

AGENDA PAPER

Item Number: 11
Date of Meeting: 31 May 2016
Subject: Proposed guidance note APES GN 21 *Valuation Services for Financial Reporting* (APES GN 21)

Action required For discussion For noting For information

Purpose

To provide the Board with:

- an evaluation of the respondents' comments on the proposed APES GN 21 Exposure Draft; and the proposed recommendations to address these key issues; and
- to obtain the Board's approval to issue the proposed APES GN 21 and the accompanying Basis for Conclusions.

Background

The Accounting Professional and Ethical Standards Board's (APESB) Board approved the APES GN 21 project in January 2011. However, during the drafting stage of APES GN 21, it was identified that providing Members with guidance on determining the scope and extent of work for Valuation Services was of a higher priority. Consequently, the Board determined to pause the APES GN 21 project and develop APES GN 20 *Scope and Extent of Work for Valuation Services* (APES GN 20) which was issued in December 2013.

At the 14 October 2014 Board Meeting, the Board considered an Agenda Paper in respect of the benefits of progressing with the development of APES GN 21, post the issuance of APES GN 20. This [Technical Staff Paper](#) provided the Board with an evaluation of:

- the rationale for developing APES GN 21;
- the benefits of developing APES GN 21; and
- the consequences of not developing APES GN 21.

The Board considered the merits of the project and the fact that APES GN 21 was inherently different to APES GN 20, and determined to recommence the project. At this meeting, the Board also considered an observer's comment about the importance of clarity on the scope of APES GN 21 and the diversity of Valuation Engagements that need to be considered during the development of APES GN 21. Subsequently, a taskforce meeting was held on 23 January 2015 to discuss these matters.

The taskforce has met 3 times from 23 January 2015 till 9 May 2016, to discuss the development of the APES GN 21 Exposure Draft (APES GN 21 ED). At the [11 November 2015 Board Meeting](#), the Board approved the issuance of APES GN 21 ED for a 90-day comment period.

Consideration of Issues

The comment period for APES GN 21 ED closed on 29 February 2016 and APESB received two submissions from the Professional Bodies.

Technical Staff have prepared an analysis of the respondents' comments on APES GN 21 ED (refer to Agenda Item 11(a) for the Technical Staff Paper) that summarises respondents' key issues and comments, technical analysis and proposed recommendation to address these key issues. The respondents' comments have been tabulated as either general comments (refer to Agenda Item 11(e)) or specific comments (refer to Agenda Item 11(f)).

The overall response to the APES GN 21 ED was mixed with one respondent supporting the proposed guidance note and querying why it is not a professional standard, while the other respondent was not supportive.

The respondent who was not supportive stated that the proposed APES GN 21 does not provide additional guidance to existing APESB pronouncements. The respondent was also of the view that the proposed APES GN 21 appears to be outside the scope of an APES guidance note as it:

- relates to the content of specific Valuation Reports, that is beyond 'the application of values and principles of practice' depicted in APESB's *Due process and working procedures for the development and review of APESB pronouncements* document (Due Process Document); and
- focuses on the provision of a Member's professional knowledge rather than the application of professional and ethical obligations.

Technical Staff are of the view that the guidance in APES GN 21 is distinct to other APESB pronouncements as it focuses on Valuation Services conducted for Financial Reporting. This is not specifically covered in APES 225 *Valuation Services* (APES 225) or APES GN 20. The major components of APES GN 21 (e.g. paragraphs 5.4 and 5.7 to 5.10) are providing additional guidance in the context of these specific engagements on the key disclosure considerations that are mandated in APES 225.

Technical Staff also note that as part of the development of APES GN 20, the APESB Board considered a similar argument in relation to APESB's mandate for issuing guidance notes. At the Board meeting held on 9 May 2013, the Board agreed that as a general principle it is not averse to issuing guidance when it is in the public interest and is useful for Members.

Technical Staff believe that the proposed APES GN 21 does not provide technical guidance on how to perform a Valuation Service. A critical test to assess whether it is technical guidance, is whether a Member could solely use APES GN 21 to perform the required procedures in respect of a Valuation Service for Financial Reporting. However, APES GN 21 does not provide guidance of this nature.

Technical Staff are of the view that the proposed APES GN 21 assists Members to understand their professional and ethical obligations under the Code and APES 225 and to apply professional knowledge and judgements as applicable in the context of Valuation Services for Financial Reporting. APES GN 21 will provide a practical benefit for Members and Clients dealing with Valuation Services. We understand that Valuation Services for

Financial Reporting is a significant proportion of all Valuation Services performed in the market and this guidance assists Members in meeting one of the fundamental professional and ethical obligations of professional competence and due care when they perform Valuation Services in respect of Financial Reporting.

It should be noted that a substantial part of the proposed APES GN 21 is based on an enacted piece of guidance from an international jurisdiction of reputable standing (i.e. the Canadian Institute of Chartered Business Valuators). Furthermore, the subject matter addressed in the proposed APES GN 21 is within APESB's role and mandate as in nature are consistent with the subject matters covered in other APES pronouncements (e.g. APES 215, APES 225, APES 315, APES 350).

Evaluation of Respondents comments

A taskforce meeting was held on 9 May 2016 (refer to the draft meeting minutes in Agenda Item 11(g)) to consider the key matters outlined in the Technical Staff Paper. The substantive issue at the taskforce meeting deliberations was in respect of whether the guidance note should be issued and whether it is within APESB's mandate. The majority of the taskforce (4 Members) are supportive of issuing the guidance note. Whilst, 2 Members are not supportive of issuing the guidance note. It was determined that this issue would be a matter for the Board's consideration.

Thereafter, the taskforce discussed the other matters raised by respondents as noted in the draft minutes. Subsequent to this taskforce meeting, Technical Staff incorporated the taskforce's proposed amendments and circulated the updated proposed APES GN 21 for the taskforce's review comments.

The final version of the proposed APES GN 21 (refer to Agenda Item 11(c)) and the Basis for Conclusions (refer to Agenda Item 11(d)) are tabled for the Board's consideration.

Technical Staff Recommendations

Subject to the Board's review comments and editorials, the Board approve the issue of the proposed APES GN 21 and the accompanying Basis for Conclusions.

Material Presented

Agenda Item 11 (a) Technical Staff Paper on APES GN 21 Exposure Draft;
Agenda Item 11 (b) Proposed APES GN 21 (marked-up);
Agenda Item 11 (c) Proposed APES GN 21 (clean);
Agenda Item 11 (d) APES GN 21 Basis for Conclusions;
Agenda Item 11 (e) APES GN 21 General Comments Table;
Agenda Item 11 (f) APES GN 21 Specific Comments Table; and
Agenda Item 11 (g) Draft minutes of 3rd APES GN 21 taskforce meeting held on 9 May 2016.

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