The International Valuation Professional Board invites responses to the following questions. Not all questions need to be answered but to assist analysis of responses received please use the question numbers in this paper to indicate to which question your comments relate. Further comments on any aspect of the Exposure Draft are welcome.

1 It is proposed that this Exposure Draft will replace the current GN8 “The Cost Approach for Financial Reporting - (DRC)”. As the name suggests GN8 only covers the use of the cost approach for financial reporting purposes. This exposure draft proposes that a properly applied cost approach can be applied in a wide variety of circumstances.

Do you agree with the argument that the cost approach, if properly applied, can be used as a method to arrive at market value for a variety of purposes other than financial reporting?

The Hong Kong Institute of Surveyors Comments : Agreed.

2 This Exposure Draft identifies depreciated replacement cost as the most common method of valuation under the Cost Approach. An alternative view is that this is the only method of applying the cost approach.

Which of these views do you support? If you believe that there are other valuation methods that fall under the Cost Approach, please describe them.

The Hong Kong Institute of Surveyors Comments : There are two cost bases to be used in the Cost Approach, the common is replacement cost, and the other is the reproduction cost. There should have two bases, not one.

3 GN8 in the 2007 edition of IVS identifies the three main types of deduction for obsolescence as physical deterioration, functional obsolescence and external obsolescence. In this Exposure Draft external obsolescence has been replaced with economic obsolescence. Supporters of the proposed change argue that the term economic obsolescence is most commonly used to describe this form of obsolescence. Those who support the existing definition argue that the term external obsolescence more clearly requires all factors that arise from changes to the environment in which the asset operates to be considered, regardless of whether they have a direct economic impact.

Which of these views do you support?

The Hong Kong Institute of Surveyors Comments : We support the term Economic Obsolescence.
4 The exposure draft provides that where the purpose of the valuation is governed by regulations that preclude adjustment for all forms of obsolescence, for example valuations for tariff setting purposes of regulated monopoly assets, the outcome does not represent market value and should not be described as such.

Do you agree that a cost approach valuation that does not identify and quantify all forms of obsolescence is not a measure of market value?

The Hong Kong Institute of Surveyors Comments: When valuing a property to arrive at its market value, the Valuer should factor in all the elements that may affect the valuation; otherwise the Valuer should disclose the limitation in conducting his valuation and to give a warning statement to the readers on the adverse impact to his valuation should such limitation be realized. DRC must always be expressed by the Valuer as subject to adequate potential profitability of the business (or to service potential of the entity from the use of assets as a whole).