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Our Ref : LPPEHM/VPC/015/2004
Date : 23 June 2016

The International Valuation Standards Council

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Dear Sir

COMMENTS ON EXPOSURE DRAFT ON IVS 104: BASIS OF VALUE

We are generally agreeable with all the proposals as contained in the Exposure Draft but in so far as item (f) is concerned, which asked the question, "Are there any other bases of value defined by other entities/organisations that should be mentioned in IVS 104? Which ones? Why", we would like to suggest the following:-

1. Existing Use Value

In Malaysia and Indonesia (which jointly produce 80% of palm oil in the world) there are plantation companies that own and operate oil palm plantations and each plantation may include estates that are typically 2,000 hectares in extent. Because the estates sometimes lie in the path of development and as urban centers expand and exert their influence, these estates begin to attract and subsequently exhibit market values that the property players are willing to pay at, at values over and above the pure agricultural worth of the properties. If the plantation companies are then allowed to incorporate the market values based on their highest and best use (and not constrained, rightly, to reflect the existing use of the estate) then you will find plantation companies incorporating into their accounts value of their estates that do not bear any relation to the stream of income that derives from their agricultural operations (as they should) but may reflect the highest and best use value as contemplated by a property development company in their quest to acquire and hold future land banks for their future development possibilities. The end result, if the market value for the existing use (a known concept in valuation literature) is not prescribed for such plantation companies, and Valuers not made to adhere to assess market value on that basis, the asset values incorporated into the accounts of the plantation

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companies can be bloated and the accounts of the plantation company will carry values (partly or wholly) more properly befitting a property development company.

2. A similar scenario exists for a rubber plantation.
3. A similar scenario can also transpire for an industrial concern (imagine for the sake of distinguishing the point that it is an industrial facility in a city center) and unless the market value for the existing use is dictated in the Standards the industrial concern will have in their books values an aspirational real estate development company rather than an industrial concern focused on their industrial manufacturing activity as a going concern.

Thank you.


Yours faithfully

R.MAHALECHUMI
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