

Responses to IVSC Invitation to Comment Property Institute of New Zealand Standards Board

IVS Gap Analysis

Question 1: Do you agree with the current categorisation and timings of the topics contained in the gap analysis and if not why?

*Move 'Valuation in Markets Susceptible to Change' from medium term to critical level.
Move 'Inventory' from critical level to medium term*

Question 2: Are there any other topics which you believe should be included or deleted from the IVS gap analysis and if so why? (Please state the relevant specialism, categorisation and timing for any proposed additional topics).

Additions:

- *Agriculture and Aquaculture Valuations – add to critical level as it is critical for financial reporting. Propose that it be a standard.*
- *Water rights*
- *Air rights and Transferable Development rights*
- *Contaminated land and buildings*

Reference to Infrastructure is too broad. Propose this to include Public/Private Partnership Valuations.

Chapter 1

Unable to answer all Chapter 1 questions, as these are outside our area of specialisation.

Chapter 2

Question 2.1: Are additional standards related to the derivation of discount rates a critical area that should be addressed by the IVSC? Please explain why.

*Generally agree that this is a critical area given shortcomings of CAPM modeling in other areas.
There is a wide variation in industry practice.*

Question 2.2: Given the extensive use of the CAPM for derivation of discount rates used in business enterprise and asset valuations, do you agree with the Boards proposal to issue new standards to target diversity in practice related to discount rate derivation? Please explain why.

Yes, to reduce variation and improve industry best practice.

Question 2.3: Which inputs have you observed to have diversity in practice that would benefit from additional guidance in IVS and why?

Sales analysis.

Question 2.4: What other methods of deriving discount rates for business enterprise valuation do you commonly observe in practice? For each method, do you commonly observe diversity in practice in its application?

Top down sales analysis.

Yes, there is variation and difference in the way data is managed and a high degree of assumption. This includes integrity of the model and reliance on the Valuers intuition when factoring assumptions for completing the Top down approach. Examples include Owner occupied verses third party leased properties, rights of renewal in leases, use of CAPEX and Growth rates.

Question 2.5: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?

Option C as it is a hybrid approach.

Chapter 3

Question 3.1: Are additional standards for the valuation of early-stage companies a critical area that should be addressed by the IVSC? Please explain why.

Yes, early-stage companies are a big part of the economy. There are a lot of factors to consider when assessing risk. However, our suggestion is to issue a discussion paper first before developing a standard as there appears to be great diversity across companies.

Question 3.2: In which areas of the valuation of early-stage companies do you see the greatest diversity in practice? Are there additional areas of concern not noted above in this ITC? If so, please discuss.

No response

Question 3.3: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?

Alternative B – Discussion Paper.

Chapter 4

Question 4.1: Should IVS provide a standard of Biological Assets? If yes, do you agree with the title of this standard and the distinction provided by the FASB and IASB between Biological Assets and Agricultural Produce, please explain why?

Yes, there needs to be a distinction. Biological Assets can have between 10 year to 30 year life cycle whereas Agricultural Produce is seasonal or has annual life cycle.

Question 4.2: Do you observe a significant variation in valuation practice for Biological Assets? For each type of Biological Asset, what methods do you most commonly see used? Which type of the

Biological Asset you listed have the greatest diversity in practice?

- *Yes. Input is the diversity, not the method.*
- *Bearer plants are either valued at cost or fair value if it is part of the property, eg Vineyards.*
- *Forestry - compounding of costs up to around 10 years and then discounting of estimated final crop value from 10 years.*
- *Agriculture farming – sales comparison approach is used or cost for start up*
- *Aquaculture – Mussel farms are based on area, depth of water, tidal flow – there can be a large variation of factors. Compounding Income approach is applied to water areas, license areas and/or seabed.*

Question 4.3: Do you observe a significant variation in valuation practice for Agricultural produce? For each type of Agricultural Produce, what methods do you most commonly see used? Which type of the Agricultural Produce you listed have the greatest diversity in practice?

Yes, Comparative sales approach is the method most commonly used, with Forestry being the agriculture product that has the greatest diversity in practice.

Question 4.4 Is the valuation of Biological Assets critical area that should be addressed by the IVSC? Please explain why.

Yes, for Forestry (timber) with greatest diversity in practice.

Question 4.5: Does the separation of value between the agricultural produce and its bearer plants cause issues within your market? Please explain why.

Yes, causes issues with values in the market, however the approach is acceptable.

Question 4.6: Do you feel that there is conceptual Issue in allocating components of Fair Value? Please explain why together with your recommendations for resolving these issues.

Separating the bearer plant from the land, and separating it from other structures, posts, irrigation and wire, that distinction is across the board, and is no longer a problem as it is treated as a crop.

Change of Use – there is diverse opinion when dealing with change of use. From an Accounting or Valuation perspective - highest and best use applies. There is an associated clearing cost for a change of use. The issue to consider is how to deal with changing parts, or when it will be sold as a crop.

Question 4.7: Do you think that potential alternative uses should be considered when valuing land as part of a Biological Asset valuation? Please explain why.

Potential alternative uses are always considered.

Question 4.8: Do you think that there are four basic sampling and measurement techniques for the valuation of Biological Assets? If not, please explain what sampling techniques have seen used in practice.

No response

Question 4.9: Do you think that there are four basic sampling and measurement techniques for the valuation of Biological Assets? Do you think that the inclusion of information on generally accepted sampling and measurement techniques would substantially reduce diversity of valuation practice and

if so, how?

The more information obtained, the more confident the Valuer can be in their assessment. The more information and sampling the better. However, this question is not common with our Valuers.

Chapter 5

Question 5.1: Should IVSC produce combined standards and guidance for Extractive Industries or produce separate pronouncements for mining and for oil and gas? If you believe the latter, please indicate the reasons why you consider separate guidance is appropriate.

Yes, also include Guidance Note in the critical timeframe.

Question 5.2: Should the standards focus just on the valuation of reserves and resources or should it extend to other assets employed in the industry and to entire businesses in the sector? Please provide reasons for your answer.

Yes, so that double counting doesn't happen. Expertise in a number of areas and a holistic approach is recommended.

Question 5.3: Which classification code or codes are most commonly used in your industry / sector? Which code do you normally use or rely on? Are you aware of differences across your / industry sector on the classification codes used? If so please indicate whether these differences cause problems in undertaking or understanding valuations.

Unable to answer, outside area of expertise.

Question 5.4: When valuing with a discounted cashflow do you use internal production forecasts developed by the entity's own geological and engineering specialists, external forecasts, or a combination of both and you adjust the production forecasts for risk by reserve category?

Unable to answer, outside area of expertise.

Question 5.5: Please indicate what methods you use or are familiar with that fall under the Cost Approach and that are used in valuing assets in the Extractive Industries. Please indicate in your experience how the cost of an equivalent asset is determined and please indicate the three most common adjustments that are made in your experience to reflect physical, functional or economic obsolescence, and what metrics are used to determine these adjustments?

Unable to answer, outside area of expertise.

Question 5.6: Please identify any intangible assets that are normally separately identified and valued; i. In transactions between entities in the Extractive Industries and ii. When accounting for the acquisition of a business in the Extractive Industries.

Unable to answer, outside area of expertise.

Question 5.7: In your experience what, if any, value is attributed to components of goodwill, eg an assembled skilled workforce, in corporate transactions in the Extractive Industries. Please briefly indicate any valuation techniques used to establish the value of goodwill in such circumstances.

Unable to answer, outside area of expertise.

Question 5.8: Please provide any examples of which you are aware of significant differences between the value of otherwise similar resources arising solely from different Governmental policies. Please indicate how “country risk” factors are reflected in the way in which you price or value extractive assets.

Unable to answer, outside area of expertise.

Chapter 6

Question 6.1: Should IVS provide separate standards for valuing inventory? Please explain why.

Unable to answer, outside area of expertise.

Question 6.2: What methods for the valuation of inventory do you most commonly see used in practice?

Comparable values, break up value, auction value, forced sale verses orderly sale.

Valuer needs to be aware of the context; fixed asset for one business might be stock and trade for another.

Question 6.3: Do you agree with the decision to focus on the application of the Comparative Sales Method? If not, please discuss the other methods that should be included in the performance framework.

Yes

End of Submission

Complied by:-

**Valuation Standards Board
Property Institute of New Zealand
Wellington NZ**

August 2017