liQuid property consultants

Thursday, 31 August 2017

The Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007 Australia

Request for Comment on IASB Request for Information on Post-implementation Review — IFRS 13 *Fair Value Measurement*

Dear Ms Peach,

We appreciate the opportunity to provide our viewpoint in relation to this ITC and do so within the context of our professional role as valuers of non-financial assets.

Question 1A—Your background
Liquid Pacific is a valuation practice that specialises in the provision of asset valuations for inclusion in financial statements. Our primary client base is Government at all levels and across Australia. We are practicing members of the Australian Property Institute and the Royal Institution of Chartered Surveyors

Question 1B—Your experience

How extensive is your experience in relation to the measurement of the following items at fair value (including the measurement of their recoverable amount on the basis of fair value less costs of disposal)?

Type of item	The extent of your experience with fair value measurements		
	Little	Some	Much
Property, plant and equipment			✓
Intangible assets including goodwill		✓	
Investment properties			✓
Biological assets		✓	
Investments in subsidiaries, joint ventures or associates	✓		
Financial instruments	✓		
Collections (i.e museum, art, etc)			✓

Question 2—Fair value measurement disclosures

(a) How useful do you find the information provided about Level 3 fair value measurements? Please comment on what specific information is useful, and why.

N.A

(b) In your experience of Level 3 fair value measurements:
(i) how do aggregation and generic disclosure affect the usefulness of the resulting information? Please provide examples to illustrate your response.

N.A.

(ii) are you aware of any other factors (either within or outside IFRS requirements) affecting the usefulness of the information? Please provide examples to illustrate your response.

N.A.

(iii) do you have suggestions on how to prevent such factors from reducing the usefulness of the information provided?

N.A.

(c) Which Level 3 fair value measurement disclosures are the most costly to prepare? Please explain.

As practicing valuers, we are governed by our own professional standards which are issued internationally and locally. These standards dictate the appropriate valuation approaches dependent on availability of information and the types of assets being valued.

In all instances, valuers need to consider, analyse and make decisions and formulate opinions based on the available information and for the most part, these valuation fundamentals encapsulate the outcomes required for Level 3 disclosure requirements as set-out in AASB 13.

Opinions of fair value conducted by qualified valuers will provide, as part of the reporting deliverables, the information required by entities to report on Level 3 disclosures.

(d) Is there information about fair value measurements that you think would be useful and that IFRS 13 does not require entities to disclose? If yes, please explain what that information is and why you think it would be useful. Please provide any examples of disclosure of such information

Many of our fair value assignments are for Government entities. Government has as part of their operational requirements policies and guidelines to assist agencies procure and undertake the valuation of their asset base. These issuing entities may be Federal or State Treasury or Local Government Associations and within the agencies, there may also be further policies which are related to the valuation of assets.

On many occasions the valuation of assets is framed by an entity's instructions and own policies and this has potential to alter valuation outcomes where such policies may not have existed.

Question 3—Prioritising Level 1 inputs or the unit of account (N.A)

Question 4—Application of the concept of highest and best use for non-financial assets

Please share your experience to help us assess:

(a) whether the assessment of an asset's highest and best use is challenging, and why. Please provide examples to illustrate your response.

There are a number of examples where the assessment of an asset's highest and best use can be difficult.

1. As valuers specialising in the provision of asset valuations for Government we are exposed to a wide range of unique asset types for which there are usually very limited markets. This presents itself as problem for the valuer as the underlying principle of highest and best use is the ability to compare the economic value between the asset being valued and an alternative use. Further, in some 'market' situations, there is an economic relationship between assets (i.e. land and the improvements to the land) which would assist the valuer establish highest and best use. Those market situations tend also to have the benefit of regulated controls, which specialised assets do not always benefit from.

   An example would be assessing the highest and best use of a major public hospital. The hospital is deemed a community service asset (obligation) for which profit measures do not apply (i.e. it is not a cash-generating asset). The property is NOT uniquely zoned and therefore the land could be put to another use on application. As there is no reliable market measure as to when the hospital improvements cease to be operating at their highest and best use (i.e. when does an alternative use have economic priority) then it cannot be determined whether the improvements add value to the site (i.e. there is no demonstrable economic relationship between the land and the improvements to it).

   In isolation, the hospital improvements may be deemed not to be operating at their highest and best use due to functional, technical or management failure but this is not the concept of highest and best use as encapsulated in valuation standards and reproduced in AASB 13.

   That being said, there are valuation techniques to derive measures of highest and best use for specialised assets and though at times these are complicated, they do provide the insight required to make an informed determination.

2. On occasion we encounter issues surrounding the assessment of highest and best use when the entity themselves deem the asset to be a unique asset.

   For example, a fair valuation undertaken of a residential dwelling indicates the improvements to the property add no value. That is, if the property were put to market the likely purchaser would be a developer who would proceed to demolish the existing dwelling and build a new one or several. As valuers, we consider the highest and best use of the property is as a development site. However, the client states the asset is unique and the improvements must have a recognised value. The entity's rational is that the dwelling is for staff, it is being utilised and as the need is for a dwelling close to the staff's place of work, it is deemed unique.

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3. Many of our clients have significant asset portfolios. As a result, some decide to spread their valuation requirements over a number of years. Unfortunately, in doing so some entities ignore the possibility there may exist economic relationships between the various classes of assets (i.e. improvements to the land and the land itself). It is not uncommon for us to receive instructions to value the buildings of a government entity and not the land (where land valuations are undertaken at some later date or the State Valuer-General's land values are adopted in lieu of).

   When asset classes are considered in isolation (as above), not only is it impossible to value some assets but it is impossible to determine a highest and best use measure.

(b) whether the current uses of many assets are different from their highest and best use, and in which specific circumstances the two uses vary.

In the context of unique community assets, this is a difficult measure.

(c) whether, when applying highest and best use to a group of assets and using the residual valuation method, the resulting measurement of individual assets in the group may be counter-intuitive. If so, please explain how this happens, and in which circumstances.

Examples above demonstrate the use of the residual valuation method to allocate values to separate asset classes and the difficulty some users of financial statements have when contemplating the concept of highest and best use.

(d) whether there is diversity in practice relating to the application of the concept of highest and best use, and when and why this arises. Please note whether your experience is specific to a jurisdiction, a region or a type of asset.

N.A.

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Question 5—Applying judgements required for fair value measurements

Please share your experience to help us assess the challenges in applying judgements when measuring fair value:

(a) is it challenging to assess whether a market for a asset or a liability is active? Why or why not?

We find the generally accepted concept of an active market for users of financial statements is one where assets are prolific and trading is constant and readily observable. For many, the best representation of an active market is either the public equity market or the residential real estate market.

What some users of financial statements do not always consider is that markets are relative to the type of asset being valued and the environment in which that asset exists. As an example, one might conclude that four sales of caravan parks in the past 12 months indicates an inactive market for caravan parks. However, if those sales represent 25% of the total caravan park industry, then the conclusion may be somewhat different. Perceived inactive markets may also arise due to location factors. A country township might only average 10 residential sales a year and in isolation this may be viewed as an inactive market but when referenced to a total housing stock of 100 may well provide a different viewpoint.

(b) is it challenging to assess whether an input is unobservable and significant to the entire measurement? Why or why not?

For valuers, the question of what is observable and what is unobservable is not just defined by the market for the asset type being valued but all markets for similar types of assets. When valuing an asset, a valuer will seek to place an asset into a relevant market framework. If a direct market for an asset does not appear to provide all the information required to assist with formulating an opinion, they will likely reference a secondary or sub-market looking for additional information, and so on. So the question arises, at what stage does a valuation input become unobservable? In relation to non-financial assets, we would argue hardly ever.

However, one of the many tasks valuers encounter is articulating to entities and users of financial statements that secondary and even deeper markets are relevant.

As an example. A common issue which arises in our projects, particularly with auditors, is the valuation of land holdings. As many of our clients have significant facilities on large land holdings, evidence of similar sized land holdings are often scarce. The hypothetical development approach (residual value) to valuation allows valuers to utilise sales of smaller allotments to calculate the englobo value of the subject property. However, it is not unusual for users of financial statements to call into question the use of smaller allotments as evidence of value for large parcels. We have even experienced users of financial statements overturn our recommended input categorisation because they could not come to terms with the evidence utilised.

What is observable or unobservable is a matter of opinion, as is a *significant* influence in the context of when to re-categorise an asset from a Level 2 to a Level 3. We believe such opinions should be the preserve of those professionals that observe and participate in such markets.

Please provide specific examples to illustrate your response and note whether your experience is specific to a jurisdiction or a region or a type of asset or liability.

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Question 6A—Education on measuring biological assets at fair value
Please describe your experience of measuring the fair value of biological assets: (a) are any aspects of the measurement challenging? Why or why not? Please provide examples to illustrate your response. Our experience in the valuation of biological assets has been restricted to *bearer* biological assets and mainly fruit orchards. Methodologies adopted include the income approach and supported by residual value from utilising the comparable sales approach. As valuers the challenge is always in relation to accessing relevant and current information. That in itself requires lengthy investigation, and opinions of value are usually formulated with reference to a combination of current data, knowledge of the industry and past experience. We stress, these attributes are not easily replicated and can take considerable time to acquire. We have come across assessments of biological assets where the assessor has not taken into consideration how the market for the asset actually functions. In many instances these assessments ignore whether the assets themselves constitute a viable holding (i.e. an economic unit) and simply set-out to quantify the asset and apply values regardless of the market. The valuation of biological assets, whether that be bearer assets or consumable assets is a highly specialised valuation field. (b) what, if any, additional help would be useful in applying IFRS 13? In which areas? In terms of measurement, we would obviously recommend entities and users of financial statements seek expert independent advice on the valuation of biological assets. Experts are not simply consulting industry participants but valuers whose occupation it is to value such assets having consideration to the relevant markets and accounting standards.

Question 6B—Education on measuring unquoted equity instruments at fair value N.A.

Question 7—Effects and convergence N.A.

Question 8—Other matters N.A.

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As members of a different profession, we greatly appreciate an invitation which extends itself to include all stakeholders. We trust the feedback provided herein, whilst somewhat parochial to the valuation profession, adds to the discussion and eventually the Board's own submission to the IASB.

Yours faithfully

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Martin Burns

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