

Illustrations for PFP-Specific Engagements

These illustrations assume the member has not been engaged to perform a business valuation.

82. *Illustration 26.* When does the Statement apply to members who determine values related to personal financial planning engagements?

83. *Conclusion.* The Statement applies to personal financial planning engagements when the member determines the value of a business, business ownership interest, security, or intangible asset (SSVS paragraph 1) and in the process of determining the value applies valuation approaches and methods and uses professional judgment (SSVS paragraph 4) unless an exception applies (SSVS paragraphs 5–10).

84. *Illustration 27.* If a member is engaged to provide personal financial planning services to a client and, in the course of the engagement, estimates the proceeds from a hypothetical future sale of the client's business interest, does the Statement apply?

85. *Conclusion.* No. The Statement does not apply because estimate of future sales proceeds does not in itself constitute a valuation engagement (SSVS paragraphs 1 and 4).

86. *Illustration 28.* A member is engaged to provide personal financial planning services to a client and, in the course of the engagement, estimates the proceeds from a hypothetical future sale of the client's business interest. As part of that engagement, the member shares general industry knowledge to assist the client in estimating the current value of the business interest. Does the Statement apply?

87. *Conclusion:*

- (a) If, in the process of determining the current value from which the member estimates future sales proceeds, the member applies valuation approaches and methods and uses professional judgment, the Statement applies to the determination of the current value (SSVS paragraph 4). However, the Statement does not apply when the member shares general industry knowledge with the client instead of applying professional judgment.

- (b) If the client or another party provides the current value, and the member does not apply valuation approaches and methods, the Statement does not apply (SSVS paragraphs 4 and 6).
- (c) If the member uses a hypothetical or assumed value as the starting point for the calculation of future sales proceeds and does not apply valuation approaches and methods, the Statement does not apply (SSVS paragraphs 1 and 4). The Statement does not apply to a general discussion with the client of valuation concepts or industry price multiples based on the member's industry knowledge, which assists the client in determining a hypothetical or assumed value (SSVS paragraphs 4 and 6).

88. *Illustration 29.* The client has asked the member to prepare a personal financial plan that includes an estimate of future proceeds from a sale of the business interest at retirement. The member estimates the future proceeds based on an estimate of the business' current value by applying a rule of thumb for the business' industry, but the member does not consider the risk factors of the subject interest or exercise other professional judgment in applying the multiple. Does the Statement apply?

89. *Conclusion.* No, the Statement does not apply because the member did not use professional judgment (SSVS paragraph 4). If the member considers specific risk factors of the business interest in applying the price multiple, the Statement applies.