

**From:** Brendan Halligan  
**Sent:** Tuesday, 5 March 2019 1:20 PM  
**To:** Channa Wijesinghe  
**Subject:** Re: ED 01/19 and APES 225 - Definition of Valuation

Dear Channa,

In drafting APES 225, we had regard (among other things) to the AICPA's "Statement on Standards for Valuation Services 1" (SSVS 1) which is entitled "Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset". This led to the definition of "Valuation" in APES 225 meaning "the act or process of determining an estimate of value of a business, business ownership interest, security or intangible asset by applying Valuation Approaches, Valuation Methods and Valuation Procedures..." We thought then, and I still think now, that there is some benefit in being aligned, at least generally, with the AICPA. That does not mean, of course, that we shouldn't amend our standard when appropriate, but I think we should be careful about extending its scope and have good reasons for doing so.

### **1. Non-current receivable**

While the enquiry is about a non-current receivable, the fact that the receivable is non-current rather than current is not relevant. Accordingly, I refer only to a receivable.

It seems to me there are two questions (1) Does the valuation of a receivable fall within the scope of APES 225, and (2) Given the response to (1), should the scope of APES 225 be amended? I respond to each of these questions below.

#### **(1) Does the valuation of a receivable fall within the scope of APES 225?**

I think the answer to (1) turns on the meaning of "intangible asset" in APES 225. While APES 225 refers to an intangible asset it does not define the term. There are at least two ways in which the term "intangible asset" might be defined.

One is the ordinary language sense of it being an asset that cannot be touched and has no physical presence. Based on this, a receivable *would be* an intangible asset.

The other is the accounting standards definition (as per the attached AASB glossary) of an intangible asset as an identifiable non-monetary asset without physical substance, where a non-monetary asset in turn is defined as money held and assets to be received in fixed or determinable amounts of money. (In effect, the AASB divides assets that are intangible into two classes, one of which it calls monetary assets and the other, which is the remainder, it calls intangible assets.) Based on this, a receivable *would not be* an intangible asset but would be a monetary asset.

Although none come to mind, there may be other definitions of an intangible asset that are relevant in specific contexts other than accounting (e.g. tax, stamp duty, other legislation, general law, contractual matters). It is important to note that APES 225 applies regardless of the purpose for which a valuation is performed, so it applies to accounting, tax, family law, general law, contractual, management, transactional, purposes as well as any other purposes.

**(2) Given the response to (1), should the scope of APES 225 be amended?**

I think APES 225 does capture a receivable because it is an intangible asset within the ordinary language sense. But it is true that many members will have in mind the accounting definition in reading APES 225 and would view a receivable as not being an intangible asset. This could cause confusion. The potential solutions appear to me to be the following.

First, amend APES 225 to say that an intangible asset is an asset without physical substance. This would accord with the ordinary language sense and would capture both intangible assets and monetary assets under accounting standards (and it could even say this for the avoidance of doubt). This is my preferred option.

Second, amend APES 225 to say that an intangible asset is as defined in the accounting standards and also include a new definition of a monetary asset that says that a monetary asset is as defined in the accounting standards. I think it would be unfortunate to insert a new definition. It also would raise the question of whether business, business ownership interest, and security ought to be defined in terms of the accounting standards. I think this all starts to get complicated and to raise questions about whether the accounting standards

definitions are the most appropriate given the varied purposes for which a valuation might be performed.

## **2. Interest in plantations**

The question is whether an interest in plantations falls within the scope of APES 225.

If the interest is an interest in a business of running plantations then it does fall within APES 225 as a business ownership interest (or as a security if the ownership of the business is held by an incorporated entity). This is most likely to be the case.

If, on the other hand, the interest is not in a business but in the land itself then it is an interest in a tangible asset that falls outside APES 225, and under the laws of most states the valuation can only be undertaken by a licensed land valuer. (It should be noted that land valuers often incorrectly value what they call specialised assets (e.g. hotels, car parks) by valuing the business that could be run using the land. The result is a combined valuation of the land and potential business. I suspect the plantations would be valued in the same, incorrect, way.)

## **3. Tangible assets**

It is my strong view that APES 225 should not be extended to include tangible assets. Such assets mainly include land and plant & equipment. It would be highly unusual to see a member value a tangible asset. The skill set needed to value them is quite different from that of an accountant valuing shares, businesses, and intangible assets and the valuers are usually members of different professional organisations such as API or RICS. Furthermore, it would introduce a range of other considerations (e.g. the API requires its members to physically view plant and equipment before valuing it).

Yours sincerely,  
Halligan & Co

*Brendan*

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**From:** Brendan Halligan  
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Dear Channa,

I should add in respect of my comments on tangible assets, that there is a risk that the inclusion of tangible assets in the scope of APES 225 would be seen by members as a de facto authorisation to start to value tangible assets. The problem with this would be that the usual training of an accountant does not equip them to value tangible assets.

Yours sincerely,  
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*Brendan*

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