

Project Proposal for APES GN 20 – 2X

1 Background

The initiative for these proposed Business Valuation guidance notes (Guidance notes) came from the Institute of Chartered Accountants in Australia's (Institute's) Business Valuation Special Interest Group (BVSIG). BVSIG is the newest of the Institute's Special Interest Groups and was established in July 2005. It currently has approximately 1,100 members and has already attracted many of the leaders within this field - both in practice and in commerce.

The terms of reference for the BVSIG are:

- To promote: a better understanding of professional valuations within the accounting profession and those groups that rely on the work of valuation experts, such as tax advisors, senior management, regulators and other stakeholders.
- To assist: professional valuers maintain high professional standards, increase awareness of issues impacting their clients and to provide advice and direction in responding to these issues.
- To provide: technical expertise and formulate policy.

The advent of legislative and market changes have provided the impetus for this group to be set up. The introduction of International Financial Reporting Standards, including its extensive references to fair value and the advent of a number of market value-based pieces of tax legislation (eg tax consolidation) have meant that community requirements of the accounting profession in the area of valuation have increased substantially.

In 2008, APESB issued APES 225 Valuation Services. It was envisaged at the time the Board would consider in the future whether guidance notes are required to assist valuation practitioners and users.

2 Objectives

The objective of the proposed guidance notes is to provide relevant and authoritative guidance on professional aspects of the execution and reporting of certain types of work covered by APES 225. It is envisaged that these professional guidance notes will provide additional direction to practitioners on how to apply APES 225 in specific circumstances and cover areas such as:

- Minimum content and disclosures required in Valuation reports.
- The nature of the valuation opinion and scope of work, e.g. appropriate limitations.
- Appropriate valuation methodologies.
- Sources and use of information, including forecasts.

The types of valuation engagements that are envisaged to be covered in the guidance notes are:

- Valuations for financial reporting and tax.
- Expert witness reports dealing with valuation (anticipated to be developed in conjunction with FASIG).
- Independent experts and fairness opinions.
- Valuation review reports.
- Advisory reports on value.

These kinds of guidance are consistent with that offered in other similar jurisdictions (e.g. Canada) and in those jurisdictions similarly address professional rather than technical matters. A similar approach is proposed for the Guidance Notes proposed in this document. To provide some indication of the form of the Guidance Notes, examples of similar Canadian guidance is provided as Appendix A to this proposal.

In future, it may be appropriate to consider the issue of a guidance note on Solvency Opinions which is an emerging area of valuation practice in the USA and Canada, as its use in the Australian market begins to increase.

3 Stakeholders

Stakeholders that will be impacted by the development of the Standard are:

- Professional accounting bodies - Institute of Chartered Accountants in Australia, CPA Australia and NIA.
- Valuation practitioners who are members of the professional accounting bodies.
- Users of valuation services including ASIC, the Courts and the ATO.

4 Impact on other APESB Pronouncements

As there are no current APESB pronouncements, other than APES 225 and APES 110 that comment directly on valuation matters, it is not expected that this proposed Standard will impact any other existing APESB pronouncements. It is conceivable that the guidance on Expert Witness may intersect and be complementary to APES 215 on Forensic Accounting Services.

5 Impact on Accounting, Auditing or other relevant standards

As noted above, the introduction of International Financial Reporting Standards has increased the relevance of valuation matters in a number of the Accounting and Auditing Standards. These guidance notes are not expected to directly impact upon the requirements of those standards, but rather provide further guidance to valuation practitioners in meeting the requirements set out in those standards.

6 Related Legislative Developments

Recent legislative changes have increased the relevance of valuation matters within the accounting and auditing profession. It is not expected that future legislative developments will reduce this relevance.

Furthermore, there are no current legislative developments that are likely to be impacted by these proposed guidance notes.

7 Benefits of developing the pronouncement

The benefits of developing the proposed guidance include:

- providing guidance that expands the framework established by APES 225, to allow both providers of valuation services and users of such services to operate on a common basis of understanding about the nature and scope of particular engagements. Such practical guidance will minimise the potential for expectation and quality gaps to emerge that could have potentially adverse impacts on the reputation and standing of the Accounting and auditing professions within Australia.
- consolidating various sources of guidance issued internationally, and by various local regulators (eg ATO and ASIC), and by doing so improve the voice of the Australian Accounting and Auditing profession in regulatory developments that impact on the performance of services for clients in this market
- providing a platform by which business valuation practice in Australia can be aligned with international practice.

8 Evaluate the consequence of not developing a pronouncement

Given the increased importance of valuation matters to the Accounting and Auditing profession, the APESB is considered to be the most appropriate body to provide a professional framework for the accounting profession.

There are a number of potential sources of technical guidance for members providing valuation including International Valuation Standards, International Standards (ISO) on brand valuation. In addition, ASIC and the ATO issue valuation guidance (ASIC RG111 and the ATO5 market valuation guidelines, for example). These guidance notes aim to supplement the existing guidance with professional guidance relevant to the most common valuation contexts in Australia.

The development of these guidance notes is anticipated to be in the public interest as not developing a pronouncement, may result in decreased confidence in the profession due to lack of guidance with respect to the establishment of values for financial reporting, taxation, independent expert, expert witness and advisory purposes.

The BVSIG, which includes many of Australia's leading practitioners in this field and representatives of the largest providers of valuation services, are committed to providing a framework by which its members provide professional valuation services.

However, there are currently a number of initiatives underway in relation to the setting of valuation standards internationally. It is expected that, in the medium term, an international body representing the interest of business valuers may emerge from the various national organisations that currently exist in the North America and Europe.

If the proposed guidance is not implemented in a timely manner for Australian practitioners in this area, the practitioners are likely to turn to the emerging international guidance for direction when undertaking valuation matters.

In such circumstances, the APESB will lessen its oversight over a specialist area of the accounting profession which is expected to increase in importance over time.

9 Contact details

Please feel welcome to contact **Mr Richard Stewart**, Chairman, BVSIG on 02 8266 8839 regarding this project proposal.