



KPMG IFRG Limited
1-2 Dorset Rise
London EC4Y 8EN
United Kingdom

Tel +44 (0) 20 7694 8871
Fax +44 (0) 20 7694 8429
mary.tokar@kpmgifrg.com

International Valuation Standards Board
41 Moorgate,
London EC2R 6PP
United Kingdom

Our ref **MT/288**
Contact **Mary Tokar**

9 November 2009

Dear Sir

Exposure Draft Proposed Guidance Note: *The Valuation of Investment Property under Construction*

We appreciate the opportunity to comment on the Exposure Draft of the proposed International Valuation Guidance Note: *The Valuation of Investment Property under Construction* (the "ED"). This letter expresses the views of KPMG IFRG Limited.

We support the International Valuation Standards Board's (IVSB's) efforts to provide additional guidance on the valuation of investment property under construction. We set out specific responses to the questions raised in the ED in Appendix 1 as well as limited other comments. We offer some general comments on the ED below.

The ED states that the purpose of the proposed guidance note is to provide guidance to experienced valuers and to inform those who retain valuers and rely on valuation reports. These are different audiences with different knowledge and requirements.

We believe that it is important for the IVSB to consider the target audiences for its guidance and the level of detail provided. We understand that the IVSB is concerned that its guidance be principles- rather than rules-based to ensure that valuers are able to use appropriate judgment when addressing the specific factors of a particular valuation. However, we believe that guidance that is too broad provides limited incremental value to constituents. High-level guidance is likely to be of limited value to experienced valuers, particularly those in markets with developed professional valuation infrastructure, who are already familiar with the general principles. In markets with less developed professional valuation infrastructure, more specific guidance is likely to be useful.



With regard to those who retain valuers and rely on valuation reports, more specific guidance, including examples, would help constituents understand how the principles outlined in the ED should be applied in practice. Such guidance also should relate the principles followed by the Board in reaching its views to core underlying valuation concepts such as consideration of the cost, income or market approaches. For example, the ED does not address the cost approach and circumstances when its use may be appropriate.

In our view, IVSC should revisit its current approach of preparing standards and guidance addressed to both valuers and users of their services. We believe that the IVSC's guidance and standards should be directed to valuation professionals, with outreach to users accomplished by supplementing standards/guidance with educational and explanatory material. We also note that clear, well written standards/guidance that articulate the reasons for conclusions and link principles to underlining valuation concepts should help inform users of valuation services.

Please contact Mary Tokar or Jim Calvert at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Appendix 1

Proposed International Valuation Guidance Note: *The Valuation of Investment Property under Construction*

Question 1

Do respondents agree that it is appropriate that the ED extends to include the valuation of investment property under construction for all purposes but not to other types of property under construction?

We agree that it is appropriate for the scope of the exposure draft to cover all valuations of investment property under construction, whether or not the valuation is required under IAS 40 *Investment Property*.

Question 2

Do respondents consider that the level of detail on the types of valuation approaches that may be appropriate is sufficient to eliminate significant differences in practice or do they consider that it would be appropriate to expressly identify approaches that would be acceptable or unacceptable by name? If respondents agree with the latter, it would be helpful if examples of named approaches that it is considered should be expressly referenced could be provided.

We believe that it would be useful to provide more detail, including examples, on the application of the high-level information provided in the ED to the valuation of investment property under construction. More specific guidance could help reduce diversity in practice. The objective is to not unduly limit valuer judgment but to ensure that best practices are identified clearly and that exceptions from those best practices are expected to be limited.

Question 3

The Board is interested in learning the extent to which the two approaches to estimating the value and cost inputs to the valuation of a part completed project are used in different markets. It would therefore be helpful if respondents could indicate the market or markets in which they operate and the approach that is generally used.

In our experience, across a number of jurisdictions, both approaches are often applied. Because the assumptions used in each approach are different and may result in materially different value estimates, the approaches should not be viewed as interchangeable. Guidance should specify, based on an evaluation of underlying valuation principles, the circumstances and manner in which revenue and cost estimates should be estimated.

Question 4

a) Do respondents consider that there is scope for confusion between finance risk as reflected in the interest rate charged to the developer and the return that the developer requires to reflect total development risks (which may include fluctuations in the cost of finance)? If so, is the cautionary note adequate or is more detail required on this point?

b) Do respondents agree that the guidance note should expressly refer to the potential for different interest rates at various stages before the investment reaches its normal income generating potential?

We believe that in markets with a developed professional valuation infrastructure, valuers understand the distinction between finance risk and developer profit. However, to assist valuers operating in jurisdictions with less well developed valuation infrastructure, we believe that more specific guidance should be provided.

Question 5

Do respondents agree that it is outside the scope of this guidance note to consider whether a valuation can be reliably determined for the purpose of IAS 40? Do respondents consider that further definitions are necessary to explain terms that are used in this draft?

We agree that it is outside of the scope of the ED to comment on whether a valuation can be reliably determined for the purpose of IAS 40.

Other

In discussing suitable market-based valuation approaches, paragraph 2.3.1 refers to sales evidence of *similar* properties while paragraph 2.3.2 refers to sales evidence of *comparable* properties. It is unclear that a distinction is intended by the use of the terms “similar” and “comparable”. It appears that the key difference is that 2.3.1 refers to differences in geographic and physical state, while 2.3.2 refers to differences in economic conditions. If so, then use of inconsistent terminology, i.e., similar and comparable, may introduce confusion. We suggest conforming the language unless a different result is intended.

The ED refers in paragraph 2.3 to “market-based valuation approaches” to characterise techniques based on sales evidence and discounted cash flows, which we believe are market and income valuation approaches, respectively. This reference to “market-based” when referring to market and income approaches may be confusing. We believe that the characterisation used in financial reporting, which essentially categorises valuation approaches as income, cost or market but emphasises that all approaches should use market participant assumptions and maximise observable inputs, is clearer.