

August 2017



## **Basis for Conclusions: APES GN 31 Professional and Ethical Considerations relating to Low Doc Offering Sign-offs**

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*Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board*

## BASIS FOR CONCLUSIONS:

### **APES GN 31 Professional and Ethical Considerations relating to Low Doc Offering Sign-offs**

This basis for conclusions has been prepared by Technical Staff of Accounting Professional & Ethical Standards Board Limited (“APESB”). It has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders so they may gain an understanding of the background to the development of APES GN 31 *Professional and Ethical Considerations relating to Low Doc Offering Sign-offs* (APES GN 31).

The basis for conclusions **does not** form part of APES GN 31 and is not a substitute for reading the Guidance Note.

### **Background**

APESB has issued APES GN 31 to provide guidance on the application of paragraph 1.10 of APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* (APES 350) to Low Doc Offerings, including when it is considered appropriate to provide a Low Doc Offering Sign-off.

APES GN 31 provides context for Low Doc Offerings and Low Doc Offering Engagements and guidance in respect of:

- Fundamental responsibilities of Members in Public Practice;
- Roles and responsibilities of Members in Public Practice in Low Doc Offering Engagements;
- Engagement circumstances that may enable or preclude issue of a Low Doc Offering Sign-off; and
- Reporting and documentation considerations.

APESB issued an exposure draft of the proposed Guidance Note in June 2017 with a comment deadline of 25 July 2017. APESB received five submissions and in response to the comments received, APESB made a number of changes to APES GN 31.

The following summarises the key issues raised by respondents during the development of APES GN 31 and how APESB addressed them.

### **Comfort Letter Engagements**

A respondent raised an issue in respect of the applicability of APES GN 31 to comfort letter engagements undertaken in accordance with ASRS 4450 *Comfort Letter Engagements* (ASRS 4450). The respondent was of the view that comfort letter engagements, by their nature, meet the definition of a Low Doc Offering and therefore would be included in the scope of APES GN 31.

Comfort letter engagements are different to the engagements to which APES 350, and therefore APES GN 31, applies. APESB has therefore determined that comfort letter engagements are excluded from the scope of APES GN 31.

Members in Public Practice who require guidance on comfort letter engagements should refer to the relevant AUASB standard ASAS 4450 and the accompanying Explanatory Guide.

Members in Public Practice should refer to the overarching requirements and guidance in APES 110 *Code of Ethics for Professional Accountants* in the absence of specific guidance on a topic or type of professional service.

### Definitions - Low Doc Offering

A respondent noted that the proposed definition of Low Doc Offering as a security offering without any regulated disclosure was not factually correct. Both the *Corporations Act 2001* and the ASX Listing Rules set out specific requirements for Low Doc Offerings which do include disclosure requirements (i.e. a cleansing notice).

APESB have therefore clarified the definition of Low Doc Offering by replacing the reference to unregulated disclosures with a Public Document (as referred to in section 708AA and section 1012DAA of the *Corporations Act 2001*). This change assists in clarifying the scope of the guidance note.

### Use of the word “should” (paragraphs 5.2, 5.4, 6.1, 7.1)

A respondent was concerned about the use of “should” in APES GN 31 and whether its use presents requirements of APES 350 and other standards as guidance. The respondent refers to paragraphs 5.2, 5.4, 6.1 and 7.1 as examples of where the word ‘should’ may be seen as diluting mandatory professional obligations required in different standards.

When a requirement in another APESB standard must be followed, such as exercising professional judgement, the word ‘should’ is not considered appropriate. Paragraphs 5.2, 5.4 and 7.1 have been revised to reinforce existing professional obligations of Members.

The use of “should” is generally used to denote guidance by standards. APESB has included a reference in paragraph 1.4 in the Guidance Note to the Due Process and working procedures for the development and review of APESB pronouncements (the Due Process document) to ensure that Members and other users understand the implications of the word “should” in its pronouncements.

APESB has reviewed the use of the term ‘should’ in the guidance note and, in most instances including paragraph 6.1, the word ‘should’ has been applied in accordance with APESB’s Due Process document.

### Documentation (paragraph 7.1)

Paragraph 7.1 sets out guidance on documentation and was reviewed for appropriateness in relation to the use of the word “should” (refer to comments in the section above). Additional revisions to this paragraph were made to reinforce the need to comply with the requirements of APES 320 *Quality Control for Firms*.