



IVSC Agenda Consultation 2017 Feedback form

4. IVS Gap Analysis -Questions for Respondents	
Question 1: Do you agree with the current categorisation and timings of the topics contained in the gap analysis and if not why?	In general agreement, but the topic price vs value also points to market analysis, which should become part of the standards and more so to ensure valuers engage with market participants during analyses of transactions, as the weakness in many valuations is the acceptance of a purchase as market related, without further interrogation with the actual parties to the sale, which creates significant problems with accurate reporting Specialised Public Service Assets should be escalated to critical and also evolve to standards, as the jury is out on this
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).	Should bring the account's method (profit's method) into standards, as many specialised trading properties are values by means of this, an area which is hugely underdeveloped. Ideally it should form part of critical and evolve through all the forums to a fully fledged part of the standards
5. Chapter 1 – Non-Financial Liabilities -Questions for Respondents	
Question 1.1: Is the valuation of non-financial liabilities a critical area that should be addressed by the IVSC? Please explain why.	Asset and Liabilities are weakly defined in the current standards, and there is not sufficient clarity what is meant by liabilities, does it include servitudes (easements) over a property, leasehold rights etc. and does it extend to real rights registered against a property title, or more to rights not endorsed against the title of a property? It may also be construed to include any benefit or disadvantage due to the legal, planning and institutional frameworks in which the assets and liabilities trade
Question 1.2: Should IVS provide a separate definition of liabilities? If yes, do you agree with the definitions provided by the FASB and IASB, please explain why?	The above all impact on value and a plethora of others and are often part of value considerations and are largely covered by the standards, but not explicitly Liabilities form part of the market value definition and should be defined, or alternatively the definition should be amended to only refer to property. Do not believe the FASB and IASB deals with it adequately as some of these are permanent events. Definitions could be sufficiently broad to include all rights and obligations which may impact the market price of an asset and liability



<p>Question 1.3: What non-financial liabilities do you observe in practice? For each liability, what valuation methods do you most commonly see used? Which of the non-financial liabilities you listed have the greatest diversity of valuation in practice?</p>	<p>Pending/approved land use rights: preformance liabilities by owner i.r.o. timelines and service cost. Use NPV of liability according to timeline Servitudes: Value of the encumbrance Below market leases: NPV & reversionary value Plan approval obligations: NPV cost for timeline Third party rights: Discount value of their interest against value of asset Obligation i.r.o. pending/approved land use rights and third party rights greatest diversity</p>
<p>Question 1.4: Do you agree with the decision to exclude financial liabilities from this ITC? If yes, do you think IVSC should add financial liabilities as a possible project(s) in the future?</p>	<p>Goes to the core to remove liability form market value definition or not. If not it should not be excluded from ITC and be part of near future project</p>
<p>Question 1.5: Do you think IVSC should add financial instruments, pension liabilities, and insurance liabilities as a possible project(s) in the future?</p>	<p>There may be the need, but rather focus on more pressing matters with which valuers deal. This is more an area for actuaries, which may create the expectation by valuers that they are more equipped tha they should be</p>



<p>Question 1.6: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?</p>	<p>C: The complexities of liabilities cannot be captures by only prescribed traditional methodology, with C allowing for various approaches which will yield a more informed result</p>
<p>Question 1.7: Are there methodologies and best practices utilised by the insurance industry that the Boards should consider for inclusion in future standards? If so, please discuss.</p>	<p>Do not know, but would be reluctant to couch insurance considerations and valuations together. These have very different inputs and expected outcomes and should not be married</p>
<p>6. Chapter 2 – Discount Rates -Questions for Respondents</p>	
<p>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.</p>	<p>Ideally. This is an area of much ignorance in the industry, but with full knowledge it also allow for "smoke and mirrors" to the uninformed, which often cause huge under or over-statements. Through IVSC intervention this can be prevented</p>
<p>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.</p>	<p>yes I agree. The statements says it all, namely the diversity requires the need for new standards</p>



<p>Question 2.3: Which inputs have you observed to have diversity in practice that would benefit from additional guidance in IVS and why?</p>	<p>Market segment Asset/business type Equity/debt ratio of asset Market cycle of asset/business Components making up the asset, with various lifespans</p>
<p>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?</p>	<p>CAPM and WACC applications as discussed in ITC Would also consider the lease costs of some of the asset components, depending on their relationship to the larger asset and productive lifespan to total asset lifespan</p>
<p>Question 2.5: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?</p>	<p>B - Sufficiently comprehensive and allows a multitude of approaches, providing confidence in outcome</p>
<p>7. Chapter 3 – Early Stage Company Valuation -Questions for Respondents</p>	
<p>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.</p>	<p># Not really, as this is part of normal valuation</p>



<p>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.</p>	<p>Lack of research and inputs</p>
<p>Question 3.3: Of the potential Standard Alternatives outlined above (A, B, C), which do you prefer and why?</p>	<p>A: Sufficiently address</p>
<p>8. Chapter 4 – Biological Assets - Questions for Respondents</p>	
<p>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?</p>	<p>No, sufficiently covered by IVS</p>
<p>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</p>	<p>Yes, just like with other assets. Sometimes a singular method or combination of methods Most commonly a market approach (transactions) Cash flow/income capitalisation</p>



have the greatest diversity in practice?	
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?	No not really Any permanent crop and more so forestry, due to future uncertainties on cash flow
Question 4.4 Is the valuation of Biological Assets critical area that should be addressed by the IVSC? Please explain why.	No, do belief it is adequately addressed in IVS and do not need own special standards, which will be a duplication
Question 4.5: Does the separation of value between the agricultural produce and its bearer plants cause issues within your market? Please explain why.	No, most often the fruits are excluded (othe than timber), as it is seldom the market will trade an asset on the basis of standing fruit
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.	No, the difficulties stated are not real and perceived, as the one is an accounting exrecise and the other not



<p>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.</p>	<p>No, already addressed by IVS</p>
<p>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.</p>	<p>Agree</p>
<p>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?</p>	<p>No, only through Systematic sample stratified can this be achieved</p>
<p>9. Chapter 5 – Extractive Industries - Questions for Respondents</p>	
<p>Question 5.1: Should IVSC produce combined standards and guidance for Extractive Industries</p>	<p>Outside my field and those of most valuers and do not believe it is an area to consider</p>



<p>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.</p>	
<p>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.</p>	<p>If standards are provided, these will have to extend to entire business</p>
<p>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.</p>	<p>Order of magnitude study Pre-feasibility study Bankable feasibility study (most reliable)</p>



<p>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?</p>	<p>The combination approach to ensure objectivity</p>
<p>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?</p>	<p>Normal cost approach techniques. Cost based on market inference, but with allowance for risk for future exploration and sunk costs, etc.</p> <p>Market approaches, i.e.:</p> <ul style="list-style-type: none">Value per unit methodLilford TEM methodNPV DCFKilburn methodUS\$ per ounceMarket capitalization per ounceComparable asset valuation methods
<p>Question 5.6: Please identify any intangible assets that are normally separately identified and valued; i. In transactions between</p>	<p>Goodwill and cashflow</p>



<p>entities in the Extractive Industries and ii. When accounting for the acquisition of a business in the Extractive Industries.</p>	
<p>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.</p>	<p>Significant, depending on market cycle</p>
<p>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.</p>	<p>Current mineral and newroyalty legislation in South Africa, caused significant changes in value as well as black economic empowerment requirements as part of this legislation</p>
<p>10. Chapter 6 – Inventory - Questions for Respondents</p>	



<p>Question 6.1: Should IVS provide separate standards for valuing inventory? Please explain why</p>	<p>No, already priced based on IVS and normally a component of a larger asset</p>
<p>Question 6.2: What methods for the valuation of inventory do you most commonly see used in practice?</p>	<p>Market approach/DCF NPV</p>
<p>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.</p>	<p>Yes</p>