



Annual Review of APES 225 *Valuation Services*

Prepared by APESB Technical Staff

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Background

Accounting Professional and Ethical Standards Board (APESB) originally issued APES 225 *Valuation Services* (APES 225) in July 2008 and revised the standard in May 2012 and December 2015.

The December 2015 revised APES 225 became effective for Valuation Engagements or Assignments on or after 1 April 2016.

Reason for this report

In accordance with APESB's Constitution, an annual review needs to be performed on standards to identify any issues reported by stakeholders.

The following procedures were performed as part of the annual review:

- Consulted with the Professional Bodies and subject matter experts to identify whether Members or other stakeholders have raised any issues in respect of APES 225;
- Reviewed the APESB Issues Register to identify whether stakeholders have reported any matters in relation to APES 225; and
- Performed an internal technical review of APES 225 including considering the technological neutrality of the Standard.

This report presents an analysis of the issues identified from these procedures and proposed recommendations to resolve these issues.

Issues identified

1. *Standard of Value in a Valuation Report*

Issue

Stakeholders have raised concerns that APES 225 paragraph 5.2 does not include the Standard of Value as a matter required to be communicated in a Valuation Report.

Standard of Value is defined as the identification of the type of value being utilised in a specific Engagement; for example, fair market value, fair value, or investment value.¹

Analysis of Issue

Paragraph 5.2 enumerates the key matters that Members in Public Practice are required to communicate in a Valuation Report, and Standard of Value is not included in the list.

Technical Staff agree that the Standard of Value used in a Valuation Service is an important matter that should be communicated in a Valuation Report.

¹ See the *International Glossary of Business Valuation Terms* included in the valuation standards of the American Institute of Certified Public Accountants and the Canadian Institute of Chartered Business Valuators.

Impacted Stakeholders

Members in Public Practice.

Recommendation

It is recommended that paragraph 5.2 be revised as follows:

Where a Member in Public Practice prepares a written Valuation Report in respect of a Valuation Service, the Valuation Report shall clearly communicate:

...

(h) The standard of value used in the Valuation and its definition;

...

2. Subject Asset of Valuation

Issue

A Stakeholder has suggested that APES 225 paragraph 5.2 should require the inclusion of Subject Asset in a Valuation Report to help align it with the International Valuation Standards and assist in clearly communicating the Valuation of intangible assets. The stakeholder added that APES 225 would be strengthened by requiring the communication of the extent of investigation undertaken to characterise and define the Subject Asset of the Valuation.

Analysis of Issue

Subject Asset is defined in the International Valuation Standards as ‘*asset, group of assets, liability, group of liabilities, or group of assets and liabilities*’ being valued including property and equipment. This is broader than the scope of Valuation Services referred to in APES 225. Valuation of property and equipment is typically not performed by Members of the professional accounting bodies as it is not normally within the Members’ professional expertise. This is also noted in APES 225 paragraph 4.4 which refers to Members engaging qualified third parties to perform Valuations of property and equipment, to assist in the provision of Valuation Services.

Technical Staff also note that APES 225 paragraph 5.2 already requires the communication of a ‘description of the intangible asset being valued’. Paragraph 5.2 specifically requires the communication of Valuation Methods and Procedures undertaken to determine the value of the intangible asset being valued, and a description of how they were applied.

In view of the above, Technical Staff do not believe that APES 225 needs to include Subject Asset as paragraph 5.2 (b) mandates that a Member in Public Practice must provide a description of the asset being valued.

Impacted Stakeholders

Members in Public Practice.

Recommendation

It is not recommended that APES 225 be amended for this matter.

3. *Example of Valuation of intellectual property in Appendix 1*

Issue

A stakeholder has suggested the addition of an example in Appendix 1 which deals with the Valuation of an intellectual property that is used internationally with rights dependent on statutory protection. In the facts and circumstances outlined by the stakeholder, expert legal advice was not obtained to evaluate the strength of the underlying legal rights.

Analysis of Issue

In the circumstance outlined by the stakeholder, where expert legal advice was not obtained either by the Client or Member in Public Practice, Technical Staff believe this would result in the Valuation Engagement being a Limited Scope Valuation Engagement. Appendix 1 of APES 225 already contains examples on determining Limited Scope Valuation Engagements. However, there is no example that deals with a Valuation of intellectual property.

Technical Staff agree that an example referring to intellectual property would be a useful inclusion to APES 225.

Impacted Stakeholders

Members in Public Practice.

Recommendation

It is recommended that APES 225 include the following example in Appendix 1:

[Example XX Limited scope Valuation for intellectual property rights](#)

[Facts: A Member in Public Practice is engaged to perform a Valuation of the intellectual property of the Client, which the Client uses internationally. The Client's rights on the intellectual property depend on statutory protection. The Client has informed the Member that they have not obtained expert legal advice to determine the strength of their legal rights over the intellectual property in each jurisdiction and there is some uncertainty in respect of the rights asserted by the Client. The Client has instructed the Member not to obtain expert legal advice in respect of the Client's rights over the intellectual property.](#)

[Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation. However, the scope of the work is limited or restricted by the Client's decision not to obtain expert legal advice in respect of the legal rights over the intellectual property. Accordingly, this is a Limited Scope Valuation Engagement.](#)

Update from 29 November 2017 Board Meeting

Since preparing the initial Annual Review paper, Technical Staff views on the case study have evolved based on further information provided by stakeholders. Technical Staff are of the view that the case study should illustrate the proper disclosure of a material assumption rather than a scope limitation of the Valuation Service provided by the Member.

At the November 2017 Board Meeting Technical Staff provided the Board with the following alternate version of the example for the Board's consideration:

Example XX Valuation of intellectual property for a Client

Facts: A Member in Public Practice is engaged to perform a Valuation of the intellectual property of a Client, which the Client uses internationally. There is no restriction or limitation placed on the Member in terms of choosing the appropriate Valuation Approaches, Valuation Methods, and Valuation Procedures to perform the Valuation. The Member considers that the extent to which the intellectual property is protected by law in the countries in which it is used is material to the Valuation. The Client has informed the Member that it has not obtained legal advice to determine the strength of its legal rights over the intellectual property in each jurisdiction. The Client has instructed the Member to assume that the Client has legally enforceable rights in each jurisdiction.

Analysis: This is a Valuation Service. The Member in Public Practice has been engaged to perform a Valuation and to provide a Valuation Report. The Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures the Member deems appropriate. Accordingly, this is a Valuation Engagement. However, the Valuation Report must disclose the material assumption the Member is instructed to make regarding the status of the legal rights over the intellectual property.

The Board considered the updated proposed example on valuation of intellectual property and agreed to include this version in an Exposure Draft on the proposed revised APES 225.

4. Use of online or automated Valuation tools

Issue

A stakeholder has noted the increasing use of online or automated Valuation tools and has queried whether there is a need to address their implications to APES 225 in respect of the types of Valuation Engagement.

Analysis of Issue

The use of online and automated valuation tools would be considered as part of the Valuation Approaches, Methods and Procedures used in a Valuation Engagement.

APES 225 specifies the professional and ethical requirements for Members in Public Practice who provide Valuation Services. The Standard assists Members in making judgements about the type of Valuation Engagement they may undertake, and how this impacts the Valuation Report that is issued. However, the Standard is not prescriptive on the types of tools that Members may use to conduct the Valuation Engagement.

As the determination of the type of Valuation Engagement is not influenced by the Valuation Approaches or Methods used Technical Staff do not believe that a revision to APES 225 is needed in this regard.

Recommendation

It is not recommended that revisions be made to APES 225 in relation to this matter.

5. Reference to the International Valuation Standards

Issue

A stakeholder has suggested that APES 225 make reference to the requirements of the International Valuation Standards (IVS).

Analysis of Issue

Technical Staff note that the IVS have a wider scope than APES 225 as its requirements apply to other types of Valuation Services not covered by APES 225 (e.g. property, plant and equipment). The IVS also include requirements in relation to valuation methodology and approaches which are currently outside the scope of APES 225.

Due to the reasons noted above, Technical Staff are not supportive of references to IVS standards being included in APES 225 at this stage.

Recommendation

It is not recommended that amendments be made to APES 225 in relation to this matter.