

Comments on the Exposure Draft

I appreciate the amount of effort that has been poured into a work such as this exposure draft. Perhaps in covering such a wide field, the details are overlooked. One detail which has irked me and my colleagues in Plant & Machinery valuation is the Value in Use standard. No P&M valuer I know has followed this guideline because it is too wide off the mark in the practice of valuing machinery and equipment. The world of the P&M valuer does not consist of cashflows such as this accounting derived concept, Value-in Use, insists on. Moreover it would be fatal to any P & M valuation business if it were to use cashflows to the extent required by the IFRS. This is because cashflows are time consuming and should be resorted to in a P&M exercise only when the entire entity's plant & equipment is being valued, or at least of a substantial portion of the entity. For an individual machine or even a group of machines, defined as the cash -generating unit, it is impossible that its cashflow is independent of the cashflows of other assets or group of assets in the enterprise, as is required by the Value in Use definition of IVS.

Thus the Value-in- Use concept as defined in IVS is also conceptually wrong, not to mention that its measurement is impractical for any random cash- generating units, short of the whole entity or a substantial part of it.

I have attempted to get around the necessity to use cashflows by proving that impairment loss is equal to excess capital costs in a paper I submitted to SSRN:

Seow, It Sze, *Impairment Loss of Tangible Assets* (June 2006). Available at SSRN: <http://ssrn.com/abstract=924620>

If this link does not work, Google ssm with the title of the paper. So the P&M valuer in estimating impairment loss has only to look for excess capital costs which he is routinely able to measure.

The Achilles' heel in valuers' endeavours to capture the requirements of such accounting measures such as are insisted in some IFRS, is the lack of currency of some accounting concepts within the valuation discipline. In the case of the Value -in -Use standard, there is a mismatch between theory and practice, in particular, accounting theory verses commercial practice in a P&M valuation.

Referring to the Respondent Paper, paragraph 17, of how IVS should address valuation issues under IFRS, I would like to contribute view (c). I do not see the present arrangement where the IVS must follow the IFRS as sustainable in the long run, in two ways:

First, there is no guarantee that what the IASB dispenses each time in an IFRS for valuers to comply, is complete and consistent with its own system of ideas and with other conceptual systems allied to it. They may make mistakes.

Second, there is no guarantee, except coincidentally, that what the IASB orders to be measured is measurable in the form and by the methods it stipulates.

To solve these problems in the first and second instances, I have some suggestions. I urge that there should not only be a feedforward process from the IASB to the IVSB, but also feedback, IVSB to IASB. Next, harness formal logic to enable the testing of IFRS for rationality (see my paper cited above). Next, for the practicability of execution and measurement, the only cure, again, is feedback between the two disciplines of accounting and valuing.

The issue of proliferation of standards of value and a rapidly growing IVS manual over the years, requires a compression of the ideas that permeate the discipline. This needs the aid of Occam's Razor to cut out impossible abstract objects(eg Value-in Use for the standalone cash generating units) and unnecessary and impossible measurements.

Certain organizing principles like the binary combination of a standard of value with a premise of value to describe a transactional event can avoid the ad hoc creation of new standards of value. This will cut down on the proliferation of standards of value and superfluous description of their behaviour. Also suitable symbolic notation representing the interaction of standards of value with other valuation parameters will give impetus to parsimony in valuation theory. For suggestion how, see my paper:

Seow, It Sze, *The Role of Premise of Value in Plant and Machinery Valuation*. World Association of Valuation Organizations, November 2006. Available at SSRN: <http://ssrn.com/abstract=995203>

My reply to Valuation Approaches, paragraph 6 of the Respondent Paper. In the field of mineral valuation there seems to be used valuation approaches that are not closely tied to the three approaches discussed in this exposure draft. An example is the Kilburn Geoscience Factor Method used for exploration properties with no known mineralization. Perhaps these valuation approaches used in mineral valuation for exploration properties should be included in the exposure draft with special mention of their origins and evolution and therefore possible errors of conception.

Best wishes

Seow It Sze BSc FRICS