

AGENDA PAPER

Item Number: 2
Date of Meeting: 11 November 2015
Subject: Project status update on APES GN 21 *Valuation Services for Financial Reporting* Exposure Draft (APES GN 21 ED)

Action required **For discussion** **For noting** **For information**

Purpose

To obtain the Board's approval to issue the proposed Guidance Note APES GN 21 *Valuation Services for Financial Reporting* Exposure Draft (APES GN 21 ED) for public consultation for a 90 day comment period, subject to the Board's editorials and review comments.

Background

In January 2011, APESB approved a project to develop a guidance note on *Valuation for Financial Reporting* due to the adoption of International Financial Reporting Standards (IFRS) and the ensuing demand for Valuation Services.

During the process of drafting APES GN 21, a further market need was identified to provide valuation practitioners with guidance to determine the scope and extent of work for Valuation Services, based on the specific requirements of a Valuation Engagement. Accordingly, the Board determined to develop APES GN 20 *Scope and Extent of Work for Valuation Services* (APES GN 20) ahead of the proposed APES GN 21. The APES GN 20 project was completed in December 2013.

Given the issuance of APES GN 20, an evaluation was performed by Technical Staff to determine whether the development of APES GN 21 should be continued. A Technical Staff Paper was provided to the Board at the Board Meeting held on 14 October 2014, with an assessment of the benefits to continue the development of APES GN 21 post the issuance of APES GN 20.

APESB determined to progress with the project to develop guidance on *Valuation Services for Financial Reporting* for Members due to the importance of IFRS to the financial reporting process and the increased use of fair value measurement in the current financial reporting environment. Additionally, the focus of APES GN 21 ED that provides guidance to a Member on the application of APES 225 *Valuation Services* (APES 225) to Valuation Services conducted in respect of financial reporting was inherently different to APES GN 20.

Development Process

Two taskforce meetings have been held since October 2014 to recommence the preparation of APES GN 21 ED. The taskforce have discussed the drafting of the proposed APES GN 21 ED and have agreed that the following key subject matters are appropriate to clarify the application of APES 225 to Valuation Services in respect of specific Valuation Engagements:

- Business combinations;
- Impairment of goodwill and intangible assets;
- Share-based payments;
- Financial instruments; and
- Superannuation entities.

Accordingly, the proposed APES GN 21 has been structured in the following manner:

Section 1 Scope and application

- Includes the objectives paragraph, interpretation paragraph and draftings to make the ED consistent with the recent revisions to APESB pronouncements.

Section 2 Definitions

- Includes definitions that are specific to this guidance note and in addition those contained in APES 225.

Section 3 Fundamental responsibilities of Members

- Provides guidance on a Member's mandatory professional and ethical obligations in respect of APES 110 *Code of Ethics for Professional Accountants*.

Section 4 Scope of Valuation Services for Financial Reporting

- Provides guidance on the professional obligations of a Member when determining the scope of work to be performed in respect of a Valuation Service for Financial Reporting;
- Specifies matters to be addressed and considered by the Member in the scope of work to be performed (e.g. identifying the applicable Australian Accounting Standards and the specific purpose for which the Valuation Service is required); and
- Where possible, includes cross references to relevant professional and ethical requirements in APES 225 and APES GN 20 to avoid any duplication of mandatory obligations or guidance.

Section 5 Reporting and Disclosures for Valuation Services for Financial Reporting

- Includes a reference to section 5 *Reporting* of APES 225 as reminder for a Member to comply with the mandatory reporting and disclosures of a Valuation Report;
- States the Member's responsibility to disclose the basis of Valuation or to assess the reasonableness of the Conclusion of Value or Calculated Value; and
- Provides guidance on the contents and disclosures of a Valuation Report for a Member to consider, when providing a Valuation Service for Financial Reporting to a client or employer in respect of:
 - Business combinations;
 - Impairment of goodwill and intangible assets;

- Share-based payments;
- Financial instruments; and
- Superannuation entities.

The minutes of the taskforce meetings are provided as agenda items 2 (b) and 2 (c) for the Board's information.

Staff Recommendation

That the Board approve the issue of APES GN 21 ED for public consultation for a 90 day comment period.

Material Presented

- Agenda Item 2 (a) Proposed APES GN 21 *Valuation Services for Financial Reporting* Exposure Draft (clean);
- Agenda Item 2 (b) Minutes of 1st APES GN 21 taskforce meeting held on 23 January 2015; and
- Agenda Item 2 (c) Draft minutes of 2nd APES GN 21 taskforce meeting held on 13 July 2015.

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Date: 2 November 2015