International Association of Consultants, Valuators and Analysts
707 Eglinton Avenue West, Suite 501
Toronto, Ontario M5N 1C8, Canada

1 March 2013

International Valuation Standards Council
41 Moorgate
LONDON EC2R 6PP
United Kingdom
By email: CommentLetters@ivsc.org

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters covering the 55 countries listed in the Appendix and serving about 10,000 members who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of the standards related to valuation especially in Canada (an IFRS country), where we are incorporated, as well as in the United States, which has, at the moment, a majority of our members.

We appreciate the opportunity to comment on the Discussion Paper *"Investment Property".* Our views are as follows:

Question 1
Do you think that the current definition should be retained in full or that an amendment to the definition in IVS 233 is required?

We believe that the exclusion [(a) and (b)] in the IAS 40 definition should be removed for the purposes of the new IVS. No other change should be made to avoid too much divergence from IAS 40.

Question 2
If you believe it should be retained in full, what guidance should be given to valuers when valuing for the non-financial reporting purposes referred to above?

See answer to question 1.

Question 3
If you believe an alternative definition is warranted, please give reasons and suggest appropriate wording.

See answer to question 1.

Question 4
Have you encountered valuations that explicitly refer to intangible assets associated with either the property interest or the business in occupation? If so, were these separately valued or not? For what purpose was the valuation required?

We have come across several valuations of shopping centres that specifically make reference to the entity's brand name; a well-known example is the Eaton Centre in Toronto, Canada. In most cases, the brand was separately valued but sometimes, its benefits were implicitly included in the capitalization rate or through above market rents. The valuations that separated the intangible assets were mostly for financial reporting; those combining the tangible and intangible items were for the sale of a partial interest or for insurance purposes.

Question 5
Have you encountered valuations of investment property where you believe that the value of an intangible asset has been included in the value of the property interest but has not been expressly identified?

See answer to question 4. In valuations of hotel property leases we have seen that sometimes the hotel name and reservation system relationships included, even though they were with an affiliate legal entity with the lessor and had a different term than that of the underlying lease.

Question 6
Do you consider that the IVSC needs to provide guidance on this issue?

We strongly believe the IVSC needs to provide guidance on this issue. In particular, we hope the working group decides that the best practice is to value each of the various items separately.

Question 7
Which of these options do you favour or is there another option that you would suggest?

We recommend that IVS 233 *Investment Property under Construction* be rewritten as a Technical Information Paper covering all *Assets under Construction* whether an item of property or plant in a fully functioning factory. IVS 230 *Real Property Interests* should then be expanded to separately cover all forms of real estate.

Question 8
Do you consider the provisions of IVS 230 and IVS 233 in relation to valuation methods to be sufficient?

As is implicit in our answer to question 7, we do not consider the provisions of IVS 230 and IVS 233 with respect to suitable valuation methods to be in any way sufficient.

Question 9
If not, what specific aspects of valuation methodology for investment property do you think should be addressed in any future TIP?

As set out in the answer to question 7, we feel that a new Standard (based on IVS 230) should deal with the application of each of the three accepted valuation approaches (Cost, Market and Income) to all forms of real estate ranging from raw (undeveloped) land to unique historic structures (like a cathedral). It should include examples for all categories of such items that members of the Task Force have experienced. The TIP (based on IVS 233) should concentrate on the suitable practices for any asset under construction.

Question 10
Do you consider that the additional guidance to that provided in the IVS Framework (paras 33 – 35) is needed to apply the highest and best use concept to investment property?

All of the items (a) to (e) listed below have caused problems for several of our members, some suggested methods of dealing with them are:

a) where there are either no or limited sale transactions of a particular type of investment property in a particular region;

> When there are few or no sale transactions, the first step is to determine if there are any leases deals from which notional values can be developed. Without any sales or leases of a particular type of property in a specific region, our members tend to look at what actual sales have occurred in adjacent (comparable) regions, and determine if using capitalization rate or other spreads for related asset classes, a notional value can be obtained. When there is no data for such techniques, it may not be possible to apply the market approach.

b) where an investment property [is] has not been leased since its completion;

> If an investment property has not been leased, reference should be made to sales of comparable (already leased) structures in the region and a notional lease rate derived.

c) where, due to specific legal or practical issues, the property cannot be sold as a separate asset;

> When an asset can only be sold together with a related item, a price for the package can often be obtained or developed, as well as values for the other constituents. The value of the unsalable element would be the residual.

d) where an investment property comprises property to be developed, defining what constitutes "completion";

The working definition of completion varies in different jurisdictions. The most common among our members is "fully available for occupancy".

e) how discount rates should and should not be constructed.

The best means of developing discount and capitalization rates is from actual transactions. When this is not possible, they should be obtained by a build-up technique using the best data available.

Question 11

Please indicate which of the above most frequently presents a problem in the valuations that you encounter and the most common methods you see being used to address the issue.

See answer to question 10 above.

Question 12

If you are a valuation provider, please indicate why you prefer these methods. If you are a valuation user, please indicate if you are confident in the result obtained by these methods.

Our members include both providers and users. In this response, we have summarized their best practices.

Question 13

Have you encountered material inconsistency in the approach adapted to the treatment of costs or tax in valuations of investment property? If so please indicate the nature of the inconsistency and its consequences.

There are normally material inconsistencies in many situations relating to the inclusion or exclusions of costs and taxes depending on the practices in the local market.

Question 14

Do you consider that the IVSC should attempt to set benchmarks that indicate whether inputs and valuations should include or exclude different types of tax or other costs? If so, which specific benchmarks would you consider appropriate?

We believe the IVSC should attempt to set benchmarks for the inclusion of different types of taxes and costs. Those benchmarks should apply to all inputs.

Question 15

Do you consider that an opinion on where the inputs used in a valuation of investment property fall within the input hierarchy under IFRS (or any other accounting standard that contains a similar hierarchy of inputs) should be provided as part of the valuation report?

Our members have found major difficulties and differences in practice regarding the division between Level 2 and Level 3 (in the IFRS 13 Fair Value hierarchy) for values of real property obtained under the Market Approach by adjusting recorded previous reported sales. Therefore, we strongly recommend that such a ranking, with a complete justification, should form part of any valuation report.

Question 16
If so what guidance should the IVSC be providing to enable valuers to comply with the requirements of IFRS 13 in relation to disclosures on inputs?

Guidance from the IVSC as to the criteria relating to conclusions relying on inputs from each level in the Fair Value hierarchy should form part of the new IVS.

Question 17
Do you agree that not all investment property is capable of reliable valuation? If so please give any additional examples to those above.

In our view, the Fair Value of any completed [see answer to question 10d] investment property can be reliably determined using one or more of the standard approaches. For an asset under construction this may not always be possible.

Question 18
Please indicate the nature of guidance that you believe IVSC could usefully provide to help determine when a valuation cannot be reliably provided.

The proposed TIP should deal with all the situations of which the Task Force is aware relating to the inability to reasonably determine a value.

Should a Task Force, Committee or staff member wish to discuss this matter further, they may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of IACVA
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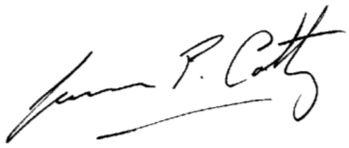

James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CGMA, CFE
Chair

Appendix

IACVA List of Countries

Americas
Bahamas
Canada
Grenadine Islands
Guatemala
United States
Mexico
Puerto Rico
Argentina
Brazil

Africa
Ghana
Kenya
Nigeria
South Africa
Uganda

Europe
Austria
Germany
Netherlands
Switzerland
Romania
Ireland
United Kingdom

Asia/Pacifica
China
Taiwan
Japan
South Korea
Hong Kong
Singapore
Malaysia
Thailand
Australia
India

Middle East
Lebanon
Egypt
Syria
Jordan
Kuwait
United Arab Emirates
Saudi Arabia
Israel
Bahrain

Commonwealth of Independent States
Armenia
Azerbaijan
The Republic of Belarus
Kazakhstan
Kyrgyzstan
Moldova
Russia
Tajikistan
Turkmenistan
Ukrain
Uzbekistan
Georgia
Estonia
Latvia
Lithuania