

# **Project Proposal – Guidance Note on selecting the appropriate Valuation Report depending on the scope of the Valuation Engagement**

## **Introduction**

To develop guidance that assists Members in the preparation of Valuation Reports and selecting the appropriate Valuation Report based on the scope of work. This guidance will further assist Valuators to comply with the requirements of APES 225 *Valuation Services*.

## **Background**

In 2008, APESB issued APES 225 *Valuation Services*. It was envisaged at the time the Board would consider in the future whether Guidance Notes are required to assist valuation practitioners and users. 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 and the ensuing demand for related services.

In completing the first draft of the proposed APES GN 20 *Valuation Engagements for Financial Reporting* the taskforce identified a further need to provide valuation practitioners guidance that would assist them in determining the appropriate type of Valuation Report to produce, based on the particular circumstance of the engagement. Some taskforce members were of the view that this guidance should be issued ahead of the proposed Guidance Note *Valuation Engagements for Financial Reporting*.

Practitioners and users of Valuation Reports would benefit from these Guidance Notes to clarify the requirements of APES 225 in particular circumstances. Other jurisdictions have already provided additional guidance of this nature. For example, the Canadian Institute of Chartered Business Valuators has recently released a discussion paper which proposes to provide guidance on the different types of Valuation Reports.

The initiative for this proposal came from the Institute of Chartered Accountants in Australia's (Institute) Business Valuation Special Interest Group (BVSIG). This group includes approximately 1,000 members who practice in the area of business valuation.

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**Project Objective:** To develop a pronouncement that provides additional guidance for Valuers in determining which type of Valuation Report is appropriate for a given circumstance. This guidance note will be drafted taking into consideration the requirements of APES 225 *Valuation Services*.

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- Project Steps:**
- Invite current APES GN 20 (to be re-numbered) taskforce members to participate in the project. The task force should consist of the APESB Technical Director, 1 representative from each of the professional bodies and at least 3 members with demonstrated expertise in Valuation Services.
  - APESB Board Member Harley McHutchison will function as an observer on the taskforce.
  - Conduct task force meetings between June 2012 and October 2012 to identify and discuss the approach to be taken in developing the exposure draft.
  - Develop an exposure draft for the Board to review that addresses key issues and provides sufficient guidance on the different types of Valuation Reports.
  - Present the first draft of the exposure draft to the APES Board for consideration at the November 2012 Board meeting.
  - Release the guidance note for exposure requesting comments on both specific issues highlighted and also general comments on the document as a whole.
  - Consider respondents' comments and their impact on the exposure draft and amend as required.
  - Prepare a Basis for Conclusions document detailing key issues that were identified and considered during the development of the pronouncement.
  - Present the final pronouncement and Basis for Conclusions document to the Board for approval at the May 2013 Board meeting.
  - Release the pronouncement in June 2013 and upload the pronouncement and Basis for Conclusions document onto the APESB website.
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<b>Project Structure:</b>	<ul style="list-style-type: none"> <li>• Board – provide feedback and oversee development of the pronouncement</li> <li>• APESB Technical Director – manage task force, provide technical support, role of principal drafting editor of the pronouncement, provide guidance to the task force on APESB policies and procedures</li> <li>• Task Force – provide APESB with advice on development and review of pronouncement</li> <li>• APESB Secretariat – provide administrative support to the taskforce</li> </ul>
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<b>Resource Requirements:</b>	<ul style="list-style-type: none"> <li>• Teleconference facilities, travel of APESB staff (as required) and taskforce members (by invitation only), printing and stationary.</li> <li>• It is estimated that the staff time on this project will be approximately 4- 6 weeks.</li> <li>• Budgeted taskforce costs for 8 taskforce meetings:</li> </ul> <table style="margin-left: 40px;"> <tr> <td>Conference calls \$300 per unit</td> <td style="text-align: right;">\$2,400</td> </tr> <tr> <td>Travel &amp; accommodation \$1,000 per unit</td> <td style="text-align: right;">\$5,000</td> </tr> <tr> <td>Sundry expenses \$200 per unit</td> <td style="text-align: right;">\$1,000</td> </tr> <tr> <td><b>Total Budgeted Costs</b></td> <td style="text-align: right;"><b>\$8,400</b></td> </tr> </table>	Conference calls \$300 per unit	\$2,400	Travel & accommodation \$1,000 per unit	\$5,000	Sundry expenses \$200 per unit	\$1,000	<b>Total Budgeted Costs</b>	<b>\$8,400</b>
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<b>Timeline:</b>	
May 2012	Board approve project proposal
June 2012	Assemble task force
June 2012	Conduct initial task force meeting
Jun 2012 – Oct 2012	Develop exposure draft
Nov 2012	Present exposure draft to Board for approval
Dec 2012	Release exposure draft for a 60-90 day comment period
March 2013	Collate feedback received
April 2013	Revise pronouncement taking into consideration feedback received and prepare Basis for Conclusions
May 2013	Present final pronouncement and Basis for Conclusions to Board for approval
June 2013	Issue pronouncement

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## **Impact on other APESB pronouncements**

Other than the potential impact on the proposed *Valuation Engagements for Financial Reporting*, there should be no other impact on APESB pronouncements. The Guidance Note should be complementary to the existing APES 225.

## **Impact on accounting, auditing or other relevant standards**

No impact on accounting, auditing or other standards.

However, as noted above, the introduction of International Financial Reporting Standards has increased the relevance of valuation matters in a number of the Accounting and Auditing Standards. These Guidance Notes are not expected to directly impact upon the requirements of those standards, but rather provide further guidance to valuation practitioners in meeting the requirements set out in APES 225.

## **Related legislative developments**

There are no current legislative developments that are likely to be impacted by this proposed Guidance Note.

## **Related international developments**

The Canadian Institute of Business Valuators has issued a Discussion Paper entitled *Guidance on Types of Valuation Reports* with the stated objective of assisting the Valuator in:

- determining the extent of review, analysis and corroboration that is appropriate for each of the three types of Valuation Reports;
- determining the suitability of the three types of Valuation Reports for various purposes;
- assessing the impact of the availability of information on the type of Valuation Report; and
- determining whether it is appropriate to provide a lower level of assurance where a higher level of assurance could be provided

## **Benefits of developing the pronouncement**

The benefits of developing the proposed guidance include:

- providing guidance that expands the framework established by APES 225, to allow both providers of Valuation Services and users of such services to operate on a common basis of understanding about the nature and scope of particular engagements. Such practical guidance will minimise the potential for expectation and quality gaps to emerge that could have potentially adverse impacts on the reputation and standing of the Accounting and auditing professions within Australia;
- consolidating various sources of guidance issued internationally, and by various local regulators (e.g. ATO and ASIC), and by doing so improve the voice of the Australian Accounting and Auditing profession in regulatory developments that impact on the performance of services for clients in this market; and
- providing a platform by which business valuation practice in Australia can be aligned with international best practice.

## **Contact details**

Please feel welcome to contact **Mr Richard Stewart**, Chairman, BVSIG on 02 8266 8839 regarding this project proposal.