoint or hear properly qualified experts (Article 14). Where the decision to carry out a valuation is taken, Member States should be able to provide for special rules, separate from general civil procedural law, for a valuation in restructuring cases, with a view to ensuring that it is carried out in an expedited manner (Recital 63).

Legislation

Regulation (EU) No 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings

Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt

and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132

SCHEDULE OF EU LEGISLATION

Valuation for Statutory Needs

Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE)

Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees

Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE)

Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids

Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law

Proposal on the 28th regime corporate legal framework – ‘EU Inc’

Commission Recommendation of 18 March 2026 on the definition of innovative enterprises, innovative startups and innovative scaleups (C/2026/1800)

Valuation for Company Accounts

Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3)(g) of the Treaty on the annual accounts of certain types of companies

Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts

Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions

Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings

Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards

Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC

on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings

Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC

Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings

Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts

Commission Regulation (EU) 2023/1803 of 13 August 2023 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council

Valuation of Credit Institutions

Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC,

2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012

Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the content of recovery plans, resolution plans and group resolution plans, the minimum criteria that the competent authority is to assess as regards recovery plans and group recovery plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of write-down and conversion powers, the procedures and contents of notification requirements and of notice of suspension and the operational functioning of the resolution colleges

Commission Delegated Regulation (EU) 2018/345 of 14 November 2017 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for assessing the value of assets and liabilities of institutions or entities

EBA Handbook of 22 February 2019 on valuation for purposes of resolution

Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC

Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor

Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks

EBA Handbook of 19 December 2024 on independent valuers for resolution purposes

Directive (EU) 2026/806 of the European Parliament and of the Council of 30 March 2026 amending Directive 2014/59/EU as regards early intervention measures, conditions for resolution and funding of resolution action and Directive 2014/24/EU as regards valuation services in resolution

EBA Single Rulebook

Valuation of Insurance and Reinsurance Institutions

Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (Omnibus II)

Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

EIOPA Guidelines of 14 September 2015 on recognition and valuation of assets and liabilities other than technical provisions (EIOPA-BoS-15/113)

Directive (EU) 2025/1 of the European Parliament and of the Council of 27 November 2024 establishing a framework for the recovery and resolution of insurance and reinsurance undertakings and amending Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 and Regulations (EU) No 1094/2010, (EU) No 648/2012, (EU) No 806/2014 and (EU) 2017/1129

Directive (EU) 2025/2 of the European Parliament and of the Council of 27 November 2024 amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks and group and cross-border supervision, and amending Directives 2002/87/EC and 2013/34/EU

Valuation for Investment Funds

Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (Text with EEA relevance)

Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

Commission Delegated Regulation (EU) 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision

Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions

Directive (EU) 2024/927 of the European Parliament and of the Council of 13 March 2024 amending Directives 2011/61/EU and 2009/65/EC as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services and loan origination by alternative investment funds

Valuation for Value Added Tax (VAT)

Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax

Valuation for Indirect Tax on Raising Capital

Council Directive 2008/7/EC of 12 February 2008 concerning indirect taxes on the raising of capital

Valuation for Corporate Tax

Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market

Communication from the Commission to the European Parliament and the Council of 18 May 2021 - Business Taxation for the 21st Century, COM/2021/251

Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union

Proposal of 12 September 2023 for a Council Directive on Business in Europe: Framework for Income Taxation (BEFIT)

Valuation for Transfer Pricing

Study on Comparable data used for Transfer Pricing in the EU (Specific contract no. 5 under framework contract TAXUD/2014/CC/126)

Study on the Application of Economic Valuation Techniques for Determining Transfer Prices of Cross Border Transactions between Members of Multinational

Enterprise Groups in the EU (Specific contract no. 6 under framework contract TAXUD/2014/CC/126)

JTPF Report on the Use of Comparables in the EU

JTPF Report on the Use of Economic Valuation Techniques in Transfer Pricing

OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022

Proposal of 12 September 2023 for a Council Directive on transfer pricing

Valuation for State Aid Rules

Article 107(1) of the Treaty on the Functioning of the European Union

Communication from the Commission - European Union framework for State aid in the form of public service compensation (2011)

Commission Guidance Paper of 10 February 2012 on state aid-compliant financing, restructuring and privatisation of State-owned enterprises

Commission Notice of 19 July 2016 on the notion of State aid as referred to in Article 107(1) TFEU

Commission Regulation (EU) 2023/2832 of 13 December 2023 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid granted to undertakings providing services of general economic interest

Commission Decision (EU) 2025/2630 of 16 December 2025 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest and repealing Decision 2012/21/EU

Valuation for ESG purposes

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

Directive (EU) 2025/794 of the European Parliament and of the Council of 14 April 2025 amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements

Directive (EU) 2026/470 of the European Parliament and of the Council of 24 February 2026 amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting requirements and certain corporate sustainability due diligence requirements

Valuation for Insolvency Proceedings or Restructuring Plans

Regulation (EU) No 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings

Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132

C.2. RECOGNITION OF TEGOVA QUALIFICATION

1. REV-BV: The mark of excellence in business valuation

- 1.1. REV-BV status is the mark of excellence in business valuation, demonstrating to international and local clients that the valuer is qualified to a consistent high European standard of practice. Since its inception it has been awarded by leading valuation associations across Europe.
- 1.2. The letters 'REV-BV' enable cross-border investors to identify local valuers qualified to a recognisable European level. This gives both large and small local valuation firms the opportunity to tap into the steadily increasing market for pan-European investor clients.
- 1.3. In times of economic uncertainty, clients seek out professionals with special knowledge and experience who can help them make difficult investment and pricing decisions. Here, the competitive edge for REV-BV valuers lies in their guaranteed education and experience and the capacity to interpret global and local valuation impacts that comes from demonstrated familiarity with European Business Valuation Standards.
- 1.4. REV-BV valuers display the initials 'REV-BV' after their name on their business cards, are provided with a numbered REV-BV stamp to be impressed on their Valuation Reports and appear on the TEGOVA REV-BV online register consulted by clients and practitioners from all over Europe.

2. Application and Awarding Procedures

- 2.1. The recognition Recognised European Business Valuer with the designation REV-BV can be awarded to individual practising valuers and is a pan-European indicator of ability and experience that assures clients of the holder's valuation proficiency and qualifications.

- 2.2.** Applications for the REV-BV recognition are open to qualified practising valuers who meet the relevant TEGOVA requirements and are either:
- ▶ a member of a Full or Associate TEGOVA Member Association that has obtained the consent of TEGOVA to award certificates (AMA-BV), or
 - ▶ not a member of the AMA-BV but meets all the qualification requirements (subject to the AMA-BV having obtained the specific consent of TEGOVA to award certificates to that type of applicant). In this case the AMA-BV shall ensure that the requirements and procedures applied to this type of applicant are identical to those applied to its own members, or
 - ▶ a practising valuer member of a Valuation Company which itself is a member of an AMA-BV.
- 2.3.** The process of awarding REV-BV recognition is divided into two stages. The first stage is the granting by TEGOVA of AMA-BV awarding status to the Member Association. The second stage is the awarding of the recognition to the individual practising valuer applicant by the AMA-BV.
- 2.4.** To achieve awarding status, the Member Association must demonstrate that it has in place effective means, policies and quality systems to ensure that applicants meet the TEGOVA requirements as regards education, ethics, experience and lifelong learning.
- 2.5.** The second stage is the assessment of the applicant by the AMA-BV to ascertain whether the applicant meets the relevant TEGOVA requirements and, if successful, the granting of the recognition and the right to use the designatory letters REV-BV.
- 2.6.** Recognition of competence is granted in the name of TEGOVA by the AMA-BV in the form of a certificate of recognition signed jointly by the Chairman of TEGOVA and the Chairman/President of the Awarding Member Association.
- 2.7.** The applicant who has been awarded Recognised European Business Valuer recognition is permitted to use this title and the designatory letters REV-BV after her/his name for a period of five years after which time the valuer must seek renewal of the recognition.
- 2.8.** Details are available from the TEGOVA Secretariat, e-mail info@tegoval.org.

C.3. MEMBERSHIP OF TEGOVA

Albania

SHOQERIA E VLERESUESVE TE PASURIVE TE PALUAJTSHME (SVP)
Albanian Society of Property Appraisers

Argentina

TRIBUNAL DE TASACIONES DE LA NACIÓN ARGENTINA (TTN)
National Appraisal Agency of Argentina

Armenia

INDEPENDENT VALUERS CLUB (IVC)
«Անկախ Գնահատողների Ակումբ» Ինքնակարգավորվող Կազմակերպություն

Austria

AUSTRIAN ASSOCIATION OF REAL ESTATE EXPERTS (ARE)
Verband Österreichischer Immobiliensachverständiger
ÖSTERREICHISCHER VERBAND der IMMOBILIENWIRTSCHAFT (ÖVI)
Austrian Real Estate Association

Belgium

BELGIAN ASSOCIATION OF PROPERTY VALUERS (BELGAVAL)
KAMER VAN VASTGOED -EXPERTEN (KAVEX)
Chamber of Real Estate Experts
UNION DES GÉOMÈTRES-EXPERTS DE BRUXELLES ET DES BRABANTS (UGEB-ULEB)
Union of Expert Surveyors of Brussels and Brabants

Bosnia and Herzegovina

UDRUŽENJE NEZAVISNIH PROCJENITELJA (UNP)
Association of Independent Valuers
UDRUŽENJE OVLAŠĆENIH PROCJENJIVAČA u BOSNI i HERCEGOVINI (UOPBiH)
Association of Certified Appraisers in Bosnia and Herzegovina

Bulgaria

CHAMBER OF INDEPENDENT APPRAISERS OF BULGARIA (CIAB)

Камарата на независимите оценители в България (КНОБ)

CHAMBER OF PROFESSIONAL VALUERS (CPV)

Камара на професионалните оценители (КПО)

Canada

APPRAISAL INSTITUTE OF CANADA (AIC)

Institut canadien des évaluateurs

CANADIAN INSTITUTE OF CHARTERED BUSINESS VALUATORS (CBV)

Institut Canadien des experts en évaluation d'entreprises (EEE)

Croatia

HRVATSKO DRUŠTVO SUDSKIH VJEŠTAKA I PROCJENITELJA (HDSViP)

Croatian Association of Court Expert Witnesses and Valuers

Cyprus

CYPRUS VALUERS ASSOCIATION (CVA)

Σύνδεσμος Επιστημόνων Εκτιμητών Ακινήτων Κύπρου

Czech Republic

ČESKÁ KOMORA ODHADCU MAJETKU (ČKOM)

Czech Chamber of Appraisers

Denmark

DANSK EJENDOMSMAEGLERFORENING (DE)

Danish Association of Chartered Estate Agents

Estonia

EESTI KINNISVARA HINDAJATE ÜHING (EKHÜ)

Estonian Association of Appraisers

France

ASSOCIATION FRANÇAISE DES SOCIÉTÉS D'EXPERTISE IMMOBILIÈRE (AFREXIM)

French Association of Property Valuation Companies

COMPAGNIE NATIONALE DES EXPERTS IMMOBILIERS (CNEI)

National Company of Real Estate Experts

CONFÉDÉRATION DES EXPERTS FONCIERS (CEF)

Confederation of Property Valuers

CONSEIL SUPÉRIEUR DU NOTARIAT (CSN)

High Council for the Notarial Profession

INSTITUT FRANCAIS DE L'EXPERTISE IMMOBILIÈRE (IFEI)

French Institute of Real Estate Valuation

SYNDICAT DES EXPERTS ÉVALUATEURS IMMOBILIERS DE FRANCE (SEEIF)

Association of Real Estate Expert Valuers of France

SYNDICAT NATIONAL DES PROFESSIONNELS IMMOBILIERS (SNPI)

National Association of Real Estate Professionals

UNION DES SYNDICATS DE L'IMMOBILIER (UNIS)

National Union of Property Professions

Georgia

საქართველოს დამოუკიდებელ შემფასებელთა საზოგადოება

Independent valuers society of georgia (IVSG)

Germany

BUND DER ÖFFENTLICH BESTELLTEN VERMESSUNGSINGENIEURE e.V. (BDVI)

Association of Publicly Appointed Surveyors

BUNDESVERBAND ÖFFENTLICH BESTELLTER UND VEREIDIGTER SOWIE QUALIFIZIERTER SACHVERSTÄNDIGER (BVS)

Association of Publicly Certified and Qualified Experts

IMMOBILIENVERBAND DEUTSCHLAND IVD BUNDESVERBAND der IMMOBILIENBERATER, MAKLER, VERWALTER, und SACHVERSTÄNDIGEN e.V.

German Real Estate Professional Association

Greece

ΣΥΛΛΟΓΟΣ ΕΚΤΙΜΗΤΩΝ ΕΛΛΑΔΟΣ (ΣΕΚΕ)

Association of greek valuers (AVAG)

Ireland

INSTITUTE OF PROFESSIONAL AUCTIONEERS & VALUERS (IPAV)

Italy

ASSOCIAZIONE SOCIETÀ DI VALUTAZIONI IMMOBILIARI (ASSOVI)

Association of Property Valuation Companies

CONSIGLIO DELL' ORDINE NAZIONALE DEI DOTTORI AGRONOMI E DEI DOTTORI FORESTALI (CONAF)

Council of the National Order of Agronomists and Foresters

CONSIGLIO NAZIONALE GEOMETRI e GEOMETRI LAUREATI (CNGeGL)

National Council of Italian Surveyors

E-VALUATIONS ISTITUTO di ESTIMO e VALUTAZIONI (IEV)

E-Valuations Institute of Estimation and Valuation

ISTITUTO ITALIANO DI VALUTAZIONE IMMOBILIARE (ISIVI)

Italian Institute for Real Estate Valuation

Latvia

LATVIJAS IPASUMU VERTETAJU ASOCIACIJA (LIVA)

Latvian Association of Property Appraisers

Lithuania

LIETUVOS TURTO VERTINTOJU ASOCIACIJA (LTVA)

Lithuanian Association of Property Valuers

LIETUVOS VERTINTOJŲ RŪMAI (LVR)

Lithuanian Chamber of Appraisers

Luxembourg

LUXEMBOURG PROPERTY VALUATION INSTITUTE (LPVI)

Institut luxembourgeois d'évaluation immobilière (ILEI)

Moldova

AGENȚIA GEODEZIE, CARTOGRAFIE ȘI CADASTRU (AGCC)

Agency for Geodesy, Cartography and Cadastre

Montenegro

INSTITUT OVLAŠĆENIH PROCJENJIVAČA CRNE GORE (IOPCG)

Institute of Certified Valuers of Montenegro

NACIONALNO UDRUŽENJE PROCJENITELJA CRNE GORE (NUPCG)

National Association of Valuers of Montenegro (NAVM)

UDRUŽENJE NEZAVISNIH PROCJENJIVAČA CRNE GORE (CUP)

Association of Independent Valuers of Montenegro

Netherlands

KONINKLIJKE NEDERLANDSE VERENIGING VAN MAKELAARS EN TAXATEURS IN ONROERENDE GOEDEREN NVM U.A. (NVM)

Royal Dutch Association of Real Estate Brokers and Appraisers NVM U.A.

NEDERLANDS REGISTER VASTGOED TAXATEURS (NRVT)

Real Estate Valuers Register of the Netherlands

Vastgoed Nederland (VNED)

Dutch Real Estate Association

WAARDERINGSKAMER

Netherlands Council for Real Estate Assessment

North Macedonia

ASOCIJACIJA NA NEZAVISNI PROCENUVACI

Association of Independent Valuers (AIV)

BIRO ZA PROCENA (BP)

Bureau for Assessment

KOMORA NA PROCENUVACI NA REPUBLIKA SEVERNA MAKEDONIJA (KPRSM)

Chamber of Valuers of the Republic of North Macedonia

Norway

NORSK TAKST (NT)

Norwegian Surveyors and Valuers Association

Poland

POLSKA FEDERACJA STOWARZYSZEN RZECZOZNAWCÓW MAJATKOWYCH (PFSRM)

The Polish Federation of Valuers' Associations

Portugal

ASSOCIAÇÃO DAS SOCIEDADES DE AVALIAÇÃO E AVALIADORES DE PORTUGAL (ASAVAL)

Association of Valuation Companies and Valuers of Portugal

ASSOCIAÇÃO NACIONAL DE AVALIADORES IMOBILIÁRIOS (ANAI)

National Association of Real Estate Valuers

ASSOCIAÇÃO PORTUGUESA DOS PERITOS AVALIADORES DE ENGENHARIA (APAE)

Portuguese Association of Expert Engineering Valuers

Romania

ASOCIAȚIA NAȚIONALĂ A EVALUATORILOR AUTORIZAȚI DIN ROMÂNIA (ANEVAR)

National Association of Authorised Romanian Valuers

Russian Federation

ПАРТНЕРСТВО РОССИЙСКОГО ОБЩЕСТВА ОЦЕНЩИКОВ (ПРОО)

Partnership of the Russian Society of Appraisers

РОССИЙСКАЯ КОЛЛЕГИЯ ПОСРЕДСТВ ДИЛЕРОВ

Russian Board of Appraisers

РОССИЙСКОЕ ОБЩЕСТВО ОЦЕНЩИКОВ (РОО)

Russian Society of Appraisers

Serbia

NACIONALNO UDRUZENJE PROCENITELJA SRBIJE (NUPS)

National Association of Valuers of Serbia

SUSPENDED

Slovenia

SLOVENSKI INSTITUT ZA REVIZIJO (SIR)

Slovenian Institute of Auditors

Spain

ASOCIACIÓN ESPAÑOLA DE VALORACIÓN INMOBILIARIA Y URBANÍSTICA (AEVIU)

Spanish Association of Real Estate and Urban Appraisal

CONSEJO GENERAL DE LA ARQUITECTURA TÉCNICA DE ESPAÑA (CGATE)

Spanish General Council of Technical Architecture

CONSEJO SUPERIOR DE COLEGIOS DE ARQUITECTOS DE ESPAÑA (CSCAE)

High Council of the Orders of Architects of Spain

Sweden

SAMHÄLLSBYGGARNA-SFF

The Swedish Professionals for the Built Environment

Turkey

TÜRKİYE DEĞERLEME UZMANLARI BİRLİĞİ (TDUB)

Turkish Appraisers Association

Ukraine

ПРОФЕСІЙНА АСОЦІАЦІЯ ОЦІНЮВАЧІВ (ПАО)

Ukrainian Association of Professional Valuers (UAPV)

УКРАЇНСЬКЕ ТОВАРИСТВО ОЦІНЮВАЧІВ (УТО)

Ukrainian Society of Appraisers (USOA)

United Arab Emirates

دائرة الأراضي و الأملاك دبي

DUBAI LAND DEPARTMENT (DLD)

United Kingdom

CENTRAL ASSOCIATION OF AGRICULTURAL VALUERS (CAAV)

INSTITUTE OF REVENUES RATING AND VALUATION (IRRV)

United States of America

APPRAISAL INSTITUTE (AI)

INTERNATIONAL ASSOCIATION of ASSESSING OFFICERS (IAAO)

Uzbekistan

O'ZBEKISTON BAHOLOVCHILAR, EKSPERTILAR VA MASLAHATCHILAR JAMIYATI (O'BEMJ)

Society of Appraisers, Experts and Consultants of Uzbekistan

C.4. GLOSSARY

EVS-BV contains definitions of key business valuation concepts necessary to support practising valuers and other users of EVS-BV.

A

Asset-based approach – a valuation approach which provides a value indication of a business or of a business ownership interest based on the value of the assets net of liabilities.

Assumption – a reasonable premise adopted by the valuer, where the information provided or available is limited or restricted, in order to enable an opinion of value to be reported in the absence of full data or knowledge.

B

Basis of value – a statement of the fundamental assumptions for assessing a value of the subject of valuation for a defined purpose. Should be distinguished from the methods or techniques used to implement a selected basis of value.

Beta – a function of the relationship between the return on an individual security and the return on the market as measured by a broad market index.

Business – an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Business modelling – a critical procedure in the selection of the most suitable valuation approach, whereby the business is quantified through estimates of growth components (revenues, profit, depreciation, CAPEX, working capital etc.).

Business to be valued – depending on the purpose of valuation, the subject of the valuation will be the entire enterprise or participating interests (full ownership, controlling or minority shareholding interests) in the company.

C

Company – an enterprise constituted under civil or commercial law, including cooperative societies, and other legal persons governed by public or private law, save for those which are non-profit-making.

Comparable publicly traded companies method – a valuation method based on transaction data for shares of companies traded in public securities markets that provide a reasonable basis for comparison to the characteristics of the company (or ownership interest) being valued.

Comparable transactions method – a valuation method based on transactions involving sale, merger or acquisition of businesses (or business ownership interests) that provide a reasonable basis for comparison to the characteristics of the business (or business ownership interest) being valued.

Control premium – an increase applied to the value of an equity interest to reflect the additional rights and powers associated with control, measured as the excess of value of controlling interest over a comparable value of non-controlling interest in a business.

D

Discount for Lack of Control (DLOC) (also known as Minority Discount) – a reduction applied to the value of a non-controlling equity interest to reflect the absence of the rights and powers associated with control, relative to a controlling interest valuation basis.

Discount for Lack of Marketability (DLOM) – a reduction applied to the value of an ownership interest to reflect the limitations on its ability to be sold, transferred, or converted into cash, including the adverse effects such limitations may have on the price achievable in the market, the time required to complete a sale, and the costs associated with it.

Discount rate – a rate of return used to convert a future monetary sum into present value.

Discounted Cash Flow (DCF) method – a valuation method based on present value calculations of expected cash flows projected over a specific period and including terminal value (residual value).

Disposal value – the observable market price that could be obtained on the market for a particular asset or group of assets, which may reflect an appropriate discount having regard to the amount of assets being transferred.

E

Enterprise – any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.

Enterprise value - the sum of a company's equity, plus interest-bearing debt less excess cash and cash equivalents, if any.

Equitable value (also known as fair value for non-financial purposes) - the estimated amount for which the business would exchange in an orderly transaction between identified knowledgeable and willing parties, reflecting their respective interests at the valuation date.

Equity interest - the specific financial value of an ownership interest after deduction of liabilities.

Equity Risk Premium (ERP) or market risk premium - a rate of return reflecting the additional risk of equity instruments.

Equity value - the estimated net value, which is available to all of the company's shareholders.

F

Fair value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Forced Liquidation Value (FLV) - the liquidation value of a business, assuming lack of appropriate marketing time and other seller constraints, typically resulting in lower proceeds than under an orderly process.

Franchise value - the net present value of cash flows reasonably expected to result from the maintenance and renewal of assets and liabilities or businesses, including the impact of relevant business opportunities, including those stemming from the different resolution actions assessed by the valuer.

Free cash flow (FCF) (also referred to as free cash flow to the firm (FCFF)) - the amount by which a business's operating cash flow exceeds its working capital needs and capital expenditures and is available for distribution to all of the investors in the company (debt as well as equity providers). This type of cash flow is used for the valuation of enterprise value.

Free Cash Flow to Equity (FCFE) - the cash left over after covering all operating expenses, reinvestment expenses, and financial obligations and that is potentially available for distribution to a company's shareholders. This type of cash flow is used for the valuation of equity value.

G

Going concern scenario – the business valuation scenario under going concern premise assumes that the business will continue running normally in the future, using all of its assets to generate income.

H

Highest and Best Use - the use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (e.g. a business) within which the asset would be used.

Hold value - the present value of cash flows that an entity can reasonably expect from retaining particular assets and liabilities, discounted at an appropriate rate and determined under fair, prudent and realistic assumptions, considering factors affecting customer or counterparty behaviour or other valuation parameters in the context of resolution.

I

Income approach - a valuation approach that involves determining the value of the business by capitalising or discounting the estimated future economic benefits to be derived from the business.

Income capitalisation method - a valuation method where a representative or adjusted income level or cash flow is discounted by an appropriate capitalisation rate or multiplied by an income multiple (or capitalisation factor) to convert the income into value.

Investment value - the value of a business to a particular identified party for investment, and/or operational purposes, reflecting that party's specific assumptions, objectives and constraints.

L

Liquidation (disposal) scenario – the business valuation scenario assuming the business assets will no longer be used to generate earnings under current business circumstances. Rather, the situation requires that the assets be sold individually.

Liquidation value - the estimated amount recoverable from the disposition of the business under a specified liquidation scenario (i.e. orderly or forced sale) net of liquidation costs and reflecting the proceeds expected from piecemeal or collective asset liquidation.

Liquidation value method - a valuation method applied to a business whose liquidation value may exceed its going concern value, and involving determination of

the value of the proceeds from the sale of its assets through orderly liquidation or forced liquidation scenarios.

Liquidity - the ability to readily convert an asset, business, business ownership interest, or security into cash without significant loss of principal. In general, ownership interests in listed companies are more liquid than ownership interests in privately held companies.

M

Market (comparable) approach - a valuation approach that involves comparing the subject business to similar businesses, business ownership interests and securities that have been sold on the market.

Market Value - the estimated amount for which the business should exchange on the date of valuation, in a transaction between a willing buyer and a willing seller, acting independently of each other after proper marketing, wherein the parties had each acted knowledgeably, prudently and without being under compulsion.

N

Net assets method - a valuation method which determines the net value of equity by deducting the adjusted value of liabilities from the adjusted value of assets. It is usually applied in valuation of businesses that derive their revenues from a return on tangible fixed assets, such as real estate holding companies.

Non-operating assets - assets which are surplus to the core business.

O

Operating assets - assets which are necessary for the operation of the business and must be valued as part of the business as whole.

Orderly Liquidation Value (OLV) - the liquidation value of a business, assuming appropriate marketing time and typical sale processes for the assets, supported by market evidence.

P

Participating interest - an ownership interest in another undertaking, whether or not represented by shares, certificates or other instruments, that creates a durable link with that undertaking and is held with the intention of contributing to the activities of the holder. Depending on its legal form and terms, such an interest may confer economic, voting, governance or other participation rights.

Q

Qualified business valuer - a suitably skilled, competent and experienced business valuer able to give an objective opinion.

R

Risk-free rate - the rate of return available in the market on an investment free of default risk.

S

Special assumption - a premise, usually adopted on instruction, regarding a fact or circumstance that is different from those reasonably achievable at the date of valuation, on the basis of which Market Value or another basis of value is determined.

Specific definitions of bases of value under Commission Delegated Regulation (EU) 2018/345 of 14 November 2017 - basis of value definitions which apply to valuations performed within the EU recovery and resolution framework for credit institutions and investment firms.

Synergistic value - the value arising from combining the subject business with one or more businesses or interests in a business, such that the combined value exceeds the sum of their individual values.

Systematic risk - the risk that is common to all securities and cannot be eliminated through diversification.

T

Terms of engagement - the specific terms of the contract between the valuer and the client, set out in writing by the valuer following verbal or written instructions to provide valuation services clearly and accurately reflecting the nature and purpose of the valuation and the extent of investigations to be undertaken to justify the subsequent reported opinion of value.

U

Unsystematic risk - the portion of total risk specific to an individual security that can be avoided through diversification.

V

Valuation approach - a general way of determining the value of a business, using one or more valuation methods.

Valuation date - the specific date at which the value is assessed, as stated in the terms of engagement and agreed with the client or otherwise determined by the purpose of the valuation, applicable law, regulation, contract, or court order.

Valuation method - the particular procedure, based on one or more valuation approaches, used by the valuer to arrive at the determination of value.

Valuation Report - the comprehensive communication of the valuer's professional judgment of value to the client. It is a document detailing the scope, key assumptions, valuation methods, and conclusions of an assignment. The report provides a professional opinion of value supported by a recognised basis or bases of valuation within the framework of European Business Valuation Standards.

Valuation review - the assessment of another valuer's report, not a revaluation, taking the form of a Valuation Review Report.

Valuation technique - a specific analytical process for analysing or processing data, conducted within a valuation method.

Valuation uncertainty - uncertainty regarding the reliability of valuation results arising from (i) the availability and quality of evidence, (ii) model dependence and parameter dispersion, and (iii) market conditions (e.g. thin/volatile markets, structural breaks).

W

Weighted Average Cost of Capital (WACC) - the overall required return of a business's capital providers, used as the discount rate for cash flows to debt and equity, calculated as the market-value-weighted average of the cost of equity and the cost of debt.



The European Group of Valuers' Associations unites 77 national valuers' associations from 41 countries representing 70 000 qualified valuers either self-employed or employed by specialist consultancies, private sector companies, government departments or financial institutions both local and international. Its European Valuation Standards (EVS) are cited as reliable standards in the Mortgage Credit Directive and have been given precedence over all other standards by the European Central Bank in successive editions of its Asset Quality Review manual for the updating of banks' real estate collateral values.

Other Blue Books:

- ▶ European Plant, Machinery & Equipment Valuation Standards 2022
- ▶ European Valuation Standards 2025
- ▶ European Intangible Asset Valuation Standards 2026