

Chris Thorne
Chairman
International Valuation Standards Board
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Submitted to: CommentLetters@ivsc.org

Dear Chris

Proposed New International Valuation Standards

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants is pleased to submit its comments on the IVSB's Exposure Draft Proposed New Valuation Standards (the ED), issued in June 2010.

Our comments are in relation to IVS 201.01 – 201.04 which are concerned with valuation requirements under International Financial Reporting Standards (IFRS). Specifically we urge the IVSB to ensure that these standards are consistent with IFRS. Any valuation conducted for an entity that intends to use that valuation in its financial statements and asset compliance with IFRS must comply with the requirements of each relevant IFRS. Any differences between the two (such as the proposed differences in the definition of fair value) will create confusion for valuers and financial statement preparers and increase the risk of non-compliant valuations being reported in financial statements.

We have two specific comments in relation to the valuation of assets using the cost approach, as discussed in IVS 102 and other IVS dealing with intangible assets, property interests, plant and equipment, investment properties under construction and historic properties.

The first issue concerns the lack of guidance on the extent to which finance costs should be included in a valuation using the cost approach. The sole mention of finance costs is in IVS 303.03 *Valuations of Investment Property under Construction* which states that both actual finance costs and the imputed finance costs associated with self funding should be included in the valuation. The treatment of finance costs is important for any asset being valued using the cost approach and we believe that further guidance on this issue is required (including whether a cost of capital element should be incorporated) in order to reduce the current diversity in practice.

The second issue concerns the nature and extent of optimisation in calculating optimised replacement cost. The ED refers, in a number of places, to the concept of a modern equivalent asset which addresses the issue of obsolescence. However, there are other aspects of optimisation such as whether to value the replacement cost of assets based on the most cost-effective, or optimal, set of assets to achieve the required level of service potential (a Greenfields approach) or whether to utilise incremental optimisation with under-utilised assets being replaced and redundant assets being removed, but the historical configuration of the campus of assets being broadly retained (a Brownfields approach).

Both of these issues are important as they can have a significant impact on the resulting valuation.

We continue to support the very important work of your organisation. We have previously written to you (26 February 2009) regarding the need for more guidance on the application of the depreciated replacement cost (DRC) approach in IAS 16 *Property, Plant and Equipment*. Your response indicated that the IVSB was proposing to establish a working party to review and develop guidance on DRC. If it would be of assistance, we would be willing to provide details of technical application issues that have arisen in New Zealand.

If you have any questions regarding this letter, please contact Joanne Scott (at +64 3 5456746).

Yours sincerely



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