

6 March 2013

International Valuation Standards Council
41 Moorgate
LONDON EC2R 6PP
United Kingdom

Dear Sirs,

IVSC EXPOSURE DRAFTS

- ***TECHNICAL INFORMATION PAPER ON VALUATION UNCERTAINTY***
 - ***TECHNICAL INFORMATION PAPER ON VALUATION OF FORESTS***
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The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the IVSC Exposure Drafts on *Technical Information Paper on Valuation Uncertainty* and the *Technical Information Paper on Valuation of Forests* respectively.

We appreciate the IVSC's efforts to provide guidance on appropriate valuation procedures, approaches and methods for the valuation of forest assets and also in addressing valuation uncertainties.

As MASB is the body established under the law to promulgate accounting standards in Malaysia, we have responded to questions that may have implications for financial reporting.

Please see the Appendices for our detailed responses as follow:

- Appendix 1: Comments on Exposure Draft on Technical Information Paper on Valuation Uncertainty; and
- Appendix 2: Comments on Exposure Draft on Technical Information Paper on Valuation of Forests.

If you need further clarification, please contact Ms Tan Bee Leng at +603-2240-9200 or via email at beeleng@masb.org.my.

Thank you.

Yours faithfully,



MOHAMMAD FAIZ AZMI
Chairman

Appendix 1: Comments on Exposure Draft on Technical Information Paper on Valuation Uncertainty

QUESTION 6

The requirement in IVS 103 is to disclose any material uncertainty that affects the valuation. Paras 29-39 of the proposed TIP provide guidance on identifying when uncertainty is material, with reference to the requirement in IFRS 13 for valuations for financial reporting and more general guidance where valuations are for other purposes.

Do you find the guidance on materiality to be helpful? Are there any improvements or other considerations that you would suggest be included?

Comments:

IVS 103 Reporting, paragraph 2 requires the valuation report to set out a clear and accurate description of any material uncertainty that directly affects the valuation. Valuation uncertainty only needs to be disclosed when it is material and has a direct effect of the valuation.

Paragraph 31 further provides guidance for determining whether the impact of the uncertainty is significant. The paragraph states that "In considering whether the impact of the uncertainty is significant, regard should be had to the impact on the overall potential profits or risk of loss to which either the owner of the asset or a third party relying on the valuation is exposed as a result of the uncertainty and this cannot be expressed in absolute terms but will vary depending on the purpose of the valuation and the nature of the asset."

Whilst we agree that such impact cannot be expressed in absolute terms, it would nevertheless be helpful to valuation report users if the report makes mention of the bases or benchmark on which the material assessment is based upon. This would provide clarity as the understanding of the bases/benchmark used by valuers might be different from that of the users.

Paragraph 34 states that disclosures required by IFRS 13 section 93 only apply where Level 3 inputs are used. We would like to highlight that for financial reporting purposes, paragraph 93 of IFRS 13 sets out the minimum disclosure requirements for assets and liabilities measured at fair value and this disclosure requirement applies to all three hierarchy levels i.e. Level 1, 2 and 3. Hence we would like to suggest that Paragraph 34 of draft TIP be revised to take this into consideration.

Appendix 2: Comments on Exposure Draft on Technical Information Paper on Valuation of Forests

QUESTION 9

An interest in a forest can consist of the rights to the land, the tree crop and all other improvements to the land or it can be in only some of these components, eg the land only or the tree crop only. For most valuation purposes the benefits attaching to the subject interest, eg the right to receive certain cash flows can be readily identified. For valuations for financial reporting under the IFRSs a value has to be attributed to the “biological asset”, ie the tree crop, regardless of whether the crop and the land are held in the same ownership. This can create difficulties where there is no direct evidence of the value of the tree crop only. The proposed guidance in para 71 refers to the suggested approach in IAS 41 which is that the value of the “raw land” be deducted from the value of the combined asset, with the residual representing the value of the biological asset. However, it is argued by some that this is over simplistic as the value of “raw land” is not the same as the value of land supporting a mature forest and the evidence the price of bare land ready for planting is of limited relevance. Proponents of this view argue that the interdependence of the tree crop and the land mean that the land makes a significant contribution to the value of the tree crop, and therefore deducting only the value of the bare land from the value of the whole forest overstates the value of the biological asset.

Please indicate if you have experience of a separate value being ascribed to the “biological asset” in a forest for financial reporting purposes and, if so, the method or methods that you are most familiar with to arrive at this value.

Comments:

Entities in Malaysia that are subject to the application of MFRS 141 *Agriculture* (which is word-for-word IAS 41 *Agriculture*), as you may be aware, have been given an option to defer the application of MFRS 141 for a transitioning period pending potential amendments to IAS 41 by the International Accounting Standards Board (IASB).

The Asian-Oceanian Standard-Setters Group (AOSSG) of which MASB is a member had submitted to the IASB an Issues Paper on IAS 41 outlining how the requirements in IAS 41 can be further improved and enhanced for Bearer Biological Assets (BBA).

The AOSSG Working Group believes that there is a need to distinguish the accounting treatment for BBA and Consumable Biological Assets (CBA). The nature of BBA makes them analogous to plant and equipment and that they should be measured using the model consistent with those prescribed in IAS 16 *Property, Plant and Equipment (PPE)* – a copy of the Issues Paper can be downloaded from <http://www.aossg.org/working-groups/agriculture>.

Appendix 2: Comments on Exposure Draft on Technical Information Paper on Valuation of Forests

The IASB, in response, has added a limited-scope project on IAS 41 for BBA to its agenda. During its deliberation on this project, the IASB in its December 2012 and February 2013 meetings has tentatively decided that, in applying cost model for BBA, produce growing on BBA should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows. This method would ensure that produce growing in the ground (e.g. carrots) and produce growing on a BBA (e.g. apples) would be accounted for consistently. This tentative decision is different from the current IAS 41 requirement where the entire biological asset (including the produce) is fair valued as at the balance sheet date. In view of this development, the IVSC may wish to monitor the development closely. In addition, We believe it is important that the IVSC to work closely with the IASB in developing guidance for the fair valuation of agriculture produce when cost model is applied on the BBA, including consideration of inherent uncertainties in such valuation.

Another area of valuation that is currently being deliberated is the application of residual method. We wish to highlight that IAS 41 does not mandate the use of residual method. In practice, we were informed by a valuation expert who has specialist expertise in valuing biological assets that residual method as described in paragraph 25 of IAS 41 would be the only method to value biological assets attached to land in cases when there is no separate market for such biological assets but an active market exists for the combined asset. As mentioned in our response to Question 10, there are mixed views on the application of residual value method in the context of IFRS 13 *Fair Value Measurement*, should the plantation land value for the purpose of determining the fair value of BBA be ascribed the existing use value or Highest and Best Use (HBU) as per IFRS 13 in the event that the HBU of the combined assets is not of a plantation. We would welcome the IVSC to provide guidance in this area, including other acceptable valuation methods in valuing biological assets.

Appendix 2: Comments on Exposure Draft on Technical Information Paper on Valuation of Forests

QUESTION 10

Para 71 refers to the guidance in IAS 41 that the value of the biological asset, in the case of forests the living trees, may be derived at by deducting the value of the land from the value of the value of the combined asset. It also points out the difficulty that arises if the land were worth more for an alternative use. The proposed TIP indicates that while this might suggest that the biological asset has a negative or zero value, if the trees will generate income to the entity when it is harvested then the biological asset will have a positive value and should be recognised as an asset regardless of the value of the land. Some disagree and argue that if the trees are preventing a more valuable alternative use then they can have no value.

In the context of the requirement to ascribe a fair value to the biological asset as required by IAS 41, which of these views do you support?

Comments:

As highlighted in our response to Question 9 above, we understand that there are 2 different views on the application of residual method as described in paragraph 25 of IAS 41.

Some are of the view that, value of the raw land to be deducted from the fair value of the combined asset (of land and plantation asset) should be the value of the land in its current use. However, opponents of this view believe this method may not be in compliance with IFRS 13 which requires fair value to reflect highest and best use of an asset from the perspective of market participants, even if the entity intends a different use.

On the other hand, there are some who believe that the value of the land to be deducted from the combined asset should be its highest and best use. The concern is this method might result in minimal or nil fair value for the biological asset when the current use of land is different from its highest and best use.

The IASB's IFRS Interpretations Committee (the Committee) had deliberated the issue of the divergent interpretation of paragraph 25 of IAS 41 in its May, September and November 2012 meetings. However, the Committee decided not to take this issue into its agenda in view that the IASB has decided to undertake a limited scope project on IAS 41 to address the accounting for BBA. The Committee also noted that guidance on the application of highest and best use concept in IFRS 13 will form part of the educational material for IFRS 13.

We believe that the proposal in the TIP that biological assets should not be measured at zero or negative amount if such biological assets continue generating cash flows is a reasonable conclusion. Therefore, we recommend that the IVSC works closely with the IASB to provide guidance on this issue.