



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Sent by mail and email

7 September, 2002

Dear Sirs,

Re: Exposure Draft of Proposed Improvements to International Accounting Standards

IVSC has studied the Exposure Draft and wishes to respond to the invitation to comment. This is done from the perspective of those whose professional experience is that of preparing and working with valuations of real property, rather than a detailed accountancy background. Our comments are restricted to Proposed Improvements to IAS 16, IAS 17 and IAS 40.

IAS 16 Property Plant and Equipment

Question 1

Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably.

Question 2

Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably?

The IVSC agrees with both these proposals which will discard the current inconsistent approach in having some asset exchanges carried at cost and others at fair value.

Amendments to IAS 16, Paragraph 64

The IVSC welcomes the proposed amendments. We particularly welcome the deletion at clause (d) to the reference to indices in determining replacement costs as a means of estimating fair values. In most cases indices are not related to value.

We also welcome the addition of clause (e), which reinforces the valuer's use of market buying price, depreciated replacement cost or valuations other than observable market value as a basis for fair value. This is a much-needed innovation.

The disclosure requirements in IAS 16 and IAS 40 are now very similar. There is one important difference, however, in that IAS 40 requires disclosure that a valuation by an independent valuer has been obtained. This is stronger than the IAS 16 version which simply says "whether an independent valuer was involved". There would be advantages in having the disclosure requirements of both Standards the same. IVSC suggests that clause 64(c) of IAS 16 be strengthened along the lines of IAS 40 clause 66(c).

IAS 17, Leases

Question 1

Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements—a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.

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The IVSC is essentially opposed to the concept of apportioning leases in the manner suggested. Any such apportionment is likely to be arbitrary and either one or both elements separately are quite likely to be incapable of an objective assessment against a known and active market. Whilst valuers identify the obligations and benefits realised in the creation of a lease, and indeed need to do so in attributing value to the whole transaction, the market place against which measurement is judged usually relates to the whole, not parts. We acknowledge that the net affect of apportionment should be neutral, since the result of combining the apportioned parts should never depart from the market value of the whole leased property. None the less if the parts are apportioned on a basis which is unreliable, and then those parts are accounted for differently with different consequences to the reporting of financial performance of the entity, this strikes us as unsatisfactory.

Paragraph 11B envisages apportionment relative to "fair values at the inception of the lease". It is unclear if "inception" is intended to mean the first creation of the lease, or the point in time when it comes into possession of the entity. With property, leases are potentially traded throughout their life. Presumably valuers may be called upon to advise in connection with this kind of apportionment which again raises the question of reliability of measurement of elements.

Investment property (IAS 40)

Question 1

Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:

- (a) the rest of the definition of investment property is met; and
- (b) the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?

The IVSC agrees with this and welcomes the proposed change.

Question 2

Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?

The IVSC supports this proposal.

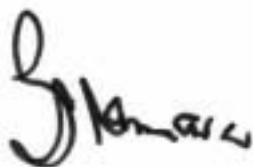
Question 3

Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?

The IVSC supports the suggestion that the option not be eliminated in the Improvements project. We agree that this issue should be kept under review with a view to eliminating the option at a later stage.

We would of course be happy to discuss any aspect of the response with you in greater detail.

Yours faithfully



Greg McNamara, LFAP, A.I.Arb.A
Chairman, International Valuation Standards Committee