

# Project Proposal for APES GN 20 – 2X

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## 1 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.

It is argued that APES 225 should now be augmented with guidance notes to address the diverse situation under which Valuations are prepared.

For example, a valuation for financial reporting may differ significantly from that prepared for income tax or dispute purposes. The predominant differences relate to professional matters (that is; what is done by the practitioner) rather than technical (how the practitioner goes about conducting work). For example, differences emerge, inter alia, in the following areas:

- Valuation scope: The nature of the assets to be valued can differ under tax and accounting rules.
- Valuation basis: Often the basis of value differs between different types of valuation eg fair value is often used for accounting purposes and fair market value for tax.
- Valuation guidance: The relevant guidance that is appropriate to be followed is in most cases AIFRS for accounting and the Market Valuation Guidelines for Income Tax
- Valuation procedures: Given the different requirements of the valuation guidance discussed above, the procedures adopted by the valuers can differ by consequence.
- Valuation documentation and disclosures: These often differ across different valuation exercises, for example, purchase price allocations have much more detail about individual asset types. Costs and useful life analysis compared to a capital gains tax valuation dealing with a corporate interest.

Because of the extent and nature of these differences, both practitioners and users of valuation reports would benefit from guidance notes to clarify the requirements of APES225 in particular circumstances. Other jurisdictions have already provided additional guidance of this nature.

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.

## 2 Objectives

The objective of the proposed guidance notes is to provide relevant and authoritative guidance on professional aspects of the execution and reporting of certain types of work covered by APES 225. It is envisaged that these professional guidance notes will provide additional direction to practitioners on how to apply APES 225 in specific circumstances and cover areas such as:

- Minimum content and disclosures required in Valuation reports.
- The nature of the valuation opinion, valuation basis and scope of work, including appropriate limitations for the context indication.
- Appropriate valuation considerations.
- Sources and use of information, including forecasts.

The types of valuation engagements that are envisaged to be covered in the guidance notes are:

- Valuations for financial reporting.
- Valuations for tax purposes.
- Expert witness reports dealing with valuation (anticipated to be developed in conjunction with FASIG).
- Independent experts and fairness opinions.
- Valuation review reports.
- Advisory reports on value.

These kinds of guidance are consistent with that offered in other similar jurisdictions (e.g. Canada) and in those jurisdictions similarly address professional rather than technical matters. A similar approach is proposed for the Guidance Notes proposed in this document. To provide some indication of the form of the Guidance Notes, an example the type of guidance is provided as Appendix A to this proposal.

Please note that this example is indicative only and has not been subject to any significant consultation.

## 3 Stakeholders

Stakeholders that will be impacted by the development of the Standard are:

- Professional accounting bodies - Institute of Chartered Accountants in Australia, CPA Australia and NIA.
- Valuation practitioners who are members of the professional accounting bodies.
- Users of valuation services including ASIC, the Courts and the ATO.

## 4 Impact on other APESB Pronouncements

As there are no current APESB pronouncements, other than APES 225 and APES 110, that comment directly on valuation matters, it is not expected that this proposed Standard will impact any other existing APESB pronouncements.

It is conceivable that the guidance on Expert Witness may intersect and be complementary to APES 215 on Forensic Accounting Services.

## 5 Impact on Accounting, Auditing or other relevant standards

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 professional guidance to valuation practitioners in meeting the requirements set out in those standards.

## 6 Related Legislative Developments

Recent legislative changes have increased the relevance of valuation matters within the accounting and auditing profession. It is not expected that future legislative developments will reduce this relevance.

Furthermore, there are no current legislative developments that are likely to be impacted by these proposed guidance notes.

## 7 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 (eg 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
- providing a platform by which business valuation practice in Australia can be aligned with international practice.

## 8 Evaluate the consequence of not developing a pronouncement

Given the increased importance of valuation matters to the Accounting and Auditing profession, the APESB is considered to be the most appropriate body to provide a professional framework for the accounting profession.

There are a number of potential sources of technical guidance for members providing valuation including International Valuation Standards, International Standards (ISO) on brand valuation. In addition, ASIC and the ATO issue valuation guidance (ASIC RG111 and the ATO5 market valuation guidelines, for example). These guidance notes aim to supplement the existing guidance with professional guidance relevant to the most common valuation contexts in Australia.

The development of these guidance notes is anticipated to be in the public interest as not developing a pronouncement, may result in decreased confidence in the profession due to lack of guidance with respect to the establishment of values for financial reporting, taxation, independent expert, expert witness and advisory purposes.

The BVSIG, which includes many of Australia's leading practitioners in this field and representatives of the largest providers of valuation services, are committed to providing a framework by which its members provide professional valuation services.

However, there are currently a number of initiatives underway in relation to the setting of valuation standards internationally. It is expected that, in the medium term, an international body representing the interest of business valuers may emerge from the various national organisations that currently exist in the North America and Europe.

If the proposed guidance is not implemented in a timely manner for Australian practitioners in this area, the practitioners are likely to turn to the emerging international guidance for direction when undertaking valuation matters.

In such circumstances, the APESB will lessen its oversight over a specialist area of the accounting profession which is expected to increase in importance over time.

## 9 Contact details

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