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Mr Chris Thorne
Chairman
International Valuation Standards Board
41 Moorgate
LONDON EC2R 6PP
UNITED KINGDOM

Dear Mr Thorne

EXPOSURE DRAFT: PROPOSED NEW INTERNATIONAL VALUATION STANDARDS

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the International Valuation Standards Board on the Exposure Draft: *Proposed New International Valuation Standards*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

Comments on the Exposure Draft are provided in Attachment 1. Comments relate to sections of the proposed new International Valuation Standards and the removal of certain Guidance Notes, in particular GN10 *Valuation of Agricultural Property*. Comments are not provided as to whether HoTARAC agrees or disagrees with any of the other proposals.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on 612 6215 3551.

Yours sincerely

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

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Encl

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**HoTARAC COMMENTS TO IVSB ON EXPOSURE DRAFT
PROPOSED NEW INTERNATIONAL VALUATION STANDARDS**

The removal of IVS GN10 *Valuation of Agricultural Property*

HoTARAC is of the view that the International Valuation Standards Board should reconsider its decision to not carry forward the Guidance Note on the valuation of agricultural property – GN10 *Valuation of Agricultural Property* (IVS GN10). Biological assets are different to other assets and have their own unique characteristics, and hence, valuation procedures would be different as well. HoTARAC acknowledges that the IVSB is proposing a new Project on biological assets which, HoTARAC understands, may result in a new Standard. HoTARAC would prefer that a Standard is created.

The majority of HoTARAC members would therefore like to raise the issue of valuing biological assets with the IVSB, in particular, the differences in valuation issues of the unique characteristics of biological assets to that of other assets.

- The physical and economic characteristics of agricultural lands differ from those of non-agricultural or urban environments in degree of importance (IVS GN10 Paragraph 1.4). The economic benefits can vary from year to year, depending on the commodities the property is capable of producing (IVS GN10 Paragraph 1.4.2).
- Agricultural and pastoral productivity relies on a critical relationship between soils, climate, water, management and commodity options. The valuation of agricultural and pastoral lands demands an understanding of the interrelationships between these critical factors (IVS GN10 Paragraph AUSNZ 1.4.4).
- IAS 41 *Agriculture* (IAS 41) acknowledges that there may be no separate market for biological assets attached to the land but that an active market may exist for the combined assets and provides guidance on how to determine fair value in such situations (Paragraph 25) (IVS GN10 Paragraph 4.2).
- Paragraphs 30 to 33 of IAS 41 are dedicated to the issue of “inability to measure fair value reliably” which can arise at initial recognition for an asset that does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are determined to be clearly inappropriate or unworkable.
- As highlighted by the guidance section of IVS GN10, there are many factors unique to agricultural properties that the Valuer must take into account. For example, the Valuer must understand the unique nature of agricultural productive factors, commodity markets, production practices, and cycles in the market region (IVS GN10 Paragraph 5.5).

- The International Accounting Standards Board, in developing IAS 41, concluded that the Standard should require a fair value model for biological assets related to agricultural activity because of the unique nature and characteristics of agricultural activity (IAS 41 Basis for Conclusions B19).

HoTARAC notes that many of these issues have been stated in IVS GN10 by the former International Valuation Standards Committee and HoTARAC considers that they are still relevant. Given this, HoTARAC encourages the IVSB to retain IVS GN10 until new guidance is issued on Biological Assets.

However, in the meantime, a minority of HoTARAC members do not believe the risks in not retaining IVS GN10 are significant. As stated in Paragraph 24 of IVS 101, valuations are to be prepared by an individual or firm with appropriate technical skills, experience and knowledge of the subject of the valuation. Only those valuers or valuation firms with demonstrated skills, experience and knowledge of valuing biological assets should be undertaking such work, consistent with HoTARAC's understanding of current practice. Therefore, the minority of HoTARAC members considers that the absence of a specific Guidance Note thereon should not have any significant impact.

Question 17 in the IVSB's Overview document

HoTARAC accepts that valuations are undertaken for many purposes, and that financial reporting is just one of those purposes. Therefore, HoTARAC respects the prerogative of the valuation and accounting professions to each develop and release requirements and guidance for use by members of their respective profession. In this regard, HoTARAC believes there should be a clearer acknowledgement throughout the Valuation Standards of the respective authority of the IVSB versus the International Accounting Standards Board / International Public Sector Accounting Standards Board.

HoTARAC is concerned by the IVSB's approach of paraphrasing content from the IASB's pronouncements because:

- such content does not reflect a complete representation of the relevant IASB pronouncement – nor should it – and omissions can lead to incorrect interpretations of requirements;
- as acknowledged by the IVSB under "Introduction to IVS 200 Series – Application Standards", pronouncements issued by both the IASB and IPSASB do change, and this occurs frequently these days. Therefore, unless the IVSB plans to update relevant content in its Standards promptly thereafter, the IVSB's Standards may quickly become out of date. As an example, the second sentence of Paragraph 16 of IVS 201.03 appears to reflect a view that used to be in Paragraphs 14 and 15 of IAS 17 *Leases*, but those Paragraphs in IAS 17 have now been deleted;

- there are risks in incorporating the not yet mandatory IASB requirements. It is especially hazardous for the IVSB to incorporate into the IVS references to concepts proposed in the IASB's *Fair Value Measurement* Exposure Draft ahead of its finalisation as a Standard, despite the statement in the footnote to Paragraph 15 of IVS 103. Further, Paragraph 12 of IVS 201.01 refers to one of the new criteria in IFRS 9 *Financial Instruments*, which is not mandatory until reporting periods beginning on or after 1 January 2013, for measuring financial assets at amortised cost, even though the existing amortised cost criteria in IAS 39 *Financial Instruments: Recognition and Measurement* remain effective; and
- there are interpretation risks in incorporating accounting concepts out of context. For example, there are at least three references to land not normally being depreciated, in Paragraphs 1 and 5 of IVS 201.02 and Paragraph 16 of IVS 201.03, which appears to be referring to the limited exception, quarries and sites used for landfill, in Paragraph 58 of IAS 16 *Property Plant and Equipment*. However, the nature of this exception is not brought into IVS 201.02 or IVS 201.03. Another example is that Paragraph 3 of IVS 201.04, in isolation, may be interpreted as meaning that financial assets do not need to be reviewed for impairment. However, financial assets have their own impairment requirements (currently under IAS 39, but in future under IFRS 9) separate to those in IAS 36 *Impairment of Assets*.

In light of these issues, HoTARAC strongly recommends that the IVSB should do no more than include cross-references to the name and number of relevant IASB or IPSASB pronouncements. The client should be responsible for supplying to the valuer details of the relevant accounting principles from the IASB or IPSASB pronouncements – this may be worthwhile being incorporated into IVS 104.

In addition, Paragraph 7 of IVS 201.05 refers to “the established policy of convergence between IPSAS and IFRS”. Rather than assuming that IPSAS and IFRS Fair Value Measurement are likely to be consistent, HoTARAC recommends that the IVSC should encourage valuers to refer to the relevant accounting framework that is applicable by its client.

Question 19 in the IVSB's Overview document

HoTARAC considers that a Standard on valuing non-financial liabilities is important. However, HoTARAC would like the IVSB to be aware that the IASB is also conducting work on this issue for financial reporting purposes. Therefore, HoTARAC considers it important that care be taken in undertaking such a Project so that the eventual Standard does not conflict with the IASB's decisions (to the extent that the IVS is used for financial reporting purposes). Perhaps, the IVSB could undertake this work in collaboration or consultation with the IASB, to ensure that the position in the Accounting Standards is accurately reflected.

IVS 104 Scope of Work

In Paragraph 2(l), HoTARAC recommends that the Standard also refer to any specific client needs for financial reporting purposes. For example, in the Australian public sector it is common that public sector entities would require valuations under the gross revaluation method, therefore, the valuer would need to supply to the client details of the restated gross value and accumulated depreciation.

It would also be useful to note in IVS 104 that individual countries, that do adopt IASB pronouncements, may issue additional accounting or reporting requirements for entities in those countries.

IVS 201.02 Valuations for Depreciation

For the purposes of accounting depreciation, Paragraphs 56 and 57 of IAS 16 *Property Plant and Equipment* state that the useful life of an asset relates to its utility to the entity (not its total economic life), and that the estimate of the useful life is a matter of judgement based on the entity's experience with similar assets. Therefore, HoTARAC believes management of the entity has to play a key role in providing complete information to the valuer about its future plans for the asset's use and replacement, if an independent valuer is to determine remaining useful life. HoTARAC is of the opinion that this should be clearer in IVS 201.02.

IVS 201.05 Valuations of Property Plant and Equipment in the Public Sector

Paragraph 1 of this Standard appears to indicate that its provisions only apply where IPSASs, in particular, IPSAS 17 and IPSAS 21 are adopted by a public sector entity. On this note, HoTARAC would like the IVSB to be aware that IPSASB pronouncements are not necessarily applied by public sector entities. For example, Australian public sector entities are primarily required to apply pronouncements that reflect IASB requirements.

Other issues

In the IVSB's Overview document, under "Eliminating Methodology" on page iii, the IVSB states that two existing Guidance Notes on Cost Approach and Discounted Cash Flow are being reviewed and the intention is to issue Technical Information Papers on these topics later in the year. HoTARAC stresses the importance and usefulness of these Guidance Notes to accountants. HoTARAC also strongly suggests that the IVSB ensures that the Discounted Cash Flow Paper includes adequate guidance on determining a discounted cash flow valuation in an environment where the entity does not have total control over its charging policy, for example in a rate-regulated environment.

In at least two places in the IVSB ED, for example Paragraph 14 of IVS 201.01 and Paragraph 15 of IVS 201.04, there are references to an entity not replacing an impaired asset. HoTARAC recommends that the IVSB explains such statements, given there are various possible drivers of impairment, and replacement of an impaired asset may in fact be entirely appropriate.