

## AGENDA PAPER

**Item Number:** 10  
**Date of Meeting:** 4 November 2013  
**Subject:** Proposed Guidance Note APES GN20 *Scope and Extent of Work for Valuation Services*

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**Action Required**       **For Discussion**       **For Information Only**

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### Purpose and background

To obtain the Board's direction on the way forward on the APES GN 20 project.

APESB issued APES 225 *Valuation Services* (APES 225) in July 2008 with an effective date of 1 January 2009. APES 225 sets out mandatory requirements and guidance for Members who provide Valuation Services. In May 2012 APESB issued a revised version of APES 225 which clarifies the three different types of Valuation Engagements and also incorporated additional examples to demonstrate the distinction between the three types of engagements.

ICAA's Business Valuation Special Interest Group (BVSIG) has proposed that APESB develop Guidance Notes to further assist valuation practitioners. In January 2011 it was proposed that the first Guidance Note should be focused on Valuations for Financial Reporting, due to the convergence of International Financial Reporting Standards (IFRS) and the ensuing demand for related services.

In completing the first draft of the proposed APES GN 21 *Valuations for Financial Reporting* (re-numbered) a further need was identified to provide valuation practitioners guidance that would assist them in determining the appropriate type of Valuation Report to produce, based on the particular circumstances of the Valuation Service, and that this guidance should be issued ahead of the proposed *Valuations for Financial Reporting* Guidance Note.

The proposed APES GN 20 *Scope and Extent of Work for Valuation Services* (APES GN 20) aims to provide further guidance to members to comply with the requirements of APES 225 *Valuation Services*. APES GN 20 is based on a Practice Bulletin developed by the Canadian Institute of Business Valuators (CICBV) in September 2012 which is titled *Guidance on Types of Valuation Reports*.

ED 04/12 GN 20 *Scope and Extent of Work for Valuation Services* was released for public comment in September of 2012. Responses were received from the Joint Accounting Bodies as well as three accounting firms.

A Taskforce meeting was held in February 2013 to analyse and work through the feedback from respondents. Some of the Taskforce members were concerned that the proposed APES GN 20 contains technical guidance and thus whether its issuance is beyond APESB's mandate. The Taskforce recommended that Technical Staff seek direction from the Board on the way forward on this project.

At the February 2013 meeting, Taskforce members discussed the capacity of the Guidance Note to assist Members in the application of APES 225. It was noted that it is imperative that Guidance Notes serve to add value and assist Members in applying provisions of APES 225 and not otherwise create new professional obligations. The Taskforce further discussed the possibility of the Guidance Note imposing unintended mandatory requirements on Members due to the Court's interpretation of any material released by APESB as constituting authoritative standards for Members. Some members of the Taskforce were of the view that, in the case of litigation, the Court has been known to hold Members accountable for guidance material and not just standards.

The Taskforce resolved to seek direction from the Board on the way forward with this project. Technical Staff invited Taskforce members to put forward their views on the appropriateness of the Guidance Note. Technical Staff also prepared a position paper on the key issues.

### **May 2013 Board meeting update**

At the May 2013 Board meeting, Taskforce members were invited to present two different views on the way forward for the Guidance Note. One Taskforce member presented the view that the substance of the Guidance Note is invalid in the Australian context and was neither drafted in the public interest nor within the mandate of APESB, since some of the content may be misconstrued as being of a "technical" nature. An alternative view was presented by two other Taskforce members who were of the view that the proposed Guidance Note provides a useful framework for Clients to understand the breadth and complexity of Valuation Approaches and Valuation Methods. It was noted that the draft proposed Guidance Note has been effectively used by a mid-tier firm to facilitate engagement scoping discussions with Clients.

The Board agreed to further consider the need for the proposed Guidance Note and directed the Technical Director to coordinate meetings with taskforce members to further investigate the issues raised and to identify a way forward in respect of this project. The Board agreed that, as a general principle, it is not averse to issuing guidance where it is in the public interest and useful for Members.

### **Consideration of issues**

Subsequent to the May 2013 Board meeting, Technical Staff and the Taskforce collaborated to process editorials to the Guidance Note based upon the Board's direction from the May 2013 Board meeting. The editorials resulted in a truncated version of the Guidance Note, excluding matters that were deemed extraneous through discussions with Taskforce members. The editorials also resulted in the inclusion of an Appendix with illustrative examples that aim to contextualise the main subject matter of the Guidance Note.

The Taskforce member who presented an alternative view of the Guidance Note at the May 2013 Board meeting has now developed an alternative version of the Guidance Note for the Board's consideration. This alternative Guidance Note focuses on the quality and extent of evidence and is restricted by the scope and application section to apply solely to the requirements of paragraph 4.5 of APES 225. Refer to Attachment 10 (c) for the amendments made to the original Guidance Note to focus it the quality and extent of evidence.

### **Staff Recommendation**

The Board provide direction on which of the following three options to adopt in respect of the APES GN 20 project:

- (a) whether the changes made since public exposure to the original exposure draft are substantive enough to warrant issuing a second exposure draft; or
- (b) approve the issue of the proposed Guidance Note APES GN 20 *Scope and Extent of Valuation Services* as presented (refer 10 (a) and 10 (b)); or
- (c) issue a new exposure draft of proposed Guidance Note APES GN 20 *Quality and Extent of Evidence for Valuation Services* (refer 10 (c) and 10 (d)).

### **Material Presented**

- Attachment 10 (a) – Proposed Guidance Note APES GN20 *Scope and Extent of Work for Valuation Services* (Marked up);
- Attachment 10 (b) – Proposed Guidance Note APES GN20 *Scope and Extent of Work for Valuation Services* (Clean);
- Attachment 10 (c) – Proposed alternative Guidance Note APES GN20 *Quality and Extent of Evidence for Valuation Services* (Marked up);and
- Attachment 10 (d) – Proposed alternative Guidance Note APES GN20 *Quality and Extent of Evidence for Valuation Services* (Clean)

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**Date:** 29 October 2013