

July 2016



Basis for Conclusions: APES GN 21 Valuation Services for Financial Reporting

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

BASIS FOR CONCLUSIONS:

APES GN 21 *Valuation Services for Financial Reporting*

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 21 *Valuation Services for Financial Reporting* (APES GN 21).

The basis for conclusions **does not** form part of APES GN 21 and is not a substitute for reading the Guidance Note.

Background

APESB has issued APES GN 21 to provide guidance to assist Members on the application of APES 225 *Valuation Services* (APES 225) to Valuation Services conducted in respect of financial reporting.

APES GN 21 includes guidance in relation to a Member’s professional and ethical obligations in respect of:

- the provision of a Valuation Service for Financial Reporting to a Client or Employer;
- the scope of work to be performed; and
- matters to be disclosed in a Valuation Report.

APESB issued an exposure draft of the proposed Guidance Note (APES GN 21 ED) in November 2015 with a comment deadline of 29 February 2016. APESB received two submissions and in response to the comments received, APESB made a number of changes to APES GN 21.

The following summarises the key issues raised by respondents during the development of APES GN 21 and how APESB addressed them.

Rationale for the development

A respondent was of the view that APES GN 21 should have been developed as a standard rather than a guidance note based on its subject matter. The other respondent perceived that the subject matter covered in APES GN 21 was not within APESB’s mandate and that it is sufficiently addressed in existing APESB pronouncements.

APESB’s *Due process and working procedures for the development and review of APESB pronouncements* (Due process) document notes that a guidance note can be issued when it is considered necessary to provide additional professional and ethical guidance on service specific matters.

Valuation Services for Financial Reporting is a significant proportion of all Valuation Services performed and the primary purpose of APES GN 21 is to provide useful guidance on the disclosures the Member should consider in a Valuation Report (which is required by APES 225) in the context of Valuation Services for Financial Reporting. This guidance assists Members in meeting one of the fundamental professional and ethical obligations of

professional competence and due care when they perform Valuation Services in respect of Financial Reporting.

APESB has determined that the issuance of APES GN 21 is within APESB's mandate. APESB is of the view that APES GN 21 will promote consistency in Valuation Reports that are prepared in accordance with APES 225.

Scope of Valuation Services for Financial Reporting (paragraph 4.4)

A respondent was of the view that section 4 *Scope of Valuation Services for Financial Reporting* should be deleted as the guidance is included in existing APESB pronouncements. However, APESB decided to retain this section as it provides useful guidance for Members who perform Valuation Services for Financial Reporting. Additionally, APESB has amended paragraph 4.4 to limit its application to Valuation Engagements.

Definition of value used (paragraph 5.3)

A respondent noted that paragraph 5.3 should clarify the guidance to disclose the definition of value used and should remove the word 'identification' as it was redundant. Accordingly, APESB has amended paragraph 5.3 to clarify that the definition of value used includes related explanations and removed the word 'identification'.

Reporting and disclosures for Valuation Services for Financial Reporting (paragraphs 5.4, 5.5, 5.7 to 5.10)

A respondent was of the view that the disclosure of assumptions is a requirement in paragraph 5.2(l) of APES 225. Thus, paragraphs 5.4, 5.5, 5.7 to 5.10 should not be presented as guidance. Accordingly, APESB has amended these paragraphs to clarify that Members need to consider the matters to be disclosed in a Valuation Report, subject to paragraph 5.1. This paragraph provides a cross-reference to Members' professional reporting obligations specified in APES 225.