

# APES 225 Valuation Services

[Supersedes APES 225 Valuation Services issued in March 2018]

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## 1. Scope and application

- 1.1 The objective of APES 225 *Valuation Services* is to specify a **Member's** professional and ethical obligations in respect of:
- the provision of a **Valuation Service** to a **Client** or **Employer**;
  - the types of **Engagement** or **Assignment** that are a **Valuation Service**;
  - matters a **Member in Public Practice** must address in the **Terms of Engagement**;
  - matters to be disclosed in a **Valuation Report**; and
  - quality control and documentation requirements.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 225 *Valuation Services* (**the Standard**), which is effective for **Valuation Engagements** or **Assignments** commencing on or after 1 January 2020 and supersedes APES 225 issued in March 2018. Earlier adoption of this Standard is permitted.
- 1.3 APES 225 sets the standards for **Members** in the provision of quality and ethical **Valuation Services**. The mandatory requirements of this Standard are in **bold-type**, preceded or followed by discussion or explanations in normal type. APES 225 should be read in conjunction with other professional duties of **Members**, and any legal obligations that may apply.
- 1.4 **Members in Australia shall follow the mandatory requirements of APES 225 when they provide Valuation Services.**
- 1.5 **Members outside of Australia shall follow the mandatory requirements of APES 225 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.6 **Members shall comply with other applicable Professional Standards and be familiar with relevant guidance notes when performing Professional Activities. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.7 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.8 All references to **Professional Standards**, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.9 In applying the requirements outlined in APES 225, **Members** should be guided not merely by the words but also by the spirit of the Standard and the **Code**.
- 1.10 In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

## 2. Definitions

Defined terms are shown in the body of the Standard in title case.

For the purpose of this Standard:

**Assignment** means an instruction, whether written or otherwise, by an **Employer** to a **Member in Business** relating to the provision of **Professional Activities** by a **Member in Business**. However, consultations with the **Employer** prior to such instruction are not part of an Assignment.

**Calculated Value** means an estimate of value of a business, business ownership interest, security, ~~tangible asset or~~ intangible asset, or other asset or liability <sup>SC1</sup> that results from a **Calculation Engagement**. A Calculated Value may either be a single amount or a range.

**Calculation Engagement** means an **Engagement** or **Assignment** to perform a **Valuation** and provide a **Valuation Report** where the **Member** and the **Client** or **Employer** agree on the **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures** the **Member** will employ. A Calculation Engagement generally does not include all of the **Valuation Procedures** required for a **Valuation Engagement** or a **Limited Scope Valuation Engagement**.

**Client** means an individual, firm, entity or organisation to whom or to which **Professional Activities** are provided by a **Member in Public Practice** in respect of **Engagements** of either a recurring or demand nature.

**Code** means APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

**Conclusion of Value** means an estimate of value of a business, business ownership interest, security, ~~tangible asset or~~ intangible asset, or other asset or liability <sup>SC1</sup> 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.

**Contingent Fee** means a fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the **Firm**. A fee that is established by a court or other public authority is not a Contingent Fee.

**Employer** means an entity or person that employs, engages or contracts a **Member in Business**.

**Engagement** means an agreement, whether written or otherwise, between a **Member in Public Practice** and a **Client** relating to the provision of **Professional Services** by a **Member in Public Practice**. However, consultations with a prospective **Client** prior to such agreement are not part of an **Engagement**.

**Engagement Document** means the document (i.e. letter, agreement or any other appropriate means) in which the **Terms of Engagement** are specified in Writing.

**Firm** means:

- (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) An entity that controls such parties, through ownership, management or other means;
- (c) An entity controlled by such parties, through ownership, management or other means; or
- (d) An Auditor-General's office or department.

**Independence** comprises:

- (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 that a **Firm's**, or an **Engagement** team member's integrity, objectivity or professional scepticism has been compromised.

**Limited Scope Valuation Engagement** means an **Engagement** or **Assignment** to perform a **Valuation** and provide a **Valuation Report** where the scope of work is limited or restricted. The scope of work is limited or restricted where the **Member** is not free, as the **Member** would be but for the limitation or restriction, to employ the **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures** that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the **Engagement** or **Assignment** available to the **Member** at that time, and it is

reasonable to expect that the effect of the limitation or restriction on the estimate of value is material. A limitation or restriction may be imposed by the **Client** or **Employer** or it may arise from other sources or circumstances. A limitation or restriction may be present and known at the outset of the **Engagement** or **Assignment** or may arise or become known during the course of a **Valuation Engagement**. A Limited Scope Valuation Engagement may also be referred to as a “restricted-scope valuation engagement” or an “indicative valuation engagement”.

**Member** means a member of a **Professional Body** that has adopted this Standard as applicable to their membership, as defined by that **Professional Body**.

**Member in Business** means a **Member** working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.

**Member in Public Practice** means a **Member**, irrespective of functional classification (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**.

**Premise of Value** means an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation, for example, going concern or liquidation.

**Professional Activity** means an activity requiring accountancy or related skills undertaken by a **Member**, including accounting, auditing, tax, management consulting, and financial management.

**Professional Bodies** means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

**Professional Services** means **Professional Activities** performed for **Clients**.

**Professional Standards** means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable **Professional Body**.

**Terms of Engagement** means the terms and conditions that are agreed between the **Client** and the **Member in Public Practice** for the **Engagement**.

**Valuation** means the act or process of determining an estimate of value of a business, business ownership interest, security, ~~tangible asset or~~ intangible asset, or other asset or liability <sup>SC1</sup> 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 being valued.

**Valuation Approach(es)** means a general way(s) of determining an estimate of value of a business, business ownership interest, security, ~~tangible asset or~~ intangible asset, or other asset or liability <sup>SC1</sup> using one or more **Valuation Methods**.

**Valuation Engagement** means an **Engagement** or **Assignment** to perform a **Valuation** and provide a **Valuation Report** where the **Member** is free to employ the **Valuation Approaches**, **Valuation Methods**, and **Valuation Procedures** that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the **Engagement** or **Assignment** available to the **Member** at that time. Where a **Member** has entered into a Valuation Engagement but during the course of performing the Valuation Engagement the **Member** becomes aware of a limitation or restriction that, if it had been known at the time the **Engagement** or **Assignment** was entered into, would have made the **Engagement** or **Assignment** a **Limited Scope Valuation Engagement** then the Valuation Engagement will become a **Limited Scope Valuation Engagement**.

**Valuation Method(s)** means, within **Valuation Approaches**, a specific way(s) to determine an estimate of value of a business, business ownership interest, security, ~~tangible asset or~~ intangible asset, or other asset or liability <sup>SC1</sup>.

**Valuation Procedures** means the act, manner and technique of performing the steps of a **Valuation Method**.

**Valuation Report** means any written or oral communication by the **Member** containing a **Conclusion of Value** or a **Calculated Value**.

**Valuation Service** means a service provided by a **Member** to a **Client** or **Employer** in performance of a **Valuation Engagement**, **Limited Scope Valuation Engagement** or a **Calculation Engagement**.

**Writing** means a mode of representing or reproducing words in a visible form, and includes words in an electronic format capable of being converted to printed text.

### 3. Fundamental responsibilities of Members

3.1 A **Member** providing a **Valuation Service** shall comply with 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 310 *Conflicts of Interest* and **Subsection 112 Objectivity** of the **Code**.

#### Public interest

3.3 In accordance with Section 100 *Complying with the Code* of the **Code**, a **Member** shall observe and comply with the **Member's** public interest obligations when providing a **Valuation Service**.

#### Professional Independence

3.4 When a **Member in Public Practice** is engaged to perform a **Valuation Service** which requires **Independence** or purports to be independent, the **Member** shall comply with **Independence** as defined in this Standard.

3.5 A **Member in Public Practice** shall not act as an advocate in respect of a **Valuation Service** which requires **Independence** or purports to be independent.

#### Professional competence and due care

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 Subsection 113 *Professional Competence and Due Care* of the **Code**.

3.7 Where a **Valuation Service** or part thereof 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.

3.9 In undertaking a **Valuation Service**, a **Member** should consider the contents of any guidance in respect of **Valuation** matters issued by the **Professional Bodies** and appropriate regulatory authorities.

## Confidentiality

- 3.10 A **Member** who acquires confidential information in the course of performing a **Valuation Service** for a **Client** or **Employer** shall comply with Subsection 114 *Confidentiality* of the **Code**.
- 3.11 Unless the **Member** has a legal, regulatory or professional 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 **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, regulatory or professional 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. Professional Engagement and other matters

- 4.1 A **Member in Public Practice** shall document and communicate the **Terms of Engagement** to provide a **Valuation Service** to a **Client** in an **Engagement Document** in accordance with APES 305 *Terms of Engagement*.
- 4.2 A **Member in Public Practice** shall include the following in the **Engagement Document**:
- (a) a statement as to which type of **Engagement** the **Member** has been engaged to perform (if that has been determined at the date of the **Engagement Document**);
  - (b) the definitions of a **Valuation Engagement**, a **Limited Scope Valuation Engagement** and a **Calculation Engagement**;
  - (c) for a **Valuation Engagement**, a statement that if the **Member** becomes aware during the course of performing the **Valuation** of a limitation or restriction that could have a material impact on the estimate of value, then the **Engagement** will become a **Limited Scope Valuation Engagement**;
  - (d) for a **Calculation Engagement**, a statement as to which **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures** the **Member** has been engaged to perform;
  - (e) for a **Valuation Service** which requires **Independence** or purports to be independent, a statement confirming the **Member's Independence** and the **Member's** compliance with the **Independence** requirements of this Standard; and
  - (f) a statement that the **Valuation Service** will be conducted in accordance with this Standard.
- 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 320 *Professional Appointments* of the **Code**.
- 4.4 A **Member in Public Practice** who has engaged the services of a third party in connection with the performance of a **Valuation Service**, such as a valuer of property, plant and equipment, shall not disclose the opinion or the name of that third party without the prior consent of that party unless the **Member** has a legal obligation of disclosure.

- 4.5 A **Member** shall gather sufficient and appropriate evidence by such means as inspection, inquiry, computation and analysis to provide reasonable grounds that the **Valuation Report** and the conclusions therein are properly supported. When determining the extent and quality of evidence necessary the **Member** shall exercise professional judgement, considering the nature of the **Valuation**, the type of **Valuation Service** and the use to which the **Valuation Report** will be put.
- 4.6 **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.
- 4.7 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 representation in **Writing** from the relevant party that:
- (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.
- 4.8 Where a **Member** relies on a representation made by a relevant party, the **Member** is making an assumption that the matter represented is true, unless the **Member** has independently gathered sufficient and appropriate evidence to provide reasonable grounds that the matter represented is supported.
- 4.9 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**.

## 5. Reporting

- 5.1 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 **Writing**.
- 5.2 Where a **Member in Public Practice** prepares a **Valuation Report in Writing** in respect of a **Valuation Service**, the **Valuation Report** shall clearly communicate:
- (a) The name of the party engaging the **Member**;
  - (b) A description of the business, business ownership interest, security, ~~tangible asset~~ **or intangible asset, or other asset or liability** <sup>SC1</sup> 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** (for example, going concern premise or liquidation premise);
- (j) Whether the **Valuation** was undertaken by the **Member** acting independently or not;
- (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;
- (l) The specific information on which the **Member** has relied and the extent to which it has been reviewed (for example, the documents reviewed, the individuals interviewed, the facilities visited, the reports of other experts relied upon, and management representations);
- (m) A description of the material assumptions applied in the **Valuation** and the basis for those assumptions;
- (n) A **Conclusion of Value** for a **Valuation Engagement** or a **Limited Scope Valuation Engagement**, or a **Calculated Value** for a **Calculation Engagement**;
- (o) All qualifications that materially affect the **Conclusion of Value** or **Calculated Value**;
- (p) For a **Limited Scope Valuation Engagement**, that if a **Valuation Engagement** had been performed the results may have been different;
- (q) For a **Calculation Engagement**, that if a **Valuation Engagement** had been performed the results may have been different;
- (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
- (s) That the **Valuation Service** was conducted in accordance with this Standard.

5.3 Where a **Member in Public Practice** communicates the **Valuation Report** orally, the **Member** shall communicate the elements noted in paragraph 5.2, as appropriate in the circumstances, and document the oral communication, the reasons for issuing an oral report and the work performed in accordance with this Standard and the **Firm's** policies and procedures established under *Documentation of the system of quality control of APES 320 Quality Control for Firms*.

5.4 In addition to the minimum requirements of a **Valuation Report** set out in paragraph 5.2, the **Member in Public Practice** shall consider including the following information in a **Valuation Report**, as appropriate:

- (a) A description of other **Valuation Approaches** or **Valuation Methods** considered and the reasons why they were not considered relevant for the **Valuation**;
- (b) Sufficient details of the **Valuation** calculations to allow a reader to understand how the **Member** determined the **Conclusion of Value** or **Calculated Value**;
- (c) A summary of relevant financial information; and
- (d) A summary of the relevant industry.

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.

5.6 **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**.

## 6. Documentation

- 6.1 A **Member** performing a **Valuation Service** shall prepare working papers that appropriately document the work performed, including the basis on which, and the method by which, any calculations, determinations or estimates used in the provision of the **Valuation Service** have been made.

## 7. Use of a glossary of business valuation terms

- 7.1 When issuing a **Valuation Report**, a **Member** shall clearly define the **Valuation** terms used.
- 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 *International Glossary of Business Valuation Terms* which are included in the valuation standards of the American Institute of Certified Public Accountants and the Canadian Institute of Chartered Business Valuators.

## 8. Professional fees

- 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 330 *Fees and Other Types of Remuneration of the Code*.
- 8.2 A **Member in Public Practice** shall not enter into a **Contingent Fee** arrangement or receive a **Contingent Fee** for a **Valuation Service** which requires **Independence** or purports to be independent.

### ***Conformity with International Pronouncements***

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 225.

## Appendix 1

### Schematic and Examples

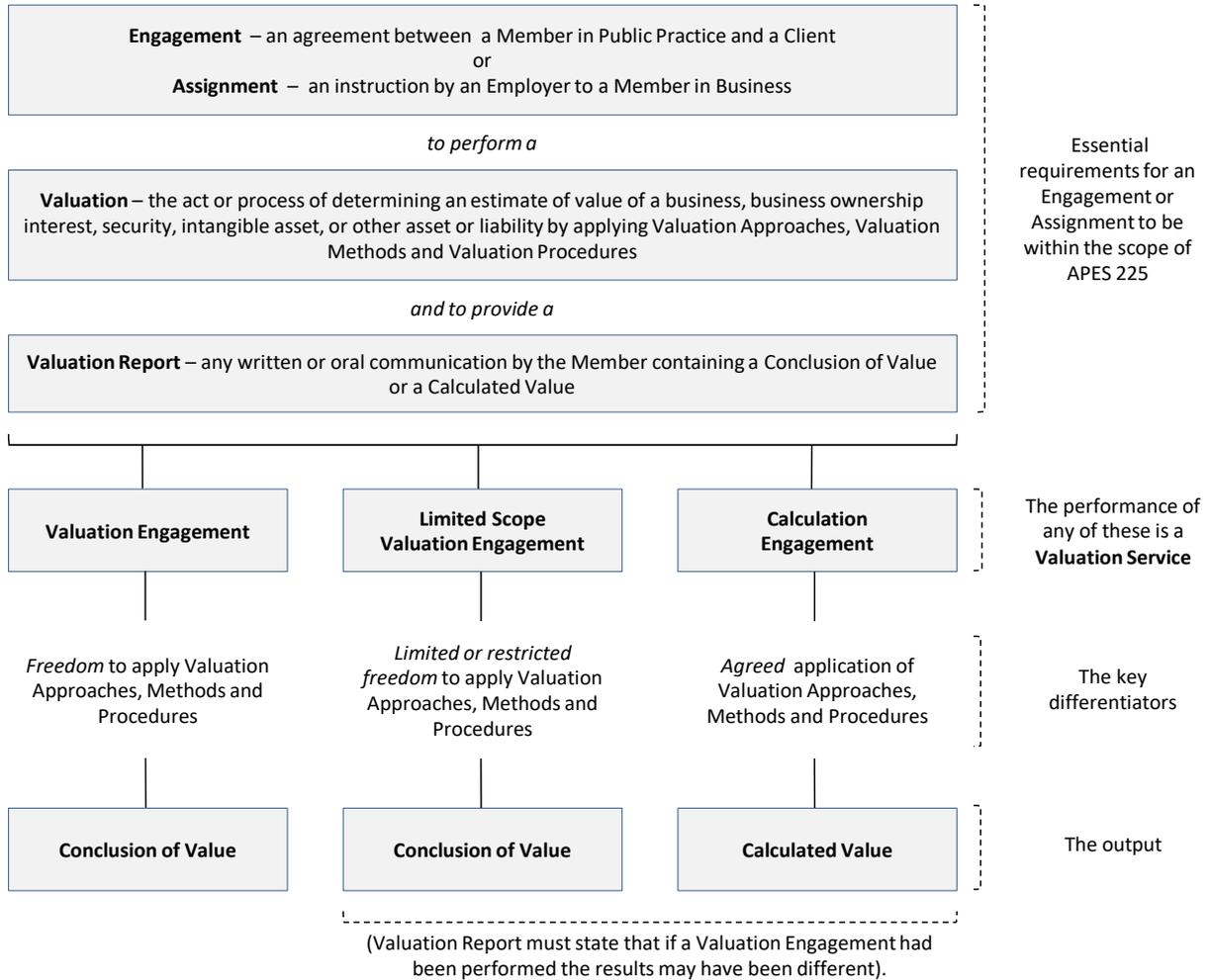
*This Appendix contains a schematic and some examples to assist or determine whether a particular service is a **Valuation Service** for the purposes of APES 225 and, if so, whether the **Engagement** or **Assignment** is a **Valuation Engagement**, **Limited Scope Valuation Engagement**, or **Calculation Engagement**.*

***Members** are cautioned that the determination of whether a particular service is a **Valuation Service** under this Standard is a matter to be judged based on the particular facts and circumstances. The examples contained in this Appendix are provided for illustrative purposes only and are not intended to be, and cannot be, all inclusive. The examples are not a substitute for reading the full text of APES 225 and applying the Standard to the particular circumstances to determine whether the **Member** is providing a **Valuation Service**. In all of the examples presented below it is assumed that there are no unmentioned facts which would be relevant to the consideration as to whether the service provided is a **Valuation Service**.*

***Members** should also consider whether they need to hold an Australian Financial Services License (AFSL) to be able to perform the relevant **Valuation Service**. This is a matter for the **Member** to determine in accordance with applicable laws and regulations. The examples in this Appendix do not address this matter as the focus is on determining the type of **Valuation Services** in accordance with this Standard.*

### Schematic

The following schematic provides an overview of what constitutes a **Valuation Service** and what differentiates the three types of **Engagement** or **Assignment**.



## Examples

No.	Title	Conclusion
1	Valuation of equity for capital gains tax	Valuation Engagement
2	Valuation of equity where industry not analysed	Limited Scope Valuation Engagement
3	Valuation Engagement becomes Limited Scope Valuation Engagement	Limited Scope Valuation Engagement
4	Valuation of equity for capital gains tax where Valuation date is eight years ago and information lost	Limited Scope Valuation Engagement
5	Valuation of equity for capital gains tax where records are sparse	Valuation Engagement
6	Valuation of equity for capital gains tax with limited time	Limited Scope Valuation Engagement
7	Valuation of shareholding for capital gains tax with assumption on the value of all equity	Limited Scope Valuation Engagement
8	Valuation of shareholding for capital gains tax with assumptions on the value of all equity and percentage discounts for the lack of control and marketability	Calculation Engagement
9	Valuation of Employer's intangible assets for tax consolidation	Valuation Engagement
10	Valuation of intellectual property for a Client	Valuation Engagement
11	Limited scope Valuation for mergers and acquisitions advice	Limited Scope Valuation Engagement
12	Estimate of price for advice on sale of a company	Not a Valuation Service
13	Limited scope Valuation of Employer's business for potential sale	Limited Scope Valuation Engagement
14	Limited scope Valuation for estate planning advice	Limited Scope Valuation Engagement
15	Valuation assumptions for estate planning advice	Not a Valuation Service
16	Independent expert report for takeover offer	Valuation Engagement
17	Independent expert report for scheme of arrangement	Valuation Engagement
18	Independent expert report for the compulsory acquisition of securities	Valuation Engagement
19	Audit procedures on Valuation assertions	Not a Valuation Service
20	Audit procedures on Client's Valuations	Not a Valuation Service
21	Limited scope Valuation of Employer's business	Limited Scope Valuation Engagement
22	Opinion as receiver and manager on realisable value of business	Not a Valuation Service
23	Opinion as expert witness on lost profits	Not a Valuation Service
24	Opinion as expert witness on value of business	Valuation Engagement

### **Example 1 Valuation of equity for capital gains tax**

*Facts:* A **Member in Public Practice** is engaged to perform a **Valuation** as at today's date of the issued share capital of a company for the purpose of capital gains tax and to provide a written report to the **Client**. There is no restriction or limitation placed on the **Member** in choosing the appropriate procedures or approach to use.

*Analysis:* This is a **Valuation Service**. The **Member** has been engaged to perform a **Valuation** and to provide a **Valuation Report**, which constitutes a **Valuation Engagement**.

### **Example 2 Valuation of equity where industry not analysed**

*Facts:* The facts are the same as for Example 1 except that the scope of work is limited in that the **Member** is instructed not to perform any analysis of the industry within which the business of the company operates. In the absence of this instruction the **Member** would have considered it appropriate to perform an analysis of the industry. The lack of analysis on the industry would reasonably be considered to have a material impact on the estimate of value.

*Analysis:* This is a **Valuation Service**. The **Member** has been engaged to perform a **Valuation** where the scope of work is limited or restricted, and to provide a **Valuation Report**, which constitutes a **Limited Scope Valuation Engagement**.

### **Example 3 Valuation Engagement becomes Limited Scope Valuation Engagement**

*Facts:* The facts are the same as for Example 1 except that after agreeing the **Terms of Engagement**, which provides for a **Valuation Engagement**, during the course of performing the **Valuation** the **Member** becomes aware of a limitation. The **Member** intended to value the equity in the company using the income approach and for that purpose intended to estimate the company's expected future cash flows. The **Member** made relevant enquiries of the **Client** for the purpose of estimating the expected future cash flows. However, the **Client** decided not to respond to the **Member's** enquiries but instead instructed the **Member** to adopt the **Client's** existing forecast of cash flows so as to contain professional costs.

*Analysis:* This is a **Valuation Service**. The **Member** was initially engaged to perform a **Valuation** and to provide a **Valuation Report**, which constitutes a **Valuation Engagement**. The **Client's** subsequent instruction to adopt the **Client's** existing forecast of cash flows amounts to a limitation on the scope of work because it restricts the **Member's** freedom to employ the **Valuation Procedures** that are reasonable and appropriate taking into consideration all relevant facts and circumstances of the **Engagement** and the instruction could have a material impact on the estimate of value. Accordingly, from that moment the **Engagement** ceased to be a **Valuation Engagement** and became a **Limited Scope Valuation Engagement**.

### **Example 4 Valuation of equity for capital gains tax where Valuation date is eight years ago and information lost**

*Facts:* The facts are the same as for Example 1 except that the valuation date is eight years ago and there is less information available now due to the subsequent destruction of many documents in accordance with the company's document retention policy and the departure of key staff. Despite this, there are some relevant documents, including financial statements for the three years up to the valuation date. The relative lack of information means that the **Member** is not able to choose the **Valuation Approaches** and **Valuation Methods** that the **Member** would otherwise consider appropriate, and is not able to apply **Valuation Procedures** to the extent to which the **Member** would otherwise consider appropriate.

*Analysis:* This is a **Valuation Service**. The **Member** has been engaged to perform a **Valuation** and provide a **Valuation Report**. A hypothetical seller and a hypothetical buyer standing at the valuation date eight years ago would have had more information available to them than the **Member** has now for

the purpose of performing a Valuation at a date eight years ago. The scope of work is limited or restricted because the relative lack of information restricts the Member's freedom to choose and apply Valuation Approaches, Valuation Methods and Valuation Procedures. Accordingly, the Engagement is a Limited Scope Valuation Engagement.

#### **Example 5 Valuation of equity for capital gains tax where records are sparse**

*Facts:* The facts are the same as for Example 1 except that the company maintains records that are very sparse (albeit compliant with legal requirements).

*Analysis:* This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report. The sparse nature of the company's records does not amount to a limitation or restriction on scope because a hypothetical seller and a hypothetical buyer do not have any better information available to them. The fact of the sparse records is a characteristic of the company being valued and, therefore, is something that will be reflected in the estimate of value. The Engagement is a Valuation Engagement.

#### **Example 6 Valuation of equity for capital gains tax with limited time**

*Facts:* The facts are the same as for Example 1 except that the Member is required to deliver a Valuation Report within a period of time that is too short to allow the Member to perform all of the Valuation Procedures that the Member otherwise considers appropriate.

*Analysis:* This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report. The scope of work is limited or restricted because the short timeframe restricts the Member's freedom to choose and apply Valuation Procedures. Hence the Engagement is a Limited Scope Valuation Engagement.

#### **Example 7 Valuation of shareholding for capital gains tax with assumption on the value of all equity**

*Facts:* A Member in Public Practice is engaged to perform a Valuation of a shareholding in a company for the purpose of capital gains tax and to provide a written report to the Client. The Member is instructed to assume a particular figure for the value of all of the issued share capital of the company.

*Analysis:* This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report where the scope of work is limited or restricted in that the Member is instructed to assume the value of all of the issued share capital. Otherwise the Member is free to apply the Valuation Approaches, Valuation Methods and Valuation Procedures the Member considers appropriate in determining an estimate of value of the shareholding. This freedom means the engagement is not a Calculation Engagement. The Engagement is a Limited Scope Valuation Engagement because the scope of work is limited or restricted.

#### **Example 8 Valuation of shareholding for capital gains tax with assumptions on the value of all equity and percentage discounts for the lack of control and marketability**

*Facts:* The facts are the same as for Example 7 except that in addition to being instructed to assume a particular figure for the value of all of the issued share capital of the company, the Member is instructed to assume particular percentage discounts for the lack of control and marketability associated with the shareholding.

*Analysis:* This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report where the scope of work is limited or restricted in that the Member is instructed to assume the value of all of the issued share capital and to assume certain percentage discounts for the lack of control and marketability associated with the shareholding. The Engagement is

a **Calculation Engagement** because the **Member** and the **Client** have agreed the **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures** the **Member** will apply, thereby eliminating the **Member's** freedom to choose. The performance of the **Calculation Engagement** is a **Valuation Service**.

#### **Example 9 Valuation of Employer's intangible assets for tax consolidation**

*Facts:* A **Member in Business** is assigned by the **Member's Employer** to perform a **Valuation** of the intangible assets of a company acquired by the **Employer** for the purpose of tax consolidation and to provide a written report to the **Employer**.

*Analysis:* This is a **Valuation Service**. The **Member** has been engaged to perform a **Valuation** and to provide a **Valuation Report**, which constitutes a **Valuation Engagement**.

#### **Example 10 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.

#### **Example 11 Limited scope Valuation for mergers and acquisitions advice**

*Facts:* A **Member in Public Practice** is engaged to provide mergers and acquisitions advice to a **Client** contemplating a potential acquisition of a business. Part of the instructions includes performing an indicative **Valuation** of the target business and providing an oral **Valuation Report**.

*Analysis:* This is a **Valuation Service** to the extent of the indicative **Valuation**. The **Member** has been engaged to perform an indicative **Valuation** and to provide a **Valuation Report**, which constitutes a **Limited Scope Valuation Engagement**.

#### **Example 12 Estimate of price for advice on sale of a company**

*Facts:* A **Member in Public Practice** is engaged to provide advice and assistance with respect to the sale of a company. As part of the sale process the **Member** is asked to provide generic valuation statistics and parameters relevant to the industry in which the company operates.

*Analysis:* This is not a **Valuation Service**. Even if some **Valuation Procedures** are conducted the **Member** has not been engaged to perform a **Valuation** or to provide a **Valuation Report**. The **Member** has been engaged to provide ancillary services related to the sale of a company.

### **Example 13 Limited scope Valuation of Employer's business for potential sale**

*Facts:* A **Member in Business** is assigned by the **Member's Employer** to perform an indicative **Valuation** of a business owned by the **Employer** for the purpose of its potential sale and to provide an oral report to the **Employer**.

*Analysis:* This is a **Valuation Service**. The **Member** has been assigned to perform a **Limited Scope Valuation** and to provide a **Valuation Report** to the **Member's Employer**, which constitutes a **Limited Scope Valuation Engagement**.

### **Example 14 Limited scope Valuation for estate planning advice**

*Facts:* A **Member in Public Practice** is engaged to provide estate planning advice. As a required input to providing that advice, the **Member** performs an indicative **Valuation** of a business and provides an oral **Valuation Report** to the **Client**.

*Analysis:* This is a **Valuation Service** to the extent of performing the indicative **Valuation** of the business and providing the **Valuation Report**, which constitutes a **Limited Scope Valuation Engagement**.

### **Example 15 Valuation assumptions for estate planning advice**

*Facts:* A **Member in Public Practice** is engaged to provide tax advice in respect of an estate planning **Engagement**. As part of the estate planning process, the **Member** provides assumptions of values of the assets to assess the potential tax consequences. The **Member** is not involved in determining the value of the estate.

*Analysis:* This is not a **Valuation Service**. Even if some **Valuation Procedures** are conducted the **Member** has not been engaged to perform a **Valuation** or to provide a **Valuation Report**. The **Member** has been engaged to provide tax advice in respect of estate planning.

### **Example 16 Independent expert report for takeover offer**

*Facts:* A **Member in Public Practice** is engaged by a **Client** who is the target of a takeover offer to prepare an independent expert report on whether the takeover offer is "fair and reasonable". As noted in paragraph RG 111.11 of ASIC's Regulatory Guide 111 *Content of Expert Reports*, an offer is "fair" if "the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer". The **Member** will perform a **Valuation** of the securities for the purpose of assessing if the offer is "fair". In accordance with section 640 of the *Corporations Act 2001*, the independent expert's report will accompany the target's statement that will be sent to the shareholders of the **Client**.

*Analysis:* This is a **Valuation Service** to the extent of performing the **Valuation** of the securities and providing the **Valuation Report**. Although the **Member** has been engaged to express an opinion on whether the takeover offer is "fair and reasonable", the accepted meaning of "fair" (as stated in ASIC's Regulatory Guide 111) clearly implies that a **Valuation** is to be performed. Thus the **Member** has been engaged, in part, to perform a **Valuation** and to provide a **Valuation Report**, which constitutes a **Valuation Engagement**.

### **Example 17 Independent expert report for scheme of arrangement**

*Facts:* A **Member in Public Practice** is engaged by a **Client** who is the target of a friendly takeover to be achieved by way of a scheme of arrangement, to prepare an expert's report on whether a scheme of arrangement is "in the best interest of the members of the company" in accordance with clause 8303 of Schedule 8 of the *Corporations Regulations 2001*. As noted in paragraph RG 111.19 of ASIC's Regulatory Guide 111 *Content of Expert Reports*, in such a case the expert is expected to provide an opinion as to whether the proposal is "fair and reasonable" as that phrase is understood for the purpose

of section 640 of the *Corporations Act 2001*. The **Member** will perform a **Valuation** of the securities for the purpose of assessing if the offer is “fair”. The expert’s report will, if the court directs, accompany the explanatory statement and notice of meeting sent to shareholders of the company.

*Analysis:* This is a **Valuation Service** to the extent of performing the **Valuation** of the securities and providing the **Valuation Report**. Although the **Member** has been engaged to express an opinion on whether the proposal is “in the best interests of the members of the company”, accepted practice (as stated in ASIC’s Regulatory Guide 111) implies that a **Valuation** is to be performed. Thus the **Member** has been engaged, in part, to perform a **Valuation** and to provide a **Valuation Report**, which constitutes a **Valuation Engagement**.

#### **Example 18 Independent expert report for the compulsory acquisition of securities**

*Facts:* A **Member in Public Practice** is engaged by a **Client** who has acquired 90% of the securities of a particular class of a company and wishes to issue a notice to acquire compulsorily the balance of the securities. The **Member** is engaged to provide an expert’s report under section 667A of the *Corporations Act 2001* on whether “the terms proposed in the notice give a fair value for the securities concerned”. In accordance with section 664C, a copy of the expert’s report will be sent to each holder of securities.

*Analysis:* This is a **Valuation Service**. The **Member** has been engaged to perform a **Valuation** and to provide a **Valuation Report**, which constitutes a **Valuation Engagement**.

#### **Example 19 Audit procedures on Valuation assertions**

*Facts:* A **Member in Public Practice** is engaged to perform an audit. The **Member** will perform procedures to test the valuation assertions (as described in Australian Auditing Standard ASA 500 *Audit Evidence*) of the financial statement balances as part of the audit **Engagement**. The results of these procedures will be documented in the **Member’s** working papers and will not be communicated to the **Client**.

*Analysis:* This is not a **Valuation Service**. The **Member** has not been engaged to perform a **Valuation** or to provide a **Valuation Report**. The **Member** has been engaged to perform an audit and the procedures to test the valuation assertions (as described in the Auditing Standards) are only performed as part of the audit **Engagement**.

#### **Example 20 Audit procedures on Client’s Valuations**

*Facts:* A **Member in Public Practice** is engaged to perform an audit. The **Member** will audit/review the valuation models or calculations prepared by the **Client** to test assets (including goodwill) for impairment as part of the **Member’s** audit procedures in accordance with Auditing Standards. The procedures performed will be documented in the **Member’s** working papers and will not be communicated to the **Client**.

*Analysis:* This is not a **Valuation Service**. The **Member** has not been engaged to perform a **Valuation** or to provide a **Valuation Report**. The **Member** has been engaged to perform an audit and the procedures to test impairment are only performed as part of the audit **Engagement**.

#### **Example 21 Limited scope Valuation of Employer’s business**

*Facts:* A **Member in Business** is assigned to perform an indicative **Valuation** of the business of the **Employer** as part of the **Employer’s** procedures in respect of testing assets (including goodwill) for impairment for financial reporting purposes.

*Analysis:* This is a **Valuation Service**. The **Member** has been assigned to perform an indicative **Valuation** and to provide a **Valuation Report** which constitutes a **Limited Scope Valuation Engagement**.

### Example 22 Opinion as receiver and manager on realisable value of business

*Facts:* A **Member in Public Practice** is engaged by a secured creditor as a receiver and manager of the assets and undertaking of a company. In reporting to the **Client** the **Member** expresses an opinion on the amount that might be realised from the sale of the company's business.

*Analysis:* This is not a **Valuation Service**. Even if some **Valuation Procedures** are conducted the **Member** does not perform a **Valuation** and is not engaged to provide a **Valuation Report**. The **Member** has been engaged to perform an insolvency service and the opinion was expressed as part of performing that service.

### Example 23 Opinion as expert witness on lost profits

*Facts:* A **Member in Public Practice** is engaged to act as an expert witness in litigation and to express an opinion on the quantum of damages suffered by the plaintiff as a result of an alleged wrong-doing by the defendant. The **Member** is instructed that the damages are to be determined by reference to lost profits and that the court must award damages as a once-off lump sum. In performing this task, the **Member**:

- (a) will calculate the lost profits caused by the alleged wrong-doing by comparing the profits that the plaintiff would have earned but for the alleged wrong-doing with the profits that the plaintiff will earn given the alleged wrong-doing; and
- (b) will calculate the present value of those lost profits.

The **Member** will provide a written report and may later give oral evidence at the court hearing.

*Analysis:* This is not a **Valuation Service** because the **Member** has not been engaged to perform a **Valuation** (i.e. the **Member** has not been engaged to determine an estimate of value of a business, business ownership interest, security, ~~tangible asset or~~ intangible asset, or other asset or liability<sup>SC1</sup>).

### Example 24 Opinion as expert witness on value of business

*Facts:* A **Member in Public Practice** is engaged to act as an expert witness in litigation and to express an opinion on the quantum of damages suffered by the plaintiff as a result of an alleged breach of contract by the defendant. The **Member** is instructed that the damages are to be determined by reference to the value of the plaintiff's business before the alleged breach of contract and the **Member** is instructed to express an opinion on that value. The **Member** will provide a written report and may later give oral evidence at the court hearing.

*Analysis:* This is a **Valuation Service** because the **Member** has been engaged to perform a **Valuation** and to provide a **Valuation Report** which constitutes a **Valuation Engagement**. It is a **Valuation** because the **Member** has been engaged to determine an estimate of value of a business by applying **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures**.

## Appendix 2

### Summary of revisions to the previous APES 225 (Issued in March 2018)

APES 225 *Valuation Services* originally issued in July 2008 and revised in May 2012, December 2015 and March 2018. APESB has revised APES 225 in XXXX 2019 and a summary of the revisions is given in the table below.

**Table of revisions\***

Paragraph affected	How affected
1.2	Amended
1.6	Amended
2 – Introduction Paragraph	Added
2 – Definition of Calculated Value	Amended
2 – Definition of Code	Amended
2 – Definition of Conclusion of Value	Amended
2 – Definition of Engagement Document	Amended
2 – Definition of Independence	Amended
2 – Definition of Member in Business	Amended
2 – Definition of Member in Public Practice	Amended
2 – Definition of Premise of Value	Amended
2 – Definition of Professional Activity	Amended
2 – Definition of Valuation	Amended
2 – Definition of Valuation Approach(es)	Amended
2 – Definition of Valuation Method(s)	Amended
2 – Definition of Writing	Added
3.1	Amended
3.2	Amended
3.3	Amended
3.4	Amended
3.6	Amended
3.7	Amended
3.8	Amended
3.10	Amended
3.11	Amended
3.12	Amended
3.13	Amended
4.1	Amended
4.3	Amended
4.6	Added
4.7 – Paragraph 4.6 in extant 225 relocated	Amended
4.8 – Paragraph 4.7 in extant 225 relocated	Relocated
4.9	Added
5.1	Amended
5.2	Amended
5.5	Amended
5.6	Added
7.2	Amended
8.1	Amended
Appendix 1	Amended

\* Refer Technical Update 2019/X