

Property Institute of New Zealand

TECHNICAL INFORMATION PAPER - VALUATIONS OF REAL PROPERTY, PLANT & EQUIPMENT FOR USE IN NEW ZEALAND FINANCIAL REPORTS

Reference NZVGNTIP# – Valuations for Use in New Zealand Financial Reports

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Review

Owner

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Technical Information Papers

The principal objective of a Technical Information Paper (TIP) is to reduce diversity of practice by identifying commonly accepted processes and procedures and discussing their use. A TIP is designed to be of assistance to property professionals and informed users alike.

A TIP will do one or more of the following:

- provide information on the characteristics of different types of asset that are relevant to the advice,
- provide information on appropriate practices and their application, provide information that is helpful to property professionals in exercising the judgements they are required to make in specific situations.

A TIP does not:

- provide training or instruction,
- direct that a particular approach or method should or should not be used in any specific situation.

The contents of a TIP are not intended to be mandatory. Responsibility for choosing the most appropriate approach is the responsibility of the property professional based on the facts of each task.

Whilst TIPs are not mandatory, it is likely they will serve as a comparative measure of the level of performance of a valuer.

The reader should understand that legislation may change and whilst this TIP is accurate and relevant at the time it was completed, relevant references and legislation should be investigated at the time of relying on this TIP.

Valuations of Real Property, Plant & Equipment for Use in New Zealand Financial Reports

1.0 Introduction

1.1 Purpose

The purpose of this TIP is to provide information, commentary, opinion, advice and recommendations to valuers producing valuations of Real Property, Plant & Equipment (including heritage and infrastructure assets) for use in New Zealand general purpose financial reports (GPFR)¹ and to assist users of those financial reports to understand the basis upon which Real Property, Plant and Equipment valuations are undertaken. Assets other than Real Property, Plant & Equipment may also need to be valued for the purposes of financial reporting in New Zealand.

1.2 Objectives

The objectives of this TIP are to:

- Provide guidance to valuers when preparing valuations of Real Property, Plant & Equipment for use in financial reports; and
- Assist users of financial reports to understand the basis upon which valuations of Real Property, Plant & Equipment are undertaken.
- Address general concepts and principles for use in the preparation of valuations for use in financial reports.

1.3 Status of TIPs

TIPs are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a valuer.

1.4 Scope

This TIP applies to valuers conducting valuations of Real Property, Plant and Equipment for use in GPFR.

This TIP does not apply where a valuation is undertaken for purposes other than for use in GPFR, such as special purpose financial reports.

Valuers should consider other IVSC and PINZ Standards and TIPs for guidance on matters such as the application of valuation approaches.

¹ GPFR are reports prepared to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs. In New Zealand, financial statements prepared by entities that have a statutory obligation to prepare financial statements in accordance with generally accepted accounting principles (GAAP), are referred to GPFR.

1.5 Development of Accounting Standards²

The development of accounting standards involves an extensive process, including the preparation and publication of discussion papers and exposure drafts, public consultation with constituents and passing of the final standard, by the External Reporting Board (XRB), the New Zealand Accounting Standards Board³ (NZASB), and the International Accounting Standards Board (IASB) amongst others.

In New Zealand, two broad sets of standards for general purpose financial reporting are issued. These are NZ IFRS Standards for for-profit entities, and PBE Standards which apply to public benefit entities (PBEs)⁴. The XRB and NZASB use International Financial Reporting Standards (IFRS) as the starting point in development of New Zealand Equivalents to IFRS (NZ IFRS) for application by for-profit entities. In adapting an IFRS for issue as an NZ IFRS, the NZASB adopts the principles and requirements of the standards unchanged, any amendments to a standard are limited to the inclusion of additional disclosures which are considered important to New Zealand users. This is to ensure that an entity that complies with NZ IFRS Standards can assert compliance with IFRS Standards. The XRB and NZASB have also issued several domestic Financial Reporting Standards (FRS) that address New Zealand specific issues.

The XRB and NZASB also develop PBE Standards for application by PBEs. Most of the PBE Standards are based substantially on International Public Sector Accounting Standards (IPSAS), which are in turn, based substantially on IFRS Standards. However, the IPSAS Board (IPSASB) develops its own standards-related material to address public-sector specific issues. To cover reporting issues not currently addressed in the IPSAS suite of accounting standards, the PBE Standards also include standards based on NZ IFRS and on FRS. All the PBE Standards have the prefix 'PBE'. An entity that complies with PBE Standards will not be able to assert compliance with IFRS or NZ IFRS.

1.6 New Zealand Accounting Standards and GAAP

The XRB and the NZASB specify the reporting requirements for entities that have a statutory obligation (or that optionally elect under an enactment) to prepare GPFR. The reporting requirements specify compliance with GAAP or non-GAAP standards. GAAP comprises the applicable standards (and related interpretations) and authoritative notices (which provide direction on matters for which no provision is made in the relevant sets of standards) issued by the XRB and the NZASB.⁵ Authoritative notices include the conceptual framework documents. The two non-GAAP standards are cash based standards and apply only to Tier 4 PBEs. These are not-for-profit and public sector entities which have annual operating payments of less than \$125,000 and the law allows them to report under the relevant Tier 4 cash standard.

² This TIP refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS[®] Standards, IFRIC[®] Interpretations and IASB[®] papers).

³ A sub-Board of the XRB.

⁴ PBEs are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders

⁵ Sections 8 and 12, Financial Reporting Act 2013,

Examples of for-profit entities required under various Acts to report in compliance with GAAP include Financial Markets Conduct (FMC) reporting entities under the Financial Markets Conduct Act 2013, companies with total assets exceeding \$60 million or total revenue exceeding \$30 million in the preceding two reporting periods, under the Financial Reporting Act 2013.⁶, and state owned enterprises under the State Owned Enterprises Act 1986.

Most small and medium sized for-profit entities are not required to prepare financial statements that comply with GAAP.

Examples of PBEs required to report in compliance with GAAP include state sector bodies under the Public Finance Act 1989 and the Crown Entities Act 2004, local authorities under the Local Government Act 2002, and registered charitable entities that are “specified not-for-profit entities”⁷ under the Charities Act 2005.

Most public sector entities and registered charities are required to prepare some form of GPFR that either comply with GAAP or a non-GAAP standard issued by the XRB.

1.7 Financial Statements

Financial statements report the assets, liabilities, equity, revenues, expenses (the “elements” of financial statements) and the cash flows of the entity.

A complete set of for-profit financial statements for Tier 1 and Tier 2 entities usually comprises:

- (a) statement of financial position as at the end of the period;
- (b) a statement of profit or loss and other comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period; and
- (e) notes, comprising significant accounting policies and other explanatory information.

A complete set of PBE financial statements for Tier 1 and Tier 2 PBEs usually comprises:

- (a) a statement of financial position;
- (b) a statement of comprehensive revenue and expense;
- (c) a statement of changes in net assets/equity;
- (d) a cash flow statement; and
- (e) notes, comprising significant accounting policies and other explanatory information.

Note that different titles may be used on individual statements in both sets of standards. For example, a statement of financial position can be called a balance sheet.

2.0 Definitions

The following NZ IFRS and PBE Standards definitions (which are predominantly sourced from the Glossaries for NZ IFRS Standards and PBE Standards) are relevant to this TIP:

Business combination

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions

⁶ Large partnerships that satisfy these size criteria for total revenue and assets are also required to comply with GAAP under the Partnerships Act 1908.

⁷ Entities that have operating payments that exceed \$125,000 in each of the two preceding reporting periods.

sometimes referred to as ‘true mergers’ or ‘mergers of equals’ are also business combinations as that term is used in this TIP.

Carrying amount	The amount at which an asset is recognised in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.
Cash-generating assets	Assets held with the primary objective of generating a commercial return.
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 groups of assets.
Cost approach	A valuation technique that reflects the amount that would be required to replace the service capacity of an assets (often referred to as current replacement cost).
Fair value	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.
For-profit entities	Reporting entities that are not PBEs.
For-profit public sector entities	For-profit entities that are public entities as defined in the Public Audit Act 2001 (for example, state owned enterprises and council controlled companies).
FRS	Financial reporting standards issued by the XRB and the NZASB on issues that are specific to New Zealand.
General purpose financial reports (GPFR)	Financial reports that are intended to meet the needs of users who are not in a position to require an entity to prepare special purpose financial reports, that is, reports tailored to their particular information needs. GPFR comprise financial statements accompanied by non-financial information (for example a statement of service performance) and explanatory material.
Income approach	Valuation techniques that convert future amounts (for example, cash flows or incomes and expenses) to a current single (that is, discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
IFRS Standards	Comprises

	<ul style="list-style-type: none"> (a) International Financial Reporting Standards (IFRS) and Conceptual Framework for Financial Reporting, developed and issued by the International Accounting Standards Board (IASB), and the interpretations of these standards (IFRICs) issued by the IASB's International Financial Reporting Interpretations Committee; and (b) International Accounting Standards (IASs) (the standards inherited by the IASB from its predecessor body, the International Accounting Standards Committee (IASC), but in most cases revised by the IASB), and the interpretations of these standards (SICs) issued by the IASC's Standing Interpretations Committee.
Investment property	<p>Property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease⁸) to earn rentals or for capital appreciation or both, rather than for:</p> <ul style="list-style-type: none"> (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.
IPSAS	The financial reporting standards issued by the International Public Sector Accounting Standards Board.
Market approach	A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities or a group of assets and liabilities, such as a business.
Non-cash-generating assets	Assets other than cash-generating assets.
Not-for-profit PBEs	PBEs that are not public sector PBEs.
NZ IFRS Standards	Comprises the Standards and Interpretations issued by the XRB and the NZASB as: <ul style="list-style-type: none"> (a) New Zealand Equivalents to IFRS (NZ IFRS, NZ IAS, NZ IFRIC, NZ SIC and NZ <i>Framework</i>) (b) Domestic Financial Reporting Standards (FRS).
NZ IFRS RDR	NZ IFRS with reduced disclosure requirements.

⁸ From 1/1/19, NZ IFRS 16 *Leases* will apply, and this standard abolishes Finance Leases for Lessees for for-profit entities.

PBE Standards	The standards issued by the XRB and NZASB: (a) based on IPSAS (PBE IPSAS); or (b) NZ IFRS (PBE IFRS or PBE IAS); or (c) FRS (PBE FRS).
PBE Standards RDR	PBE Standards with reduced disclosure requirements for Tier 2 public benefit entities.
Public benefit entities (PBEs)	Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.
Public sector PBEs	PBEs that are public entities as defined in the Public Audit Act 2001 (for example, government departments), and all Offices of Parliament.
Property, plant and equipment	Tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period.
Recoverable amount	The higher of an asset's fair value less costs of disposal and its value in use.
Revalued amount	Fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
Value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

3.0 New Zealand Financial Reporting Standards

3.1 Financial Reporting Framework

The accounting standards for entities with statutory obligations to prepare GPFs is set out in the New Zealand Accounting Standards Framework⁹. The Framework is built around a multi-sector (two sectors — for-profit entities and PBEs), multi-tier approach (different reporting requirements based on the nature and size of the reporting entity). The financial reporting requirements for each sector and tier are explained below and are summarised in Figure 1.

⁹ *New Zealand Accounting Standards Framework* (XRB, December 2015); *XRB A1: Application of the Accounting Standards Framework* (December 2015) and *EG A1: Guide to Application of the Accounting Standards Framework* (XRB, April 2016).

For-profit entities have two tiers of requirements, Tier 1 and Tier 2. The Tier 1 requirements comprise NZ IFRS, FRS, and applicable authoritative notices, and apply to for-profit entities that have ‘public accountability’¹⁰, or are ‘large’¹¹ for-profit public sector entities. The Tier 1 standards also apply to Tier 2 except for reduced disclosure requirements (NZ IFRS RDR) with the reduced disclosure requirements for Tier 2 indicated by an asterisk (*) in the standards. Entities that do not have public accountability and are not large for-profit public sector entities may elect to apply the Tier 2 requirements or Tier 1 requirements.

PBEs have four Tiers of requirements, Tier 1 to Tier 4. The Tier 1 requirements comprise PBE Standards and authoritative notices, and apply to PBEs that have public accountability or are large.¹² The Tier 1 standards also apply to Tier 2 except for reduced disclosure requirements (PBE Standards RDR) with the reduced disclosure requirements for Tier 2 indicated by an asterisk (*) in the standards. PBEs that do not have public accountability and are not large may elect to apply the Tier 2 requirements or Tier 1 requirements.

At Tiers 3 and 4, there are separate reporting requirements for public sector PBEs and not-for-profit PBEs. For public sector PBEs and not-for-profit PBEs at Tier 3, the requirements are stated respectively in *Simple Format Reporting Standard - Accrual (Public sector)* (PBE SFR-A (PS)) and *Simple Format Reporting Standards - Accrual (Not-for-profit)* (PBE SFR-A (NFP)). The requirements in PBE SFR-A (PS) and PBE SFR-A (NFP) are based on Tier 1 and Tier 2 PBE Standards but are substantially reduced and simplified. Each standard is accompanied by an Explanatory Guide. For PBEs at Tier 4 there are corresponding simple format standards (and Explanatory Guides) to those at Tier 3 but with the required information reported using the cash basis of accounting (which is non-GAAP).

The Tier 3 requirements apply to PBEs that have total expenses that do not exceed \$2 million and do not have public accountability. The Tier 4 requirements apply to PBEs that do not have public accountability, and are not a “specified not-for-profit entity”¹³, and are permitted by an enactment to comply with a non-GAAP Standard.

For-profit entities and PBEs may, in general, elect to report under the requirements of a higher tier.

Figure 1: Financial reporting framework

For-Profit Accounting Standards		
Tier	Entities	Standards

¹⁰ An entity has public accountability if it meets the IASB definition of public accountability or has deemed public-accountability (see paragraphs 7-13, XRB A1). For example, these entities are all publicly accountable: listed companies, banks, credit unions, insurance providers, and mutual funds.

¹¹ A for-profit public sector entity is large if it has total expenses over \$30 million.

¹² The definitions of ‘public accountability’ and ‘large’ for PBEs are the same as for for-profit entities.

¹³ Defined by section 46 of Financial Reporting Act 2013 – an entity is a specified not-for-profit entity in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity are \$125,000 or more.

1	Entities have “public accountability” (as defined) or are large For-profit Public Sector with >\$30million annual expenses	Full NZ IFRS
2	All other for-profit entities who are required or choose to prepare GPFR in accordance with GAAP	NZ IFRS RDR

PBE Accounting Standards			
Tier	Entities	Standards	
1	Entities which have “Public Accountability” as defined or are Large PBEs with >\$30million annual expenses	Full PBE Standards	
2	Total expenses <\$30million	Full PBE Standards with disclosure concessions	
3	Total expenses ≤\$2million	PBE SFR A (PS)	PBE SFR -A (NFP)
4	Total Operating Payments <\$125,000 (where the law allows)	PBE SFR -C (PS)	PBE SFR -C (NFP)

The standards comprising NZ IFRS and the PBE Standards for each Tier are listed in Appendices 1 to 4.

In carrying out a valuation for financial reporting purpose, a valuer should consider the relevant accounting standards to confirm the measurement requirement for the specific asset or liability subject to valuation, based on the activities of the reporting entity and the accounting policies adopted.

The following high-level summary of each IFRS published by the IASB may be of assistance, *Pocket Guide to IFRS Standards: the global financial reporting language*, available on the IASB website at – <http://www.ifrs.org/Use-around-the-world/Documents/2016-pocket-guide.pdf>

3.2 Financial Reporting Standards and Valuation Standards

It is important to understand the relationship between financial reporting standards issued by the XRB and NZASB, and the valuation standards issued by the International Valuation Standards Council (IVSC) and PINZ.

NZ IFRS and PBE Standards specify:

- when assets, liabilities, income and expenses are **recognised**
- how to **measure** assets, liabilities, income and expenses
- how to **present** information in financial statements
- what to **disclose** in the financial statements

A valuer may be engaged to assist entities in **measuring** assets and/or liabilities in accordance with the relevant accounting standards. A valuer may also be able to assist in providing details about the valuation process, inputs, and related matters that need to be **disclosed**.

NZ IFRS and the PBE Standards are frequently updated, and care should be taken to ensure that the valuation is conducted in accordance with the standards applicable in respect of the valuation date. In addition, this TIP does not deal with all conceivable issues that a valuer may consider relevant to their financial statement valuations. Accordingly, valuers should familiarise themselves with the detail of the individual standards, effective as at the valuation date of their report.

The application of NZ IFRS and PBE standards can be complex. A valuer completing valuations of Real Property, Plant and Equipment for financial reporting purposes should therefore be aware of the inter-relationships and complexities.

3.3 International Valuation Standards

The IVSC, has formulated and published, in the public interest, IVSs and promotes those standards for worldwide acceptance and observance. The IVSs have been developed for procedural guidance in the valuation of assets for a variety of purposes including for use in financial statements and to harmonise standards amongst jurisdictions to achieve uniformity.

The IVSC liaises with the IASB and other international bodies such as the IPSASB, the International Organisation of Security Commissions and the BASEL Committee on Banking Supervision. The IVSC also provides advice and counsel relating to asset valuation to the accounting profession. The relevant sections of the IVSs are intended to comply with IFRS Standards and PBE Standards.

3.4 Basis of Value for Financial Reporting

Under NZ IFRS and the PBE Standards, certain assets and liabilities are required to or may be measured at Fair Value. NZ IFRS 13 *Fair Value Measurement* defines fair value in Section 9 as **“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”**.

NZ IFRS 13 also sets out how to measure fair value.

Fair value as defined in NZ IFRS 13 will generally be consistent with Market Value as defined by the IVSC in IVS 104 Bases of Value as follows:

“Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper **marketing** and where the parties had each acted knowledgeably, prudently and without compulsion.”

It is important to note that fair value for financial reporting is not the same as fair value as used by valuers in many other situations.

Whilst fair value is a common basis of value for financial reporting it is not the only basis of value which a valuer may be instructed to address. A valuer should seek to be instructed as to the appropriate basis of value for them to adopt in preparation of their report, for example, ‘fair value less costs to sell’, or ‘value in use’.

3.5 Comparability of the Valuation to Carrying amount

A valuer should seek instructions to clarify exactly the composition of the asset to be valued to make the result of the valuation properly comparable to the carrying amount of the asset. For example, for investment properties, the property may be required to be valued exclusive of (or,

inclusive of) management rights depending on the way in which management rights have been accounted for by the client.

4.0 Application

4.1 Measurement of Fair Value

NZ IFRS 13 requires the use of valuation approaches that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

To establish consistency and comparability in fair value measurement and related disclosures, NZ IFRS 13 establishes a fair value hierarchy. The hierarchy gives highest priority to quoted prices in active markets for identical assets (*Level 1 inputs*) and lowest priority to unobservable inputs (*Level 3 inputs*). *Level 2* inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, for example, quoted prices for similar assets in active markets or for identical assets in markets that are not active. Level 3 inputs are used when relevant observable inputs are not available. However, the measurement objective remains the same when using level 3 inputs and therefore the unobservable inputs regarding expected cash flows or risk should reflect the assumptions that market participants would use when pricing the asset.

NZ IFRS 13 requires estimation of fair value by use of valuation techniques that are consistent with one or more of the following approaches:

- the market approach
- the cost approach
- the income approach

Fair value measurement of Real Property Plant and Equipment, under NZ IFRS 13, reflects a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant. Highest and best use reflects the use of an asset that is physically possible, legally permissible and financially feasible. Under the cost approach, fair value is the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence, as the buyer would not pay more than the amount for which it could replace the service capacity of the asset. Obsolescence covers physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is thus broader than depreciation for financial reporting purposes (which is the allocation of the depreciable amount of an asset over its useful life).

There is no PBE standard corresponding to NZ IFRS 13. However, while reference to fair value in NZ IAS 16 relies on the guidance in NZ IFRS 13, PBE IPSAS 17 and PBE IPSAS 26 provide extensive discussion on estimation of fair value by the use of depreciated replacement cost in the absence of market based evidence of fair value. In particular, Appendix A to PBE IPSAS 17 defines depreciated replacement cost of property (other than land), plant and equipment as the current replacement cost less deductions for physical, functional and external forms of obsolescence, including physical deterioration.

4.2 Application of Fair Value in the Standards for Tier 1 and Tier 2 entities

Accounting Standards that are more likely to be relevant to conducting valuations of Real Property, Plant and Equipment for financial reporting by for-profit entities or by public benefit entities are listed in Figure 2 below.

Figure 2: Relevant financial reporting standards for valuation

Accounting Standards relevant to conducting valuations of Real Property, Plant and Equipment			
Tier	For-profit entities	PBEs	
		Public sector PBEs	Not-for-profit PBEs
Tiers 1 and 2	NZ IFRS 3 <i>Business Combinations</i>	PBE IFRS 3 <i>Business Combinations</i>	
	NZ IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	PBE IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	
	NZ IFRS 13 <i>Fair Value Measurement</i>		
	NZ IAS 16 <i>Property, Plant and Equipment</i> ¹⁴	PBE IPSAS 17 <i>Property, Plant and Equipment</i>	
	NZ IAS 17 <i>Leases</i>	PBE IPSAS 13 <i>Leases</i>	
	NZ IAS 36 <i>Impairment of Assets</i>	PBE IPSA 26 <i>Impairment of Cash-Generating Assets</i>	
		PBE IPSAS 21 <i>Impairment of Non-Cash-Generating Assets</i>	
	NZ IAS 40 <i>Investment Property</i>	PBE IPSAS 16 <i>Investment Property</i>	
Tier 3		PBE SFR-A (PS)	PBE SFR-A (NFP)
Tier 4		PBE SFR-C (PS)	PBE SFR-C (NFP)

¹⁴ Note that the scope of NZ IAS 16 includes bearer plants.

NZ IFRS 3 and PBE IFRS 3 both require that in a business combination, identifiable assets and liabilities be measured at acquisition date fair value and that the consideration transferred (including any contingent consideration) also be measured at fair value.

NZ IFRS 5 and PBE IFRS 5 both require assets that meet the criteria to be classified as “held for sale” to be measured at the lower of carrying amount and fair value less costs to sell.

NZ IAS 16 and PBE IPSAS 17 both include fair value measurement requirements for the initial and subsequent measurement of property, plant and equipment. The scope of PBE IPSAS 17 includes infrastructure assets and heritage assets. Where heritage assets are not able to be reliably measured and are therefore not recognised in the statement of financial position, a description of the assets, including their significance and nature, must be provided; and where current information is available, an estimate of their value, such as a recent insurance value.

NZ IAS 17 and PBE IPSAS 13 both require estimation of the fair value of a leased asset at the date of inception of the lease and of its residual value and, where there is an option to purchase the asset, fair value at the date that the option is expected to become exercisable.

NZ IAS 36 and PBE IPSAS 21 and PBE IPSAS 26 require estimation of fair value in the context of testing for impairment. For NZ IAS 36 and PBE IPSAS 26 an asset is impaired if the carrying amount exceeds the recoverable amount. For PBE IPSAS 21 an asset is impaired if the carrying amount exceeds its recoverable service amount, which is the higher of its value less costs of disposal and value in use. Value in use of a non-cash generating asset is the present value of its remaining service potential as estimated by depreciated replacement cost, restoration cost, or service unit approaches.

NZ IAS 40 and PBE IPSAS 16 both include fair value measurement requirements for the initial and subsequent measurement of investment property assets.

In general, the initial measurement of all assets acquired is required by the Standards to be measured at cost. For the subsequent measurement of assets, such as property, plant and equipment and investment property, the Standards permit the entity to adopt an accounting policy of either fair value or cost. Therefore, the accounting policies of the reporting entity require careful consideration, to confirm the accounting policy choice taken.

4.3 Value in the Standards for Tier 3 and Tier 4 PBEs

PBE SFR-A (PS) and PBE SFR-A (NFP), the standards for Tier 3 public sector PBEs and Tier 3 not-for-profit PBEs respectively, both require that significant donated assets, such as items of property, plant and equipment, be recorded at readily obtainable current values such as rateable or government valuation where it is practicable to obtain such current values. If an entity opts to revalue a purchased or donated asset, it shall apply the relevant requirements of PBE IPSAS 17, except that the entity may use the current rateable value or government valuation rather than fair value. If it does not revalue, the entity may choose to disclose estimated current value and the basis for that estimate in the notes to the financial statements.

PBE SFR-C (PS), the standard for Tier 4 public sector PBEs, requires an entity that has significant donated or purchased resources, significant commitments and resources used as security for assets, to disclose these in the notes to the performance report. There is no guidance on measurement.

PBE SFR-C (NFP), the standard for Tier 4 not-for-profit PBEs, requires an entity that has significant purchased resources to report each resource either in the schedule of resources or in the notes to the performance report, at the cost or current value of the resource. This requirement applies only where the cost is available or it is practicable to obtain a current value such as the latest

rates valuation as a current value for land and buildings. The standard requires that for each significant donated resource, the entity shall report, either in the schedule of resources or the notes to the performance report, a current value where such a value can be practicably obtained. Where current values are reported for purchased or for donated assets, the source of the value shall be disclosed.

4.4 Disclosure Requirements

Where NZ IFRS and PBE standards specify disclosure requirements pertaining to a valuation, a valuer should consider whether the valuation report prepared for financial reporting purposes includes sufficient information in respect of the valuation to enable the reporting entity to meet its disclosure requirements, for example, to enable the entity to classify a fair value measurement as 'Level 1', 'Level 2' or 'Level 3' in the Fair Value Hierarchy specified by NZ IFRS 13.

5.0 Other Issues

5.1 Liaison with Auditors

Auditors may request a valuer to provide information or explanations related to the valuations and may also seek assurance that valuers have experience in the location and category of the assets being valued.

Auditors may also communicate with valuers to:

- specify items the auditor expects the valuation report to cover
- clarify the valuers' relationship with the entity; and
- clarify the assumptions and methods to be used by the valuer.

Auditors require assurance that the valuer's work constitutes appropriate audit evidence. Issues which are of particular relevance to auditors are the sources of data used, assumptions and methods used and their appropriateness and consistency with the prior period. The auditor will consider these matters and the valuation itself in the light of the auditor's overall knowledge of the entity's business.

The appropriateness and reasonableness of assumptions and methods used and their application are ultimately the responsibility of management of the entity, where the valuation is reflected in the financial report. Valuers must, however, apply appropriate scepticism, independence and professional judgement in completing the valuation. The audit needs to determine that they are not unreasonable, based on the auditor's knowledge of the entity's business. The valuer is not required to assume any responsibility to the auditor for the completeness or otherwise satisfactory nature of their audit.

Internal valuers will normally be under instruction to comply with any request from an auditor.

While independent valuers may not be under a statutory or contractual obligation to comply with any reasonable request from an auditor, it is in the interests of the entity, its ownership group and the valuer, that the valuer should comply as failure to do so may mean that the auditor will not be able to express an unqualified opinion.

The valuer, whether internal or independent, should co-operate reasonably and responsibly if approached by the auditor.

It is of particular importance that any special assumptions and/or limiting conditions be clearly and unequivocally disclosed by the valuer.

6.0 Effective Date

This TIP is effective from **[1 January 2018]**.

Appendix 1: NZ IFRS as at [date]¹⁵

Accounting Standards	
NZ IFRS 1	<i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i>
NZ IFRS 2	<i>Share-based Payment</i>
NZ IFRS 3	<i>Business Combinations</i>
NZ IFRS 4	<i>Insurance Contracts</i>
NZ IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
NZ IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>
NZ IFRS 7	<i>Financial Instruments: Disclosures</i>
NZ IFRS 8	<i>Operating Segments</i>
NZ IFRS 9	<i>Financial Instruments</i>
NZ IFRS 10	<i>Consolidated Financial Statements</i>
NZ IFRS 11	<i>Joint Arrangements</i>
NZ IFRS 12	<i>Disclosure of Interests in Other Entities</i>
NZ IFRS 13	<i>Fair Value Measurement</i>
NZ IFRS 14	<i>Regulatory Deferral Accounts</i>
NZ IFRS 15	<i>Revenue from Contracts with Customers</i>
NZ IAS 1	<i>Presentation of Financial Statements (revised 2007)</i>
NZ IAS 2	<i>Inventories</i>
NZ IAS 7	<i>Statement of Cash Flows</i>
NZ IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
NZ IAS 10	<i>Events after the Reporting Period</i>
NZ IAS 11	<i>Construction Contracts (superseded on adoption of NZ IFRS 15)</i>
NZ IAS 12	<i>Income Taxes</i>
NZ IAS 16	<i>Property, Plant and Equipment</i>
NZ IAS 17	<i>Leases</i>
NZ IAS 18	<i>Revenue (superseded on adoption of NZ IFRS 15)</i>
NZ IAS 19	<i>Employee Benefits</i>
NZ IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
NZ IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>
NZ IAS 23	<i>Borrowing Costs (revised 2007)</i>
NZ IAS 24	<i>Related Party Disclosures</i>
NZ IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>
NZ IAS 27	<i>Separate Financial Statements</i>
NZ IAS 28	<i>Investments in Associates and Joint Ventures</i>
NZ IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>
NZ IAS 32	<i>Financial Instruments: Presentation</i>
NZ IAS 33	<i>Earnings per Share</i>
NZ IAS 34	<i>Interim Financial Reporting</i>
NZ IAS 36	<i>Impairment of Assets</i>
NZ IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
NZ IAS 38	<i>Intangible Assets</i>
NZ IAS 39	<i>Financial Instruments: Recognition and Measurement</i>

¹⁵ Valuers should check the XRB website for possible changes to the lists of standards in Appendices 1 to 4 subsequent to the date of issue of this TIP.

NZ IAS 40	<i>Investment Property</i>
NZ IAS 41	<i>Agriculture</i>
FRS-42	<i>Prospective Financial Statements</i>
FRS-43	<i>Summary Financial Statements</i>
FRS-44	<i>New Zealand Additional Disclosures</i>
NZ IFRIC 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
NZ IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
NZ IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>
NZ IFRIC 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
NZ IFRIC 6	<i>Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment</i>
NZ IFRIC 7	<i>Applying the Restatement Approach under NZ IAS 29 Financial Reporting in Hyperinflationary Economies</i>
NZ IFRIC 9	<i>Reassessment of Embedded Derivatives</i> (superseded on adoption of NZ IFRS 9 (2010) or NZ IFRS 9 (2014))
NZ IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
NZ IFRIC 12	<i>Service Concession Arrangements</i>
NZ IFRIC 13	<i>Customer Loyalty Programmes</i> (superseded on adoption of NZ IFRS 15)
NZ IFRIC 14	<i>NZ IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
NZ IFRIC 15	<i>Agreements for the Construction of Real Estate</i> (superseded on adoption of NZ IFRS 15)
NZ IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
NZ IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>
NZ IFRIC 18	<i>Transfers of Assets from Customers</i> (superseded on adoption of NZ IFRS 15)
NZ IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
NZ IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
NZ IFRIC 21	<i>Levies</i>
NZ IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
NZ SIC-7	<i>Introduction of the Euro</i>
NZ SIC-10	<i>Government Assistance—No Specific Relation to Operating Activities</i>
NZ SIC-15	<i>Operating Leases—Incentives</i>
NZ SIC-25	<i>Income Taxes—Changes in the Tax Status of an Entity or its Shareholders</i>
NZ SIC-27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>
NZ SIC-29	<i>Disclosure—Service Concession Arrangements</i>
NZ SIC-31	<i>Revenue—Barter Transactions Involving Advertising Services</i> (superseded on adoption of NZ IFRS 15)
NZ SIC-32	<i>Intangible Assets—Web Site Costs</i>

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New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*

Appendix 2: PBE Standards for Tier 1 and Tier 2 Public Sector and Not-for-profit entities as at [Date]¹⁶

Accounting Standards	
PBE IPSAS 1	<i>Presentation of Financial Statements</i>
PBE IPSAS 2	<i>Cash Flow Statements</i>
PBE IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
PBE IPSAS 4	<i>The Effects of Changes in Foreign Exchange Rates</i>
PBE IPSAS 5	<i>Borrowing Costs</i>
PBE IPSAS 6 (PS)	<i>Consolidated and Separate Financial Statements (Public Sector)</i>
PBE IPSAS 6 (NFP)	<i>Consolidated and Separate Financial Statements (Not-for-profit)</i>
PBE IPSAS 7	<i>Investments in Associates</i>
PBE IPSAS 8	<i>Interests in Joint Ventures</i>
PBE IPSAS 9	<i>Revenue from Exchange Transactions</i>
PBE IPSAS 10	<i>Financial Reporting in Hyperinflationary Economies</i>
PBE IPSAS 11	<i>Construction Contracts</i>
PBE IPSAS 12	<i>Inventories</i>
PBE IPSAS 13	<i>Leases</i>
PBE IPSAS 14	<i>Events After the Reporting Date</i>
PBE IPSAS 16	<i>Investment Property</i>
PBE IPSAS 17	<i>Property, Plant and Equipment</i>
PBE IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
PBE IPSAS 20	<i>Related Party Disclosures</i>
PBE IPSAS 21	<i>Impairment of Non-Cash-Generating Assets</i>
PBE IPSAS 22	<i>Disclosure of Information About the General Government Sector</i>
PBE IPSAS 23	<i>Revenue from Non-Exchange Transactions</i>
PBE IPSAS 25	<i>Employee Benefits</i>
PBE IPSAS 26	<i>Impairment of Cash-Generating Assets</i>
PBE IPSAS 27	<i>Agriculture</i>
PBE IPSAS 28	<i>Financial Instruments: Presentation</i>
PBE IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>
PBE IPSAS 30	<i>Financial Instruments: Disclosures</i>
PBE IPSAS 31	<i>Intangible Assets</i>
PBE IPSAS 32	<i>Service Concession Arrangements: Grantor</i>
PBE IPSAS 34	<i>Separate Financial Statements</i>
PBE IPSAS 35	<i>Consolidated Financial Statements</i>
PBE IPSAS 36	<i>Investments in Associates and Joint Ventures</i>
PBE IPSAS 37	<i>Joint Arrangements</i>
PBE IPSAS 38	<i>Disclosure of Interests in Other Entities</i>
PBE IPSAS 39 ¹⁷	<i>Employee Benefits</i>

¹⁶ Note that PBE IPSAS 6 is a different standard for Public Sector entities and Not-for-profit entities.

¹⁷ Will replace PBE IPSAS 25 from 1/1/19, with early adoption permitted.

PBE IFRS 3	<i>Business Combinations</i>
PBE IFRS 4	<i>Insurance Contracts</i>
PBE IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
PBE IFRS 9	<i>Financial Instruments</i>
PBE IAS 12	<i>Income Taxes</i>
PBE IAS 34	<i>Interim Financial Reporting</i>
PBE FRS 42	<i>Prospective Financial Statements</i>
PBE FRS 43	<i>Summary Financial Statements</i>
PBE FRS 45	<i>Service Concession Arrangements: Operator</i>
PBE FRS 46	<i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS</i>
PBE FRS 47	<i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS</i>

Authoritative Notice

Public Benefit Entities' Conceptual Framework

Appendix 3: PBE Standards for Tier 3 Public Sector and Not-for-profit entities as at [Date]

Accounting Standard	
PBE SFR-A (PS)	<i>Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)</i>
PBE SFR-A (NFP)	<i>Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)</i>

Appendix 4: PBE Standards for Tier 4 Public Sector and Not-for-profit entities as at [Date]

Accounting Standard	
PBE SFR-C (PS)	<i>Public Benefit Entity Simple Format Reporting – Cash (Public Sector)</i>
PBE SFR-C (NFP)	<i>Public Benefit Entity Simple Format Reporting – Cash (Not-for-profit)</i>