

31 July 2019

APESB issues revised APES 225 *Valuation Services*

Accounting Professional & Ethical Standards Board Limited (APESB) today announced the issue of the revised APES 225 *Valuation Services* (APES 225) to replace the existing APES 225 (Issued March 2018).

The key changes in the revised APES 225 consist of:

- Revisions to reflect the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued in November 2018;
- Clarifying that the scope of the Standard includes estimating the value of assets or liabilities, other than the value of a business, business ownership interest, security or intangible asset, in circumstances where the Member applies Valuation Approaches, Valuation Methods and Valuation Procedures as defined in the Standard;
- Adding a requirement to consider the implications of NOCLAR provisions of the Code;
- Providing cross-references to relevant guidance in APES GN 20 *Scope and Extent of Work for Valuation Services* and APES GN 21 *Valuation Services for Financial Reporting*; and
- Updating the guidance in Appendix 1 to note that the examples do not address whether a Member should hold an Australian Financial Services License (AFSL) to provide the relevant Valuation Service as this will depend on the laws and regulations that are applicable to the specific Valuation Service.

Please refer to Appendix 1 of this technical update for details of all the revisions. The revised APES 225 will be effective for Valuation Services commencing on or after 1 January 2020 with early adoption permitted.

APESB has incorporated the following interactive PDF features within the revised APES 225:

- Bookmark tab section for contents page;
- Dynamic links to sections and paragraphs;
- Pop-up definitions upon mouse rollover for defined terms; and
- Links to external websites.

The revised standard is available from APESB's website: www.apesb.org.au

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Appendix 1

Revision to APES 225 (Issued March 2018)

Accounting Professional & Ethical Standards Board Limited (APESB) has approved the following revisions to APES 225 *Valuation Services* which was originally issued in July 2008 and revised in May 2011, December 2015 and March 2018.

Paragraph Reference	Revisions
1.2	Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 225 <i>Valuation Services (the Standard)</i> , which is effective for Valuation Engagements or Assignments <i>Services</i> commencing on or after 1 July 2018 <u>January 2020</u> and supersedes APES 225 issued in December 2015 <u>March 2018</u> . Earlier adoption of this Standard is permitted.
1.6	Members shall be familiar comply with relevant other applicable Professional Standards and <u>be familiar with relevant</u> guidance notes when providing <u>performing</u> Professional Services <u>Activities</u>. All Members shall comply with the fundamental principles outlined in the Code.
2	<u>Defined terms are shown in the body of the Standard in title case.</u> For the purpose of this Standard:
2	<i>Calculated Value</i> means an estimate of value of a business, business ownership interest, security or, <u>intangible asset, or other asset or liability</u> that results from a Calculation Engagement. A Calculated Value may either be a single amount or a range.
2	<i>Code</i> means APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> .
2	<i>Conclusion of Value</i> means an estimate of value of a business, business ownership interest, security or, <u>intangible asset, or other asset or liability</u> that results from a Valuation Engagement or a Limited Scope Valuation Engagement. A Conclusion of Value may either be a single amount or a range.
2	<i>Engagement Document</i> means the document (i.e. letter, agreement or any other appropriate means) in which the Terms of Engagement are specified in a written form <u>Writing</u> .
2	<i>Independence</i> is <u>comprises</u> : (a) Independence of mind - the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism. (b) Independence in appearance - the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a Firm's, or a member of the an Engagement team's, <u>team member's</u> integrity, objectivity or professional scepticism has been compromised.
2	<i>Member in Business</i> means a Member employed or engaged <u>working in an executive or non-executive capacity in such areas such as</u> commerce, industry, service, the public sector, education, the not-for-profit sector, <u>or</u>

Paragraph Reference	Revisions
	in regulatory bodies— <u>or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer</u> a Member contracted by such entities.
2	Member in Public Practice means a Member, irrespective of functional classification (e.g. for example, audit, tax or consulting) in a Firm that provides Professional Services. This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.
2	Premise of Value means an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation, e.g. for example, going concern or liquidation.
2	Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.
2	Valuation means the act or process of determining an estimate of value of a business, business ownership interest, security or intangible asset, <u>or other asset or liability</u> by applying Valuation Approaches, Valuation Methods and Valuation Procedures. A Valuation does not involve the verification of information in respect of the business, business ownership interest, security or intangible asset <u>or other asset or liability</u> being valued.
2	Valuation Approach(es) means a general way(s) of determining an estimate of value of a business, business ownership interest, security, or intangible asset, <u>or other asset or liability</u> using one or more Valuation Methods.
2	Valuation Method(s) means, within Valuation Approaches, a specific way(s) to determine an estimate of value of a business, business ownership interest, security or intangible asset, <u>or other asset or liability</u> .
2	Writing means a mode of representing or reproducing words in a visible <u>form and includes words in an electronic format capable of being converted to printed text.</u>
3.1	A Member providing a Valuation Service shall comply with Section 100 Introduction and Fundamental Principles Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework of the Code and relevant laws and regulations.
3.2	Members in Public Practice shall comply with Section 220 310 Conflicts of Interest and Section 280 Objectivity—All Services of the Code.
3.3	In accordance with Section 100 Introduction and Fundamental Principles <u>Complying with the Code</u> of the Code, a Member shall observe and comply with the Member's public interest obligations when providing a Valuation Service.
3.4	When <u>a Member in Public Practice is engaged to perform a Valuation Service which requires Independence or purports to be independent,</u> the Member in Public Practice shall comply with Independence as defined in this Standard.

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3.6	A Member providing a Valuation Service shall maintain professional competence and take due care in the performance of the Member's work in accordance with Section 130 <u>Subsection 113 Professional Competence and Due Care</u> of the Code.
3.7	Where a Valuation Service <u>or part thereof</u> requires the consideration of matters that are outside a Member's professional expertise, the Member shall seek expert assistance or advice from a suitably qualified third party on those matters outside of the Member's professional expertise or decline the Valuation Service. The Member shall disclose in any Valuation Report or other relevant communications the extent of the reliance upon the advice of such a third party.
3.8	When planning to use the work of a suitably qualified third party, a Member shall assess the professional competence and objectivity of the third party, the engagement terms of the third party, and on completion the appropriateness and reasonableness of the work performed.
3.10	In accordance with Section 140 Confidentiality of the Code, a A Member who acquires confidential information in the course of performing a Valuation Service for a Client or Employer shall not use that information for any purpose other than the proper performance of the Valuation Service for that Client or Employer <u>comply with Subsection 114 Confidentiality of the Code.</u>
3.11	Unless the Member has a legal, <u>regulatory or professional</u> obligation of disclosure, a Member shall not convey any information relating to a Client's or Employer's affairs to a third party without the Client's or Employer's permission.
3.12	Where a Client has given a Member in Public Practice permission to disclose confidential information to a third party, it is preferable that this permission is in w Writing. Where oral permission is obtained, a contemporaneous note should be made and kept on file by the Member recording the relevant details of the Client's approval.
3.13	Where a Member provides confidential information in accordance with a legal, <u>regulatory or professional</u> obligation of disclosure, the Member shall notify the Client, Employer or relevant third party as soon as practicable, provided that there is no legal prohibition against such notification.
4.1	A Member in Public Practice shall document and communicate to the Client in an Engagement Document the Terms of Engagement to provide the <u>a Valuation Service to a Client in an Engagement Document</u> in accordance with APES 305 <i>Terms of Engagement</i> .
4.3	A Member in Public Practice who is approached by a potential Client to undertake a Valuation Service shall comply with the requirements of Section 240 <u>320 Professional Appointments</u> of the Code.
4.6	<u>Members are referred to APES GN 20 Scope and Extent of Work for Valuation Services for guidance in determining the scope and extent of work that may be appropriate for the type of Valuation Service being provided.</u>

Paragraph Reference	Revisions
4.67	<p>Subject to the Terms of Engagement and paragraph 3.11, a Member in Public Practice who has relied on information provided by the Client, its management, or a third party, should consider requesting a written representation <u>in Writing</u> from the relevant party that:</p> <ul style="list-style-type: none"> (a) the relevant party has reviewed the draft Valuation Report or extract thereof; (b) the facts upon which the draft Valuation Report or extract thereof is based are correct and no material, relevant facts have been omitted; (c) the historical financial information upon which the draft Valuation Report or extract thereof is based is complete, accurate, and reliable; (d) the assumptions upon which the draft Valuation Report or extract thereof is based are reasonable; and (e) there are no other matters, in the opinion of the Client, its management or a third party, which should be brought to the Member's attention.
4.78	<p><i>[Paragraph 4.7 of the extant Standard remains unchanged but renumbered as paragraph 4.8].</i></p>
4.9	<p><u>Where a Member becomes aware of instances of non-compliance with laws and regulations when performing a Valuation Service, the Member shall comply with Section 260 Responding to Non-Compliance with Laws and Regulations (for Members in Business) or Section 360 Responding to Non-Compliance with Laws and Regulations (for Members in Public Practice) of the Code.</u></p>
5.1	<p>Generally when a Member in Public Practice provides a Valuation Service, the Member should prepare a written Valuation Report. However, this Standard recognises that a Member may issue a Valuation Report orally where instructed to do so by the Member's Client or where there are circumstances that would justify issuing a Valuation Report orally rather than in w<u>W</u>riting.</p>
5.2	<p><u>Where a Member in Public Practice prepares a written Valuation Report in Writing in respect of a Valuation Service, the Valuation Report shall clearly communicate:</u></p> <ul style="list-style-type: none"> (a) The name of the party engaging the Member; (b) A description of the business, business ownership interest, security or, <u>intangible asset, or other asset or liability</u> being valued; (c) The date at which the value has been determined; (d) The date on which the Valuation Report has been issued; (e) The purpose for which the Valuation Report has been prepared; (f) The name and qualifications of the Member(s) responsible for the Valuation; (g) The scope of the Valuation, including any limitations or restrictions; (h) The standard of value used in the Valuation and its definition; (i) The Premise of Value adopted in the Valuation (e.g. for example, <u>going concern premise or liquidation premise</u>); (j) Whether the Valuation was undertaken by the Member acting

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	<p>independently or not;</p> <p>(k) The Valuation Approach(es), Valuation Method(s) and Valuation Procedures adopted in determining the estimate of value and a description of how they were applied;</p> <p>(l) The specific information on which the Member has relied and the extent to which it has been reviewed (e.g. <u>for example</u>, the documents reviewed, the individuals interviewed, the facilities visited, the reports of other experts relied upon, and management representations);</p> <p>(m) A description of the material assumptions applied in the Valuation and the basis for those assumptions;</p> <p>(n) A Conclusion of Value for a Valuation Engagement or a Limited Scope Valuation Engagement, or a Calculated Value for a Calculation Engagement;</p> <p>(o) All qualifications that materially affect the Conclusion of Value or Calculated Value;</p> <p>(p) For a Limited Scope Valuation Engagement, that if a Valuation Engagement had been performed the results may have been different;</p> <p>(q) For a Calculation Engagement, that if a Valuation Engagement had been performed the results may have been different;</p> <p>(r) Where a Member has prepared a Valuation Report requiring Independence or purporting to be independent, that the compensation to be paid to the Member is not contingent on the conclusion, content or future use of the Valuation Report; and</p> <p>(s) That the Valuation Service was conducted in accordance with this Standard.</p>
5.5	A Member in Business who undertakes a Valuation Service should prepare a Valuation Report taking into consideration the requirements and guidance of paragraphs 5.1 to 5.4 of this Standard, as appropriate, and to the extent practicable.
<u>5.6</u>	<u>Members are referred to APES GN 21 Valuation Services for Financial Reporting for guidance on matters to be disclosed in a Valuation Report when providing a Valuation Service for Financial Reporting.</u>
7.2	Members are encouraged to use, as far as practicable, terms that are in general use for Valuation Services. Members are referred to the <i>International Glossary of Business Valuation Terms</i> which are included in the valuation standards of the American Institute of Certified Public Accountants and the Canadian Institute of Chartered Business Valuators.
8.1	A Member in Public Practice providing Valuation Services shall be remunerated for such Professional Services by way of professional fees computed in accordance with Section 240 330 Fees and Other Types of Remuneration of the Code.
Appendix 1	Schematic and Examples - amended
Appendix 2	Summary of revisions to the previous APES 225 (Issued in March 2018) - amended