

10 October 2014

IVSC Standards Board
International Valuation Standards Council
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Dear Sirs,

Consultation Paper - Agenda Consultation

On 11 July 2014 the IVSC issued the above Consultation Paper for consideration.

The document was issued seeking a response from interested parties before 10 October 2014.

The Australian Valuation Standards Board comments (red) in response to the questions are detailed below:

Question 1a

Should the IVSC supplement its current standards with additional standards for subsets of assets that fall within the high level categories currently covered in IVSs 200 – IVS 250?

Additional guidance around the valuation of different subsets of assets would be helpful but might be better addressed in TIP format rather than IVS format.

If yes, please indicate the nature of the subsets that you would like to see included and any criteria that you believe that the Board should take into account in determining the priority to be given to these.

It is difficult to be definitive however where there are specific valuation practices and knowledge required to value certain subsets of assets, such assets should be considered for additional guidance. Those that use substantially generic valuation practices would not require any further guidance.

Question 1b

Should the IVSC create additional standards to deal with the application of the principles in the existing IVSs to valuations for different purposes?

Yes

If yes, please indicate any purposes other than those already covered in IVSs 300 and 310 (Financial Reporting and Real Property for Secured Lending) that you would like to see included and any criteria that you believe that the Board should take into account in determining the priority to be given to these.

Because tax issues tend to be driven by local legislation it is likely problematic to provide guidance in that regard. Valuations for insurance purposes might be an area worthy of consideration given that

practitioners in certain areas specialize in this type of valuation and generic procedures can be adopted globally.

Question 2a

Do you or your organisation encounter valuations of assets in the Extractive Industries? If no, please proceed to Question 3a.

Yes

If yes, please indicate the nature of the assets involved and the purposes for which the valuations are required.

Valuations of real property (land & buildings) and/or plant & equipment associated with operating mining and minerals processing and oil & gas extraction & processing operations. Valuations are most commonly required for financial reporting, acquisition accounting, tax, stamp duty and other tax related purposes. Our members often work alongside other professionals who value the overall business enterprise of an extractive industry business including the resource.

Question 2b

Do you have experience of problems or inconsistency in the way in which assets in the Extractive Industries are valued? If so please also indicate whether, in your experience, these are:

- i) specific to a particular country or jurisdiction or are common across borders,
- ii) arise across all the extractive industries or are specific to a particular sector (eg mining) or subsector (eg metal ores).

Generally, in Australia, there are well-established valuation approaches to value operating businesses and assets in the extractive industry sector. The most significant problems generally arise in the valuation of exploration or early stage operations which are typically assessed by professionals with geo-technical expertise. These issues are not peculiar to any specific jurisdiction although those that have well established codes such as SIMVAL, SAMVAL, VALMIN, JORC, etc. probably experience fewer issues than those that do not. Nor are these issues specific to a particular sector or resource.

Question 2c

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Medium. This is a highly specialized area with limited but very experienced practitioners in Australia

Question 3a

Do you or your organisation encounter valuations of forests or woodland used primarily for timber production? If no, please proceed to Question 4a.

Again, a highly specialised area with a limited number of practitioners and usually conducted in collaboration with other professionals.

If yes, please indicate the nature of the forests and geographic region involved and the purposes for which the valuations are required.

To varied in vegetation types and areas to be answered with any authority in this document.

Question 3b

Do you have experience of problems or inconsistency in the way in which commercial forests or woodlands are valued? If yes please indicate whether, in your experience, these are:

- i) specific to a particular country or jurisdiction or are common across borders,
- ii) broadly applicable across all the types of commercial forest or to be specific to a particular sector or type of forest.

See 3a above

Question 3c

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda

Low Very limited use in Australia

Question 4a

Do you or your organisation produce or rely on valuations of real property that is normally bought and sold at a price which reflects the potential earnings that can be made from operating a particular type of business from the property? If no, please proceed to Question 5a.

Yes

If yes, please indicate the type or types of real property that you are aware are generally valued using this approach.

Excluding those properties that rely on rental income these are generally classified as "going concerns" in Australia and include hotels, motels, service stations, marinas, private hospitals, residential care, nursing homes and other healthcare facilities, self-storage facilities, golf courses etc however with a general tendency to tie retail rents to business turnover this may result in inclusion of other types of properties in the future ie shopping centres.

Question 4b

Do you consider that it would be beneficial for the Board to produce guidance on the method of valuation of a real property interest that uses the income that can be generated by a business in occupation as an input?

Yes, but not sure how that would relate to TIP 1 Discounted Cash Flow and TIP 2 The Cost Approach for Tangible Assets. Reference to market transactions would provide simple guidelines for TIP.

Question 4c

If you have answered yes to question 4b, please indicate the issues that commonly cause difficulty or inconsistency in applying this approach.

The identification and measurement of economic obsolescence.
Adjustment for management charges in owner operated situations.
Reliance on accounts that are provided for specific purposes, eg tax, that appear contradictory to actual performance.

Question 4d

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Medium/High

Question 5a

Do you or your organisation value or rely on valuations of real property, plant and equipment held in the public sector? If no please proceed to question 6a.

Yes

If yes, please indicate the purpose or purposes for which the valuations are required.

In Australia valuations of real property, plant and equipment held in the public sector are most commonly required for financial reporting purposes under A-IFRS. Valuations are also often required for insurance purposes.

Question 5b

Do you have experience of problems or inconsistencies in the way in which these assets are valued?

Yes

If yes, please indicate whether these:

- i) arise from the nature of the asset,
- ii) arise or are likely to arise across borders,
- iii) arise because of the need to comply with specific legislation or regulation.

The majority of issues arise due to:

- The application of the cost approach where a public sector asset is not a cash-generating asset and therefore issues arise relating to the correct way to address the concept of economic obsolescence on value where cash flows cannot be used to identify and measure this element

- Valuation of land where the existing permitted, mandated or required use of the land is sub-optimal having regard to other land in the same locality where other alternative uses may be available (e.g. city parkland).
- Individual states have their own supporting guidelines that have minor variations between each other, Australian Accounting Standards and IVSC guidelines.

Question 5c

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

High

Question 6a

Do you or your organisation value or rely on valuations of derivatives? If no, please proceed to question 7a.

No

Question 6b

Please indicate which of the listed underlying asset classes you believe should be given priority in the next phase of the Derivatives project.

N/A

Question 7a

Please indicate whether you have encountered problems or inconsistencies in the way in which funding valuation adjustments are applied. If not please proceed to question 8a.

No basis for comment

Question 7b

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

No basis for comment

Question 8a

Please indicate whether you or your organisation has to value or rely on valuations to support restructuring or corporate recovery. If no please proceed to question 9.

Yes

Question 8b

If yes, please indicate any valuation issues that you currently experience or anticipate arising under emerging regulations.

The insistence of a "Forced Sale" figure in many cases and all the inconsistencies associated with those types of valuations.

Question 8c

Please indicate whether you believe that this should be a high, medium or low priority for inclusion on the Board's agenda.

Low

Question 9

Do you wish to suggest any additional projects for inclusion in the Board's agenda?

None at this stage

If yes, please identify the nature of the suggested project as precisely as possible and provide the information requested in para 42 above.

Yours faithfully,



R. R. Dupont
Valuation Standards Board
Australian Property Institute