

VALUATION FOR FINANCIAL REPORTING

Material for this Application is drawn from International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB). IFRSs comprise individually numbered standards. Those originally published before 2004 are denoted IASs (International Accounting Standards) 1-41. Those published subsequently are prefixed as IFRSs. Extracts from IFRSs are reproduced in this publication of the International Valuation Standards (IVSs) with the permission of IASB.

The approved text of the IFRSs is that published by IASB in the English language, and copies may be obtained directly from IASB, 30 Cannon Street, London EC4M 6HX, United Kingdom, E-mail: publications@iasb.org.uk

IFRSs, Exposure Drafts and other publications of the IASB are protected by the copyright of the IASB.

“IFRS”, “IAS”, “IASC”, “IASB” and “International Accounting Standards” are Trade Marks of the IASB and should not be used without the approval of the International Accounting Standards Board.

1.0 Introduction

- 1.1 The objective of this Application is to explain the principles that apply to valuations prepared for use in financial statements and related accounts of business entities. Valuers undertaking work of this nature should have an understanding of the accounting concepts and principles underlying the relevant International Accounting Standards.
- 1.2 The Valuer's adherence to market-based definitions, objectivity, and full disclosure of relevant matters within a pertinent and user-friendly format are fundamental to the requirements of valuation for financial reporting.

2.0 Scope

- 2.1 This Application applies to all valuations of asset classes included in any financial statement, which fall within the skills and expertise of Valuers.
- 2.2 IVSs facilitate cross-border transactions and the viability of global markets through harmonisation and transparency in financial reporting. As such this Application is developed in the context of

International Financial Reporting Standards (IFRSs) as at 31 March 2004.

- 2.3 IFRSs adopt two models for the recognition of property assets in the balance sheet: a cost model, and a fair value model. Where the fair value model is applied, a current revaluation of the asset is required, and this Application focuses on these particular circumstances where Market Values are to be reported.
- 2.4 Legislative, regulatory, accounting, or jurisprudence requirements may oblige modification of this Application in some countries or under certain conditions. Any departure due to such circumstances must be referred to and clearly explained in the Valuation Report.

3.0 Definitions

International Valuation Standards Definitions

- 3.1 *Depreciated Replacement Cost.* The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.
- 3.2 *Improvements.* Buildings, structures or modifications to land, of a permanent nature, involving expenditures of labour and capital, and intended to enhance the value or utility of the property. Improvements have differing patterns of use and economic lives.
- 3.3 *Market Value.* The estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion (IVS 1, para. 3.1).
- 3.4 *Specialised Property.* A property that is rarely if ever sold in the market, except by way of sale of the business or entity of which it is part, due to uniqueness arising from its specialised nature and design, its configuration, size, location, or otherwise.

INTERNATIONAL VALUATION APPLICATION 1

International Financial Reporting Standards Definitions

- 3.5 *Carrying Amount.* The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon (IAS 36, para. 6).
- 3.6 *Cash-Generating Unit.* The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets (IAS 36, para. 6)
- 3.7 *Depreciable Amount.* The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value (IAS 16, para. 6).
- 3.8 *Depreciation.* The systematic allocation of the depreciable amount of an asset over its useful life (IAS 16, para. 6; IAS 36, para. 6)
- 3.9 *Economic Life.* Either
- the period over which an asset is expected to be economically usable by one or more users; or
 - the number of production or similar units expected to be obtained from the asset by one or more users (IAS 17, para. 4).
- 3.10 *Fair Value.* The amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction (IAS 16, para. 6).
- 3.11 *Fair Value Less Costs to Sell.* The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal (IAS 36, para. 6).
- 3.12 *Impairment Loss.* The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount (IAS 36, para. 6).
- 3.13 *Investment Property.* Property (land or building, or part of a building, or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation, or both, rather than for:
- use in the production or supply of goods or services or for administrative purposes, or
 - sale in the ordinary course of business (IAS 40, para. 5).
- 3.14 *Net Realisable Value.* The estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale (IAS 2, para. 6). Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the market place. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell (IAS 2, para. 7).
- 3.15 *Owner-Occupied Property.* Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes (IAS 40, para. 5).
- 3.16 *Property, Plant and Equipment.* Tangible items that
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
 - are expected to be used during more than one period. (IAS 16, para 6)
- 3.17 *Recoverable Amount.* The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. (IAS 36, para 6)
- 3.18 *Residual Value.* The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life (IAS 16, para. 6)
- 3.19 *Revalued amount.* The fair value of an asset at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses (IAS 16, para. 31).
- 3.20 *Useful Life.* Either
- the period over which an asset is expected to be available for use by an entity; or
 - the number of production or similar units expected to be obtained from the asset by an entity (IAS 16, para. 6; IAS 36, para. 6; IAS 38, para. 8).

In regard to leases, useful life is defined as:

The estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity (IAS 17, para. 4).

- 3.21 *Value in Use*. The present value of the future cash flows expected to be derived from an asset or cash-generating unit (IAS 36, para. 6).

NZ 3.22

NZ IAS16 Public Benefit Entities

These are reporting entities whose primary objective is to provide goods and services for community or social benefit and where any equity has been provided with a view of supporting that primary objective rather than for a financial return (NZ-IAS16, NZ6.1).

4.0 Relationship to Accounting Standards

- 4.1 This Application applies the principles developed in IVS 1, IVS 2, and IVS 3 to the requirements of IASs/IFRSs.
- 4.2 This Application focuses on valuation requirements under IAS 16, *Property Plant and Equipment*; IAS 17, *Leases*; and IAS 40, *Investment Property*. Reference is also made to valuation requirements under IAS 36, *Impairment of Assets*; IAS 2, *Inventories*; and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.
- 4.3 IASB is currently undertaking fundamental reviews of both the measurement of assets and liabilities in financial statements and of lease accounting. Although this Application has been updated to reflect the revisions made to various standards in 2003 as part of the IASB "Improvements Project", further changes may be necessary as a result of these continuing review projects.

AUSNZ 4.4 Application of Australian and New Zealand Accounting Standards.

A Member, when undertaking a valuation for financial reporting purposes must have regard to the provisions of the relevant Australian and New Zealand accounting standards.

These include in Australia:-

AASB 116 – Property Plant and Equipment;

AASB 117 – Leases;

AASB 136 – Impairment of Assets;

AASB 140 – Investment Property;

AASB 141 – Agriculture;

AASB 3 – Business Combinations; and

AASB 5 – Non Current Assets Held For Sale and Discontinued Operations;

and in New Zealand:-

FRS 3 – Accounting for Property, Plant and Equipment (applicable to 2007);

NZ IAS 16 – Property Plant and Equipment. Operative/mandatory for accounting periods on or after 1 January 2007, but optional until then. This Standard is based on IAS 16 with 3 major points of difference affecting valuers, the qualification to the assessment of Land Value, how that impacts on DRC, and the inclusion of Public Sector Public Benefit Entities (There is significant further guidance that has been incorporated into NZ IAS 16 for Public Benefit Entities).

ICANZ SSAP-17 – Accounting for Investment Property and Properties Intended for Sale; (applicable to 2007)

ICANZ NZIAS-40 – Investment Property Operative/mandatory for accounting periods on or after 1 January 2007, but optional until then

NZ IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations. Operative/mandatory for accounting periods on or after 1 January 2007, but optional until then.

INTERNATIONAL VALUATION APPLICATION 1

5.0 Application

To perform valuations that comply with this Application and Generally Accepted Valuation Principles (GAVP), it is essential that Valuers adhere to all sections of the IVS Code of Conduct pertaining to Ethics, Competence, Disclosure, and Reporting (sections 4, 5, 6, and 7)

- 5.1 *Classification of Assets.* Valuers shall obtain from the directors of the owning entity a list of assets to be valued, designating them as operational assets, i.e., assets requisite to the operations of the entity, or non-operational assets, being properties held for future development, investment, or assets surplus to the operations of the entity.
- 5.2 *Applicable Standards.* The classification of assets determines which IAS or IFRS applies. IAS 16 requires non-current property and plant assets held for the production or supply of goods or services to be recognised initially in the balance sheet at cost and thereafter carried in accordance with either the cost model or fair value model described in 5.3. Other accounting standards that require or permit the valuation of tangible assets include:
- Investment Property – IAS 40
 - Leases – IAS 17
 - Impairment of Assets – IAS 36
 - Inventories – IAS 2
 - Business Combinations – IFRS 3
 - Non current Assets Held for Sale and Discontinued Operations – IFRS 5

AUSNZ 5.2.1

For application in Australia International Equivalents to the International Accounting Standards (IFRSs) apply. However, in New Zealand local accounting standards apply until 2007.

Where they vary from the International practice in assessment requirements for fair value, the difference shall be identified and explained.

5.3 IAS 16, Cost and Fair Value

- 5.3.1 IAS 16 deals with the cost model in paragraph 30 as follows:

“After recognition as an asset, an item of property, plant and equipment shall be carried

at its cost less any accumulated depreciation and any accumulated impairment losses.”

NZ 5.3.1.1

IAS 15.1 “In respect of Public Benefit Entities, notwithstanding ...where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition....”

- 5.3.2 The fair value model, which requires regular revaluations, is explained in paragraph 31 as follows:

“After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.”

- 5.3.3 Fair value is not necessarily synonymous with *Market Value*. It is used throughout IFRSs in differing contexts.
- 5.3.4 Financial statements are produced on the assumption that the entity is a going concern unless management either intends to liquidate the entity or cease trading, or has no realistic alternative but to do so. (IAS 1, para 23). This assumption therefore underlies the application of fair value to property plant and equipment, except in cases where it is clear that there is either an intention to dispose of a particular asset or that option of disposal has to be considered, e.g. when undertaking an impairment review.

5.4 Valuations under IAS 16.

Where an entity adopts the fair value revaluation option under IAS 16, the assets are included in the balance sheet at their fair value as follows:

- a) “The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market

value determined by appraisal" (IAS 16, para. 32).

- b) "If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as a part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach" (IAS 16, para. 33).

NZ IAS 33.1

"For Public Benefit Entities, depreciated replacement cost is a method of valuation based on an estimate of:

- a) in the case of property:
- i) the fair value of land; plus
 - ii) the gross current replacement costs of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity; and;
- b) in the case of plant and equipment, the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity."

5.4.1 IVSC considers that a professional Valuer undertaking an appraisal for this purpose should report the *Market Value* of the asset. Any assumptions or qualifications made in applying *Market Value* should be discussed with the entity and disclosed in the report.

5.4.2 The valuation conclusion shall be reported in accordance with IVS 3, Valuation Reporting. Valuers shall ensure that reports include sufficient information for the entity to meet the requirements of IAS 16, para. 77, when preparing financial statements:

- a) the effective date of the revaluation;
- b) whether an Independent Valuer was involved (Note, IVSC interprets this as an *External Valuer*);
- c) the methods and significant assumptions applied;
- d) the extent to which the values were determined directly by reference to

observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques

5.5 *Valuations under IAS 40 - Investment Property.*

Where an entity opts to account for investment property using the fair value model, IVSC considers that the requirements of this model are met by the Valuer adopting *Market Value*. Further guidance on Investment Property is provided at para. 6.7.

5.5.1 IAS 40, para. 75, requires amongst others the following disclosures, which the Valuer should include in the

Report in addition to the requirements of IVS 3

- a) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data; and
- b) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an Independent Valuer (IVSC interprets this as an *External Valuer*), who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

5.6 *Valuation Requirements for Leased Assets – IAS 17*

5.6.1 Leased assets are classified under IAS 17 as either finance leases or operating leases (see para. 6.6.1 below and Addendum A). If a lease is classified as a finance lease, the fair value of the asset is required to establish the amount of the asset and liability recorded by the entity on its balance sheet, IAS 17, para 20.

5.6.2 For leases of land and buildings special rules apply, which are described in para. 6.6.3. For all property, other than investment property,

INTERNATIONAL VALUATION APPLICATION 1

land and buildings have to be considered separately for classification as either a finance lease or an operating lease.

5.6.3 IAS 40 allows Investment Property held by a lessee to be accounted for as a finance lease under IAS 17, subject to further special rules. Firstly, no allocation is made between the land and buildings. Secondly, the fair value is recognized as the value subject to the lessee's future liabilities under the lease.

5.6.4 IVSC considers that in each case the requirement to establish the fair value of the leased asset under IAS 17, para 20, is met by the Valuer reporting the *Market Value*. For leases of real estate, this is the *Market Value* of the lease interest held by the lessee. For leases of other assets, it is normally the *Market Value* of the asset unencumbered by the lease, as the liability is recorded separately.

5.7 *Valuation of Impaired Assets* – IAS 36

5.7.1 Impairment arises where there is a permanent decrease in the value of an asset below its carrying amount. The entity is required to write down the carrying amount of an impaired asset to the higher of its *value in use* or *fair value less costs to sell*. The requirements are discussed further at para. 6.8.2.

5.8 *Valuations after Business Combinations* – IFRS 3

5.8.1 Where a business acquires or is merged with another, the acquirer has to account for the assets and liabilities of the acquiree at their fair value as of the acquisition date. For identifiable assets and liabilities, IVSC considers that the Valuer should report the *Market Value* as they existed at the date of acquisition.

5.9 *Surplus Assets* – IFRS 5

5.9.1 Under IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, surplus assets are to be separately identified. Such assets may be accounted for individually or as a "disposal group", i.e., a group of assets to be disposed of together, by sale or otherwise, and the liabilities directly associated with those assets that will also be transferred in the transaction. Surplus assets are to be initially accounted for at the lower of the carrying

amount and the fair value less costs to sell, and subsequently at fair value less cost to sell. Valuers should therefore ascertain whether surplus assets are to be valued as individual items, or as a group or portfolio of assets that will be disposed of in a single transaction, and report the *Market Value* with the appropriate assumptions.

5.10 *Properties Held for Sale in the Ordinary Course of Business* – IAS 2

5.10.1 Valuations of properties held for sale in the ordinary course of business should comply with the requirements of IAS 2, *Inventories*. These properties are measured at the lower of cost and *net realisable value*. Net realisable value is the *Market Value* less the costs of sale.

5.11 *Selling Costs*

5.11.1 When instructed to value impaired or surplus assets, or assets that are held for sale in the course of business, the Valuer must report their *Market Value* without deducting selling costs. If the client requests the Valuer to advise on the costs to sell the assets, such costs are to be reported separately.

5.12 *Biological Assets* – IAS 41

5.12.1 These include Agricultural and Forestry assets. The Valuer should value these assets in accordance with the guidance in GN 10.

5.13 *Co-operation with Auditors*. Subject to first obtaining the consent of their client, Valuers shall discuss and explain their valuations openly with the entity's auditors.

6.0 Discussion

6.1 Identification of Asset Class

Separate disclosures are required for each class of property, plant and equipment. IAS 16, para. 73, requires that financial statements shall disclose for each class the measurement basis used for determining the gross carrying amount, the depreciation method used, and the useful lives or the depreciation rates used. A class of property, plant or equipment is a grouping of assets of a similar nature and use. The following are examples of separate classes (IAS 16, para. 37):

- a) land;
- b) land and buildings;

- c) machinery;
- d) ships;
- e) aircraft;
- f) motor vehicles;
- g) furniture and fixtures;
- h) office equipment

When an item is revalued, the entire class to which it belongs should be revalued in order to avoid both selective revaluations and the reporting of a mix of costs and fair values as at different dates. An asset class for this purpose is a grouping of assets of a similar nature and use in an entity's operation

AUS 6.1.1

AASB 116 (para 36) requires that the entire class of Property Plant & Equipment to which an asset belongs shall be revalued.

6.2 Depreciation – IAS 16

- 6.2.1 IAS 16, paras. 43–62, sets out the requirements for an entity to account for the depreciation of property, plant and machinery assets. Valuers may be requested to allocate value between different elements of an asset, to advise on the residual value or to advise on the future life of an asset.
- 6.2.2 *Elements of cost.* Any part of an item, which has a cost that is significant in relation to the total cost of the item, has to be depreciated separately. Where parts have a similar useful life and will depreciate at a similar rate, they may be grouped in determining the depreciation charge. Valuers may be consequently requested to allocate a valuation they have provided to the different component parts of an asset in order to enable the entity to depreciate them separately.
- 6.2.3 *Residual Value.* The residual value is deducted from the carrying amount of the asset to determine the amount the entity has to depreciate. If the management policy of the entity involves disposal after a specific time, the useful life of an asset may be less than its economic life. IAS 16, para. 58, recognises that land normally has an unlimited useful life and therefore should be accounted for separately. It also provides that an increase in the value of land should not affect the determination of the depreciable amount of the building.

AUS 6.2.3.1

AASB 116 This is a direction to the entity and not to the valuer, however, the valuer may be able to assist the entity in this process.

- 6.2.4 *Future life.* A Valuer can advise on the remaining economic life of the asset. When reporting the economic life of buildings, improvements, plant and equipment, it should be stated that this is not necessarily the same as the useful life to the entity, which is subject to any policy of the entity on future disposal or renewal.
- 6.2.5 *Reporting requirements.* When providing allocations, or estimating the residual value of an element of an asset based on an apportionment of the value of the complete asset, the Valuer should state that the figures provided are hypothetical allocations of the value of the whole item prepared solely for calculating the appropriate rate of depreciation in the entity's financial statements, and that these figures should not be relied upon for any other purpose.

6.3 Alternative Use Value

If an owner-occupied property has potential for an alternative use, which would result in its *value* in isolation from the business being higher than its value as part of the *cash-generating unit* to which it belongs, the Valuer shall report the *Market Value* for that alternative use. A statement should also be made that the *value* for the alternative use takes no account of issues such as business closure or disruption and the associated costs that would be incurred in achieving the alternative use, and that these should be considered by the entity when deciding the appropriate amount to adopt as fair value.

AUSNZ 6.3.1 Owner- Occupied Property

Where the income approach to value is used for financial reporting purposes in relation to owner-occupied property, a deduction is not made for vacancy or letting-up factors if the going concern presumption applies. This direction does not apply to unoccupied areas or areas intended to be vacated by the entity.

6.4 Specialised Property

Both IVSs and IAS 16 recognize that there are categories of assets for which market-based evidence may be unavailable because of their

INTERNATIONAL VALUATION APPLICATION 1

specialised nature. It endorses the application of either an income or depreciated replacement cost approach to the valuation of these assets. The choice of approach is not dictated by the type of asset but by the presence or absence of market evidence. For further discussion and guidance on the use of these approaches see paras. 5.12 and 5.13 of GN 1 and section 5 of GN 8.

NZ IAS 16-33.1 to 13, provides further guidance. Refer NZVGN 1

NZ 6.4.1 Depreciated Replacement Cost

NZ IAS 16-33.11 directs valuers to assess the depreciated replacement cost of the assets applying the process of optimization to the improvements but not to the land.

NZ 6.4.2 Land Value

NZ IAS 16-33.12 & 13 directs valuers to assess the land value at the Market Value highest and best use.

NZ 6.4.3 Borrowing Costs

NZ IAS 16-33.14 directs entities who adopt the alternative treatment under IAS 23 to embody borrowing costs as a component within the DRC.

6.5 Frequency of Revaluation

Paragraph 31 of IAS 16 states:

“Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date”

6.6 IAS 17 – Leased Property, Plant and Equipment

6.6.1 IAS 17 deals with the accounting for assets that are held under a lease. All leases require classification as either operating leases or finance leases (see para. 5.6.1 above and Addendum A). Different accounting treatments apply to each type of lease. A finance lease is recorded in a lessee's balance sheet as both an asset and a liability at amounts equal to the fair value of the asset or,

if lower, the present value of the minimum lease payments, each determined as at the inception of the lease. Any initial direct costs incurred by the lessee are added to the amount recognized as an asset.

6.6.2 Valuers may be required to advise on the fair value of the asset at the inception of the lease to enable a lessee to account for the asset correctly in accordance with IAS 17.

6.6.3 Special provisions apply to leases of land and buildings. IAS 17, para. 14, states that “because a characteristic of land is that it normally has an indefinite economic life ... a lease of land will be an operating lease”. Where a lease is of land and buildings, these elements have to be considered separately for the purposes of lease classification (IAS 17, para. 15). Most leases of real property will grant the lessee rights to occupy both the land and buildings, following which the interest in both elements reverts to the lessor. If the lessee also has to maintain the building and hand it back to the lessor in good repair, it is probable that both elements will correctly be classified as operating leases (see Addendum A). If both elements are not considered to share the same classification, the minimum lease payments (including any initial capital payment) are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interests in the two elements at the inception of the lease. If the lease payments cannot be reliably allocated the entire lease is treated as a finance lease, unless it is clear that both elements are operating leases (IAS 17, para. 16). This allocation is not required in the case of a lessee's interest accounted for as investment property (IAS 17, para. 18).

6.6.4 For further guidance on Leasehold interests, see Addendum A.

6.7 IAS 40 – Investment Property

6.7.1 IAS 40 defines an investment property as a property (land or a building--or part of a building--or both) held by the owner, or by a lessee under a finance lease, to earn rentals, or for capital appreciation or both. It excludes owner-occupied property used for the production or supply of goods or services, or for administrative purposes, and also property held for sale in the ordinary course of business.

6.7.1.1 If part of a property is held as an investment property and part is owner-occupied, or if the parts could

be sold or leased separately, the parts are accounted for separately. If the parts could not be sold separately, the property is an investment property only if an insignificant proportion is held for the production or supply of goods or services or for administrative purposes (IAS 40, para. 10).

- 6.7.1.2 Property leased to a subsidiary or parent under an inter-company leasing arrangement does not qualify as investment property in the consolidated financial statements of the group, but may be treated as such in the individual financial statements of the lessor entity (IAS 40, para. 15).
- 6.7.2 Investment property is measured initially at cost. After initial recognition an entity may choose to adopt either:
- The Fair Value Model.* Investment property should be measured at fair value and changes recognised in the profit and loss statement; or
 - The Cost Model.* The “historic” cost model is in accordance with the model described in IAS 16. An entity that chooses the (historic) cost model should nonetheless disclose the fair value of its investment property.
- 6.7.2.1 The fair value model is described in detail in IAS 40, paras. 33 - 55. *The Market Value* of the entity's interest in the investment property derived in accordance with IVS 1 accords with these detailed requirements. The *Market Value* will reflect any current leases, current cash flows and any reasonable assumptions about future rental income or outgoings.
- 6.7.3 *Leasehold investment property.* A property held under a lease, rather than owned outright, and that otherwise meets the definition of an investment property, may be accounted for using the fair value model. If this option is taken for one such property held under a lease, all property classified as investment property shall be accounted for using the fair value model (IAS 40, para. 6).
- 6.7.3.1 IAS 40, para. 50(d), recognizes that the fair value of an investment property held under a lease will reflect the net income after deduction of future lease liabilities.

Although the entity is required to add to the reported fair value any recognised lease liability to arrive at the carrying amount for accounting purposes, this does not affect the requirement for the Valuer to report *Market Value*.

- 6.7.3.2 At initial recognition an investment property held under a lease shall be accounted for as though it were a finance lease under IAS 17, para. 20, i.e., at the fair value of the property, or if lower, at the present value of the minimum lease payments. Any capital sum paid to acquire the property interest is treated as part of the minimum lease payments and is therefore included in the cost of the asset (IAS 40, para. 25).
- 6.7.3.3 Subsequent measurement of an investment property held under an operating lease requires the fair value model to be adopted (see para. 6.6.3.1 above).
- 6.7.4 *External Valuations.* Entities are encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an Independent (External) Valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued (IAS 40, para. 26).

6.8 Other Requirements under IASs

- 6.8.1 *Portfolios:* A collection or aggregation of properties held by a single ownership and jointly managed is referred to as a *portfolio*. The *Market Value* of such assets viewed or treated as a portfolio or as an assembled group of properties could exceed or could be less than the sum of the *Market Value* of each asset individually. Where this is the case, it should be reported separately to the directors or trustees.

AUS 6.8.1.1

It should be noted that the valuer is only required to report the possible existence of a premium or discount, and is not required to quantify the actual premium or discount, unless specifically requested.

- 6.8.2 *Impairment:* An entity is required, under IAS 36, *Impairment of Assets*, to review, at each balance sheet date, whether there is any indication that

INTERNATIONAL VALUATION APPLICATION 1

a tangible asset may be impaired. Impairment might be indicated by, for example, a reduction in the value of the asset because of market or technological changes, obsolescence of the asset, asset underperformance in comparison to the expected return, or an intention to discontinue or restructure operations. If impairment is considered to have arisen, the *carrying amount* of the asset, derived from either its historic cost or an earlier valuation should be written down to the *recoverable amount*, which is the higher of the asset's *value in use* or its *fair value less costs to sell*. *Value in use* reflects the value that the entity will obtain from the asset throughout its remaining useful life to the business and its eventual disposal. Although entity-specific, the valuation inputs for the *value in use* of an asset should be market determined wherever possible. However, if the value an entity can obtain from the continued use of an asset is less than the net proceeds that could be obtained from its immediate retirement and disposal, the *carrying amount* should reflect this latter figure. The *fair value less costs to sell* of an asset is its Market Value less the reasonably anticipated selling costs.

- 6.8.3 *Disrupted Markets*. When markets are disrupted or suspended, Valuers must be vigilant in their analyses as explained in IVS 1, paragraph 6.5. Under IAS 29, *Financial Reporting in Hyperinflationary Economies*, Valuers may be required to assess balance sheet value.

7.0 Disclosure Requirements

- 7.1 The Valuer shall make all disclosures required under IVS 3, Valuation Reporting.
- 7.2 For disclosures required under IFRSs/IASs, see paragraphs 5.4.2, 5.5.1 and 6.1 above.
- 7.3 The Valuer shall disclose the regulatory framework and any departure required from these Standards to comply with local legislation, regulation (including accounting rules), or custom.

8.0 Departure Provisions

- 8.1 In following this Application any departures must be in accordance with directions made in IVS 3, Valuation Reporting.

AUS. 8.1.1

To the extent that government Treasury Corporation guidelines are in any conflict with this Application, the valuer shall specify and note in the report any departures from this Application.

9.0 Effective Date

- 9.1 This International Valuation Application became effective 31 July 2007.

Addendum A

Further Guidance on Lease Accounting

Lease Classification

Under IAS 17, leases have to be classified for inclusion in financial statements as either operating leases or finance leases:

A *finance lease* is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be eventually transferred.

An *operating lease* is a lease other than a finance lease.

The following examples are listed in IAS 17, paras 10-11, as situations that could be indicative of a finance lease, either individually or in combination. These are not absolute tests but illustrations, i.e., one or more of these circumstances may arise, but the lease would still not be classified as a finance lease if it is clear from the overall context that substantially all the risks and rewards of ownership have not been transferred from the lessor to the lessee.

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset on advantageous terms;
- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications;
- (f) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- (g) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee;
- (h) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

If it is concluded that substantially all the risks and rewards of ownership are not transferred to the lessee, then the lease is an operating lease.

As classification does involve an assessment of the degree to which economic benefits are transferred by a lease, Valuers are likely to be requested to provide advice to assist classification by lessor and lessees. IVSC considers that in the majority of cases, a qualitative assessment of the lease terms will quickly indicate the correct classification without the need for detailed calculation of the value of the different lease interests. The relative values of the lessor's and lessee's interests are not a key factor in classification; the key test is whether the lessor has transferred substantially all the risks and rewards of ownership.

Land and Building Allocation

Where a lease is of land and buildings together, IAS 17, para. 15, requires that the two elements be considered separately for the purposes of classification. If it appears that the buildings element could be a finance lease, it will be necessary to make an allocation of the initial rent based on the relative fair values of the leasehold interests in each element at the inception of the lease (IAS 17, para. 16).

In most leases of real property, the interest in the land and buildings is not distinguishable, and in any event the interest in both normally reverts to the lessor at the end of the lease. There are often provisions for the rent to be reviewed periodically to reflect changes in the *Market Value* of the property and also an obligation on the lessee to hand the buildings back to the lessor in good repair. These are all clear indicators that the lessor has not transferred substantially all the risks and rewards of ownership of either the buildings or the land to the lessee.

Consequently, finance leases of real property will generally arise only where the lease is clearly designed as a way of funding the eventual purchase of the land, buildings, or both by the lessee, often by means of an option to acquire the lessor's interest for a nominal sum after the rental payments have been made. Occasionally leases that are not clearly structured as finance agreements may meet some of the criteria of a finance lease, for example, where the rental payments do not reflect the underlying value of the property. In those cases a more detailed analysis of the value of the risks and benefits transferred may be required in order to confirm or rebut their classification.

Under IAS 17, para. 17, allocation between the land and buildings elements of an investment property held under a lease is not required. Under IAS 40, even though the investor may hold the investment property under an operating lease, the whole is accounted for as though it were a finance lease.

Where a lease is of a self-contained plot of land and the building upon it, allocating the rent to each element is a task that could be undertaken reliably where there is

INTERNATIONAL VALUATION APPLICATION 1

an active market for land for similar development in the locality. In other situations, for example where the lease is of part of a multi-let building with no identifiable land attributable to any particular lease, reliable allocation may be impossible. IAS 17, para. 16, recognises that such cases can arise and makes the proviso that where a reliable allocation cannot be made, the whole lease should be treated as a finance lease, unless it is clear that both elements are operating leases. If it were clear that both elements were operating leases from the outset, the allocation exercise would not be necessary.

In practice, leases of part of a multi-let building will normally be operating leases and the whole property will be classified as investment property by the lessor. In such cases allocation will be unnecessary. In cases where the buildings element is clearly a finance lease, the land element is likely to be identifiable. It will be comparatively rare for the buildings element to meet the criteria for classification as a finance lease and for the land element not to be clearly identifiable. In such cases, the Valuer should not attempt an allocation based on unreliable criteria, but should advise that the allocation cannot be reliably made. The entity will then have to treat the whole as a finance lease.

VALUATION FOR SECURED LENDING PURPOSES

REVISED 2007

1.0 Introduction

- 1.1 The objective of International Valuation Application 2 (IVA 2) is to provide a framework for valuations of assets that are to be offered or taken as loan security.
- 1.2 It is important that Valuers consistently apply accepted valuation principles within the scope of these standards, providing clear, independent and objective opinions that are relevant to the needs of valuation users.

2.0 Scope

- 2.1 This Application applies in all circumstances where valuations are required of assets that are, or are proposed to be, held as security for lending. The lending may be done by different means, including *mortgage* or other forms of fixed or floating charge.

3.0 Definitions

International Valuation Standards Definitions

- 3.1 *Market Value*. The estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion (IVS 1, para. 3.1).
- 3.2 *Mortgage*. A pledge of an interest in property as security or collateral for repayment of a loan with provision for redemption on repayment. In the event the borrower (mortgagor) defaults, the lender (mortgagee) has the power to recover the property pledged.
- 3.3 *Specialised Property*. A property that is rarely if ever sold in the market, except by way of sale of the business or entity of which it is part, due to uniqueness arising from its specialised nature and design, its configuration, size, location, or otherwise.

- 3.4 *Trade Related Property*. Certain classes of real property, which are designed for a specific type of business and that are normally bought and sold in the market, having regard to their trading potential.

European Union Legislation Definition

- 3.5 *Mortgage Lending Value*. The value of the property as determined by a prudent assessment of the future marketability of the property taking into account long term sustainable aspects of the property, the normal and local market conditions, and the current use and alternative appropriate uses of the property. Speculative elements shall not be taken into account in the assessment of the mortgage lending value. The mortgage lending value shall be documented in a clear and transparent manner. (This definition is from Directive 2006/48/EC of the European Parliament.)

4.0 Relationship to Accounting Standards

- 4.1 A valuation prepared for lending purposes will not necessarily be the same as one made for accounting purposes, particularly one made for financial reporting purposes. Although a similar base such as *Market Value* may be applicable, the assumptions on which the valuation is based may be different.
- 4.2 By way of example, the underlying principle of many valuations for financial reporting is the presumption that the entity will continue as a going concern. However, this would not usually be appropriate for valuations undertaken for lending purposes. Such a presumption has particular implications for specialised assets where the value and marketability of the secured property, separate from the business of which it forms part, may be limited.

5.0 Application

To perform valuations that comply with this Application and Generally Accepted Valuation Principles (GAVP), Valuers shall adhere to all sections of the IVS Code of Conduct pertaining to Ethics, Competence, Disclosure, and Reporting (sections 4, 5, 6, and 7).

- 5.1 In performing valuations of property for lending purposes, Valuers will normally provide the *Market Value* of such property in accordance with these International Valuation Standards.
- 5.2 If the circumstances are such that a departure from the *Market Value* basis is justified, the departure shall be clearly set out and explained in the Valuation Report along with the identification and definition of the alternative basis used and an explanation of the reasons for the departure. If there is a material difference between the *Market Value* of the property and the alternative value, this should be reported.
- 5.3 The valuation opinion shall be reported in accordance with IVS 3, Valuation Reporting.
- 5.4 In addition to fulfilling the requirements of IVS 3, Valuation Reports for secured lending of real property will normally include comment, where relevant, on the following items:
 - 5.4.1 current activity and trends in the relevant market;
 - 5.4.2 historic, current and anticipated future demand for the category of property in the locality;
 - 5.4.3 the potential and likely demand for alternative uses;
 - 5.4.4 both the current marketability of the property and if requested, the likelihood of its sustainability;
 - 5.4.5 any impact of foreseeable events (at the date of valuation) on the value of the security;
 - 5.4.6 the valuation approach adopted, and the extent of market-based evidence in support of the valuation.
- 5.5 Valuations for lending purposes may be required on an assumption there has been a change in the state or condition of the property, for example, the assumed development of a new building, or upgrade of a building. Such a valuation will normally be provided on the assumption that the change

has occurred at the valuation date. It is not a projection of the value at the date in the future when the change will have actually occurred. The report must make it clear that the valuation is based on the assumption that the change specified had already been made at the valuation date. Use of the term *Market Value* without a modifier in these circumstances can be misleading. The term "*Market Value as if complete*" is an example of a suitable modification of *Market Value* that may be used in these circumstances.

- 5.6 A valuation of a property may also be required on the assumption that an estimated occupancy level had been achieved. This should also reflect the realistic expectations and perceptions of market participants as at the date of the report.
- 5.7 Corporate and individual loans from banks and other financial institutions are often secured by specific property assets. Valuers need to have a general understanding of the requirements of such institutions, and possibly the structure of loan terms and agreements. Lenders will usually require that the terms of a loan be kept confidential, but this does not relieve the Valuer of the obligation to have a general understanding of the lending process.

AUSNZ 5.7.1 Application

The extent of general understanding of requirements of financial institutions for valuers in Australia and New Zealand would normally be limited to:

- the requirements of professional indemnity insurance policies including prudent lender clauses
- the distinction between first and second mortgages
- loan to value ratios
- basic loan terms

General knowledge of requirements of financial institutions in Australia and New Zealand does not extend to knowledge of loan terms and conditions for a particular loan or loan application, which valuers are typically not privy to.

Ultimately loan terms and conditions are the commercial prerogative of a mortgagee or financier, and will have no impact on the assessment of market value by a valuer.

6.0 Discussion

- 6.1 At the outset of an assignment, the Valuer needs to clearly identify the property that is to serve as the security. Particular care is required to distinguish between property types where real property and personal property are combined.
- 6.2 The manner in which property would ordinarily trade in the market will determine the applicability of the various approaches to assessing *Market Value*. Based upon market information, each approach is a comparative method, and the use of more than one method may be required.
- 6.3 Each relevant valuation method will, if appropriately and correctly applied, lead to a similar result. All valuation methods should be based on market observations. Construction costs and depreciation, where they apply, should be determined by reference to an analysis of market-based estimates of costs and accumulated depreciation. The use of an income method, particularly discounted cash flow techniques, will also be based on market-determined cash flows and market-derived rates of return.
- 6.4 Occasionally a lender may request a valuation on a basis other than *Market Value*. IVS 2 addresses the types, use and reporting of some common alternative bases of valuation. The Valuer should ensure that an alternative basis is not confused with *Market Value*. Although there may be circumstances where an alternative basis is appropriate for secured lending, users of such valuations should be made aware that such value may not be realisable if the alternative assumptions made are no longer applicable.

6.5 Investment Properties

- 6.5.1 Income-producing properties are usually valued as individual properties. Lending institutions may also wish to have a property assessed as part of a portfolio of properties. In such instances, the distinction between the value of the individual property, assuming it is sold individually, and its value as part of the portfolio should be clearly expressed.
- 6.5.2 Although the Valuer should comment on the expected demand and marketability of the property over the life of the loan (see para. 5.4 above), it is normally outside the scope of the valuation exercise to advise on the ability of a tenant to meet future lease obligations beyond comment on the market's current perception of the tenant's quality.

6.6 Owner-Occupied Properties

- 6.6.1 Owner-occupied properties valued for lending purposes will normally be valued on the assumption that the property is transferred unencumbered by the owner's occupancy, i.e., that the buyer is entitled to full legal control and possession. This does not preclude consideration of the existing owner as part of the market, but it does require that any special advantage attributable to the owner's occupancy, which may be reflected in a valuation of the business, be excluded from the valuation.

6.7 Leases Between Related or Connected Parties

- 6.7.1 Caution is required where property offered as security is subject to a lease to a party connected to the borrower. If the valuer considers that the lease creates a more favourable income stream than would be obtainable on a letting to an unconnected third party in an arm's-length transaction, the lender should be alerted and it may be appropriate to disregard the existence of the lease in a valuation of the property as security.

AUSNZ 6.7.2 Leases Between Related or Connected Parties

In Australia and New Zealand if the valuer considers that the lease creates a more favourable income stream than would be obtainable on a letting to an unconnected third party in an arm's-length transaction, the lender should be alerted and it is appropriate to disregard the existence of the lease in a valuation of the property as security.

6.8 Sales Incentives

- 6.8.1 It is not uncommon for a seller of property, especially developers of real property, to offer incentives to buyers. Examples of such incentives include rental income guarantees, contributions to the buyer's removal or fitting out costs, or the supply of personal property such as furnishings or equipment. *Market Value* ignores any price inflated by special considerations or concessions (IVS 1, para 3.2.1). It may also be appropriate to alert the lender as to the effect that any incentives being offered have on the actual selling prices achieved.

6.9 Specialised Properties

- 6.9.1 Specialised properties by definition may have limited marketability and significant value only

INTERNATIONAL VALUATION APPLICATION 2

as part of a business (see Concepts Fundamental to Generally Accepted Valuation Principles, para. 8.2). For loan security purposes, such properties will normally be valued on a vacant possession basis (see para. 6.6.1 above) and a valuation based on the highest and best alternative use is usually applicable. This will involve consideration of the costs and risks that would be involved in achieving that use. Lenders may not consider specialised property to be suitable as a security for lending purposes.

- 6.9.2 A valuation may be required of a specialised property where the property is part of a going-concern business. The lender should be alerted to the valuation being dependent on the continuing profitability (or otherwise) of the going concern. If the value on a vacant possession basis is potentially lower, this should be drawn to the attention of the lender.

6.10 Trade Related Properties

- 6.10.1 Certain classes of property, including but not limited to hotels and other trading businesses, where the property is approved and purpose-designed for only that use, are usually valued based on profitability but excluding *Personal Goodwill* (see GN 12, para. 3.3.2). In such cases, the lender should be made aware of the significant difference in value that may exist between an operating concern and a non-operating concern where the business is closed, the inventory is removed, licences (and other intangible assets such as certificates, franchise agreements, or permits) are removed or are in jeopardy, and any other circumstances exist that may impair future profitability and value.
- 6.10.2 If the income from a property is critically dependent on a tenant or tenants from a single sector or industry or some other factor, which could cause future income instability, the Valuer should address these factors in the Valuation Report. In certain cases, an assessment of the value of the property based on an alternative use, assuming vacant possession, may be appropriate.

6.11 Development Properties

- 6.11.1 Properties held for redevelopment or sites intended for development of buildings should be valued taking into account existing and potential development entitlements and controls. Any assumptions as to planning issues and other material factors must be reasonable, validated

by market behaviour and explicitly stated in the Valuation Report.

- 6.11.2 The approach to the valuation of development properties will depend on the state of development of the property at the date of valuation and may take into account the degree to which the development is pre-sold or pre-leased. The valuation approach may need to be discussed with the lender prior to undertaking the valuation. Care should be taken by the Valuer to:

- 6.11.2.1 make a reasoned estimate of the development period from the date of valuation. The effect of additional development requirements on costs and revenues, using present value discounting where appropriate, will be reflected in this analysis;
- 6.11.2.2 evaluate as far as is possible at the date of valuation, market behaviour during the period of the development;
- 6.11.2.3 consider and outline the risks associated with the development; and
- 6.11.2.4 consider and disclose any known special relationships between the parties involved in the development.

6.12 Wasting Assets

- 6.12.1 Specific lending issues arise in relation to the valuation of wasting assets such as mines or quarries. The lender's attention needs to be drawn to the risk associated with this type of a wasting asset and the planned program for its extraction or use.
- 6.12.2 Property rental that exceeds the current market or economic rent may constitute a wasting asset because any value attributable to this factor diminishes as the term of the lease decreases.

6.13 The Valuer

- 6.13.1 The nature and scope of the Valuer's engagement should be clear to the Valuer and the user of the valuation. Valuers should be aware of the risk associated with valuations for lending purposes where miscommunication, misunderstanding or error may lead to a dispute or litigation between the lender and the Valuer.
- 6.13.2 In some jurisdictions financial services legislation requires licensing or registration of advisers when advice is related not only to the value of property, but also to securities issues such as equity, participatory interests, collective investment

schemes, or syndicated loans. Valuers may be restricted in the advice they can provide in these jurisdictions.

- 6.13.3 In undertaking valuations for lending purposes, it is particularly important that the Valuer be independent of the borrower.
- 6.13.4 It is important that the Valuer possess appropriate experience in relation to the particular property type and locale for the property involved, or if not, seek expert assistance.

6.14 Forced Sales and Limited Marketing or Disposal Periods

- 6.14.1 Lending institutions may request valuations on a forced, or liquidation, sale basis or impose a time limit for disposal of the security. Because the impact of a constraint on the price obtainable will depend upon the specific circumstances under which the sale takes place, it is not realistic for the Valuer to speculate on a price that could be obtained without either knowledge of the reasons for the constraint, or the circumstances under which the property might be offered for sale. An alternative valuation may be provided based on defined assumptions, but the Valuer should draw the lender's attention to the fact that this opinion is valid only at the valuation date, and may not be relied upon in the event of a future default, when both market conditions and the sale circumstances may be different.

6.15 Lenders' Solvency Ratios

- 6.15.1 Major banks and other lenders are normally subject to regulations that limit the total amount they can lend as a proportion of the lenders' assets, known as the *solvency ratio*. In the international context, the Basle II Accord sets out rules for the minimum solvency ratios to be maintained by lending institutions and how those ratios are to be calculated. The value of assets over which the lender holds security is used in calculating the solvency ratio.
- 6.15.2 In exceptional circumstances for well-developed and long-established markets, the Basle II Accord requires the estimation of the *Market Value* and *Mortgage Lending Value* of a security backed by commercial real estate. A preferential risk weight of 50% is assigned to the tranche of a secured loan that does not exceed the lower of 50% of the *Market Value* or 60% of the *Mortgage Lending Value*.

- 6.15.3 *Mortgage Lending Value* is a long-term, risk assessment technique. As such, it is not a basis of value. MLV is a technique that is primarily used by banks in a number of European countries. Further information on *Mortgage Lending Value* is available on the IVSC website.

NZ 6.16 Security Recommendation

In New Zealand where a Member is requested to complete a valuation for the purposes of the Trustee Act 1956 and amendments, the Solicitors Nominee Company Rules 1996, or the Securities Act (Contributory Mortgage) Regulations 1988, or for any lender whom the Member is aware is acting in the capacity as a trustee, a recommendation shall be provided as to the maximum amount which the member considers it would be prudent to lend on the security of the property.

In all other cases in New Zealand a mortgage recommendation should be provided.

7.0 Disclosure Requirements

- 7.1 In reporting *Market Value* for lending security purposes, the Valuer shall make all disclosures required under IVS 3, *Valuation Reporting*.
- 7.2 The basis of the Valuer's engagement is to be clearly set out in any reports to be used by third parties. All reports should be presented in a way that would not be considered by a reasonable person to be misleading.
- 7.3 The Valuer shall disclose the regulatory framework and any departure required from these Standards to comply with local legislation, regulation, or custom.

8.0 Departure Provisions

- 8.1 In following this Application any departures must be in accordance with directions provided in IVS 3, *Valuation Reporting*.

9.0 Effective Date

- 9.1 This International Valuation Application became effective 31 July 2007.

THIS PAGE IS INTENTIONALLY LEFT BLANK

VALUATION OF PUBLIC SECTOR ASSETS FOR FINANCIAL REPORTING

ADOPTED 2007

1.0 Introduction

- 1.1 Public sector assets are those assets owned and/or controlled by governmental or quasi-governmental entities to provide goods or services to the general public. The principles that apply to the valuation of public sector assets are essentially the same as for any other assets.
- 1.2 The valuation of public sector assets may be undertaken for a range of purposes including financial reporting, privatisation planning, loan origination, bond issuance, and cost-benefit or economic analyses performed by governments and quasi-government entities either to determine whether a public sector asset is being used and managed efficiently or to set pricing for monopoly services.
- 1.3 The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities, referred to as International Public Sector Accounting Standards (IPSASs). IPSASs, which apply to accrual accounting, are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB). IPSASs cover public sector specific financial reporting issues, some of which are not addressed by IFRSs.
- 1.4 IVA 1 generally addresses the application of valuation bases to accounting principles in the context of IFRSs. Because of parallels between IPSASs and IFRSs, this Application necessarily repeats some of the content of IVA 1 while also addressing the specific requirements for the valuation of public sector assets and their treatment in financial reporting.
- 1.5 Property in the public sector comprises conventional cash-generating and non-cash-generating property assets as well as specialised property assets, including *heritage and conservation assets, infrastructure assets, public buildings, public utility plants, and recreational assets*. As with private sector assets, public sector assets fall into *operational* and *non-operational*

categories. Non-operational assets include investment and surplus assets

2.0 Scope

- 2.1 This Application applies to all valuations of public sector asset classes, included in any financial statement, which fall within the skills and expertise of Valuers (with the exception of valuations of Government Business Enterprises or GBEs that are performed according to IVA 1).
- 2.2 IVSs facilitate cross-border transactions and the viability of global markets through harmonisation and transparency in financial reporting. As such, this Application is developed in the context of International Public Sector Accounting Standards (IPSASs). In September 2005, the IPSAS Board issued an Exposure Draft of eleven IPSASs that had been updated to converge with the amended International Accounting Standards issued by IASB in December 2003 as part of its General Improvements Project. This Application is developed in the context of the proposed revisions to IPSASs contained within this Exposure Draft.
- 2.3 IPSASs and IFRSs adopt two models for the recognition of property assets in the balance sheet: a cost model, and a fair value model. Where the fair value model is applied, a current revaluation of the asset is required, and this Application focuses on these particular circumstances where Market Values are to be reported.
- 2.4 Legislative, regulatory, accounting, or jurisprudence requirements may require the modification of this Application in some countries or under certain conditions. Any departure due to such circumstances must be referred to and clearly explained in the Valuation Report.

3.0 Definitions

International Valuation Standards Definitions

- 3.1 *Depreciated Replacement Cost*. The current cost of replacing an asset with its modern equivalent asset

INTERNATIONAL VALUATION APPLICATION 3

less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

- 3.2 *Market Value*. The estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion (IVS 1, para. 3.1).
- 3.3 *Obsolescence*. A loss in value due to a decrease in the usefulness of property caused by decay, changes in technology, people's behavioural patterns and tastes, or environmental changes. Obsolescence is sometimes classified according to items of outmoded design and functionality, items with structural design unable to meet current code requirements, and factors arising outside the asset, such as changes in user demand.
- 3.4 *Optimisation*. The process by which a least cost replacement option is determined for the remaining service potential of an asset. It is a process of adjusting the replacement cost to reflect that an asset may be technically obsolete or over-engineered, or the asset may have a greater capacity than that required. Hence optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available.
- 3.5 *Public building*. A building that serves some community or social function and is held in public ownership. Examples include courthouses, municipal centres, schools, prisons, police stations, military facilities, libraries, hospitals, clinics, and social or public housing.
- 3.6 *Public sector asset*. An asset, owned and/or controlled by a governmental or quasi-governmental entity, for the provision of some public service or good. Public sector assets comprise different asset types, including conventional assets as well as heritage and conservation assets, infrastructure assets, public utility plants, recreational assets, and public buildings (e.g., military facilities), each category of which constitutes property, plant and equipment within the meaning of IPSASs and IFRSs.
- Public sector assets typically include:
- assets, which have atypical tenure, are irreplaceable, are non-cash-generating, or provide goods or services in the absence of any market competition;
 - land with restrictions on its sale or leasing; and

- land, which is designated for a specialised use that is not necessarily its highest and best use.

See also *Heritage assets*, *Infrastructure assets*, *Public building*, *Public utility*, and *Recreational assets*.

- 3.7 *Public utility*. A property that:
- produces a service or good for general public consumption; and
 - is usually a monopoly or quasi-monopoly provider subject to some form of governmental control.
- 3.8 *Recreational assets*. Properties held in public ownership that:
- are managed by or on behalf of national, municipal, or local governmental authorities; and
 - provide for recreational use by the general public.
- Examples include parks; playgrounds; greenbelts; walks and trails; swimming pools; playing courts, fields and courses; and other properties equipped with recreational and athletic facilities.
- 3.9 *Service potential*. The capacity of an asset to continue to provide goods and services in accordance with the entity's objectives.
- 3.10 *Value of improvements*. The value added to the land by improvements such as buildings, structures or modifications to the land, of a permanent nature, involving expenditures of labour and capital, and intended to enhance the value or utility of the property. Improvements have differing patterns of use and economic lives.

International Public Sector Accounting Standards Definitions

- 3.11 *Cash Generating Assets*. Assets held to generate a commercial return. (IPSAS 21.14)
- 3.12 *Depreciable Amount*. The cost of an asset, or other amount substituted for cost, less its residual value (IPSAS 17.13).
- 3.13 *Depreciation*. The systematic allocation of the depreciable amount of an asset over its useful life (IPSAS 17.13, IPSAS 21.14).
- 3.14 *Government business enterprise (GBE)*. An entity that has all of the following characteristics:
- is an entity with the power to contract in its own name;
 - has been assigned the financial and operational authority to carry on a business;

- c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
 - d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
 - e) is controlled by a public service entity. (IPSAS 21.14)
- 3.15 *Heritage assets.* Assets having some cultural, environmental or historical significance. Heritage assets may include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Heritage assets often display the following characteristics (although these characteristics are not necessarily limited to heritage assets):
- a) their economic benefit in cultural, environmental, educational and historic terms is unlikely to be fully reflected in a financial value based purely on market price;
 - b) legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
 - c) they are often irreplaceable and their economic benefit may increase over time even if their physical condition deteriorates; and
 - d) it may be difficult to estimate their useful lives, which in some cases could be hundreds of years.

The above definition is consistent with the description of heritage assets in IPSAS 17.9

- 3.16 *Impairment.* A loss in the future economic benefits, or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (IPSAS 21.14).
- 3.17 *Infrastructure assets.* Assets that usually display some or all of the following general characteristics:
- a) they are part of a system or network;
 - b) they are specialised in nature and do not have alternative uses;
 - c) they are immovable; and
 - d) they may be subject to constraints on disposal.

The above definition is consistent with the description of infrastructure assets in IPSAS 17.21

- 3.18 *Non-cash-generating assets.* Assets other than cash-generating assets (IPSAS 21.14).
- 3.19 *Recoverable service amount.* The higher of a non-cash-generating asset's fair value less costs to sell and its value in use (IPSAS 21.14).
- 3.20 *Useful life (of property, plant and equipment).*
Either
- a) the period over which an asset is expected to be available for use by an entity; or
 - b) the number of production or similar units expected to be obtained from the asset by an entity. (IPSAS 17.13, IPSAS 21.14)
- 3.21 *Value in use of a non-cash-generating asset.* The present value of the asset's remaining service potential. (IPSAS 21.14)

4.0 Relationship To Accounting Standards

- 4.1 This Application applies the principles developed in IVS 1, IVS 2, IVS 3 and IVA 1 to the requirements of IPSASs. tandards
- 4.2 This Application focuses on valuation requirements under IPSAS 17 (Exposure Draft, September 2005), Property, Plant and Equipment; and IPSAS 21, Impairment of Non-Cash-Generating Assets. Further requirements may become mandatory, pending publication of revised IPSAS 17.

5.0 Application

To perform valuations that comply with this Application and Generally Accepted Valuation Principles (GAVP), it is essential that Valuers adhere to all sections of the IVS Code of Conduct pertaining to Ethics, Competence, Disclosure, and Reporting (sections 4, 5, 6, and 7)

- 5.1 *Classification of Assets.* Valuers shall obtain from the directors of the owning entity a list of assets to be valued, designating them as operational assets, i.e., assets requisite to the operations of the entity, or non-operational assets, being properties held for future development, investment, or assets surplus to the operations of the entity.
- 5.2 *Applicable Standards.* The classification of assets determines which IPSAS applies. IPSAS 17, paras. 26 and 27, requires non-current property, plant and equipment assets held for the production or supply of goods or services to be measured upon recognition at

INTERNATIONAL VALUATION APPLICATION 3

cost, or where an item is acquired through a non-exchange transaction, its cost shall be measured at its fair value at the date of acquisition. IPSAS 17, para. 42 requires that after recognition, such assets be carried in accordance with either the cost model or revaluation (fair value) model described in 5.3. Other accounting standards that require or permit the valuation of tangible assets include:

- Leases – IPSAS 13
- Investment Property – IPSAS 16
- Impairment of Non-Cash Generating Assets – IPSAS 21

5.3 IPSAS 17, *Cost and Fair Value*

5.3.1 IPSAS 17 deals with the cost model in paragraph 43 as follows:

“After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.”

5.3.2 The fair value model, which requires regular revaluations, is explained in paragraph 44 as follows:

“After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.”

5.3.3 Fair value is not necessarily synonymous with *Market Value*. It is used throughout IPSASs in differing contexts.

5.3.4 Financial statements are produced on the assumption that the entity is a going concern unless management either intends to liquidate the entity or cease operation, or has no realistic alternative but to do so. This assumption therefore underlies the application of fair value to property plant and equipment, except in cases where it is clear that there is either an intention to dispose of a particular asset or that option of disposal

has to be considered, e.g. when undertaking an impairment review.

5.4 *Valuations under IPSAS 17*

Where an entity adopts the fair value revaluation option under IPSAS 17, the assets are included in the balance sheet at their fair value as follows:

- a) “The fair value of items of property is usually determined from market-based evidence by appraisal. The fair value of items of plant and equipment is usually their market value determined by appraisal” (IPSAS 17, para. 45).
- b) “If no market evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location...” (IPSAS 17, para. 47).
- c) “If there is no market-based evidence of fair value because of the specialized nature of the item of plant and equipment, an entity may need to estimate fair value using ... depreciated replacement cost, or the restoration cost or service units approaches...” (IPSAS 17, para. 48). (See paras. 6.5, 6.6 and 6.7 below.)

5.4.1 IVSC considers that a professional Valuer undertaking an appraisal under 5.4 (a) to (c) above should report the *Market Value* of the asset. Any assumptions or qualifications made in applying *Market Value* should be discussed with the entity and disclosed in the report.

Where a reliable assessment of *Market Value* is not possible, the Valuer must disclose the basis for this conclusion to the reporting entity.

5.4.2 The valuation conclusion shall be reported in accordance with IVS 3, Valuation Reporting. Valuers shall ensure that reports include sufficient information for the entity to meet the requirements of IPSAS 17, para. 92, when preparing financial statements:

- a) the effective date of the revaluation;
- b) whether an Independent Valuer was involved (Note, IVSC interprets this as an *External Valuer*);

- c) the methods applied and significant assumptions made ...; and
 - d) the extent to which the asset's fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques.
- 5.5 Valuations under IPSAS 16 - Investment Property**
- All public sector investment property is valued in accordance with IVA 1.
- 5.6 Valuation Requirements for Leased Assets – IPSAS 13**
- 5.6.1 Leased assets are classified under IPSAS 13 as either finance leases or operating leases. (For further explanation, see IVA 1, para. 6.6.1 and Addendum A.) If a lease is classified as a finance lease, the fair value of the asset is required to establish the amount of the asset and liability recorded by the entity on its balance sheet (IPSAS 13, para 20).
- 5.6.2 For leases of land and buildings special rules apply. (See IVA 1, para. 6.6.3.) For all property, other than investment property, land and buildings have to be considered separately for classification as either a finance lease or an operating lease.
- 5.6.3 IVSC considers that in each case the requirement to establish the fair value of the leased asset under IPSAS 13, para. 28, is met by the Valuer reporting the *Market Value*. For leases of real estate, this is the *Market Value* of the lease interest held by the lessee. For leases of other assets, it is normally the *Market Value* of the asset unencumbered by the lease, as the liability is recorded separately.
- 5.7 Valuation of Impaired Non-Cash Generating Assets – IPSAS 21**
- 5.7.1 Impairment arises where there is a permanent decrease in the recoverable service amount of an asset below its carrying amount. IPSAS 21, para. 48, requires that if, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. That reduction is an impairment loss. IPSAS 21, para. 51, further states that when the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another IPSAS.
- 5.7.2 The entity is required to write down the carrying amount of impaired cash-generating assets to the higher of their *value in use* or *fair value less costs to sell*. The requirements for cash-generating assets are discussed further in IVA 1, para. 6.8.2.
- 5.8 Valuations after Business Combinations**
- 5.8.1 Where a governmental or quasi-governmental entity acquires or is merged with another, the acquirer has to account for the assets and liabilities of the acquiree at their fair value as of the acquisition date. For identifiable assets and liabilities, IVSC considers that the Valuer should report their Market Value as they existed at the date of acquisition.
- 5.9 Surplus Assets**
- 5.9.1 Surplus assets are to be separately identified. Such assets may be accounted for individually or as a "disposal group", i.e., a group of assets to be disposed of together, by sale or otherwise, and the liabilities directly associated with those assets that will also be transferred in the transaction. Surplus assets are to be initially accounted for at the lower of the carrying amount and the fair value less costs to sell, and subsequently at fair value less cost to sell. Valuers should therefore ascertain whether surplus assets are to be valued as individual items, or as a group or portfolio of assets that will be disposed of in a single transaction, and report the *Market Value* with the appropriate assumptions.
- 5.10 Properties Held for Sale in the Ordinary Course of Business – IPSAS 12 Inventories**
- 5.10.1 Valuations of properties held for sale in the ordinary course of business should comply with the requirements of IPSAS 12, *Inventories*. These properties are measured at the lower of cost and *net realisable value*. Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

INTERNATIONAL VALUATION APPLICATION 3

5.11 Selling Costs

5.11.1 When instructed to value impaired or surplus assets, or assets that are held for sale in the ordinary course of business, the Valuer must report their *Market Value* without deducting selling costs. If the client requests the Valuer to advise on the costs to sell the assets, such costs are to be reported separately.

5.12 Non-Agricultural Biological Assets

5.12.1 These include naturally occurring flora and fauna. The Valuer should value these assets in accordance with the guidance in GN 10.

5.13 *Co-operation with Auditors.* Subject to first obtaining the consent of their client, Valuers shall discuss and explain their valuations openly with the entity's auditors.

6.0 Discussion

IPSAS 17 and 21 provide the following clarification, which is useful in understanding the correct application for public sector accounting.

6.1 *Absence of Market Evidence - IPSAS 17*

"For some public sector assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of these assets". (IPSAS 17, para. 46)

6.1.1 "If no market evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialized buildings and other man-made structures, fair value may be estimated by using depreciated replacement cost, or the restoration cost or the service units approach (see IPSAS 21). In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in

the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation because of its significance to the community". (IPSAS 17, para. 47)

6.1.2 "If there is no market-based evidence of fair value because of the specialized nature of the item of plant and equipment, an entity may need to estimate fair value using depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the assets or indexed price for the same or similar asset based on a price for a previous period. When an indexed price method is used, judgement is required to determine whether technology has changed significantly over the period, and whether the capacity of the reference asset is the same as the asset being valued". (IPSAS 17, para. 48)

6.2 *Government Business Enterprises (GBEs) – IPSAS 21*

"GBEs include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge". (IPSAS 21, para. 15)

6.3 *Cash-Generating Assets – IPSAS 21*

"Cash-generating assets are those that are held to generate a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a 'commercial return' indicates that an entity intends to generate positive cash inflows from the asset (or of the unit of which the asset is a part) and earn a return that reflects the risk involved in holding the asset". (IPSAS 21, para. 16)

"Assets held by GBEs are cash-generating assets. Public sector entities other than GBEs may hold assets to generate a commercial return. For the purposes of this Standard [IPSAS 21], an asset held by a non-GBE public sector entity is classified as a cash-generating asset if the asset (or unit of which the asset is a part) is operated with the objective

of generating a commercial return through the provision of goods and or services to external parties". (IPSAS 21, para. 17)

6.4 *Value in Use – IPSAS 21*

"The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. 'Value in use' in this Standard [IPSAS 21] refers to 'value in use of a non-cash-generating asset' unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs 41 to 45, as appropriate". (IPSAS 21, para. 40)

6.5 *Depreciated Replacement Cost Approach – IPSAS 21*

"Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset". (IPSAS 21, para. 41)

"The replacement cost and reproduction cost of an asset are determined on an 'optimized' basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset". (IPSAS 21, para. 42).

"In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in

emergencies. Such surplus or standby capacity is part of the required service potential of the asset". (IPSAS 21, para. 43)

6.6 *Restoration Cost Approach – IPSAS 21*

"Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset whichever is lower". (IPSAS 21, para. 44)

6.7 *Service Units Approach – IPSAS 21*

"Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower". (IPSAS 21, para. 45)

6.8 *Other Considerations*

- 6.8.1 *Heritage Assets.* "Some heritage assets have service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of property plant and equipment. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base". (IPSAS 17, para. 10)
- 6.8.2 *Non-Agricultural Biological Assets.* Naturally occurring flora and fauna include special conservation assets, which may or may not be protected. Some are so significant that they have international recognition while others may reflect the environment in its natural state.
- 6.8.3 *Absence of Free Cash Flows to Monopolies.* Some public sector entities can be classed as monopolies. While monopoly service providers often generate

INTERNATIONAL VALUATION APPLICATION 3

cash flows, these cash flows cannot be considered reflective of market levels since there is no market evidence against which to check the characteristic circularity of cash flow, yield, and value. Thus, a critical feature that differentiates certain classes of public sector assets from private sector assets is the absence of "free" cash flows to such public sector entities. In some cases it may be appropriate to use the cost approach either as the primary valuation method or as a cross check to establish that the rate of return being earned from the assets being valued is reasonable. This application does not apply to government business enterprises (GBEs), which are valued according to IVA 1.

- 6.8.4 *Test of Adequate Service Potential.* As non-cash generating assets have no free cash flows to test the adequate profitability of a public sector asset, the concept of *service potential* becomes the test of an asset's performance. Service Potential is a measure of the suitability of the asset to continue meeting the objectives of the entity. This suitability may be assessed by reference to financial, social or political considerations. The measurement may be tangible, for example the number of visitors to a museum or users of a public library, or intangible, e.g. the social benefits of maintaining an otherwise uneconomic facility in a particular location.

Where a non-cash-generating asset is measured by reference to depreciated replacement cost, it is subject to the test of adequate service potential in order to determine whether the asset is impaired. (Also see GN 8, para. 5.11.)

- 6.8.5 *Frequency of Revaluations.* "Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date...." (IPSAS 17, para. 44)

In volatile markets the entity may be required to revalue annually whereas in more stable markets revaluations may be required every three to five years.

7.0 Disclosure

- 7.1 The Valuer shall make all disclosures required under IVS 3, Valuation Reporting.
- 7.2 For disclosures required under International Public Sector Accounting Standards (IPSASs), see paragraph 5.4.2 above.
- 7.3 The Valuer shall disclose the regulatory framework, and any departure required from these Standards to comply with local legislation, regulation (including accounting rules), or custom.
- 7.4 When no reliable measurement is possible, disclosure must be made to the reporting entity. (See para. 5.4.1 above)

8.0 Departure

- 8.1 In following this Application any departures must be in accordance with directions given in IVS 3, Valuation Reporting.

9.0 Effective Date

- 9.1 This International Valuation Application became effective 31 July 2007.