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International Valuation Standards Council
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Subject: Exposure Draft
Proposed New International Valuation Standards/06/2010

Japanese Association of Real Estate Appraisal (JAREA) is pleased to respond to your request for comments on the exposure draft, Proposed New International Valuation Standards published in June, 2010.

Responses were examined and issued by International Relations Committee of JAREA.

The responses are made exclusively about real estate issues, which are specialties of Japanese real estate appraisers, and therefore, do not cover all of the questions.

We hope the comments attached would be useful to elaborate the New International Valuation Standards.

Sincerely,

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Chairperson of International Relations Committee
Japanese Association of Real Estate Appraisal

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GENERAL QUESTIONS

Question 1

The proposed new edition of IVS follows the recommendations of the Critical Review that was commissioned by the old IVSC in 2007. Among the key recommendations of this review was that in future editions of the standards the term “International Valuation Standards” should apply to all pronouncements, not just to a limited number, and that all pronouncements should carry equal weight. In this draft the previous distinction between “standards”, “applications” and “guidance” in the titles of various documents has been removed. However, the Board recognises that standards still fall into different categories and has identified these as General Standards, Application Standards and Asset Standards, and grouped these together.

Do you find the new structure of the Standards to be logical and easy to follow? If not, what alternative would you propose?

International Relations Committee of Japanese Association of Real Estate Appraisal (hereafter, IRC/JAREA) finds the new structure of the Standards is logical and easy to follow.

Question 2

The Application Standards contain some information on the background to the valuation requirement and the Asset Standards information on the asset type in question and the characteristics affecting value. They also identify particular actions that should be taken in order to apply the principles in the General standards to the particular valuation purpose or when valuing the particular type of asset.

Do you consider that the combination of background information and specific directions to be helpful? Would you prefer all background information and explanatory information on asset classes to be removed from the standards so that only the specific directions applicable to each application or asset type remained?

IRC/JAREA support the New IVS from the following aspect:

There is a need for specific considerations according to the type of asset. Therefore, the

combination of background information and specific directions is helpful in 300 series.

Question 3

It is currently proposed that the final version of the Standards will be published both in hard copy and be available for downloading from the IVSC website.

Which delivery method for the new edition of the standards are you or your organisation likely to use?

IRC/JAREA will use both methods; hard copy and download from IVSC website.

IVS101

Question 4

This Standard is intended to explain fundamental concepts and principles that are referred to throughout the remainder of the standards to assist in their application. Some of the material has been carried forward from previous editions of IVS and some new concepts have been introduced, for example the discussions on market activity and market participants.

Do you consider that this objective has been met? Do you consider that there are any additional valuation concepts and principles that should be considered and discussed in this standard?

IRC/JAREA considers that the primary objective, to explain fundamental concepts and principles, has been met. However, we propose to add the following concept and principles; As additional concept: 4 fundamental factors to generate value. They are; utility, scarcity, desire and purchasing power.

As additional principle: To explain that the highest and best use is one of the important principles about value.

Question 5

As indicated in paragraph 4, the word valuation can be used with two distinct meanings. Where the word is used in the Exposure Draft the Board believes that it is generally clear from the context which sense is intended and has only added words to emphasise whether the reference is to the process of estimating value or to the valuation result itself

where there is scope for ambiguity.

Are you in agreement with this approach or would you prefer the word “valuation” either not to be used at all or always used with qualifying words to indicate the intended meaning, for example “valuation process” or “valuation result”?

IRC/JAREA supports the current IVS ED use of the term “valuation” .

IVS102

Question 6

Previous editions of IVS have identified the principal valuation approaches listed in this proposed standard.

Do you agree that these three approaches encompass all methods used in the assets or liabilities that you value? If not, please describe what approaches you feel have been omitted.

IRC/JAREA agrees with the current IVS ED.

Question 7

Paragraph 6 of the draft sets out a proposed hierarchy of approaches which indicates that the direct market comparison approach is generally to be preferred where there are observable prices for similar assets available at the valuation date.

Do you agree with this hierarchy and do you consider it helpful? If not explain if you would prefer to see no reference to a hierarchy or would prefer an alternative hierarchy.

IRC/JAREA agrees the proposed hierarchy.

However, we consider that the terminology “sales comparison approach” is more appropriate than the terminology “direct market comparison approach”.

Question 8

In the current edition of IVS, the term “Sales Comparison Approach” is used to describe the process of estimating value by comparison with the prices of identical or similar assets in the market. The Board received representations that this term was too

restrictive as it seemed to preclude market evidence that was not related to an actual sale. Some advocate the use of the term “Market Approach”; however, others find this confusing as both the income and cost approaches can use market based inputs. The Board also received evidence that some believed that only a “market approach” could be validly used to determine market value. After deliberation the Board has proposed the term “Direct Market Comparison Approach” in this edition of the standards.

Do you find this change of terminology to be helpful? If not please explain what alternative you would prefer and why.

IRC/JAREA does not agree with the new terminology because of the following reasons.

There is no doubt that the prices of actual sale are the best evidence to obtain market value. But we understand that it is unavoidable to expand the range of market evidence when the market is inactive and there are almost no transactions. In such cases, the use of non-actual sale prices may be admitted only if other reliable data can reinforce the approach.

However, the terminology “sales comparison approach” describes the basic idea of the approach to the users very simply and straightforwardly and it is a consolidated term in practice. Therefore, the terminology “sales comparison approach” shouldn’t be changed.

IVS102

Question 9

Basis of value is defined in the draft as a statement of the “fundamental measurement assumptions of a valuation”. In the current edition of IVS it defined as a statement of the “fundamental measurement principles of a valuation”. Supporters of the proposed change believe that the word “assumptions” is more precise. It is self evident that a basis of value is a principle but IVS needs to explain the nature of that principle. The bases of value defined in IVS all consist of a set of assumptions that define the underlying hypotheses on which the value is based. The fundamental assumptions within a defined basis can then be used in conjunction with additional assumptions or special assumptions as explained in IVS 103 and 104. Others prefer to retain the use of the word “principles”, while some consider that a basis of value is more precisely described as a statement of the measurement objectives of a valuation.

Do you agree with the proposed change to the definition? If not indicate what alternative

you prefer and why.

IRC/JAREA proposes a use of “premise” (fundamental measurement premise of a valuation) instead of assumption or principle for the new definition. We think that the term “premise” expresses more precisely about the underlying hypotheses on which the value is based.

Question 10

A change is proposed to the definition of Investment Value. The Board had received representations that some are confused by the distinction between Investment Value and Special Value in the current edition of IVS. The Board has proposed to amend the definition so that it only reflects the value to the owner, not the value to prospective purchasers. The rationale is that a prospective purchaser for whom an asset had value in excess of that to market participants generally could also be described as a special purchaser, which is separately defined. A reciprocal change is proposed to the definition of “special purchaser” to make it clear that it can include a single buyer with a special interest or a restricted class of buyers that can realise additional value not available to the market participants at large.

Do you agree with this proposed change? If not, please explain why and what you believe the distinction is between investment value to a prospective purchaser and special value to a prospective buyer who can realise that special value to be?

IRC/JAREA support the current definition of ED (para.12-13 of 103).

A definition of Investment Value as a subjective value of property to a particular investor, including prospective investors, is widely accepted. It is widely recognized that the concept of investment value relates specific value to a specific investor with identifiable investment objectives and/or criteria, including their own funding plan. Therefore, we do not agree with the proposed change of the definition.

Special value in current ED is defined as an amount that reflects particular attributes of an asset that are only of value to a special purchaser. We propose an additional explanation to this definition where;

1) clarify that the special value refers to the marketable assets in a limited-market of buyers

and sellers(special purchaser), created as a result of consolidation including land acquisition or subdivision of assets. Thus, synergistic or component value is premised on a limited-market concept, such as marriage value, and

- 2) do not include subjective attribute of the owner such as funds or investment decision making criteria, therefore, investment value is not included in a special value.

Question 11

The Board has considered alternative names to “Investment Value” for the basis of value that describes value to a particular entity. Alternatives suggested include “Entity Specific Value”, “Owner Value”, “Value to Owner”, or “Invested Value”. Critics of Investment Value consider that the term is insufficiently precise; although it is a measure of the value of the investment in an asset to a particular party, it can also be interpreted as being the sum required to buy an investment in the market. Others consider that the term is sufficiently broadly understood that any change would cause confusion.

Do you support the continued use of the term “Investment Value” or would you prefer an alternative? If so, what would that alternative be?

IRC/JAREA support the continued use of the term “Investment Value”.

The change might cause unnecessary confusion because the term is widely recognized and used.

To avoid the confusion or misunderstanding, we support the idea to define the Investment Value more precisely for the continued use of the term. In this case, we think that it is important to make a clear distinction between Investment Value and Special Value.

Question 12

In IVS highest and best use (HABU) is treated as an inherent feature of market value. This follows the economic theory that the price of an asset which is fully exposed to all potential buyers will sell for a price reflecting the most efficient or productive use of that asset. Other literature that has been published recently presents highest and best use as a separate concept from the price that would be paid in a hypothetical exchange between market participants.

Do you agree with the approach taken in IVS? If not, explain why not and give examples where you believe the highest and best use may be different from the market value.

IRC/JAREA agrees with the approach taken by IVS about the valuation of market value of individual property.

The idea that “HABU is the fundamental premise to obtain market value” is a generally accepted principle in valuation practice worldwide. The expression may vary, but the underlying idea/concept on which HABU is based is the same. A market value of a property must be based on a single HABU. Therefore, the idea that accepting more than one HABU on one property will cause confusions in valuation practice.

However, IFRS/ED has further proposed to develop the concept of value in use as a fair value from the accounting point of view, to include the HABU in use as a group. As a result, the same property can have quite different values depending on valuation premises of HABU.

Understood those situations, IVSC should clarify the following two value concepts based on different premise:

- 1) Value in-exchange (market value) of an asset based on its HABU in stand-alone premise and
- 2) Value in-use of an asset on its HABU as a part of the group asset assuming its continued use premise.

Question 13

In the existing IVS a clear distinction is made between fair value in general use and fair value as defined in IFRS. Some found this confusing since the definition of fair value in IVS was identical to that currently appearing in IAS16. Although the IASB is likely to change the definition of fair value in IFRS in its proposed new Fair Value Measurement Standard, in this draft the definition of fair value in general use has been changed to emphasise the distinction from the usage of the term in IFRS.

Do you consider this proposed change in the definition to be helpful? If not, please indicate how you believe it could be improved.

IRC/JAREA currently considers the measure taken by the IVS is helpful.

We consider that IVSC should emphasize IASB how important the concept of the market value and valuation principles for the market value estimate. IVSC should propose IASB to clarify the fair value measurement, so that the valuers in each country can properly present valuation services for the fair value under the IFRS.

IVS104

Question 14

Previous editions of IVS did not have a standard relating to scope of work, although the need to record the valuation instruction in writing was included under the heading of “Code of Conduct”. The Board considers that a more specific standard is required to detail the minimum acceptable scope of work. This reflects established best practice in many markets and provides the necessary foundation for the valuation process to begin.

Do you:

- a) Agree with the inclusion of a standard for scope of work in IVS?**
- b) That the minimum contents identified in the draft are proportionate and represent a realistic minimum standard?**

If you disagree, please explain why.

- a) IRC/JAREA agrees with IVS.

We consider that to determine the Scope of Work at the time of engagement is a necessary process to set out the limitations and restrictions of the valuation and the valuer’s responsibilities.

- b) We consider the following matter should be included also;

To address the background which led the necessity of the valuation (additional explanations to the valuation purpose).

IVS105

Question 15

This proposed standard is significantly less prescriptive than the equivalent standard IVS3 in the current IVS. The proposed changes reflect the general recommendation of the Critical Review Group that the standards should contain less prescription and focus on principles. It also reflects the need to ensure that these standards can be applied to a wider sector of asset classes than previously.

Do you agree with the changes that have been made? If not, please explain what provisions of the current IVS3 you believe should be carried forward into the new standard.

IRC/JAREA agrees the change proposed by IVS.

We propose to add more explanations about relationship between the new concept of Scope of Work and the minimum requirements in valuation reporting.

APPLICATION STANDARDS

Question 16

The standards in the 200 series relate to valuations for specific purposes. They provide guidance on the background for the valuation requirement before setting out specific matters that should be reflected or considered when applying the principles in the General Standards. Some consider that the fundamental principles of valuation should remain unchanged regardless of the purpose for which it is being prepared and therefore these application standards are superfluous. Others consider that it is important that valuation standards highlight factors that could be relevant to determining the appropriate valuation hypothesis for different purposes, and to set down criteria to ensure that reports contain the appropriate information.

Which view do you support? If you consider that future IVS should contain application standards, do you consider that the degree of detail of those in the draft is appropriate and help the better understanding of the valuation requirements?

Comparing to 100 series which address the valuation principles, the 200 series relate to valuations for specific purposes. These provisions are all helpful, but it doesn't cover all the valuation purpose that is often met in practice. For example, valuation of property right exchange in urban redevelopment project or valuation under the laws related to the bankrupt or liquidation. Valuations have to correspond such other valuation purpose and property types.

On the other hand, if IVS continues its focus mainly on valuation purpose related to finance and accounting, Application Standards in ED is helpful for better understanding of the valuation requirements.

Question 17

The series 201.01 - 201.04 inclusive are all concerned with valuations under IFRS. With the exception of 201.01, which addresses the current IASB Fair Value project, the topics covered all appear in IVA 1 in the current edition of IVS, although in this draft the text has been updated and some additional detail included to address issues of particular relevance to the valuation task. There are opposing views as to the extent and how IVS should address valuation issues under IFRS.

View (a) is that IVS should not refer to valuations under IFRS at all because the IASB is in the process of producing its own fair value standard that will clearly set out the valuation criteria for all valuation measurements required under IFRS and if parallel valuation standards are produced in IVS these will have no relevance. Supporters of this view also argue that limited references to the accounting requirements under IFRS can be misleading and lead to misinterpretation.

View (b) is that valuation measurements under IFRS are intended to reflect market reality and are not a special type of valuation reserved for financial statements. It is therefore important that the requirements under IFRS are properly related to wider valuation principles and practice through cross references in IVS. Supporters of this view also believe that limited references to IFRS are necessary to help those who are valuers rather than accounting experts understand the required criteria and assumptions so that appropriate valuations can be provided.

Which of these views do you support?

IRC/JAREA supports View (b), for the following reasons.

We consider that IVS should refer to fair value under IFRS and the current provisions in IVS/ED about fair value are appropriate.

IFRS has proposed to develop the fair value measurement identifying two separate valuation premises of value ; a) the HABU of the asset is “in-exchange” if the asset would provide maximum value to market participants on stand-alone basis (in-exchange premise),

b) the HABU of the asset is “in-use” if the asset would provide maximum value to market participants through its current use in combination with other assets and liabilities as a group (in-use premise).

This HABU under IFRS ED extends beyond the long established HABU concept in real estate valuation field. We can say that it is *lato sensu* HABU concept premise in accounting field. Under this Accounting HABU premise, it is comprehensible that there is an inconsistency between the HABU under IFRS and the concept of market value under IVS as described at Question 12.

The IASB is currently in the process of deliberating a new IFRS on “the Fair Value Measurement”. In Japan, several questions remain to be answered for clarification about the fair value measurement under IFRS (For example, Example 2-Land at IE 5-8 under Draft Illustrative Examples ED Fair Value Measurement).

However, the Fair Value Measurement of IASB clarifies that an entity need not perform an exhaustive search for other potential uses if there is no evidence to suggest that the current use of an asset is not its HABU. Therefore, in many cases, fair value for an individual asset shall be comprised of an individual asset value assuming its current use and the incremental value to be allocated of fair value in-use premise of the asset group. In this case, how develop the criteria to allocate fair value of the asset group to its components? The criteria must be comparable and objective to increase transparency about fair value for investors.

On the other hand, what happens if aggregate value of in-exchange value of some asset on stand-alone basis is greater than the fair value of the asset group as a whole? A value under alternative use premise will be the fair value for some assets and the rest will be applied in-use premise? In this case, will it be possible to estimate properly of the operating revenue of the group of residual assets?

If IFRS adopt the HABU concept in “in-use premise” as an asset group, IVS should respond to this concept and clarify relationship between asset group and individual asset.

END