Why choosing the correct valuation date is important



Business, asset or investment values are determined for various purposes, ranging from financial reporting, tax and transactions among other reasons. For a determined value to serve its intended purpose, it must reflect the appropriate position with regards to the key inputs applied in its determination. The valuation date, also known as the measurement date, is an important element in valuations as it affects the accuracy and relevance of the determined value for decision-making purposes.

The valuation date must be as close as possible to the relevant point in time for which the value is required. For financial reporting purposes, the valuation date typically coincides with the date of the financial statements. Aligning the valuation date to the financial reporting date enhances comparability of financial information, both across different periods and among different industry players thereby aiding in financial analysis.

For transactions, the valuation date needs to be as close to the transaction date as is practically possible. In mergers and acquisitions, determining fair value at a particular point in time is key in transaction pricing. When approving transactions, authorities are guided by how relevant the agreed values are, especially where the interests of minorities must be considered or protected. Regulatory authorities may request transacting parties to update their valuations to a more recent date should existing values be deemed to be outdated and not reflective of current market conditions.

In the case of a dispute between shareholders where a shareholder exits the business and sells its shares to the remaining shareholders, the valuation date is often a critical point in dispute. For example, if an entity has won a major new and lucrative contract, the seller would prefer that the valuation be determined after the award of the contract while the buyers would argue for a prior valuation date. Conversely, the announcement of new legislation or regulations which impose significant costs on the business would likely result in the seller arguing for a valuation date prior to the announcement while the buyers would push for a date after the announcement.

It is therefore important that when performing a valuation, particular attention be paid to the chosen valuation date, being guided by the purpose of the valuation and availability of key financial information (especially the balance sheet) of the business being valued otherwise the determined value may be redundant.



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