

14 January 2020

APESB issues revised APES GN 21 *Valuation Services for Financial Reporting*

Accounting Professional & Ethical Standards Board Limited (APESB) today announced the issue of the revised APES GN 21 *Valuation Services for Financial Reporting* (APES GN 21) to replace the existing APES GN 21 (Issued July 2016).

The key changes in the revised APES GN 21 consist of:

- Revisions to reflect the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued in November 2018; and
- Amendments to the Scope and Application section to align with other APESB pronouncements.

Please refer to Appendix 1 of this technical update for details of all the revisions. The revised APES GN 21 will be effective as at the date of issue.

APESB has incorporated the following interactive PDF features within the revised APES GN 21:

- Bookmark tab section for contents page;
- Dynamic links to sections and paragraphs;
- Pop-up definitions upon mouse rollover for defined terms; and
- Links to external websites.

The revised Guidance Note is available from APESB's website: www.apesb.org.au

– ENDS –

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Appendix 1

Revision to APES GN 21 (Issued July 2016)

Accounting Professional & Ethical Standards Board Limited (APESB) has approved the following revisions to APES GN 21 *Valuation Services for Financial Reporting* which was originally issued in July 2016 (extant APES GN 21).

Paragraph Reference	Revisions
1.2	Accounting Professional & Ethical Standards Board Limited (APESB) issues <u>has revised</u> professional guidance note APES GN 21 <i>Valuation Services for Financial Reporting</i> (the Guidance Note) which is effective from the date of issue <u>and supersedes APES GN 21 issued in July 2016.</u>
1.4	Members using this Guidance Note should refer to: (a) <u>APESB's <i>Due process and working procedures for the development and review of APESB pronouncements</i> (APESB's Due pProcess document),</u> to (b) <u>APES 225 for the mandatory requirements when Members provide Valuation Services;</u> and to (c) <u>APES GN 20 <i>Scope and Extent of Work for Valuation Services</i> (APES GN 20) for guidance on the application of APES 225 in determining the scope and extent of work that, depending on the particular circumstances, may be appropriate for the three types of Valuation Services defined in sSection 2 <i>Definitions</i> of APES 225.</u> The APESB's Due pProcess document provides the meaning of the term 'should' used in this Guidance Note. ¹
Footnote 1	See Refer to <u>Refer to APESB's Due pProcess document, Section 5 <i>Drafting Approach</i>, Paragraph 5.2(e).</u>
<u>1.5</u>	<u>Members working in Australia should follow the guidance in APES GN 21 when they provide Professional Activities.</u>
<u>1.6</u>	<u>Members outside of Australia should follow the guidance in APES GN 21 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.</u>
<u>1.7</u>	<u>The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.</u>
<u>1.8</u>	<u>All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.</u>
<u>1.9</u>	<u>Members are required to comply with other applicable Professional Standards and be familiar with relevant guidance notes when performing Professional Activities. All Members are required to comply with the fundamental principles outlined in the Code.</u>
<u>1.10</u>	<u>In applying the guidance outlined in APES GN 21, Members should be guided not merely by the words but also by the spirit of this Guidance Note and the Member's professional obligation to comply with the requirements of the Code.</u>
<u>1.115</u>	<i>[Paragraph 1.5 of extant APES GN 21 remains unchanged, but has been renumbered as Paragraph 1.11.]</i>

Paragraph Reference	Revisions
2.	<p><u>Defined terms, including terms defined</u> In addition to the definitions contained in APES 225, are shown in the body of the Guidance Note in title case.</p> <p>¶<u>For the purposes of this Guidance Note:</u></p>
3.1	<p>Members are required by s<u>Section 3</u> Fundamental responsibilities of Members in <u>of</u> APES 225 to comply with the following mandatory professional obligations of the Code when performing a Valuation Service:</p> <p><u>(a) Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework; and</u></p> <ul style="list-style-type: none"> • Section 100 – Introduction and Fundamental Principles; • Section 130 – Professional Competence and Due Care; • Section 140 – Confidentiality; <p><u>(b) • Section 220 310 – Conflicts of Interest; and</u></p> <ul style="list-style-type: none"> • Section 280 – Objectivity – All Services.
4.1	<p>Members are required to refer to s<u>Section 4</u> Professional Engagement and other matters of APES 225 when determining the scope of work to be performed in respect of a Valuation Service for Financial Reporting. Matters to be addressed in the scope of work include identifying the applicable Australian Accounting Standards and the specific purpose for which the Valuation Service is required.</p>
4.2	<p>A Member in Public Practice should refer to s<u>Sections 3</u> Scope and extent of work for Valuation Services and section 4 <u>Selecting the type of Valuation Service</u> of APES GN 20 when assisting the Client to determine the scope of the Valuation Service to be undertaken and whether it is appropriate for the circumstances.</p>
4.3	<p>Subject to the Terms of Engagement and depending on the Valuation Service being performed, a Member in Public Practice is required to refer to the mandatory professional and ethical requirements in s<u>Section 3</u> Fundamental responsibilities of Members of APES 225 when planning the extent of work for a Valuation Service for Financial Reporting.</p>
4.4	<p>Subject to the Terms of Engagement, where a Member in Public Practice is providing a Valuation Service for Financial Reporting in respect of a Valuation Engagement, the matters the Member may consider include obtaining sufficient understanding of the:</p> <ul style="list-style-type: none"> <u>(a)</u> subject matter of the Valuation Service, by reviewing relevant documentation which include agreements, contracts, letters of understanding, letters of intent and correspondence; <u>(b)</u> applicable Australian Accounting Standards; <u>(c)</u> characteristics, economic conditions, industry, underlying business operations and historical/forecast financial information related to the interest being valued; and <u>(d)</u> regulatory issues that may impact the Valuation Service.
5.1	<p>Members are required by s<u>Section 5</u> Reporting of APES 225 to comply with the mandatory reporting and disclosures of a Valuation Report when providing a Valuation Service.</p>

Paragraph Reference	Revisions
5.2	The content and disclosures of a Valuation Report should communicate sufficiently to a user (e.g. for example , Client, auditor or regulator) the basis of the Valuation (e.g. for example , subject matter, rationale and basis of assumptions or inputs in the Valuation Method) and enable the user to assess the reasonableness of the Conclusion of Value or Calculated Value.
5.3 to 5.4	<i>[Paragraphs 5.3 to 5.4 contain editorial amendments to replace the bullet point listings in the extant Guidance Note with alpha listings.]</i>
5.7	<i>[Paragraphs 5.7 contains editorial amendments to replace the bullet point listing in the extant Guidance Note with an alpha listing.]</i>
5.8	<p>Subject to paragraph 5.1, a Member should consider disclosing the following matters, amongst other things, when providing a Valuation Report in respect of share-based payments:</p> <ul style="list-style-type: none"> <u>(a)</u>• Equity Instruments which are the subject of the Valuation Report including the terms of issue, exercise prices (where applicable) and Vesting Conditions; <u>(b)</u>• Valuation <u>date</u> or Measurement Date, including reference to the Grant Date of the Equity Instruments; <u>(c)</u>• Premise of Value adopted for the Valuation; <u>(d)</u>• Terms of issue conditions included in the Valuation (e.g. for example, Market Conditions) and excluded from the Valuation (e.g. for example, non-market Vesting Conditions or Reload Features); <u>(e)</u>• Valuation Method(s), model(s) and reasons for selecting the Valuation Method or model (e.g. for example, Black-Scholes-Merton, Binomial or Monte Carlo); and <u>(f)</u>• Significant or key assumptions and the basis for such assumptions in the Valuation of the share-based payments. Such assumptions may include, but are not limited to: <ul style="list-style-type: none"> <u>(i)</u>- discounts applicable on post-vesting Conditions of the shares; <u>(ii)</u>- dividends expected on the Equity Instrument; <u>(iii)</u>- effective life of the option, having regard to both the contractual life of the option and the propensity for early exercise for non-European options, including allowance for the behaviour of different cohorts of Equity Instrument holders; <u>(iv)</u>- expected volatility of the share price; <u>(v)</u>- risk-free interest rate for the life of the Equity Instrument; <u>(vi)</u>- market price of the underlying Equity Instrument; <u>(vii)</u>- other factors allowed for by knowledgeable, willing market participants; and <u>(viii)</u>- dilution effects relating to the issue of the share-based payments.
5.9	<p>Subject to paragraph 5.1, a Member should consider disclosing the following matters, amongst other things, when providing a Valuation Report in respect of financial instruments:</p> <ul style="list-style-type: none"> <u>(a)</u>• Instruments which are the subject of the Valuation Report, including value and relevant terms of issue;

Paragraph Reference	Revisions
	<p>(b) Valuation date or Measurement Date;</p> <p>(c) Premise of Value adopted for the Valuation Report (e.g. for example, fair value);</p> <p>(d) Fair value hierarchy (i.e. quoted price in an active market, or use of a Valuation Method);</p> <p>(e) Where a Valuation Method is used:</p> <p style="padding-left: 20px;">(i)- the rationale and evidence for the Member's choice of the Valuation Method (e.g. for example, representative of current market practice);</p> <p style="padding-left: 20px;">(ii)- the extent to which the Member has calibrated the Valuation Method by comparison to quoted market prices of other Equity Instruments using equivalent inputs to those used for the subject security; and</p> <p style="padding-left: 20px;">(iii)- significant or key assumptions and the basis for such assumptions, including but not limited to:</p> <ul style="list-style-type: none"> -> discount rates; -> credit risk; -> foreign exchange rates; -> commodity prices; -> equity prices; -> volatility; -> prepayment or surrender risk; and -> servicing costs.
5.10	<p>Subject to paragraph 5.1, a Member should consider disclosing the following matters, amongst other things, when providing a Valuation Report in respect of assets held in superannuation entities:</p> <p>(a) Ownership structure, co-investors and the rights of the owner that influence the value;</p> <p>(b) Effective Measurement Valuation Date;</p> <p>(c) Valuation Methods considered and reasons for selecting the particular Valuation Method;</p> <p>(d) Significant or key assumptions and the basis for selecting such assumptions in the Valuation of the assets acquired and/or liabilities assumed;</p> <p>(e) The level of work undertaken by the Member with respect to the significant or key assumptions; and</p> <p>(f) 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.</p>
Appendix 1	Summary of revisions to the previous APES GN 21 (Issued in July 2016) – added