

APES GN 21 Valuation Services for Financial Reporting

[Supersedes APES GN 21 Valuation Services for Financial Reporting issued in July 2016]

REVISED: January 2020

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Conformity with International Pronouncements

Appendix 1: Summary of revisions to the previous APES GN 21 (Issued in July 2016)

1. Scope and application

- 1.1 The objective of APES GN 21 *Valuation Services for Financial Reporting* is to provide guidance on the application of APES 225 *Valuation Services* (APES 225) in relation to a **Member's** professional and ethical obligations in respect of:
- the provision of a **Valuation Service for Financial Reporting** to a **Client** or **Employer**;
 - the scope of work to be performed; and
 - matters to be disclosed in a **Valuation Report**.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional guidance note APES GN 21 *Valuation Services for Financial Reporting* (the Guidance Note) which is effective from the date of issue and supersedes APES GN 21 issued in July 2016.
- 1.3 APES GN 21 provides guidance to assist **Members** on the application of APES 225 to **Valuation Services** conducted in respect of financial reporting. This Guidance Note does not prescribe or create any mandatory requirements or consider the requirements of applicable **Australian Accounting Standards**.
- 1.4 **Members** using this Guidance Note should refer to:
- (a) APESB's *Due process and working procedures for the development and review of APESB pronouncements* (APESB's Due Process document);
 - (b) APES 225 for the mandatory requirements when **Members** provide **Valuation Services**; and
 - (c) APES GN 20 *Scope and Extent of Work for Valuation Services* (APES GN 20) for guidance on the application of APES 225 in determining the scope and extent of work that, depending on the particular circumstances, may be appropriate for the three types of **Valuation Services** defined in Section 2 of APES 225.
- The APESB's Due Process document provides the meaning of the term 'should' used in this Guidance Note.¹
- 1.5 **Members** working in Australia should follow the guidance in APES GN 21 when they provide **Professional Activities**.
- 1.6 **Members** outside of Australia should follow the guidance in APES GN 21 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.
- 1.7 The Guidance Note 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 **Members** are required to comply with other applicable **Professional Standards** and be familiar with relevant guidance notes when performing **Professional Activities**. All **Members** are required to comply with the fundamental principles outlined in the **Code**.
- 1.10 In applying the guidance outlined in APES GN 21, **Members** should be guided not merely by the words but also by the spirit of this Guidance Note and the **Member's** professional obligation to comply with the requirements of the **Code**.
- 1.11 In this Guidance Note, 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.

1 Refer to APESB's Due Process document, Section 5, Paragraph 5.2(e).

2. Definitions

Defined terms, including terms defined in APES 225, are shown in the body of the Guidance Note in title case.

For the purposes of this Guidance Note:

AASB means the Australian statutory body called the Australian Accounting Standards Board that was established under section 226 of the *Australian Securities and Investments Commission Act 1989* and is continued in existence by section 261 of the *Australian Securities and Investments Commission Act 2001*.

Australian Accounting Standards means the Accounting Standards (including Australian Accounting Interpretations) promulgated by the **AASB**.

Cash-Generating Unit means the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, as defined in AASB 136 *Impairment of Assets*.

Equity Instrument means a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities, as defined in AASB 2 *Share-based Payment*.

Grant Date means the date at which the entity and another party (including an employee) agree to a share-based payment arrangement, as defined in AASB 2 *Share-based Payment*.

Market Conditions means a performance condition upon which the exercise price, vesting or exercisability of an **Equity Instrument** depends that is related to the market price (or value) of the entity's **Equity Instruments**, as defined in AASB 2 *Share-based Payment*.

Measurement Date means the date at which the fair value of the **Equity Instruments** granted is measured, as defined in AASB 2 *Share-based Payment*.

Reload Feature means a feature that provides for an automatic grant of additional share options whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price, as defined in AASB 2 *Share-based Payment*.

Valuation Service for Financial Reporting means a **Valuation Service** performed for the purpose of estimating a value of an asset, liability and/or equity for financial reporting purposes in accordance with **Australian Accounting Standards**. Examples of different accounting purposes include measurement of the value of an asset or liability for inclusion on the statement of financial position, allocation of the purchase price of an acquired business, impairment testing, lease classification and **Valuation** inputs to the calculation of depreciation charges in the statement of profit or loss.

Vesting Condition means a condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or **Equity Instruments** of the entity, under a share-based payment arrangement, as defined in AASB 2 *Share-based Payment*.

3. Fundamental responsibilities of Members

3.1 **Members** are required by Section 3 of APES 225 to comply with the following mandatory professional obligations of the **Code** when performing a **Valuation Service**:

- (a) Part 1 *Complying with the Code, Fundamental Principles and Conceptual Framework*; and
- (b) Section 310 *Conflicts of Interest*.

4. Scope of Valuation Services for Financial Reporting

- 4.1 **Members** are required to refer to Section 4 of APES 225 when determining the scope of work to be performed in respect of a **Valuation Service for Financial Reporting**. Matters to be addressed in the scope of work include identifying the applicable **Australian Accounting Standards** and the specific purpose for which the **Valuation Service** is required.
- 4.2 A **Member in Public Practice** should refer to Sections 3 and 4 of APES GN 20 when assisting the **Client** to determine the scope of the **Valuation Service** to be undertaken and whether it is appropriate for the circumstances.
- 4.3 Subject to the **Terms of Engagement** and depending on the **Valuation Service** being performed, a **Member in Public Practice** is required to refer to the mandatory professional and ethical requirements in Section 3 of APES 225 when planning the extent of work for a **Valuation Service for Financial Reporting**.
- 4.4 Subject to the **Terms of Engagement**, where a **Member in Public Practice** is providing a **Valuation Service for Financial Reporting** in respect of a **Valuation Engagement**, the matters the **Member** may consider include obtaining sufficient understanding of the:
- subject matter of the **Valuation Service**, by reviewing relevant documentation which include agreements, contracts, letters of understanding, letters of intent and correspondence;
 - applicable **Australian Accounting Standards**;
 - characteristics, economic conditions, industry, underlying business operations and historical/forecast financial information related to the interest being valued; and
 - regulatory issues that may impact the **Valuation Service**.

5. Reporting and Disclosures for Valuation Services for Financial Reporting

- 5.1 **Members** are required by Section 5 of APES 225 to comply with the mandatory reporting and disclosures of a **Valuation Report** when providing a **Valuation Service**.
- 5.2 The content and disclosures of a **Valuation Report** should communicate sufficiently to a user (for example, **Client**, auditor or regulator) the basis of the **Valuation** (for example, subject matter, rationale and basis of assumptions or inputs in the **Valuation Method**) and enable the user to assess the reasonableness of the **Conclusion of Value** or **Calculated Value**.
- 5.3 A **Member** providing a **Valuation Service for Financial Reporting** should consider disclosing the following:
- Applicable **Australian Accounting Standards** pursuant to which the **Valuation Report** is prepared;
 - Definition of value used and related explanations to clarify the definition of value (if applicable, a statement that the definition of value used may not be equivalent to other definitions of value as commonly used in other business **Valuation** situations); and
 - Source or basis of key facts and/or assumptions made in arriving at the **Conclusion of Value** or **Calculated Value**.

Business combinations

- 5.4 Subject to paragraph 5.1, a **Member** should consider disclosing the following matters, amongst other things, when providing a **Valuation Report** in respect of a business combination:
- Identity of the acquiring entity;
 - Effective **Measurement Date**;

- (c) Nature and amount of the purchase consideration;
- (d) Definition of key **Valuation** terms² used in performing the **Valuation Service**;
- (e) **Valuation Methods** considered and reasons for selecting the particular **Valuation Method**; and
- (f) Significant or key assumptions and the basis for such assumptions in the **Valuation** of the assets acquired and/or liabilities assumed. Such assumptions may include, but are not limited to:
 - (i) economic life;
 - (ii) revenue growth and business expenses;
 - (iii) customer retention and attrition;
 - (iv) technological change and migration;
 - (v) contract renewal;
 - (vi) tax amortisation benefits in respect of tangible and/or intangible assets;
 - (vii) market-participant and/or buyer-specific assumptions and related adjustments, analysis and/or impact on the **Valuation**;
 - (viii) contributory asset charges;
 - (ix) discount rates; and
 - (x) royalty rates.

5.5 Where a **Member** has valued the purchase consideration, the **Member** is required by paragraph 5.2 of APES 225 to disclose the basis of the **Valuation**, **Valuation Approaches** and **Valuation Methods** used.

5.6 Where a **Member** was involved in identification of the assets acquired and/or liabilities assumed, the **Member** should consider disclosing the basis for the identification.

Impairment of goodwill and intangible assets

5.7 Subject to paragraph 5.1, a **Member** should consider disclosing the following matters, amongst other things, when providing a **Valuation Report** in respect of impairment of goodwill or intangible assets:

- (a) **Cash-Generating Units** and/or assets which are the subject of the **Valuation Report**;
- (b) Impairment test date;
- (c) Carrying value of the assets and/or reporting units;
- (d) Definition of key **Valuation** terms³ used in performing the **Valuation Service**;
- (e) **Valuation Methods** considered and reasons for selecting the particular **Valuation Method**; and

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.

3 **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.

- (f) Significant or key assumptions and the basis for such assumptions in the **Valuation** of the **Cash-Generating Units** and/or intangible assets. Such assumptions may include, but are not limited to:
- (i) economic life;
 - (ii) revenue growth and business expenses;
 - (iii) customer retention or attrition;
 - (iv) technological change and migration;
 - (v) contract renewal;
 - (vi) cost of capital;
 - (vii) terminal value;
 - (viii) tax amortisation benefits in respect of tangible and/or intangible assets;
 - (ix) market-participant and/or buyer-specific assumptions and related adjustments, analysis and/or impact on the **Valuation** analysis;
 - (x) contributory asset charges;
 - (xi) an analysis of the aggregate value of the **Cash-Generating Unit(s)** and/or discount/premium to market capitalisation; and
 - (xii) the basis upon which assets are grouped for the purposes of performing an impairment test when determining the value or assessing the impairment.

Share-based payment

- 5.8 Subject to paragraph 5.1, a **Member** should consider disclosing the following matters, amongst other things, when providing a **Valuation Report** in respect of share-based payments:
- (a) **Equity Instruments** which are the subject of the **Valuation Report** including the terms of issue, exercise prices (where applicable) and **Vesting Conditions**;
 - (b) **Valuation** date or **Measurement Date**, including reference to the **Grant Date** of the **Equity Instruments**;
 - (c) **Premise of Value** adopted for the **Valuation**;
 - (d) Terms of issue conditions included in the **Valuation** (for example, **Market Conditions**) and excluded from the **Valuation** (for example, non-market **Vesting Conditions** or **Reload Features**);
 - (e) **Valuation Method(s)**, model(s) and reasons for selecting the **Valuation Method** or model (for example, Black-Scholes-Merton, Binomial or Monte Carlo); and
 - (f) Significant or key assumptions and the basis for such assumptions in the **Valuation** of the share-based payments. Such assumptions may include, but are not limited to:
 - (i) discounts applicable on post-vesting conditions of the shares;
 - (ii) dividends expected on the **Equity Instrument**;
 - (iii) effective life of the option, having regard to both the contractual life of the option and the propensity for early exercise for non-European options, including allowance for the behaviour of different cohorts of **Equity Instrument** holders;
 - (iv) expected volatility of the share price;
 - (v) risk-free interest rate for the life of the **Equity Instrument**;
 - (vi) market price of the underlying **Equity Instrument**;
 - (vii) other factors allowed for by knowledgeable, willing market participants; and
 - (viii) dilution effects relating to the issue of the share-based payments.

Financial instruments

- 5.9 Subject to paragraph 5.1, a **Member** should consider disclosing the following matters, amongst other things, when providing a **Valuation Report** in respect of financial instruments:
- (a) Instruments which are the subject of the **Valuation Report**, including value and relevant terms of issue;
 - (b) **Valuation** date or **Measurement Date**;
 - (c) **Premise of Value** adopted for the **Valuation Report** (for example, fair value);
 - (d) Fair value hierarchy (i.e. quoted price in an active market, or use of a **Valuation Method**);
 - (e) Where a **Valuation Method** is used:
 - (i) the rationale and evidence for the **Member's** choice of the **Valuation Method** (for example, representative of current market practice);
 - (ii) the extent to which the **Member** has calibrated the **Valuation Method** by comparison to quoted market prices of other **Equity Instruments** using equivalent inputs to those used for the subject security; and
 - (iii) significant or key assumptions and the basis for such assumptions, including but not limited to:
 - discount rates;
 - credit risk;
 - foreign exchange rates;
 - commodity prices;
 - equity prices;
 - volatility;
 - prepayment or surrender risk; and
 - servicing costs.

Superannuation entities

- 5.10 Subject to paragraph 5.1, a **Member** should consider disclosing the following matters, amongst other things, when providing a **Valuation Report** in respect of assets held in superannuation entities:
- (a) Ownership structure, co-investors and the rights of the owner that influence the value;
 - (b) Effective **Valuation** date;
 - (c) **Valuation Methods** considered and reasons for selecting the particular **Valuation Method**;
 - (d) Significant or key assumptions and the basis for selecting such assumptions in the **Valuation** of the assets acquired and/or liabilities assumed;
 - (e) The level of work undertaken by the **Member** with respect to the significant or key assumptions; and
 - (f) If the **Member** has relied on data, tools or information provided by a manager of the asset, the work undertaken by the **Member** to ensure they are satisfied with the data, tools or information.

Conformity with International Pronouncements

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES GN 21.

Appendix 1

Summary of revisions to the previous APES GN 21 (Issued in July 2016)

APES GN 21 *Valuation Services for Financial Reporting* was originally issued in July 2016 (extant APES 21). APES GN 21 has been revised by APESB in January 2020. A summary of the revisions is given in the table below.

Table of revisions*

Paragraph affected	How affected
1.2	Amended
1.4	Amended
1.5	Added
1.6	Added
1.7	Added
1.8	Added
1.9	Added
1.10	Added
1.11 – Paragraph 1.5 in extant APES GN 21	Relocated
2 – Introduction	Amended
3.1	Amended
4.1	Amended
4.2	Amended
4.3	Amended
4.4	Amended
5.1	Amended
5.2	Amended
5.3	Amended
5.4	Amended
5.7	Amended
5.8	Amended
5.9	Amended
5.10	Amended

* Refer *Technical Update 2020/2*