

**Constituents' Submissions – Specific Comments Table**  
**Exposure Draft 04/15: APES GN 21 *Valuation Services for Financial Reporting***

*Note: General comments relating to APES GN 21 are addressed in a separate table. This table excludes minor editorial changes.*

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
1	Section 1 <i>Scope and Application</i>	CPA A	<p>We offer the comments below in the event the Board decides to issue the proposed guidance note.</p> <p><b>Overall comments</b>                      As the purpose of the GN is to assist with valuations relevant to financial reporting, we recommend that the disclosure guidelines set out in it are aligned with the disclosure requirements of the relevant Australian Accounting Standards.</p> <p>In our view, impairment of tangible assets and valuation of assets in the public and private not-for-profit sectors are also significant for financial reporting purposes.</p>
2	Section 1 <i>Scope and Application</i>	IPA	<p>Specifically, in relation to the content of GN 21, the IPA makes the following observations and comments:</p> <p>3. The Board needs to address the scope of the proposed guidance note. Is it the intention that the proposed guidance statement be restricted to financial reporting in the context of half year and full year financial reporting requirements under the Corporations Act or similar legislation? The IPA is of the view the proposed guidance should also apply to valuations prepared for the use in pro-forma financial statements or Investigating Accountant Reports in product disclosure statements.</p>
3	Section 1 <i>Scope and Application</i>	IPA	<p>4. The IPA is of the view the proposed guidance note should also encompass valuations undertaken in relation to the requirements of AASB 140 <i>Investment Property</i> and AASB 141 <i>Agriculture</i>. Both of these standards require use of fair value measurements and are currently not addressed by the proposed guidance note.</p>
4	Section 2 <i>Definitions</i>	CPA A	<p><b>Specific comments</b>  <i>Definitions</i></p> <p>While the definitions of Equity Instrument and Reload Feature are the same as AASB 2 <i>Share-based Payment</i>, the other four definitions that refer to AASB 2 are not the same as those contained in that standard. We urge the Board to consider the value of having the AASB definitions in the proposed guidance note and the rationale for specifying these requirements in an APES GN.</p>

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5	Section 4 <i>Scope of Valuation Services for Financial Reporting</i>	CPA A	<p><i>Scope of Valuation Services for Financial Reporting</i></p> <p>The proposed guidance note lists 'scope of work to be performed' as one of its objectives in paragraph 1.1. The title of Section 4 is 'Scope of Valuation Services for Financial Reporting'. This section does not provide any guidance that is not already provided in existing APES and APES GN. We therefore think that this section should be deleted.</p>
6	Section 5 <i>Reporting and Disclosures for Valuation Services for Financial Reporting</i>	IPA	<p>1.The lack of specific guidance in relation to requirements of the various accounting standards and. in particular, AASB 13 <i>Fair Value Measurement</i>.</p> <p>2.For valuation reports prepared for the use in financial reports the following aspects of AASB 13 should be addressed:</p> <ul style="list-style-type: none"> <li>a. The report has been prepared in accordance with the requirements of AASB 13</li> <li>b. The Market Participants identified on which basis assumptions and valuation techniques have been chosen (AASB 13.22)</li> <li>c. The valuation techniques applied (market, cost or income) per AASB 13.61-66 and AASB 13.B5-B11</li> <li>d. The level of the inputs used in the valuation (Level 1-3)</li> <li>e. Whether cost of disposal has been included as part of the valuation and the basis for its determination</li> <li>f. Recurring valuations using Level 3 inputs should include information as to sensitivities including for financial assets and liabilities the impact of such sensitivities (AASB 13.93(h))</li> <li>g. Sufficient information to enable compliance with the disclosure requirements of AASB 13.</li> </ul>
7	5.3	CPA A	<p><i>Definition of value</i></p> <p>Section 5 suggests that members should disclose the definition of value used and if applicable, whether the definition of value may not be equivalent to other definitions of value. We are not sure this provides clear guidance and urge the Board to consider its clarification.</p>
8	5.3	CPA A	<p><i>Accounting Standards</i></p> <p>The Guidance Note in paragraph 5.3 states that members should disclose: 'identification of the applicable Australian Accounting Standards pursuant to which the valuation report is prepared'. We are not sure why the accounting standards should be disclosed and we also think that if the Board considers the disclosure appropriate, the word identification in that sentence is obsolete.</p>
9	5.4	CPA A	<p><i>Valuation terms</i></p> <p>The footnote to the suggested disclosure of the definition of key valuation terms refers members to the International Glossary of Business Valuation Terms. These definitions are included in valuation standards which are not operative in Australia for financial reporting purposes. We appreciate the existence of the reference to this Glossary in APES 225, however we think that the first sentence of paragraph 7.2 in APES 225, which states: 'Members are encouraged to use as far as practicable terms that are in general use for Valuation Services', is more appropriate and should be included instead of the reference to the Glossary.</p>

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10	5.4	IPA	<p>5. In relation to business combinations (GN21.5.4) the following should be addressed:</p> <ul style="list-style-type: none"> <li>a. The explicit requirements of AASB 3 <i>Business Combinations</i> and AASB 138 <i>Intangible Assets</i>. In the case of AASB 138, in particular, the amendments to the recognition and measurement requirements arising in the circumstances of a business combination (AASB 138.35-37)</li> <li>b. The section should explicitly deal with assignments to carry out purchase price allocations in the context of AASB 3</li> <li>c. The section should deal with purchase price allocations determined on a provisional basis under AASB 3.45. The guidance note should require to the extent possible that basis provisional purchase price allocations should be disclosed and that any subsequent adjustments during the provisional accounting period will impact goodwill or bargain purchase price</li> <li>d. In relation to consideration the proposed guidance release should expressly address for each component of consideration the basis for valuation of the consideration and the assumptions used in determining the fair value of consideration</li> <li>e. For contingent consideration the valuation report should address the basis for recognition and the measurement assumptions used in determining contingent consideration in accordance with AASB 3</li> <li>f. The Board should consider the responsibility or otherwise of the preparer to address the application of AASB 3. For AASB 3 to apply there needs to be a business combination, while the legal form may be the acquisition of another entity that entity may not necessarily be a business in which case the fair value requirements of AASB 3 does not apply. Similarly, changes in common control do not give rise to a business combination in accordance with common control and AASB 3 may not necessarily apply. Finally, under AASB 3 the legal acquirer may not be considered the accounting acquirer (i.e. a reverse acquisition) which will impact the entity to which the fair value requirements of AASB 3 apply. The proposed guidance statement should address the circumstances where the preparer of the valuation report is of the view that the proposed treatment of the business combination is not in accordance with AASB 3.</li> </ul>
11	5.4, 5.7-5.10	CPA A	<p>Similarly, paragraphs 5.4, 5.7, 5.8, 5.9 and 5.10 state that a member should consider disclosing the: 'Significant or key assumptions and the basis for such assumptions ...'. Given that the disclosure of assumptions is a stated requirement in paragraph 5.2 (l) we do not think it should be presented as guidance.</p>
12	5.4, 5.7	CPA A	<p><i>Other issues</i></p> <p>The terms market-participant and buyer-specific are presented in quotation marks in the proposed guidance. We are not sure what the meaning of the quotation marks is and how they affect the status of these terms in the guidance note.</p>
13	5.5	CPA A	<p><i>Guidance and requirements</i></p> <p>Many requirements in APES 225 are presented as guidance in GN 21. Below we provide some examples. Paragraph 5.5 states: 'Where a Member has valued the purchase consideration, the Member should consider disclosing the basis of the Valuation, Valuation Approaches and Valuation Methods used.' We are of the view that these are contained in the requirements of paragraph 5.2 in APES 225 so they should not be presented as guidance.</p>

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14	5.7	IPA	<p>6. In relation to impairment of goodwill and intangibles (GN21.5.7) the following should be addressed:</p> <ul style="list-style-type: none"> <li>a. The specific requirements in relation to AASB 136 should be addressed, particularly in regards to the restrictions applicable to the Value in Use method of impairment testing</li> <li>b. In relation to Cash Generating Units (CGUs), the valuation report should address the responsibility for the determination of CGUs and where the responsibility lies with the preparer of the report the basis for determination of CGUs</li> <li>c. In relation to CGUs the treatment of "Group"/Shared Services" assets and/or charges</li> <li>d. The basis for determining increases in working capital requirements, and</li> <li>e. The method for determination of Terminal Value (i.e. perpetual growth model or exit multiple approach) and the assumptions used.</li> </ul>
15	5.8	IPA	<p>7. In relation to share based payments (GN5.8) the Board should address the preparers' responsibility in relation to the application of AASB 2 <i>Share-based Payment</i> when the valuation being prepared is in relation to share-based payments made for the receipt of goods or services. AASB 2.13 has a rebuttable assumption the fair value of share based payments is the fair value of the goods and services received unless that fair value cannot be reliably determined. The proposed guidance statement should address the circumstances where the preparer of the valuation report is of the view there is no basis to rebut the assumption the fair value of the goods and services received unless that fair value can be reliably determined.</p>
16	5.9	IPA	<p>8. In relation to financial instruments (GN5.9) the proposed guidance statements should specifically address compound financial instruments, in particular to require:</p> <ul style="list-style-type: none"> <li>a. A description of any conversion feature</li> <li>b. Whether the conversion feature is a derivative and the basis for such determination</li> <li>c. Where the conversion feature is a derivative whether the conversion feature is an equity derivative or a derivative liability</li> <li>d. The base of measurement including assumptions for the valuation of the host instrument and the equity derivative or derivative liability. Where the derivative liability is not bifurcated from the host instrument and the two elements are valued as a single instrument this should be clearly stated together with the basis of valuation and assumptions used.</li> </ul>
17	5.10	CPA A	<p>Paragraph 5.10 also states disclosure should be considered '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'. We think this is included in the requirement of paragraph 5.2 (k) of APES 225.</p>

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18		IPA	<p>Finally, the IPA would like to strongly express the view for a valuation to be considered independent for the purposes of financial reporting only the "Valuation Engagement" as defined in accordance with APES 225 <i>Valuation Services</i> meets a reasonable person's view of independence.</p> <p>Both a "Limited Scope Valuation Engagement" and a "Calculation Engagement" have client imposed restrictions that impair the perception of such engagements being independent. As such, the IPA is of the view that APES 225 should make it clear that only APES 225 can be titled and referred to as independent valuations.</p> <p>In addition, the IPA is aware of class of valuation engagements where the scope is such that a valuer reviews a client valuation model and makes amendments deemed appropriate by the valuer. The IPA believes such engagements are currently addressed by APES 225 and the Board should amend the standard appropriately.</p>

*Staff Instructions:*

- Comments of a "general" nature should be dealt with first, followed by paragraph specific comments.
- Respondents' comments must be copied verbatim into this table.
- Comments should be dealt with in paragraph order, not respondent order. Use acronyms only for respondents. Update the attached table with details of additional respondents.

**RESPONDENTS**

1	CPA A	CPA Australia
2	IPA	The Institute of Public Accountants