Accounting Standards Board
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11 April 2012

By email asbcommentsletters@frc-asb.org.uk and post

Dear Sirs

The future of financial reporting in the UK and Republic of Ireland

The Royal institution of Chartered Surveyors (RICS) has noted with interest the publication of the above mentioned exposure draft and welcomes the opportunity to comment.

RICS is the world's leading professional body for qualifications and standards in land, property and construction with over 100,000 members worldwide. A substantial proportion of our membership provides valuations for inclusion in financial statements that comply with UKGAAP and IFRS.

The role of our members is to provide valuations of assets that comply with the relevant accounting standards and whilst we have no formal view on the objective of the fundamental overhaul we support the principle that there should be consistency with global accounting standards through the application of an IFRS-based solution.

A significant change of interest to our members is the removal of FRS 15 and the consequential abandonment of the concept of 'existing use value' (EUV).

We have a comment to make on the definition of Fair Value in the draft standards.

In paragraph 2.34 (b) of Part Two of the exposure draft you have set out a definition of fair value.

> 'Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.'

This definition is that used in both the International Valuation Standards (IVS) and the RICS Valuation standards before the introduction of IFRS 13. The current definition (IFRS 13, IVS (2011) and RICS (2012)) is:

> 'Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'

The narrative in IFRS 13 makes it clear that the value is the best possible price to be obtained in an orderly sale where any increase in value due to change of use or redevelopment is to be taken into account. It is therefore not a value based upon the existing use (unless that happens to be the highest and best use) and we suggest that it is adopted in the FRS, not only for consistency but also to avoid any need to provide an explanation of your proposed definition. It would assist considerably if there was only one definition of "Fair Value" and we note there are already two under IVS.

Approach to the valuation

We note that in the draft standard FRS 101 paras 17.15C and 17.15D make reference to valuation approaches. These words appear in the IAS 16 (paras 32 and 33) but have been deleted by IFRS 13. Again we suggest that these are deleted to avoid confusion between your standards and IFRS.

A consequence of this deletion is that a valuation approach using a depreciated replacement cost (DRC) method (mainly but not exclusively for specialised buildings) is not specifically identified. DRC is one of several valuation methods and if used the valuer will indicate that in the report in order that the entity can identify the appropriate hierarchy level. Therefore no such comment needs to appear in the standard. We make further comment on this in the following paragraph.

Existing Use Value (EUV)

We have mentioned the impact of the changes on valuations where assets are currently valued to EUV. We are aware that the International Valuation Standards Council is intending to develop educational material on the application of fair value to asset valuation and RICS will also have to rewrite that part of the RICS Valuation – Professional Standards (the Red Book) that gives detailed guidance on the current requirements.

It is envisaged that RICS in addition to providing general guidance on fair value (using the material in IFRS 13 as well as IVS) but in particular will need to give guidance on how valuers approach, and report, valuations currently adopting the depreciated cost approach and the corresponding assumptions as these are fundamentally different from the Fair value assumptions. This facet does not appear to be dealt with in the impact assessment (Part Three of the exposure draft).

Investment property

We note that the application of fair value to investment property is the same as IFRS 40, i.e. essentially market value, As this reflects current practice we have no further comment.

Clearly both ASB and RICS need to ensure a commonality of understanding of the approach to and reporting of valuations and we would be pleased to assist in the development of appropriate guidance for the benefit of both accountants and valuers.

Should you wish to discuss any of our observations please contact Lorraine Howells at lhowells@rics.org or on 0207 334 3757

Yours faithfully

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