

## SECTION 1:

# **UNDERSTANDING THE MQE (AND WHAT THE CICBV IS LOOKING FOR)**

## What is the MQE and what is it designed to test?

In order to succeed on the MQE, it is important to understand – and remember – what the exam is designed to test: **professional competency in the field of business valuation.**

The MQE is **time-constrained (4 hours)** and presents candidates with **case-based questions**. The cases are developed by the CICBV to test various competencies and topics set out in the MQE Syllabus (see Section 3). In order to be successful, candidates must be able to **demonstrate a logical and professional thought process** to the marker of the exam paper. When faced with a four-hour time constraint, an unusual case scenario and several required deliverables, it is important to always keep this purpose in mind.

### ***What is the CICBV looking for in candidates?***

- Demonstrated level of competency for each area of the MQE Competence Framework, as discussed in Section 3.
- The ability to process copious amounts of data (often 30+ pages) in a time-constrained environment (four hours): this requires the ability to separate more important case facts from less relevant ones, identify and rank issues and technical areas, organize one's thoughts relatively quickly, and develop an efficient and organized plan of attack.
- The ability to synthesize the case facts and the candidate's own analysis into a well-organized, professional response that meets the needs of the user in each case.

### ***What is the MQE not designed to test?***

- **The MQE is not a theory-based exam.** While technical proficiency and a mastery of the material in the MQE Syllabus (see Section 3) are obviously important, in our experience, MQE candidates more often encounter difficulty in the **application of technical knowledge in a time-constrained exam setting**. This means there will often be **trade-offs in deciding how to best spend time**. (We will discuss some of these trade-offs needed for good time management practices in more detail in Section 2.)
- **The MQE is not designed to reward mathematical perfection.** In preparing for the exam, candidates must remember that it is more important to demonstrate a sound understanding of the overall crux/point of what the question is asking; if this means sacrificing the perfection of certain calculations for the sake of saving time to, for example, cover all parts of the required such as concluding on a piece of advice for a client, the latter is generally more important – read, more available marks. Marks are generally awarded for identifying the key components in a calculation, not for arriving at the absolute correct figure. (Note, however, that the benchmark for quantitative analysis is likely to have increased following the introduction of computer-based testing to the MQE in 2015.)

We get into certain tips and tricks in Section 2 (Exam Writing Strategy), as well as in Section 6 (Debriefing Guides for Prior MQE's) and Section 4 (Common Pitfalls: Lessons Learned from Past Marker Feedback Comments).

## How is the exam structured?

Since 2001, the MQE has consisted of anywhere **between 2 and 5 questions which collectively total 100 marks**. A summary of the exam structure (with respect to question and mark distribution) by year is provided below:

MQE Year	Number of Questions	Mark Distribution [Q1 / Q2 / Q3 / Q4 / Q5]
2001	4	55 / 20 / 15 / 10
2002	4	55 / 10 / 15 / 20
2003	5	53 / 13 / 7 / 15 / 12
2004	3	55 / 20 / 25
2005	3	55 / 20 / 25
2006	3	50 / 25 / 25
2007	3	50 / 30 / 20
2008	3	50 / 30 / 20
2009	3	45 / 30 / 25
2010	3	50 / 30 / 20
2011	2	55 / 45
2012	2	55 / 45
2013	2	70 / 30
2014	2	60 / 40
2015	2	60 / 40
2016	3	40 / 30 / 30
2017	??	Be prepared for anything

From 2011 to 2015, the exam has consisted of only two questions. In our view, for candidates having written from 2011 to 2015, this meant:

- The same number of marks condensed into fewer questions; and
- Greater complexity of each question, often involving greater multi-step analysis and integration by writers.

However, in 2016, the MQE shifted back to a three-question format (as had been the trend during the mid-2000's). After five years of a two-question format, the 2016 MQE was a reminder for candidates to be prepared for any number of case questions.

## How is the exam marked and evaluated by the CICBV?

### ***Marks-based approach***

The MQE has historically been evaluated using a marks-based approach and scored out of 100 marks. In order to pass the exam, candidates must earn a minimum of **60 marks out of 100 marks**. And the 60 mark total reflects a final amount – i.e., after any bell-curves have been applied.

### ***Getting to 60 marks***

There is a silver lining to the MQE: **historically, there have been more than 100 marks available on prior exams**. Quite simply, the availability of more than 100 marks translates into greater opportunities to score the 60 marks needed to pass.

This silver lining, however, comes with some caveats:

- Each question is marked in sections.
- Each section has a maximum number of marks allocated to it. We refer to this as an '**internal maximum**' (described in more detail below).
- Individual steps/components within a response are often assigned 0.5 or 1.0 mark (i.e., half mark or full mark).
- Not all marks are equal in that **some marks take more time to earn than others**. This is important to remember when developing time management skills for the exam.
- '**Professional marks**' reward candidates for presenting a 'professional' response to the requested deliverables.

## Understanding the marking keys

### ***Our suggested marking keys for prior MQE's***

Section 5 includes our suggested marking keys for the 2001 to 2016 MQE exams. Remember that the **suggested marking keys are not the official marking keys that were used by the CICBV** (these are kept by the Institute under lock and key!). However, they represent our understanding of how the exam is evaluated in order to give candidates an illustration of how marks may be allocated among the different aspects and topics tested in each of the question, as discussed below. By spending the requisite time to get to understand marking keys and what earns marks, you will be able to gauge what a marker will be looking for when marking your paper in the fall, which will assist you immensely when writing your response.

### ***Sections within each question***

Each question on each MQE has a number of sections to which a certain number of marks are allocated. While these sections can vary from year to year, some examples are provided below (these examples do not reflect an exhaustive list – you will see more examples in your practice marking):

- Marks for CICBV reporting standards (when applicable in the question).
- Marks for the use of market data (i.e. comparable transactions, guideline public companies).
- Marks for selecting an appropriate valuation approach and methodology (with supporting justification/rationale).
- Marks for the application of valuation mechanics.
- Marks for making conclusions.
- Marks for the overall professionalism of a response.

### ***Internal maximums***

As discussed above, **internal maximums** mean that there is a cap on the number of marks that can be scored in any one individual section of a marking key.

- Example – reporting standards: there might be 10+ marks theoretically available for accurately completing all sections of a valuation report in accordance with the CICBV Standards, but the marking key may set an internal maximum of less than 10 marks with respect to reporting standards.
- Example – risk factors: there might be 5+ company-specific risk factors that could be listed to justify a company-specific risk premium/alpha in determining a subject company's cost of equity, but there may be an internal maximum of 1 or 2 marks for the company-specific risk factors.

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It is important to understand the concept of internal maximums so that you recognize (a) the importance of breadth in your response, and (b) that the CICBV distinguishes candidates based on value-added and less 'dumpy' responses.

We will discuss internal maximums in more detail; our suggested marking keys in Section 5 reflect hypothetical internal maximums to keep in mind when marking your practice exam papers.

***Professional marks***

Professional marks are typically awarded for exam papers which provide a 'professional' response to a given question. A 'professional' response typically encompasses the following characteristics:

- The response addresses all parts of the required (e.g., breadth).
- The response provides clear/explicit conclusion(s) with respect to all 'required' deliverables (specified or implied) in the question.
- The response is well-organized and easy to follow for the marker (i.e., it has a logical flow). It is important to note that this does not mean that you have to be overly wordy or think that you have to write an essay rather than the 'skeleton' of the first draft of a report/memorandum/etc.
- The response demonstrates an understanding of your role as it relates to the situation (for example, a CFO would respond to a question in a different way than would an independent CBV engaged by a client in a public practice setting).
- The response has a reasonable balance between quantitative and qualitative analyses.