



The Future Of Business Valuation Board Meeting 1

Meeting Summary: Leonardo Royal Hotel London Tower Bridge – March 12, 2025

Attendees:

Dr Magdalena Antrobus (CEO) on behalf of Executive Board

Graham Antrobus – Board Leader

Ed Tahsin – Board Member

Tanya Craft (Board Member)

Ben Macnaghten (Board Member)

Speakers included representatives from various valuation firms, industry experts, and professionals involved in business valuation. The discussion covered multiple aspects of valuation, technology, regulatory frameworks, and market trends.

Key Discussion Points

1. Structuring the Conference Discussion

- The meeting opened with a focus on structuring discussions for an upcoming valuation conference.
- Themes proposed included valuation methodologies, AI in valuation, regulatory challenges, and market dynamics.
- A case study approach was suggested, mirroring an American conference where different valuation professionals were given the same data and asked to derive their valuations independently.
- The goal is to illustrate differences in valuation assumptions, methodologies, and the impact of AI vs. human judgment.

2. AI and Human Expertise in Valuation

- Debate centered on the role of AI in valuation, with a consensus that AI is an effective tool but lacks critical human judgment.
- AI's ability to process large volumes of data is an advantage, but it struggles with nuanced decision-making, subjective judgment, and real-world context.
- Concerns were raised about the increasing reliance on AI-generated valuations without proper oversight.
- The legal and judicial acceptance of AI-driven valuations remains a significant barrier to its widespread adoption in the profession.

3. The Future of Automated Valuation Software

- Discussion on AI-powered valuation platforms such as 73 Strings and Smart Zebra.
- Acknowledgment that while these tools can generate baseline valuations, expert oversight remains critical to account for specific business circumstances and market nuances.
- The availability of transaction databases and AI-driven data analytics is changing valuation practices, improving access to comparable data.
- However, AI cannot yet fully capture factors such as management quality, market sentiment, and non-quantifiable risks.

4. Risk-Free Rate, Equity Risk Premium, and Discount Rates

- Extensive discussion on calculating discount rates, including the use of size premiums and equity risk premiums.
- Diverging views on whether UK valuations should use the UK risk-free rate or the US rate.
- The complexity of adjusting for default risk in risk-free rates and incorporating it into the equity risk premium was debated.
- Some participants argued that while these calculations are technical, understanding investment risk holistically is more important than focusing on incremental differences in discount rate inputs.

5. Marketability, Liquidity, and Minority Interests

- Discussion on how liquidity and marketability impact valuation, particularly in private company transactions.
- The introduction of the Private Intermittent Capital Share Exchange System (PISCES) was debated as a potential liquidity solution for private equity markets.
- The potential for marketability discounts when minority stakes are sold in structured transactions was explored.

- The improving availability of transaction data may help refine marketability discount assumptions in the future.

6. Regulation in Valuation

- The regulatory framework for valuation remains inconsistent across jurisdictions, with little oversight in the UK.
- Concerns were raised about unqualified individuals presenting themselves as valuation experts, leading to inconsistencies in valuation quality.
- The group recognised the need for standardised valuation frameworks and more structured professional qualifications.

7. Strengthening Valuation Standards

- Discussion on whether the UK should introduce more structured accreditation for valuation professionals.
- Comparisons were made to the U.S., where valuation is a recognised profession with certifications like ASA and CBV.
- Participants debated whether a formalised qualification pathway would enhance credibility and professional standards.
- The potential role of the Business Valuation Institute UK (BVIUK) in strengthening valuation education and accreditation was noted.

8. The Intersection of Tax Policy and Valuation

- The impact of tax policy changes on valuation practices was examined.
- Potential changes to carried interest taxation and their effect on valuation demand were discussed.
- The group noted that tax-driven valuation work could decline if certain tax incentives are removed.
- The possibility of harmonising different valuation methodologies across tax and financial reporting was considered unlikely due to deeply embedded legal precedents.

9. Application of Marketability Discounts and Pro Rata Transactions

- The discussion covered whether minority interest discounts should apply to transactions where shares are sold pro rata.
- HMRC's preference for transaction-based valuations was noted, with potential pushback against significant marketability discounts.
- Some participants suggested that if a transaction price is used as an indicator of value, a marketability discount may not always be applicable.
- However, in cases where liquidity is restricted (e.g., limited transfer rights), applying a discount may still be justified.

10. The Role of HMRC and Professional Oversight

- The group discussed the potential for HMRC to require valuations to be conducted by qualified professionals, improving overall quality.
- The need for stronger professional oversight and accountability in tax-related valuations was emphasised.
- The UK's lack of valuation regulation compared to the US and Canada was highlighted as a challenge.

11. Next Steps and Future Meetings

- The group agreed to reconvene in approximately six weeks, with May 14, 2025, proposed as the next meeting date.
- The next discussion will further explore risk-free rates, AI's role in valuation, and regulatory developments.
- Continued engagement with regulatory bodies such as HMRC and professional organisations was encouraged to improve valuation consistency.
- A follow-up session on valuation case studies and AI vs. human decision-making was suggested.

Conclusion

The meeting provided a comprehensive discussion on valuation methodologies, AI's role in the industry, regulatory challenges, and the future of professional standards. While AI continues to evolve, human expertise remains indispensable in valuation practice. The lack of UK regulation was identified as a key concern, with calls for stronger professional oversight. The next meeting will focus on refining key discussion points and exploring solutions to improve industry practices.