

# NACVA ADVISORY BRIEF



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## The Use of Artificial Intelligence and Machine Learning

### Introduction

This brief serves as a guide for the National Association of Certified Valuers and Analysts (NACVA) constituents regarding the appropriate use of Artificial Intelligence (AI) and Machine Learning (ML) in valuation and forensic practices. This AI and ML brief utilizes a principles-based approach for integrating AI and ML technologies while firmly upholding the Professional and Ethical standards of NACVA. The brief clarifies the role of professional judgment when engaging with AI and ML technologies, ensuring Members/Credentialed Designees navigate the AI landscape with confidence and integrity.

This brief advocates for a thoughtful integration of AI and ML within the frameworks of professional valuation and/or forensic practice. It is not meant to be exhaustive but serves as a cornerstone for NACVA constituents to align emerging technologies with steadfast professional judgment and ethical standards. Members/Credentialed Designees are encouraged to use this brief as a living document, evolving their practice in step with technological advances.

### Section 1: Principles of AI and ML in Valuation Practice

Members/Credentialed Designees may leverage AI and ML technologies to augment, not replace, their expertise.

#### Example:

For instance, AI can assist in analyzing vast data sets for market trends but should not supersede the valuator's discerning analysis of how these trends affect a business's value. The decision to utilize AI and/or ML technologies must always be in harmony with the established NACVA Professional Standards, ensuring that technology serves as a tool rather than a determinant in valuation and forensic engagements.

### Section 2: Professional Judgment

Professional judgment when incorporating AI and ML into an assignment refers to the constituent's capacity to make informed decisions grounded in knowledge, experience, education, training, and skills.

#### Example:

An example of exercising professional judgment is when a valuator uses an ML model to predict cash flows but critically assesses and adjusts the predictions based on unique business factors that the model may not account for in the output. Valuers must scrutinize AI and ML outputs, weighing them against the nuances of each valuation context, which may include qualitative factors that cannot be calculated.

*NACVA's Certified Valuation Analyst® (CVA®) and Master Analyst in Financial Forensics® (MAFF®) designations are the **only** valuation and financial forensic credentials accredited by the National Commission for Certifying Agencies® (NCCA®), the accreditation body of the Institute for Credentialing Excellence™ (ICE™).*

*The CVA designation is also accredited by the ANSI National Accreditation Board® (ANAB®).*

### **Section 3: Ethical Considerations**

Analysts incorporating AI and ML into an assignment must consider NACVA Ethical standards and considerations, particularly concerning confidentiality, data integrity, and non-discrimination.

#### Example 1:

When utilizing AI for demographic analysis, the analyst must be cautious not to infringe upon privacy or inadvertently introduce biases that could skew valuation conclusions or perpetuate inequality.

#### Example 2:

Utilizing an AI tool, such as a chatbot, produces the risk that sensitive data included in the chatbot could be recorded and later accessed by unauthorized users. NACVA constituents should consider utilizing non-confidential information or ensure that the AI tool is designed to comply with such confidentiality standards, thus preventing data retention post-interaction. This safeguard maintains the integrity of client data while allowing the user to benefit from AI and ML efficiencies.

### **Section 4: Verification and Reporting**

When incorporating AI and ML technologies, it is essential to verify the AI and/or ML outputs are not misleading.

#### Example 1:

If AI technologies are used to predict the future revenue streams of a company based on historical data, the constituent needs to consider Section 2 of this AI and ML brief. Additional considerations may include:

1. Collect the similar historical data inputs used by the AI tool;
2. Apply the predictive model using standard statistical software or manually through a process such as Excel, ensuring the same variables and time frames are considered;
3. Compare the manual or software-driven forecast results with those generated by the AI tool to check for consistency; and/or
4. Compare local, national, and industry data to the results produced for a sanity check.

#### Example 2:

Constituents should consider disclosing the use of any automated data output that was utilized as part of the analytical process and ensuring that such technologies were applied in an ethical manner while applying professional judgment and proper due diligence. The primary objective is to uphold the transparency of the valuation process rather than an exhaustive disclosure of all tools and processes involved. Constituents should be mindful of any litigation reporting exemptions that may apply in an engagement.

### **Section 5: Continual Learning and Adaptation**

NACVA constituents should commit to continuous learning to stay abreast of the latest technologies and methodologies. Members/Credentialed Designees should actively participate in professional development opportunities, engage in opportunities that discuss AI innovations, and contribute to the body of knowledge on AI in valuation. By fostering a culture of continual learning, constituents will be well-equipped to discern the appropriate application of AI tools in their work.