

AGENDA PAPER

Item Number: 12

Date of Meeting: 14 October 2014

Subject: Technical Staff Paper on Proposed APES GN 21 *Valuation for Financial Reporting*

Action Required

For Discussion

For Information Only

Purpose

The purpose of the Technical Staff paper is to provide the Board with:

- an assessment of the benefits of the continued development of APES GN 21 *Valuation for Financial Reporting* (APES GN 21) post the issuance of APES GN 20 *Scope and Extent of Work for Valuation Services* (APES GN 20); and
- Technical staff's recommendation that APES GN 21 project be completed.

Introduction and 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 issue of APES GN 20, an evaluation needs to be performed to determine whether the development of APES GN 21 should be continued.

Rationale for the development of APES GN 21

The Institute of Chartered Accountants in Australia (ICAA) and CPA Australia (CPA) use APES 225 *Valuation Services* (APES 225) and APES GN 20 in their professional development programs and/or certifications for Members who provide Valuation Services.

Origins of APES GN 21

The proposal to develop APES GN 21 originated from ICAA's Business Valuation Special Interest Group which has now been renamed as the Business Valuation Group. There are approximately 1,000 Members in this group who network, engage in discussions and share an interest in business valuation topics.

ICAA Professional Development/Certification

In March 2014, ICAA introduced the Business Valuation Specialisation framework and the Business Valuation Group (BVG) was formed for Members who specialise, practice and provide professional business valuation services. The Business Valuation Specialisation recognises Members' skills, knowledge and experience through a formal qualification certification process. This process incorporates an educational component provided by Kaplan to facilitate the currency of a Member's knowledge in this area and a peer review process which monitors ongoing professional development. Upon meeting all the requirements of the Specialisation successfully, a Member is designated the 'CA BV Specialist' descriptor.

The Specialisation recognition aims to:

- Provide users, investors and regulators with greater assurance that the business valuation tasks are being undertaken by professionals who are appropriately experienced and competent
- Provide a reference point for users seeking business valuation professional services
- Facilitate the ongoing development of valuation skills and knowledge for Members, resulting in professional competence which is underpinned by APES 225 and APES GN 20.

Further information is available at:

<http://www.charteredaccountants.com.au/Industry-Topics/Business-valuations>

CPA Australia's Continuing Professional Development

CPA Australia has developed an online continuing professional development program 'Business valuation compliance and regulation' which incorporates APES 225 and GN 20 for their Members who provide Valuation Services.

Further information is available at:

<https://www.cpaaustralia.com.au/pd/product.mvc/view/cf30d6ca-2af0-4787-ade7-a6f13b1834df>

Other Factors

The other factors supporting the development of APES GN 21 are:

- The focus of APES GN 20 is on the scope and extent of work in respect of all Valuation Services. The focus of APES GN 21 is inherently different as it provides guidance on a particular type or segment of Valuation Services which has gained significance due to the use of IFRS standards for Financial Reporting;
- Application of the IFRS equivalent Accounting Standards AASB 9 *Financial Instruments* and AASB 13 *Fair Value Measurement* which provide requirements in respect of fair value measurement of assets and liabilities in respect of financial statements;
- Professional Standards on this topic have been issued by other international standard setters e.g. Canadian Institute of Chartered Business Valuators (CICBV) and American Institute of Certified Public Accountants (AICPA);
- Some Members in Public Practice especially SME practitioners may lack the requisite internal resources to generate similar guidance; and

- There are diverse situations under which Valuations for Financial Reporting are prepared for clients and employers, particularly in the following areas:
 - The way in which assets are valued may differ under taxation and accounting rules.
 - The valuation methods vary between different types of valuations e.g. fair value for accounting purposes and fair market value for taxation purposes.
 - The valuation guidance adopted in most circumstances is A-IFRS for accounting and the Market Valuation Guidelines for taxation.
 - The valuation procedures performed by valuers will vary based on the different requirements of the valuation guidance i.e. A-IFRS or Market Valuation Guidelines.
 - Valuation documentation and disclosures differ depending on valuation exercises performed e.g. purchase price allocation provides more details on individual asset types, costs and useful life analysis as compared to a capital gains tax valuation dealing with a corporate interest.

Benefits of developing APES GN 21

The development of APES GN 21 benefits Members and users of Valuation Services by:

- Providing relevant guidance on the professional aspects of undertaking and reporting on engagements in respect of Valuations for Financial Reporting in accordance with APES 225 including:
 - Minimum content and disclosures required in Valuation reports.
 - Appropriate valuation considerations.
 - Sources and use of information, including forecasts.
- Enabling providers and users of Valuation Services to mutually understand the reporting and disclosure obligations for Valuation Engagements for Financial Reporting and thus, reducing any potential expectation gaps that could adversely impact the reputation of the Australian accounting profession.
- Performing a review and incorporating appropriate elements from sources of guidance issued internationally (*International Valuation Standards* by International Valuation Standards Council and *Brand Valuation* by International Organisation for Standardisation) and making appropriate references to guidance issued by local regulators (*Market Valuation Guidelines* by Australian Taxation Office (ATO) and RG 111 *Content of expert reports* by Australian Securities and Investments Commission (ASIC)).
- Performing the above steps will align the Australian business valuation practices with international best practices.

Evaluate the consequence of not developing APES GN 21

The recent increase in asset price volatility, changes in valuation-relevant tax, accounting and corporate regulation and a re-energised mergers and acquisitions marketplace has resulted in the growing importance of valuations to the Australian Accounting profession. It is also expected that an international body representing the interest of business valuers may emerge from the various national organisations that currently exist in North America and Europe.

Thus if APES GN 21 is not developed in a timely manner, Australian valuation services practitioners will be required to have regard to this emerging international guidance for direction. In addition, the work performed by Members may be of a lesser quality compared to international practices due to the lack of specific guidance in Australia. This may lead to the public's confidence in the accounting profession's ability to perform Valuation Services being eroded.

Stakeholders Impacted

- Professional Bodies – Chartered Accountants ANZ, CPA Australia and IPA;
- Valuation practitioners who are Members of the Professional Bodies;
- Users of valuation services; and
- Regulatory bodies - ASIC, the Courts and ATO.

Technical Staff Comments

APESB's role and mandate

APES GN 21 will primarily be based on the guidance issued by CICBV which is the professional body for business valuers in Canada. The CICBV espouses a Code of Ethics and their Practice Standards and Practice Bulletins are similar in purpose to the APESB suite of Standards and Guidance Notes.

Public Interest

Following are the reasons APES GN 21 is in the public interest:

- Informs a client about the contents and disclosures within the Valuation Report for Financial Reporting and allows the client to understand the subject matter and the basis of selection of assumptions or inputs in applying the valuation methodology.
- Guides Members to exercise professional judgement, demonstrate professional competence and adherence to best practice approaches when performing their services.
- Provides Small and Medium Practices with the relevant guidance as they generally lack the internal resources to generate such guidance.

Scope of the guidance note

The scope of the proposed APES GN 21 will generally consistent with the scope of Appendix B to CICBV Practice Standard No.110 which is available at <https://cicbv.ca/practice-standards/>

The proposed APES GN 21 will address professional and ethical requirements and provide guidance to Members in respect of the application of professional judgement when performing *Valuations for Financial Reporting*. Accordingly, the focus of the proposed APES GN 21 is inherently different to the existing APES GN 20.

Thus, the issue of APES GN 21 is in the public interest and will serve to benefit both Members and the public by enhancing the professional conduct of Members who perform Valuations for Financial Reporting.

It should be noted that significant research in respect of APES GN 21 had occurred prior to the project being delayed due to the development of APES GN 20. Research was performed on professional reporting and disclosure obligations for Valuation Engagements for Financial Reporting in:

- Business combinations and Purchase Price allocations;
- Impairment of Goodwill and Intangible Assets;
- Share-based payments; and
- Financial Instruments.

Technical Staff Recommendations

Due to the importance of fair value measurement in the current financial reporting environment, and the focus of APES GN 21 being inherently different to APES GN 20, Technical Staff strongly recommends that the Board recommence the preparation of APES GN 21.

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Date: 1 October 2014