AICPA VS Section 100 Subsequent Event Toolkit

The AICPA's Statement on Standards for Valuation Services , Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset (/content/dam/aicpa/interestareas/forensicandvaluation/resources/standards/downloadabledocuments/ssvs-full-version.pdf) (VS sec 100), establishes valuation standards that are mandatory for all AICPA members 'who are engaged to, or, as part of another engagement, estimate the value of a business, business ownership interest, security, or intangible asset'.[1]

The purpose of this toolkit is to focus on paragraph 43 of VS sec 100 – Subsequent Events.   The content of this paragraph is straight forward; however, often the application of the guidance in real life situations can cause uncertainty. Practitioners often have the same or similar questions about subsequent events, especially in times of high uncertainty or rapidly changing economic, financial, and market conditions like those experienced during the Coronavirus (COVID-19) pandemic. Presented below are 'Frequently Asked Questions' and sample disclosures that may help address some of these more common questions.

VS sec 100, paragraph 43 states:

The valuation date is the specific date at which the valuation analyst estimates the value of the subject interest and concludes on his or her estimation of value. Generally, the valuation analyst should consider only circumstances existing at the valuation date and events occurring up to the valuation date. An event that could affect the value may occur subsequent to the valuation date; such an occurrence is referred to as a ***subsequent event***. Subsequent events are indicative of conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date. The valuation would not be updated to reflect those events or conditions. Moreover, the valuation report would typically not include a discussion of those events or conditions because a valuation is performed as of a point in time—the valuation date—and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date. In situations in which a valuation is meaningful to the intended user beyond the valuation date, the events may be of such nature and significance as to warrant disclosure (at the option of the valuation analyst) in a separate section of the report in order to keep users informed (see paragraphs 52*p*, 71*r*, and 74). Such disclosure should clearly indicate that information regarding the events if provided for informational purposes only and does not affect the determination of value as of the specified valuation date.

Frequently Asked Questions

– **Can the valuation analyst disclose a subsequent event in a valuation report?**

Yes, the valuation analyst may exercise the option (i.e., it is not a requirement) to disclose a subsequent event in a valuation report; however, paragraph 43 makes it clear that the valuation analyst is cautioned to clearly indicate in the valuation report that the disclosure of the subsequent event is presented for information purposes only and that the subsequent event does not affect the analyst's determination of value as of the valuation date.

To the extent that the analyst decides to disclose a subsequent event, VS sec 100 states that the disclosure should be made in a section of the valuation report that is separate from the valuation analysis and the value conclusion. Furthermore, the disclosure should clearly indicate that the information regarding the subsequent event is provided for informational purposes only.

- **Does the valuation analyst have to disclose a subsequent event in a valuation report?**

  No. According to VS sec 100 paragraph 43, a subsequent event may be disclosed in a valuation report “at the option of the valuation analyst.” In fact, paragraph 43 indicates that a valuation report would not typically include a discussion of a subsequent event since a subsequent event is not relevant to the value determined as of the valuation date; however, if a valuation analyst elects to include subsequent events in the valuation report, VS sec 100 requires that this information is disclosed in a section that is separate from the valuation analysis and the value conclusion.

- **What is the purpose of the valuation analyst disclosing a subsequent event in the valuation report?**

  The purpose of discussing a subsequent event is to provide meaningful information to the intended user as of the valuation date. The description of the subsequent event may confirm to the intended user information or conditions that were known or knowable as of the valuation date. Or, the description of the subsequent event may inform the intended user that information or conditions have changed between the valuation date and the date of issuance of the valuation report. Such a change in conditions may inform the intended user that the analyst’s determination of value as of the valuation date may no longer be applicable as of the date of issuance of the valuation report, or later.

- **May I disclose what my value would have been if components of my valuation analysis were to change due to subsequent events? For example:**

  a) showing the impact on the determination of value,

  b) disclosing conclusions of one of my valuation approaches or methods (but not all of them)

  No. In both cases this would be new valuation as of a new valuation date. VS sec 100 paragraph 43 explicitly states that the ‘valuation would not be updated to reflect those events or conditions.’ Therefore, the valuation analyst should not disclose or discuss the impact subsequent events would have on any aspect of your valuation report or conclusion of value because the impact was not known or knowable as of the valuation date.

- **What are my professional and ethical requirements if subsequent events support, do not support, or conflict with any (or multiple) component(s) of my valuation report (e.g., inputs, assumptions, conclusion of value)?**

  VS sec 100 does not require any disclosure of subsequent events and, in fact, states that it should be the exception rather than the rule. Paragraph 43 states ‘…the valuation report would *typically* [emphasis added] not include a discussion of those events or conditions because a valuation is performed as of a point in time—the valuation date—and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date.’

  When valuation analysts elect to disclose subsequent events they should make sure it is for informational purposes only. This assessment relies on the valuation analyst’s professional judgment. VS sec 100 does not establish any disclosure requirements based on whether subsequent events support, do not support, or conflict with any (or multiple) component(s) of a valuation report.

  It is important to note that when evaluating whether or not to include subsequent events in a valuation report, valuation analysts should carefully evaluate whether the inclusion of certain subsequent and the exclusion of others gives the appearance of bias (e.g., including supportive subsequent events and excluding subsequent events that do not support or conflict with the valuation report). This could impact the credibility of your valuation conclusions and report.

As stated in VS sec 100 paragraph 14, “The AICPA Code of Professional Conduct requires objectivity in the performance of all professional services, including valuation engagements. Objectivity is a state of mind. The principle of objectivity imposes the obligation to be impartial, intellectually honest, disinterested, and free from conflicts of interest.”

Finally, as stated in VS sec 100 paragraph 3, “Valuation analysts should be aware of any governmental regulations and other professional standards applicable to the engagement, including the AICPA *Code of Professional Conduct* and the Statement on Standards for Consulting Services (SSCS) No. 1, Consulting Services: *Definitions and Standards* (AICPA, Professional Standards, vol. 2, CS sec. 100), and the extent to which they apply to engagements to estimate value. Compliance is the responsibility of the valuation analyst.”

AICPA members are also required to meet the professional competence requirements described in VS sec 100 Professional Competence (paragraphs 11 – 20).

- **Do I have to explain why I decided to disclose the subsequent event (i.e., the purpose of the disclosure)?**

No. The guidance in VS sec 100 states that subsequent event disclosures should be for informational purposes and does not require any explanation to accompany such disclosures; however, as noted in the answer to question #5valuation analysts need to carefully evaluate if and when subsequent events are disclosed.

- **I have issued a draft report. Prior to the report going final, unfavorable information regarding the subject interest has been brought to light. While neither known nor knowable as of the valuation date, the likelihood of the event underlying the unfavorable information had grown more likely in the time between the valuation date and the issuance of the draft. How should I handle this information under VS sec 100?**

Subsequent events are not considered in the performance of a valuation. If, as stated, the unfavorable information was not known or knowable as of the valuation date, it is not considered in arriving at a conclusion of value. Paragraph 43 of the VS sec 100 states in part that, “…Moreover, the valuation report would typically not include a discussion of those events or conditions because a valuation is performed as of a point in time—the valuation date—and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date.”

- **What is the appropriate format or language to use to disclose subsequent events?**

That is up to each member to decide. There is no suggested language in VS sec 100. However, you should state that the subsequent events were not relied upon at the valuation date since they were not known or knowable as of that date.

- **Please provide an illustration of the disclosure of a subsequent event.**

On March 1, 2X20 the Company main manufacturing plant caught fire and was completely destroyed. This has caused a massive disruption in the business. Hundreds of employees were laid off, sales have stopped, and the supply and distribution chains are broken. This subsequent event was not known or knowable as of the valuation date of December 31, 2X19. The value determined at that date does not include the loss of income and value due to the fire. Nor does it include any proceeds from insurance. This information is provided for information purposes only and does not affect our determination of the value of the Company as of the December 31, 2X19 valuation date.

Alpha particles are an essential component in the production of betazoids, the primary product of Beta Manufacturing Company. Alpha Mining Company was the sole domestic supplier of alpha particles to Beta Manufacturing Company. As of January 32, 2X20, Alpha Mining Company unexpectedly discontinued operations and filed for protection under Chapter 7 of the United States Bankruptcy Code. Alpha Mining Company is expected to liquidate. Currently, Beta Manufacturing Company is importing alpha particles from international suppliers and is seeking a new domestic source of supply for this essential raw material. This disruption in the alpha particles supply chain may materially affect the Beta Manufacturing Company results of operations on a going-forward basis. This information is provided for information purposes only. This subsequent event does not affect our determination of the fair market value of the Beta Manufacturing Company common stock as of December 31, 2X19.

- **What is the definition of known and knowable?**

  The valuation analyst should consider only facts and circumstances existing at the valuation date and events occurring up to the valuation date that could have been reasonably known, foreseen, understood or comprehended. For illustrative purposes, consider whether an agreement executed shortly after the valuation date with a new major customer would likely be known or knowable at the valuation date. It was most likely in the works at the valuation date and, therefore known or knowable at that point. On the other hand, a major storm that causes major damage to the business and its facilities shortly after the valuation date would not have been known or knowable and, therefore, should not be considered in the valuation.

- **A member must only use information that was known or knowable as of the valuation date, correct?**

  Yes.

- **If the valuation analyst applies the guideline publicly traded company method to value the valuation subject and the valuation date is 12/31/XX, should the analyst rely on the public companies' Forms 10-K as of 12/31/XX in the valuation analysis?**

  VS sec 100 paragraph 43 states, in part, that "Generally, the valuation analyst should consider only circumstances existing as of the valuation date and events occurring up to the valuation date."

  VS sec 100 paragraph 43 also states, in part, that, "Subsequent events are indicative of conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date." An equally supportable position is that the data is knowable, but not known as of the valuation date. As such, the use of organized financial information that collects and organizes the data as of the valuation date, but publishes this a few weeks later, is also acceptable. This application also bolsters the valuation analysis since the stock price of a public company as of the valuation date includes the expected results from the Company, which aligns the Company performance and that stock price. This is an apples to apples presentation.

  Reliance on (and only on) information that was known or knowable as of the valuation date is one of the basic principles of business valuation. Valuation analysts often consider the procedures they would perform and the data sources they would rely upon if they were actually performing the analysis as of the identified valuation date. In this illustration, the SEC Form 10-K (or the SEC Form 10-Q, as appropriate) for the guideline publicly traded companies would not be available to an analyst who was actually performing the valuation analysis on 12/31/XX.

  A public company's SEC Form 10-K or other filings (for example, SEC Form 10-Q) are, with limited exceptions, based on events and information that existed as of the filing date (in this example 12.31.XX). So, while the financial statements themselves were not available, the information contained in the statements would be considered information that VS sec 100 would define as known or knowable.

There are instances when public companies are required to revise their previously issued filings due to effects of subsequent events on the financial statements (e.g., discontinued operations, change in accounting principles where retrospective application is elected or required). Because changes of this kind would not have been known or knowable at the valuation date they should not be incorporated into a valuation. Therefore, it is critical that if valuation analysts use information from public filings as inputs into their valuation they should

i) be aware these types of revisions exist;

ii) review public filings selected for a valuation for these types of adjustments and disclosures; and

iii) make any necessary adjustments to the information in their valuations to ensure they only include what was known or knowable on the valuation date.

Subsequent Event Disclosure Guidelines and Sample Disclosures

The purpose of this resource is to provide guidance for valuation analysts who exercise the option to include a subsequent event disclosure in a separate section of the valuation report. This type of disclosure should:

- State that VS sec 100 paragraph 43 provides guidance with regard to the disclosure of subsequent events
- Explain that the valuation date is the specific date on which the valuation analyst estimates the value of the subject interest and concludes the estimate of value
- Indicate that the valuation analyst generally considers only those circumstances existing as of the valuation date and only those events occurring up to the valuation date
- State that an event that could affect the value may occur subsequent to the valuation date, and that occurrence is referred to as a subsequent event
- Explain that the information regarding the subsequent event is provided for informational purposes only
- Declare that the subsequent event does not affect the determination of value as of the specified valuation date

Note: These disclosures can be accomplished by quoting and citing VS sec 100 paragraph 43.

And, if the valuation analyst exercises the option to include a subsequent event disclosure in a separate section of the valuation report, that disclosure should not:

- Present, or be construed as, an update valuation
- Present, or be construed as, a value conclusion
- Indicate a direction, a percent or a dollar adjustment, or an order of magnitude that may be used to calculate a value conclusion
- Describe how the subsequent event will specifically affect the subject interest, other than to indicate that the subsequent event may affect the value of the subject at the later date

– Sample Disclosure A

SSVS paragraph 43, Subsequent Events, states the following:

> The valuation date is the specific date at which the valuation analyst estimates the value of the subject interest and concludes on his or her estimation of value. Generally, the valuation analyst should consider only circumstances existing at the valuation date and events occurring up to the valuation date. An event that could affect the value may occur subsequent to the valuation date; such an occurrence is referred to as a subsequent event. Subsequent events are indicative of conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date. The valuation would not be updated to reflect those events or conditions. Moreover, the valuation report would typically not include a discussion of those events or conditions because a valuation is performed as of a point in time—the valuation date—and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date. In situations in which a valuation is meaningful to the intended user beyond the valuation date, the events may be of such nature and significance as to warrant disclosure (at the option of the valuation analyst) in a separate section of the report in order to keep users informed (see paragraphs 52p, 71r, and 74). Such disclosure should clearly indicate that information regarding the events is provided for informational purposes only and does not affect the determination of value as of the specified valuation date.[2]

The valuation date is the specific date on which the valuation analyst estimates the value of the subject interest and concludes on the estimate of value. Generally, the valuation analyst considers only those circumstances existing as of the valuation date and only those events occurring up to the valuation date. An event that could affect the value of the subject interest may occur after the valuation date. Such an occurrence is referred to as a subsequent event.

Subsequent events relate to conditions that were not known or knowable as of the valuation date. Typically, a valuation report will not include a discussion of subsequent events because such subsequent events do not affect the determination of value as of the specified valuation date.

We believe the COVID-19 pandemic is a subsequent event. And we believe the disclosure of this subsequent event would be meaningful to the reader of this valuation report.

On December 31, 2019, Chinese government officials announced numerous cases of pneumonia from an unknown cause. On January 7, 2020, the disease was first identified as a new coronavirus. On January 21, 2020, the first case of the coronavirus in the U.S. was announced. On January 30, 2020, the World Health Organization (WHO) declared a “public health emergency.” On February 11, 2020, the WHO announced that the disease would be called COVID-19.

On February 20, 2020, the first death in the U.S. from COVID-19 occurred. On March 11, 2020, the WHO declared that COVID-19 was considered a “pandemic.”

In terms of the economic impact of COVID-19, the Dow Jones Industrial Average (DJIA) was at 28,538 on December 31, 2019. By March 31, 2020, the DJIA was at 21,917, a 30 percent decrease. The DJIA reached a record high of 29,551 on February 12, 2020. The S&P 500 index was at 3,231 on December 31, 2019. By March 31, 2020, the S&P 500 Index was at 2,585, a 25 percent decrease. The S&P 500 Index reached a record high of 3,386 on February 19, 2020. The Nasdaq Composite Index (Nasdaq) was at 8,973 on December 31, 2019. By March 31, 2020, the Nasdaq was at 7,700, a decrease of 17 percent. The Nasdaq reached a record high of 9,817 on February 19, 2020.

This disclosure of the subsequent events related to the outbreak of COVID-19 and the economic impact of the COVID-19 pandemic in the U.S. is provided for informational purposes only. This subsequent event does not affect the value of the subject interest as of the valuation date.

- **Sample Disclosure B**

SSVS paragraph 43, Subsequent Events, states the following:

> The valuation date is the specific date at which the valuation analyst estimates the value of the subject interest and concludes on his or her estimation of value. Generally, the valuation analyst should consider only circumstances existing at the valuation date and events occurring up to the valuation date. An event that could affect the value may occur subsequent to the valuation date; such an occurrence is referred to as a subsequent event. Subsequent events are indicative of conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date. The valuation would not be updated to reflect those events or conditions. Moreover, the valuation report would typically not include a discussion of those events or conditions because a valuation is performed as of a point in time—the valuation date—and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date. In situations in which a valuation is meaningful to the intended user beyond the valuation date, the events may be of such nature and significance as to warrant disclosure (at the option of the valuation analyst) in a separate section of the report in order to keep users informed (see paragraphs 52p, 71r, and 74). Such disclosure should clearly indicate that information regarding the events is provided for informational purposes only and does not affect the determination of value as of the specified valuation date.[2]

This valuation and report were prepared as of December 31, 2019, which is the valuation date. As stated above, valuation analysts should consider only circumstances existing at the valuation date and events occurring up to the valuation date; circumstances and events must be known or knowable as of the valuation date. Subsequent events that were not known or knowable at the valuation are not considered. This disclosure of a subsequent event is for information purposes only and does not affect the value as of the valuation date. These subsequent events may affect the value at a date later than the valuation date.

At the time of this report's release, citizens and the economies of the United States and other countries have been impacted by the coronavirus (COVID-19) pandemic. The full evolution of the disease, including the extent of its economic impact and the results of steps taken and yet to be taken by governments and financial institutions are unknown. Entities may face supply-chain disruptions, labor shortages, revenue declines, an increase in bad debts, reduced cash flow, difficulties meeting loan covenants, goodwill and inventory impairment, credit difficulties, and other financial implications, including an increased likelihood of substantial doubt about the entity's ability to continue as a going concern. The significance and the duration of the pandemic's financial impact are indeterminable. This report does not consider the potential financial implications of the pandemic on the December 31, 2019 valuation date.

- **Sample Disclosure C**

SSVS paragraph 43, Subsequent Events, states the following:

> The valuation date is the specific date at which the valuation analyst estimates the value of the subject interest and concludes on his or her estimation of value. Generally, the valuation analyst should consider only circumstances existing at the valuation date and events occurring up to the valuation date. An event that could affect the value may occur subsequent to the valuation date; such an occurrence is referred to as a subsequent event. Subsequent events are indicative of conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date. The valuation would not be updated to reflect those events or conditions. Moreover, the valuation report would typically not include a discussion of those events or conditions because a valuation is performed as of a point in time—the valuation date—and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date. In situations in which a valuation is meaningful to the intended user beyond the valuation date, the events may be of such nature and significance as

to warrant disclosure (at the option of the valuation analyst) in a separate section of the report in order to keep users informed (see paragraphs 52p, 71r, and 74). Such disclosure should clearly indicate that information regarding the events is provided for informational purposes only and does not affect the determination of value as of the specified valuation date.[2]

This valuation and report were prepared as of December 31, 2019, which is the valuation date. As stated above, valuation analysts should consider only circumstances existing at the valuation date and events occurring up to the valuation date; circumstances and events must be known or knowable as of the valuation date. Subsequent events that were not known or knowable at the valuation are not considered. This disclosure of a subsequent event is for information purposes only and does not affect the value as of the valuation date. These subsequent events may affect the value at a date later than the valuation date.

This valuation and report do not include specific and/or direct consideration of economic and market events occurring subsequent to the valuation date that could influence the value of the subject interest as of the issuance date of this report. There are numerous potential financial, operating, capital markets, and other issues that may have materially changed as of the issue date of this report relative to the effective valuation date defined at the beginning of this report. The valuation conclusions expressed in this report pertain to the effective date of the valuation rather than the issuance date of this report.

As of the issuance date of this report, the global economy was being affected by a pandemic declared by the World Health Organization (WHO) as of March 11, 2020. The pandemic involves the novel coronavirus referred to by WHO as “COVID-19.” The disease was initially reported to WHO in late December 2019. COVID-19 is considered highly dangerous, particularly for the elderly and/or those with pre-existing conditions and chronic ailments that compromise the human immune system.

Since its discovery, COVID-19 has spread throughout the globe. Health officials in numerous countries expect the incidence of infection and mortality to persist through the first half of 2020. Governmental authorities in the U.S. and abroad have mandated limits on social gatherings and recommended that civilian populations take measures to isolate themselves in order to curtail further spread of the disease. All manner of public and private events have been canceled throughout the world. Travel and border restrictions have been enacted by the U.S. and many other nations. These restrictions are expected to negatively affect economic growth for an indeterminate period.

As of the issue date of this report, no specific timeframe for the abatement of the crisis has been declared. Multiple reputable health authorities suggest that COVID-19 could take months to reach its peak saturation before abating.

The evolution of the pandemic, the extent of its economic and cultural consequences, and the results of steps taken and yet to be taken by governments and financial institutions are fluid and evolving in real time. The general consensus of the world’s central bankers and other leading authorities on the economy includes an expectation for a significant downturn in economic activity for 2020 and the likelihood of a global recession. The U.S. Federal Government has taken and continues to pursue unprecedented legislative measures to mitigate the economic fallout of COVID-19 and to promote recovery for both businesses and the citizenry at large.

These FAQs and sample disclosures on subsequent events are meant to provide assistance about how and when to include subsequent events in a valuation report; however, these is not intended to cover all situations that valuation analysts will encounter on a particular engagement or throughout one’s career. Each engagement is unique and presents its own set of challenges.

The principal goal of this subsequent event toolkit is to help valuation analysts understand the concepts in VS sec 100 paragraph 43 - Subsequent Events so when the time comes to decide if a subsequent event disclosure is appropriate in a valuation report they will have the appropriate understanding of some of the important considerations that go into making this decision.

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[1] American Institute of Certified Public Accountants, *Statement on Standards for Valuation Services, VS Section 100, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, June 2007, paragraph 1.

[2] American Institute of Certified Public Accountants, *Statement on Standards for Valuation Services, VS Section 100, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, June 2007, paragraph 43.