15 February 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 Exposure Draft of a Technical Information Paper (TIP) “The Valuation of Forests”. Our views are as follows:

1. The scope of this TIP is confined to the valuation forests held for the commercial production of timber and other forest products. It is intended to be applicable to valuations for a range of commercial and regulatory purposes but excludes valuations that are subject to national laws (eg taxation) or private contract (eg insurance).

Do you consider that the principles discussed in this TIP could have wider application beyond the indicated scope? If so, please indicate the additional purposes to which the TIP could be applied.

We are satisfied with the scope of this TIP. The Working Group should indicate when the principles discussed in it may also have application to other long development crops period such as orchards or vineyards.

2. In para 15 it is indicated that discussion of techniques for the measurement and sampling of the tree crop (forest inventory) are outside the scope of this TIP but that there may be standards or guidance applicable in specific markets. The Board wishes to know if there is a predominant measurement and sampling approach
that IVSC could reference as an example in this TIP, while recognising that variations may be applicable in
certain jurisdictions or for certain species.

i) Please indicate your experience of different standards or techniques that are applied in preparing
forest inventory, and the markets in which these are applied.

Our members generally have experience in many industries that use the products of
forests rather than just the growing of timber.

ii) Do you believe that it would reduce diversity of valuation practice if the IVSC gave more
information on common sampling and measurement techniques?

We believe that the inclusion of information on generally accepted (in particular practices
areas) sampling and measurement techniques would substantially reduce diversity of
valuation practice.

3. The proposed guidance indicates at para 28 that all three approaches described in the IVS Framework
are applicable to the valuation of forests. The discussion that follows indicates some of the strengths and
weaknesses of methods under each approach in the context of valuing forestry interests.

Please indicate which of the methods discussed you most commonly encounter in the valuation of
forestry interests. If you encounter more than one on a regular basis please indicate whether there is
clear tendency to use different methods under different circumstances, eg:

i) the stage of maturity of the tree crop
ii) whether the valuation is of a single stand or multiple stands

Our members in general, apply DCF methods.

4. The draft discusses the use of the market approach, income approach, and cost approach.

Are there any other valuation approaches or methods used for valuing interests in forestry with
which you are familiar? If so, please describe the method and the circumstances under which it is
applied.

We are not aware of any other generally accepted valuation approaches for forests.

5. The Board is aware of some significant diversity in the length of the explicit forecast period that is used
when using a discounted cash flow model to value a forestry interest. The proposed guidance has avoided
giving specific guidance on the length of the period.

i) In your experience what is a typical range of forecast period for valuing forestry interests, and
what criteria are used to determine how long this should be on a case by case basis?

Our members have seen forest valuation projections of, from ten years (southern pine in
the US) to 50 years (northern Canada spruce).

ii) Do you consider that it would be helpful for the IVSC to provide specific guidance on the length of
the forecast period?

We believe the Board should give guidance as to the lengths of any forest projections.
6. The discount rate to be used in a discounted cash flow is discussed in paras 45-49. This supplements the more detailed discussion of the DCF method in TIP 1. The Board has received evidence that in some parts of the world inappropriate reliance is being based on models such as the Capital Asset Pricing Model or the Weighted Average Cost of Capital where there is insufficient data to provide reliable evidence of either the risk premium or cost of equity that would be typical for a market participant. In order to address this issue the proposed guidance emphasises the need to give greatest weight to market based inputs.

Do you agree with this guidance? If you have experience of how appropriate discount rates can be derived for use in a DCF of a forestry interest please indicate if this differs from the proposed guidance.

We find the discussion in discount rates in paragraphs 45 to 49 to be useful but we believe that the Weighted Average Cost of Capital (WACC) is normally the most appropriate discount rate if the costs of the debt and equity capital are market derived.

7. The proposed guidance in para 52 is that the cost approach is mostly applicable to recently planted forests because the physical and possible economic changes that occur as a forest matures mean that other methods become more reliable. The Board is aware that some argue that the cost approach cannot be applied to commercial forests under any circumstances and others argue that it can be reliably applied to mature forests.

Please indicate if you agree with the proposed guidance on the applicability of the cost approach. If not please explain why by reference to practice in the markets with which you are familiar.

We accept the Board’s recommendation as to the cost approach but believe it should be also costed as a sanity check for mature trees.

8. It has been reported to the Board that some valuations of forestry are being presented in financial statements prepared for statutory purposes that show significant changes from those previously submitted solely due to the adopted valuation method changing. The Board considers that this is contrary to the IVSs, in particular the definition and conceptual framework for market value, or where prepared under IAS 41, the requirements of IFRS 13 Fair Value Measurements. The method adopted should be that appropriate to achieve the required basis of value, it should not dictate or change the basis of value. The draft ED recommends in paras 55 – 58 the need to consider the use of more than one approach and the reconciliation of the results as means of avoiding a misrepresentation of the value by over reliance on a single approach, and the appearance that value can change simply because a different method is used.

i) Please indicate if you have encountered a similar problem to that described and, if so, any reason or justification given for the change in value?

We have had no report from our members as to this problem. We strongly believe that good valuation practice involves the use of at least two separate methods, preferably from different approaches.

ii) Do you consider that the guidance provided on the need to consider an alternative method in the Exposure Draft addresses this issue?

The guidance supplied in paragraphs 57 and 60, in our view, should be standardized to recommend the application of at least two methods preferably from different approaches. In addition, paragraph 60 should be rewritten so as to deal with the situation when a forest's value changes significantly as a result of economic changes even in another
country. For example, the value of Canadian forests dropped significantly with the decline of newspaper usage in the United States.

9. An interest in a forest can consist of the rights to the land, the tree crop and all other improvements to the land or it can be in only some of these components, eg the land only or the tree crop only. For most valuation purposes the benefits attaching to the subject interest, eg the right to receive certain cash flows can be readily identified. For valuations for financial reporting under the IFRSs a value has to be attributed to the “biological asset”, ie the tree crop, regardless of whether the crop and the land are held in the same ownership. This can create difficulties where there is no direct evidence of the value of the tree crop only. The proposed guidance in para 71 refers to the suggested approach in IAS 41 which is that the value of the “raw land” be deducted from the value of the combined asset, with the residual representing the value of the biological asset. However, it is argued by some that this is over simplistic as the value of “raw land” is not the same as the value of land supporting a mature forest and the evidence the price of bare land ready for planting is of limited relevance. Proponents of this view argue that the interdependence of the tree crop and the land mean that the land makes a significant contribution to the value of the tree crop, and therefore deducting only the value of the bare land from the value of the whole forest overstates the value of the biological asset.

Please indicate if you have experience of a separate value being ascribed to the “biological asset” in a forest for financial reporting purposes and, if so, the method or methods that you are most familiar with to arrive at this value.

Our members report that a Discounted Cash Flow method with a depreciation for the relevant land after harvesting is often a satisfactory means of valuing the biological assets under IAS 41.

10. Para 71 refers to the guidance in IAS 41 that the value of the biological asset, in the case of forests the living trees, may be derived at by deducting the value of the land from the value of the combined asset. It also points out the difficulty that arises if the land were worth more for an alternative use. The proposed TIP indicates that while this might suggest that the biological asset has a negative or zero value, if the trees will generate income to the entity when it is harvested then the biological asset will have a positive value and should be recognised as an asset regardless of the value of the land. Some disagree and argue that if the trees are preventing a more valuable alternative use then they can have no value.

In the context of the requirement to ascribe a fair value to the biological asset as required by IAS 41, which of these views do you support?

See answer to question 9. We support the view that the growing tree crop should be recognized as a separate asset.

11. The Illustrative Examples included with this draft are intended to illustrate the application of some of the principles discussed in this draft and in other IVSC pronouncements. They are deliberately simplified and are not designed to be applied to real life situations without modification to reflect the facts and circumstances.

i) Do you consider that these examples will be helpful in reducing diversity in practice?

We consider those examples helpful

ii) Are there any other subjects that you consider would benefit from an illustrative example?

Examples should be given for all common usages of forests particularly lumber, fabricated board, pulp, paper and recreation.
12. The objectives of the TIP are set out at the beginning of the Exposure Draft.

i) Please indicate whether you believe that the draft meets these objectives. If you disagree please indicate why and how the guidance could be improved.

We believe that the draft meets the objectives.

ii) Are there any additional matters that you believe should be addressed? If so please indicate what these are.

There are no additional matters at this time.

Should a 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
Per

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