

# NZVGN 1 VALUATIONS FOR USE IN NEW ZEALAND FINANCIAL REPORTS

*This Guidance Note should be read in conjunction with IVA 1: Valuation for Financial Reporting.*

## 1.0 Introduction

### 1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members producing asset valuations for financial reporting purposes in New Zealand and to assist users of financial reports to understand the basis upon which asset valuations for financial reporting purposes are undertaken.

### 1.2 Status of Guidance Notes

Guidance notes 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 Member. They are an integral part of 'Professional Practice'.

It should be noted that Financial Reporting Standards are mandatory. Accordingly, in effect, IVA 1 and this Guidance Note are mandatory.

### 1.3 New Financial Reporting Standards

New Zealand reporting entities will be required to apply New Zealand Equivalents of International Financial Reporting Standards (NZ IFRS) in the preparation of their external financial reports for periods commencing on or after 1 January 2007. Entities have had the option to adopt NZ IFRS early from 1 January 2005 but those electing to do so must make a complete shift to NZ IFRS, that is, they must adopt all of the standards.

The term 'IFRS' refers to the standards and Framework issued by the International Accounting Standards Board (IASB). The standards comprise:

1. 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;

2. International Financial Reporting Standards (the new standards developed and issued by the IASB), and the interpretations of these standards (IFRICs) issued by the IASB's International Financial Reporting Interpretations Committee.

NZ IFRS contain all the provisions of the corresponding IFRS, and may include additional disclosure requirements that apply to all entities, and also additional disclosure, recognition or measurement requirements that apply only to public benefit entities.

Profit oriented entities that comply with NZ IFRS simultaneously comply with IFRS. However, public benefit entities that comply with the additional recognition or measurement requirements in NZ IFRS will not simultaneously comply with IFRS. In this context, public benefit entities 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.

### 1.4 New NZ IFRS Re: Property Valuations

Under NZ IFRS, property assets will normally fall into one of the following categories:

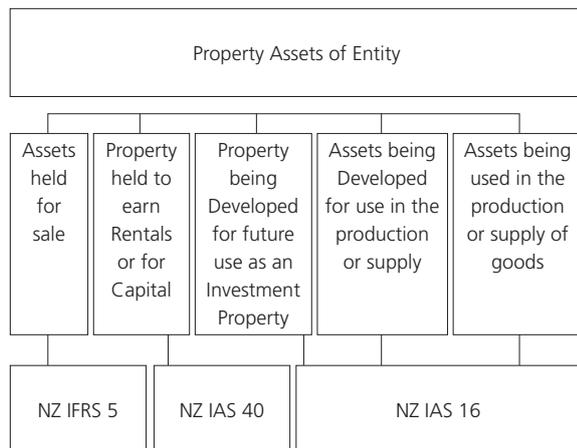
- Investment property – to be valued and accounted for in accordance with NZ IAS 40 Investment Property
- Non-current Assets Held for Sale - to be valued and accounted for in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

# NZ VALUATION GUIDANCE NOTE 1

- Property, plant and equipment - to be valued and accounted for in accordance with NZ IAS 16 Property, Plant and Equipment.

At the end of this Guidance Note is a summary of changes that have been made in adapting IFRS to NZ IFRS in respect of property assets.

NZ IAS 40 replaces SSAP-17 and NZ IFRS 5 and NZ IAS 16 replace FRS-3. Set out on the chart below is a summary of property asset classifications and the corresponding NZ IFRS:



As noted above, New Zealand reporting entities will be required to apply NZ IFRS for periods commencing on or after 1 January 2007. Up until then, the adoption of NZ IFRS is optional, but those entities electing to do so must make a complete shift to NZ IFRS, that is, they must adopt all of the NZ IFRS standards. Accordingly, up until 2007, valuations may be required to be completed in accordance with SSAP-17 or FRS-3, or their replacements – NZ IAS 40, NZ IFRS 5 and NZ IAS 16.

Members are referred to NZ IAS 40, NZ IFRS 5 and NZ IAS 16 for full details of the valuation requirements under each standard. There are no material changes to the way assets are to be valued (where revaluations are required) under the new NZ IFRS however, the following changes are highlighted:

- Under NZ IAS 16, the valuation guidance has been reduced in general terms, except as it relates to Public Benefit Entities where much of the content from FRS-3 has been repeated.
- Under NZ IAS 16, the requirement to revalue every five years as a minimum, has been deleted. Revaluations are however to be undertaken “with sufficient regularity to

ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.” (NZ IAS 16, paragraph 31)

- Under NZ IAS 16, the requirement for “recent” experience in the location and category of the asset being valued has been added in terms of the independent valuer. (NZ IAS 16, paragraph NZ 35.2)
- Under NZ IAS 16, specific disclosures as to the valuers, both internal and independent external, where inhouse valuations have been completed have been added (NZ IAS, paragraph 77.2).
- Under NZ IAS 40, the property is revalued to its fair value, and there is no longer a requirement to assess (and deduct) estimated disposal costs.
- Under NZ IAS 40, a revaluation is now able to be conducted internally, where the entity has in its employ a person sufficiently experienced to conduct a valuation, so long as the basis of valuation has been subject to review by an independent valuer (NZ IAS 40, paragraph NZ 33.1)
- Under NZ IAS 40, the requirement for “recent” experience in the location and category of the asset being valued has been added in terms of the independent valuer. (NZ IAS 40, paragraph NZ 33.2)

With the exception of the summary of changes that have been made in adapting IFRS to NZ IFRS in respect of property assets, the balance of this Guidance Note remains unchanged from that which became effective 15 February 2002 (with specific references to SSAP-17 and FRS-3 only). This Guidance Note will however be completely revised once NZ IFRS are required to be fully adopted by New Zealand reporting entities.

## 1.5 Scope of this Guidance Note

This Guidance Note applies to Members valuing assets for financial reporting purposes in New Zealand.

Compliance with this Guidance Note will ensure asset valuations are consistent and in accordance with the Institute of Chartered Accountants of New Zealand Financial Reporting Standard 3 - Accounting for Property, Plant and Equipment ('FRS-3') and Statement of Standard Accounting Practice 17 - Accounting for Investment Property and Properties Intended for Sale ('SSAP-17').

Where members are required to undertake revaluations in accordance with NZ IFRS, they should note in particular the preceding two sections.

FRS-3 provides extensive guidance on the principles relevant to the revaluation of 'Property, Plant and Equipment' assets for financial reporting purposes. A significant amount of guidance is provided on the application of depreciated replacement cost valuation methodology, and in particular, the process of optimisation.

Members should obtain and become familiar with the valuation requirements of both FRS-3 and SSAP-17.

This Guidance Note is to be read in the context of the background material and implementation guidance contained in the *International Valuation Standard 1 - Market Value Basis of Valuation, and International Valuation Standard 2 - Valuation Bases Other Than Market Value*. Where there is a conflict between this Guidance Note and -IVS 1 or 2, then the provisions of this Guidance Note shall prevail.

This Guidance Note applies to revaluations of assets undertaken for financial reporting purposes under the provisions of the New Zealand financial reporting standards FRS-3 and SSAP-17.

FRS-3 recognises asset revaluations as an alternative to historical cost, whereas SSAP-17, in respect of investment property, requires annual revaluations.

This Guidance Note does not apply where a valuation is undertaken for purposes other than for financial reporting e.g. pursuing a transaction, loan application etc.

This Guidance Note applies to asset revaluations undertaken for financial reporting purposes.

This Guidance Note addresses general concepts and principles to be complied with by Members when preparing asset valuations for financial reporting purposes.

If a valuation for financial reporting purposes under FRS-3 is carried out by a member other than a member of the PINZ, then the valuation is to be carried out in accordance with standards and guidance comparable to the valuation pronouncements issued, or officially endorsed, by the New Zealand Property Institute (FRS-3, paragraph 7.8).

## 1.6 Financial Statements

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

## 2.0 Relationship to Financial Reporting Standards

The New Zealand financial reporting standards FRS-3 and SSAP-17 provide primary guidance on the basis upon which assets are to be revalued for financial reporting purposes.

Both FRS-3 and SSAP-17 require valuations to be prepared in accordance with the *API/PINZ Valuation Standards* (or in the case of FRS-3, standards and guidance comparable to the valuation pronouncements issued, or officially endorsed, by the PINZ - see FRS-3 paragraph 7.8 and SSAP-17 paragraph 4.13).

FRS-3's requirement for Fair (or Market) Value has brought about a fundamental change from the previous PINZ Valuation Standard 3, which required 'Market Value for the Existing Use' (i.e. a valuation assumption that the asset would continue to be used in its existing use).

## 3.0 Materiality

Most Accounting Standards are subject to the concept of materiality, which is defined to mean "*in relation to information, that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management or governing body of the entity*".

The concept of Fair Value has been embraced and encapsulated in accounting and financial reporting standards in Australia and New Zealand.

## 4.0 Definitions

### 4.1 FRS-3 Definitions

'Borrowing Costs' are interest and other costs incurred by an entity in connection with the borrowing of funds (FRS-3, paragraph 4.1).

Borrowing costs include:

- (a) interest on bank overdrafts, short and long term borrowings;
- (b) amortisation of discounts and premiums relating to borrowings;

## NZ VALUATION GUIDANCE NOTE 1

- (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- (d) the cost of hedging contracts entered into, including the forward point differential at inception of the hedging arrangement (FRS-3, paragraph 4.2).

Borrowing costs do not include exchange differences arising on foreign currency borrowings except as provided in (d) above (FRS-3, paragraph 4.3).

'Carrying Amount' is the amount at which an asset or liability is included in the statement of financial position (FRS-3, paragraph 4.5).

'Depreciated Replacement Cost' is a method of valuation that is based on an estimate of:

- (a) in the case of property:
  - (i) the Fair Value of land; plus
  - (ii) the current gross replacement costs of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity;
- (b) in the case of plant and equipment, the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity (FRS-3, paragraph 4.10).

'Depreciation' is the measure of the consumption of the economic benefits embodied in an asset whether arising from use, the passing of time or obsolescence (FRS-3, paragraph 4.22).

'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 (FRS-3, paragraph 4.23).

Other terms commonly used to describe 'Fair Value' include 'Market Value', 'Open Market Value' and 'Current Market Value' (FRS-3, paragraph 4.24).

'Net Market Value' is the Fair Value at a particular date less the costs of disposal that could reasonably be anticipated at that date (FRS-3, paragraph 4.33).

'Optimisation' refers to the process by which a least cost replacement option is determined for the remaining service potential of an asset. This process recognises that an asset may be technically obsolescent or over-engineered, or the asset may have a greater capacity than that required. Hence

optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available. In determining depreciated replacement cost, optimisation is applied for obsolescence and relevant surplus capacity (FRS-3, paragraph 4.13).

'Property, Plant and Equipment' are tangible assets that:

- a) are held by an entity for use in the production or supply of goods and services, for rental to others or for administrative purpose, and may include items held for the maintenance or repair of such assets; and
- b) have been acquired or constructed with the intention of being used on a continuing basis (FRS-3, paragraph 4.35).

'Recoverable Amount' is the greater of:

- a) net market value; and
- b) value-in-use (FRS-3, paragraph 4.40)

'Value-in-use' is the present value of the net future cash flows obtainable from an asset's continuing use and ultimate disposal (FRS-3, paragraph 4.54).

### 4.2 SSAP-17 Definitions

'Property' is, for the purposes of SSAP-17, an interest in land or buildings in which the reporting entity, or any of the members of a group, singly or in combination, does not occupy or intend to occupy more than 20 percent of the area of the land or buildings (SSAP-17, paragraph 3.1).

'Development Property' is either investment property or property intended for sale, depending on the intention of the reporting entity, which is both being developed and is identifiable as a separate project (SSAP-17, paragraph 3.4).

'Development Margin' on a development property is the difference between (i) expected net current value on completion and expected cost in the case of investment property, or (ii) net sale price and expected cost in the case of property intended for sale (SSAP-17, paragraph 3.5).

'Investment Property' is property held, or development property intended to be held, primarily for capital growth or rental or similar income (SSAP-17, paragraph 3.2).

'Net Current Value' is open market value, less the costs of disposal that could reasonably be anticipated. Open market value is the price for which a property might reasonably be expected to

be sold at the operative date (SSAP-17, paragraph 3.6). Thus, net current value is Fair Value net of disposal costs and therefore is the same as net market value as defined in FRS-3, paragraph 4.33.

'Net Realisable Value' is the same as net current value.

'Property Intended for Sale' is all property, other than investment property, held with the intention of realisation in the ordinary course of business (SSAP-17, paragraph 3.3).

## 4.3 IVSC Definitions

'Highest and Best Use' is the most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued -(IVS General Valuation Concepts and Principles)

'Market Value' is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion - -(IVS General Valuation Concepts and Principles)

'Obsolescence' is a loss in value due to a decrease in the usefulness of property caused by decay, changes in technology, people's behavioural patterns and tastes, or environmental changes (IVS -2003, Glossary of Terms).

'Service Potential' is the future economic benefits embodied in the asset in terms of its potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. Service potential is measured as the level of productive capacity that would have to be replaced if the entity were deprived of the asset (IVS -2003, Glossary of Terms).

## 5.0 Revaluation of Non-current Assets

### 5.1 Asset Classification under Financial Reporting Standards

In the ordinary course of an engagement, a Valuer will be provided with guidance from the entity from whom valuation instructions are received as to the classification of an asset between FRS-3 and SSAP-17 for financial reporting and valuation purposes.

The Valuer may be required to exercise professional judgement to determine the most appropriate classification. The following property will generally be accounted for in accordance with FRS-3:

- a) owner-occupied property;
- b) property held for short-term rental where the entity is actively managing that property;
- c) property whose rental is directly linked to the risks and rewards of the business being operated from that property.

Other property, including property held for rental and capital growth, is to be accounted for in accordance with SSAP-17. Thus owner-operated hotels are normally accounted for in accordance with FRS-3, whereas shopping centres and office blocks are normally accounted for in accordance with SSAP-17 (adapted from FRS-3, paragraph 4.36).

Diagram 1 provides additional guidance on the classification of property assets between FRS-3 and SSAP-17 for financial reporting and valuation purposes.

Where the Valuer is required to exercise professional judgement to determine the most appropriate classification, the determination and its basis must be fully disclosed in the valuation report by the Valuer.

Care should be taken to confirm the entity for whom the valuation is being prepared, particularly in the case of a group, as to whether the valuation is for the financial statements of a specific entity within the group or the group as a whole. The classification of the asset could be different under each which would mean a different valuation basis.

### 5.2 Basis of Valuation

The terms 'Fair Value', 'Current Value' and 'Open Market Value' used in financial reporting standards FRS-3 and SSAP-17 are synonymous with 'Market Value'.

Portfolios of investment properties or property, plant and equipment are usually valued on the basis of summing the individual asset values. The market value of such assets viewed or treated as a portfolio or as an assembled group of properties could exceed, or could be less than, the sum of the 'Market Value' of each asset individually. Where this is the case, the fact that this difference exists should be reported separately to the entity from whom valuation instructions are received.

# NZ VALUATION GUIDANCE NOTE 1

## 5.3 FRS-3

'Property, Plant and Equipment' is valued at Fair Value. Where an item of property, plant and equipment is able to be reliably determined using market based evidence, market value represents Fair Value.

Where the Fair Value of a property, plant and equipment asset is not able to be reliably determined using market-based evidence for the same or a similar asset, depreciated replacement cost is to be used to estimate Fair Value.

Disposal costs are not to be deducted from the assessed Fair Value of a property, plant and equipment asset for financial reporting purposes under the provisions of FRS-3, unless an asset has been withdrawn from use and there is an intention to dispose of the asset.

## 5.4 SSAP-17

'Investment Properties' are valued for financial reporting at net current value (market value less the costs of disposal). The valuer should report both market value and disposal costs.

## 5.5 Apportionments of Value/ Componentisation

For the purposes of FRS-3, valuers are to separately identify property asset values between land and buildings.

FRS-3 requires asset components that have different useful lives or which provide a different pattern of economic benefits to an entity to be recorded separately for financial reporting purposes. The valuer will be required to undertake further valuation apportionments of property, plant and equipment assets where requested by the instructing entity.

## 5.6 Disclosures

The valuer's written report should disclose the following information:

- The nature of instructions and purpose of the valuation;
- The date of valuation;
- The financial reporting standard governing the accounting treatment of the asset and whether the classification has been made by the instructing entity or the valuer;
- The basis of the valuation, including type and definition of value;

- Tenure of assets;
- Assumed lease details for owner-occupied property, where applicable;
- Identification of the assets and their locations including the date and extent of inspections;
- Values for each asset (and apportionments as appropriate);
- The assumptions underlying construction costs, construction period and borrowing costs, where appropriate;
- How any restoration, dismantling or removal obligations associated with an asset has been treated, where applicable;
- The names, qualifications and contributions of outside professional persons who have provided assistance, where used;
- Any key and/or special assumptions and/or limiting conditions;
- Sufficient detail to support the valuation conclusion as required in the API/PINZ Standards and Guidance Notes; and
- Such other matters that are pertinent to the valuation.

## 5.7 Liaison with Auditors

At the client's request, and subject to appropriate consent, valuers shall respond to the entity's auditor to discuss and explain the valuations openly. The client has the primary responsibility for the form and content of the financial statements. The auditor has the responsibility for forming and expressing an independent opinion on whether the financial statements, prepared by the client fairly present the financial position and performance of the entity, and comply with relevant financial reporting standards.

## 6.0 Discussion

### 6.1 FRS-3: Property, Plant and Equipment

When an entity chooses to revalue property, plant and equipment, FRS-3 requires that it be revalued to Fair Value. As mentioned -previously 'Fair Value' is synonymous with 'market value'.

The Fair Value of an asset is determined by reference to its highest and best use, that is, the most probable use of the asset that is physically possible, appropriately justified, legally permissible,

financially feasible, and which results in the highest value (FRS-3, paragraph 4.25).

Where the Fair Value of an asset is able to be determined by reference to the price in an active market for the same asset or a similar asset, the Fair Value of the asset is determined using this information. Where the Fair Value of an asset is not able to be determined in this manner, the Fair Value of the asset is determined using other market-based evidence, such as by a discounted cash flow calculation using market estimates of the cash flows able to be generated by the asset and a market-based discount rate. Where Fair Value of the asset is not able to be reliably determined using market-based evidence, depreciated replacement cost is considered to be the most appropriate basis for determination of Fair Value. This situation will usually only arise where an asset is specialised or the only transaction price evidence arises in a monopoly context (FRS-3, paragraph 4.26)

For property assets, market-based evidence may exist concerning either the land component or the property in aggregate. Depreciated replacement cost is used as an estimate of the Fair Value of property only where the Fair Value of the property in aggregate (that is, for land and improvements) cannot be reliably determined using market-based evidence (FRS-3, paragraph 4.11).

In the case of property, depreciated replacement cost methodology is based on the Fair Value of the land plus the current gross replacement cost of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity. Optimisation is not applied in determining the value of the land component of depreciated replacement cost. As discussed elsewhere, the value of the land in almost all cases will reflect the market value of the land.

The replacement cost of an item of property, plant and equipment comprises its purchase/construction price plus any other costs directly attributable to bringing the item to working condition for its intended use. Replacement cost includes, for example, the costs of obtaining resource consents, construction costs, architectural and engineering fees, freight, and charges for installation, commissioning and testing (adapted from FRS-3, paragraph 5.6).

FRS-3 requires capitalisation of borrowing costs that are directly attributable to the acquisition

or construction of an item of property, plant and equipment. However, entities may defer implementation of this requirement until reporting periods ending on or after 31 March 2004. Where an entity does capitalise borrowing costs, depreciated replacement cost must include allowance for borrowing costs. The estimate of borrowing costs for this purpose, should be based on the average debt to equity ratio and average cost of debt applicable to entities within the same industry as the entity reporting and should reflect only the costs of debt.

Where borrowing costs are included in depreciated replacement cost, the valuer shall provide a detailed statement of the borrowing cost, construction cost and construction period assumptions adopted in deriving the valuation conclusion.

In the case of plant and equipment, depreciated replacement cost methodology is based on the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity.

Obsolescence may arise from factors such as outmoded design and functionality of an asset and changed code requirements preventing reconstruction of an asset in its current form. In determining depreciated replacement cost, optimisation for obsolescence is made by reducing the reproduction cost of the specific asset held to the cost of a modern equivalent asset that provides equivalent service potential to that of the specific asset held (FRS-3, paragraph 4.14).

Surplus capacity may arise from either over-design or from surplus components of an asset. In determining depreciated replacement cost, optimisation is applied only to surplus capacity that is not required currently and for which there is no reasonable prospect it will ever be required in utilising an asset in its current form (FRS-3, paragraph 4.15).

In determining depreciated replacement cost, the extent of any reduction in value for surplus capacity subject to optimisation depends on whether that surplus capacity has an alternative use to the current use of the asset. Where there is no alternative use, the optimised value of the surplus capacity is zero. Where there is an alternative use, the optimised value of the surplus capacity is the value of the highest and best alternative use of that surplus capacity (FRS-3, paragraph 4.16).

## NZ VALUATION GUIDANCE NOTE 1

To illustrate the distinction described earlier between surplus capacity not having an alternative use to the current use of the asset and that which does, consider the following example. Assume depreciated replacement cost is to be determined for a network of water pipes where the pipe diameter is greater than that required or ever expected to be required (including that necessary for stand-by or for safety purposes). There is also a discrete segment of the piping network that is similarly not required for the current use of the asset but which can be closed off and used for other purposes, such as a liquid storage facility. In this case, the surplus diameter of the piping would be disregarded for valuation purposes but the surplus segment of the piping network would be valued at its highest and best alternative use (FRS-3, paragraph 4.17).

In most cases, surplus capacity subject to optimisation is expected to be disregarded in determining the depreciated replacement cost of an asset. Such surplus capacity is unlikely to have an alternative use unless it is physically and operationally separable from the required capacity (FRS-3 paragraph 4.18).

In determining depreciated replacement cost, optimisation for obsolescence and relevant surplus capacity is applied only to the extent that it reflects the most probable use of the asset that is physically possible, appropriately justified, legally permissible and financially feasible (FRS-3 paragraph 4.19).

Optimisation is applied only to the depreciated replacement cost of plant, and equipment and in determining an estimate of the value of improvements component of the depreciated replacement cost of property (adapted from FRS-3, paragraph 4.20)

Optimisation is not applied in determining the value of the land component of the depreciated replacement cost of property. The value of the land component will always reflect the market value of the actual land held, in terms of both its size and location, even if such factors are under-utilised (adapted from FRS-3, paragraph 4.20).

The Fair Value of land would normally be determined from market based evidence.

However, in the rare instances where extensive works have been carried out in order to prepare land for use in the entity's business, available market evidence will normally relate to land of the same size and in the same general vicinity but which is priced for uses that are sub-optimal

relative to the use for which the works were carried out. In these rare instances the Fair Value of the land should be determined by having regard to the replacement cost of the land. For example, consider the case where an airport or port company acquires a section of seabed, fills it in and builds a seawall in order to produce flat land for use in the entity's business. The reclaimed land is in the precise location where the entity requires land. Market evidence may exist for other land of the same size and in the same general vicinity as the reclaimed land, but that other land is not suitable for the use intended by the entity. Thus, the market evidence on the Fair Value of that other land is not relevant to the reclaimed land, and the best indicator of the Fair Value of the reclaimed land would be the replacement cost of that land. Land resulting from extensive works by a local or central government body in constructing new roading provides a similar example. (FRS-3, paragraph 4.26A).

### 6.2 SSAP-17: Investment Properties

Investment properties by their nature are able to be valued using market based evidence. Applicable disposal costs (agency, legal etc.) are also able to be determined from the market.

Development properties intended to be held as investment properties which meet certain specified criteria are recognised in financial statements at cost plus accumulated development margins to date, determined on a percentage of completion basis. The development margin is the difference between expected net current value on completion and expected cost. Development properties intended to be held as investment properties which do not meet the specified criteria are carried at the lower of cost and net realisable value (see SSAP-17, paragraph 5.5).

The specified criteria referred to above are:

In the case of a development property intended to be held by the reporting entity, the following conditions should be met in order to provide the required degree of reliability for recognition of a development margin in the financial statements:

- i) the property should unconditionally be pre-let to at least 80 percent of the anticipated annual rental revenue to be received from entities external to the reporting group; and
- ii) all costs incurred and expected to be incurred by the entity can be reliably be estimated (SSAP-17, paragraph 4.14)

If a property, previously accounted for as an investment property, is now intended to be sold, it should be reclassified accordingly but continue to be recorded at the carrying amount at the date of change of intention except where carrying amount is greater than net realisable value, in which case, it should be written down to net realisable value (see SSAP-17, paragraph 5.8).

## 6.3 Apportionment of Value/ Componentisation

Valuers will frequently be required to undertake an apportionment of reported property values, allocating value separately to the land element (non-depreciable) and the buildings (depreciable). Valuers should, as far as it is possible, continue to apply market concepts. While it is acknowledged that buildings cannot be separated from the land that they occupy, valuers should recognise that the purpose of carrying out the apportionment is to establish a basis for measuring the consumption in the financial statements. Typically, the land value should be established and deducted from the total value to arrive at the depreciable amount for the buildings (adapted from IVS -2003, IVA 1 -, paragraphs 5.4 and 6.2.5).

FRS-3 requires asset components that have different useful lives or which provide a different pattern of economic benefits to an entity to be recorded separately for financial reporting purposes. This requirement will necessitate the valuer to undertake further valuation apportionments where instructed by the reporting entity. For example, the value apportioned to buildings may need to be further split into the structure, building services and fitout (and in some cases, further sub-components within these components).

Paragraph 5.21 of FRS-3 states:

“Judgement will be required to decide which components of complex items of property, plant and equipment are accounted for separately. Components will not need to be accounted for separately if materially the same total depreciation expense, carrying amounts and revaluation movements will otherwise result. For entities with asset management plans, it is expected that items of property, plant and equipment will be accounted for at a higher aggregation level (i.e. at a lesser level of detail) than that recorded in the asset management plans.”

The implication of the above is that component apportionments should be limited to major

components which are clearly separately identifiable. In any event, valuers should liaise and discuss the required level of componentisation with the instructing entity.

For the purposes of componentisation, the costs attributed to the components should be based on an apportionment of the overall replacement costs (or value) i.e. ‘top down’ as opposed to ‘bottom up’. The reason for this is that the top down approach will more accurately reflect the market replacement cost/value since aggregating the replacement costs/values of individual parts from a ‘bottom up’ approach will usually produce a higher overall figure.

Valuers may be further requested to advise on appropriate useful lives over which asset components should be depreciated for accounting purposes.

In some circumstances where apportionment of values is appropriate this will require the valuer to seek the professional assistance of specialist valuers (e.g. plant & equipment valuers) or other experts such as engineers or quantity surveyors, where the valuer does not have the necessary expertise.

## 6.4 Revaluation Frequency

Where an entity chooses to revalue its assets under the provisions of FRS-3, revaluations are to be undertaken on a systematic basis:

- (i) with sufficient regularity to ensure that no individual item of property, plant and equipment is recorded for financial reporting purposes at a valuation that is materially different from its Fair Value; and
- (ii) at a minimum, every five years (FRS-3, paragraph 7.1 (b)).

While the annual revaluation of items of property, plant and equipment is not required by FRS-3, the adoption of a system involving annual revaluation, especially for land and buildings assets, is encouraged in order to provide more relevant information to users of an entity’s financial report (FRS-3, paragraph 7.2). FRS-3 states that the principle for determination of the frequency of revaluations as being that revaluations must be carried out with sufficient regularity to ensure that the carrying amount of a revalued asset is not materially different from its Fair Value. Accordingly, under changing market conditions, revaluations may be required to take place more frequently. Examples of changing market conditions include:

## NZ VALUATION GUIDANCE NOTE 1

- Introduction of new technology;
- Demand changes resulting from, for example, centralisation or decentralisation;
- Movements in inflation and borrowing costs;
- Government policy and legislation.

Property assets classified as investment properties under the provisions of SSAP-17 are to be revalued annually.

### 6.5 Owner-Occupied Properties

Where the primary approach to valuation of owner-occupied properties for financial reporting purposes is capitalisation or discounting of future rental income, the valuer shall assume that a notional lease is in place on market terms and conditions reflecting the current use.

The valuer's report shall set out the basic terms of the assumed lease including the notional lease term, market rental, responsibility for outgoings, the basis and frequency of rental reviews and any other terms and conditions applicable to a typical lease of like nature in the market at the date of the valuation.

The capitalisation or discount rate utilised in the valuation shall reflect the notional lease terms and conditions.

Informal and unenforceable lease or occupancy arrangements between related entities or subsidiaries should not be taken into account or used as the basis of a valuation. The asset which is the subject of that agreement should be treated as owner-occupied.

The presence of a formal lease or occupancy agreement between related entities or subsidiaries which is legally enforceable consequently changes the interest in the properties being valued. Such properties should therefore be classified as investment properties. The reporting entity should declare these arrangements in the valuation instructions. In the context of a group, the classification of the properties is required to be reconsidered - and valued in accordance with the appropriate valuation basis applicable at the group level.

### 6.6 Assistance with Impairment Reviews

Where an item of property, plant or equipment is not revalued for financial reporting purposes, a review by the reporting entity is required at each reporting date to assess whether there is

any indication that the item may be impaired (see FRS-3, paragraph 9.3). Paragraph 9.4 of FRS-3 sets out the indications of possible impairment which must, as a minimum, be considered.

Where an item's future economic benefits are directly related to its ability to generate future cashflows, and there is indication that the carrying amount of the item exceeds the item's recoverable amount, the entity must estimate the item's recoverable amount (FRS-3, paragraph 9.3). If the recoverable amount is less than the carrying amount, the item must be written down to recoverable amount.

Where the future economic benefits of an item are not directly related to its ability to generate net cash in flows, the carrying amount of the item must not exceed net market value. However, where net market value cannot be determined because such items rarely, if ever, are sold in the open market except as part of the sale of a business in occupation, then the carrying amount must not exceed depreciated replacement cost.

It follows - that valuers may be requested to assist entities to estimate an item's recoverable amount. Valuers requested to assist entities in this way should have regard to the relevant requirements and guidance in FRS-3 and elsewhere in this Guidance Note.

### 6.7 Liabilities Associated with Assets

When an entity incurs an obligation to dismantle or remove an item of plant or equipment or restore a site, to the extent that a provision (liability) is recognised under FRS-15: Provisions, Contingent Liabilities and Contingent Assets, this is capitalised by the reporting entity as part of the cost of bringing the item of property, plant and equipment to working condition for its intended use.

The accounting treatment described - above applies in relation to both the initial recording of an item of property, plant and equipment (see paragraph 5.6 of FRS-3) and subsequent to initial recording (see paragraph 6.5 of FRS-3.)

When undertaking valuations of property, plant and equipment which have restoration, dismantling or removal obligations associated with them, the valuer must request guidance from the entity from whom valuation instructions are received about how such obligations are to be dealt with in the valuation. In all such circumstances, the valuation report is to disclose how such obligations have been treated.

## **6.8 Appropriateness of Rating and Other Valuations**

Paragraph 7.10 of FRS-3 states that:

*“A valuation carried out for purposes other than financial reporting, for example a rating valuation, is not to be used as the basis for recording a revaluation unless the basis of valuation has been confirmed as appropriate, in accordance with the requirements of this Guidance Note, by an independent valuer.”*

A valuer requested to confirm the appropriateness of a rating or other valuation for financial reporting purposes must determine whether the valuation meets the requirements of FRS-3 and this Guidance Note. The valuer must comply with all the requirements of this Guidance Note.

For plant and equipment, where there is an active market or readily available price indices that establish the item’s Fair Value with reasonable reliability, the valuation need not be conducted by an independent valuer or experienced employee (FRS-3, paragraph 7.1(d)).

For the purposes of the above paragraph, a valuation may be undertaken without the need for an independent valuer or experienced employee only where there is sufficient objective market information available which enable two or more non-experts to determine materially the same Fair Values of the particular item of plant and equipment. The above paragraph is not applicable where depreciated replacement cost is the most appropriate basis for determination of the Fair Value of an item of property, plant and equipment (FRS-3, paragraph 7.9).

## **6.9 Independent Review of Employee Valuations**

FRS-3 permits valuations to be conducted by employees who possess expert knowledge and experience in the location and category of property, plant and equipment being valued. The basis, methodology and assumptions underpinning valuations conducted by such experienced employees of the reporting entity are to be reviewed by an independent valuer to ensure the appropriateness of the valuation approach. (See paragraphs 7.1(c)(ii) and 7.7 of FRS-3.)

When a valuer is requested to undertake an independent review of a valuation undertaken by an employee of the reporting entity, the valuer must satisfy themselves that the basis and

methodology of valuation and the assumptions underpinning the valuation are appropriate for a valuation for financial reporting purposes as set out in this Guidance Note. The valuer must review the written report of the employee valuer and ensure that all matters have been properly dealt with. The valuer must be able to confirm that nothing has come to their attention to suggest that the valuation is not appropriate for financial reporting purposes.

## **6.10 Public Sector and Infrastructure Asset Valuation**

Public sector assets comprise a number of different asset types, including conventional properties as well as heritage and conservation assets, infrastructure (e.g., public utility plants), recreational assets, and public buildings.

The valuation of public sector assets is to be undertaken following the same procedures and approaches as adopted in the valuation of private sector assets.

## **6.11 Disclosure Requirements**

The valuation report shall contain a clause specifically prohibiting the publication of the report in whole or in part, or any reference thereto, or to the valuation figures contained therein, or to the names and professional affiliations of the valuers, without the written approval of the valuer as to the form and context in which it is to appear.

The valuation report shall also contain an affirmative statement that the valuation has been prepared in accordance with these or other recognised Standards, that the engagement was performed independently and without bias towards the client or others, and other disclosures required elsewhere in this Guidance Note.

The valuer shall require as a condition of the engagement that any special limitation, assumption, or departure be disclosed in any published document in which reference is made to the valuer’s opinion.

## **6.12 Effective Date**

This Guidance Note was previously PINZ Valuation Standard 3 and became effective on 15 February 2002 and has been updated on 15 February 2006.

## ADDENDUM

IFRS to NZ IFRS – Summary of Changes in Respect to Property Assets.

The numbering in this addendum is not sequential as it corresponds to the applicable NZ IFRS reference.

### 1.0 Introduction

NZ IFRS refers to the New Zealand equivalent to (i) IFRS: International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), (ii) IAS: International Accounting Standards adopted by the IASB and (iii) SIC: Interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

NZ IFRS contain all the provisions of the corresponding IFRS, (including IAS and SIC) and may include:

- (i) additional disclosure requirements that apply to all entities, and
- (ii) additional disclosure, recognition or measurement requirements that apply only to public benefit entities.

Profit oriented entities that comply with NZ IFRS simultaneously comply with IFRS. However, public benefit entities complying with additional recognition or measurement requirements in NZ IFRS will not simultaneously comply with IFRS.

Public Benefit Entities 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.

In respect of property, plant and equipment assets, set out below are the changes that have been made in adapting IFRS to NZ IFRS. The changes listed should be read in the context of the standards from which they are drawn, the New Zealand *Preface* and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements*.

### NZ IFRS 1: First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards

#### **All Entities:**

Para 18(a) – deleted, as NZ IAS 40 does not permit the use of the cost model other than in the exceptional circumstances outlined in paragraph 53 of NZ IAS 40.

## NZ IFRS 4: Insurance Contracts

#### **All Entities**

#### **Appendix C**

(Life Insurance Entities):

- 10.3 Investment property that is within the scope of NZ IAS 40 *Investment Property* and that backs life insurance liabilities or life investment contract liabilities, shall be measured at fair value under NZ IAS 40.
- 10.4 Property, plant and equipment that is within the scope of NZ IAS 16 *Property, Plant and Equipment* and that backs life insurance liabilities or life investment contract liabilities shall be measured using the revaluation model under NZ IAS 16.
  - 10.4.1 An insurer applies NZ IAS 16 to its property, plant and equipment. Under NZ IAS 16 property includes owner-occupied property and property being constructed or developed for future use as investment property. Under NZ IAS 16, the cost model, for measurement subsequent to initial recognition, is to carry property, plant and equipment at cost. However, NZ IAS 16 has a revaluation model: an entity, subsequent to initial recognition, may carry its property, plant and equipment assets at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
  - 10.4.2 Those property, plant and equipment assets that are within the scope of NZ IAS 16 and that the insurer considers back life insurance liabilities or life investment contract liabilities are measured using the revaluation model under NZ IAS 16, that is, they are measured at fair value with increases in fair value credited directly to equity and decreases recognised as an expense unless they reverse a previous increase.

#### **Appendix D**

(Financial Reporting of Insurance Activities):

- 15.3 Investment property within the scope of NZ IAS 40 and that backs general insurance liabilities shall be measured using the fair value model under NZ IAS 40.
- 15.4 Property, plant and equipment that is within the scope of NZ IAS 16 *Property, Plant and Equipment* and that backs general insurance liabilities, shall be measured using the revaluation model under NZ IAS 16.

- 15.4.1 An insurer applies NZ IAS 16 to its property, plant and equipment. Under NZ IAS 16 property includes owner-occupied property and property being constructed or developed for future use as investment property. Under NZ IAS 16, the cost model, for measurement subsequent to initial recognition, is to carry property, plant and equipment at cost. However, NZ IAS 16 also has a revaluation model: an entity, subsequent to initial recognition, may carry its property, plant and equipment assets at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
- 15.4.2 Those property, plant and equipment assets that are within the scope of NZ IAS 16 and that the insurer considers back general insurance liabilities are measured using the revaluation model under NZ IAS 16.

### NZ IAS 2: Inventories

#### *Public Benefit Entities*

- NZ 8.1. Inventories held by public benefit entities may include:
- (a) ammunition;
  - (b) strategic stockpiles (for example, energy reserves);
  - (c) stocks of unissued currency; and
  - (d) postal service supplies held for sale (for example, stamps).
- NZ 9.1. In respect of public benefit entities, inventories held for distribution shall be measured at the lower of cost and current replacement cost.
- NZ 9.2. A public benefit entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when an entity has determined to distribute certain goods at no charge or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount of entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made.
- NZ 9.3. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 9 (that is, inventory is then measured at the lower of cost and net realisable value).
- NZ 10.1. In respect of public benefit entities, where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost as at the date of acquisition.

### NZ IAS 16: Property, Plant and Equipment

#### *All Entities*

- NZ 5.2. Under NZ IAS 40, paragraph 53, an entity is permitted to use the cost model for investment properties only where the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value are not available.
- NZ 35.1. Subject to paragraph NZ 35.3 valuations shall be conducted either:
- (a) by an independent valuer; or
  - (b) where an entity employs a person sufficiently experienced to conduct a valuation, by that person, so long as the valuation has been subject to review by an independent valuer.
- NZ 35.2. The fair value of property, plant and equipment is determined or reviewed by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the property, plant and equipment being valued.
- NZ 35.3. For plant and equipment, where there is an active market or readily available price indices that establish the item's fair value with reasonable reliability, the valuation need not be conducted or reviewed by an independent valuer or experienced employee.
- NZ 77.2. An entity shall disclose in respect of each valuation conducted in accordance with paragraph NZ 35.1:
- (a) the name of each valuer;
  - (b) a statement in respect of each valuer as to whether they are an employee of the

## NZ VALUATION GUIDANCE NOTE 1

- entity or whether they are contracted as an independent valuer;
  - (c) the total fair value of property, plant and equipment valued by that valuer;
  - (d) where the valuation has been conducted by an employee of the entity the name of the independent valuer who reviewed the valuation; and
  - (e) the date(s) of such valuations.
- NZ 77.3. Where an entity has not used an independent valuer because there is an active market or readily available price indices that establish the fair value an item of plant or equipment with reasonable reliability in accordance with paragraph NZ 35.3, an entity shall disclose this fact.

### **Public Benefit Entities**

- NZ 15.1. In respect of public benefit entities, notwithstanding paragraph 15 (that is, an item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost), where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition. The fair value of the asset received must be recognised in the income statement.
- NZ 15.2. In most instances when property, plant and equipment is acquired, the cost of the item provides a measure of its value to the entity at the date of acquisition. When property, plant and equipment is donated, or the acquisition is subsidised, the cost of the item (if any) is not a reliable indication of its value to the entity. This standard therefore requires the fair value of such items to be determined as a substitute for the cost of purchase, and the amount of the donation or subsidy received to be recognised as revenue in the income statement.
- NZ 33.1. In the context of this Standard and in relation to public benefit entities, depreciated replacement cost is a method of valuation that is based on an estimate of:
- (a) in the case of property:
    - i. the fair value of land; plus
    - ii. the current gross replacement costs of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity; and

- (b) in the case of plant and equipment, the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity.

- NZ 33.2. Fair value is defined in paragraph 6 of this Standard (that is, the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction). Depreciated replacement cost is an acceptable estimate of the fair value of an asset only where the fair value of the asset is not able to be reliably determined using market-based evidence in accordance with paragraph 32 of this Standard.
- NZ 33.3. In the context of this Standard and in relation to public benefit entities, depreciated replacement cost is based on the reproduction cost of a specific asset. In principle, it reflects the service potential embodied in the asset. However, in some cases the reproduction cost of the specific asset is adjusted for optimisation in determining depreciated replacement cost.
- NZ 33.4. Optimisation refers to the process by which a least-cost replacement option is determined for the remaining service potential of an asset. This process recognises that an asset may be technically obsolescent or over-engineered, or the asset may have greater capacity than that required. Hence optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available. In determining depreciated replacement cost, optimisation is applied for obsolescence and relevant surplus capacity.
- NZ 33.5. Obsolescence may arise from factors such as outmoded design and functionality of an asset and changed code requirements preventing reconstruction of an asset in its current form. In determining depreciated replacement cost, optimisation for obsolescence is made by reducing the reproduction cost of the specific asset held to the cost of a modern equivalent asset that provides equivalent service potential to that of the specific asset held.
- NZ 33.6. Surplus capacity may arise from either over-design or from surplus components of an asset. In determining depreciated replacement cost, optimisation is applied only to surplus capacity that is not required currently and for which there is no reasonable prospect it will ever be required in utilising an asset in its current form.

- Optimisation is not applied to surplus capacity that, while rarely or never used, is necessary for stand-by or for safety purposes.
- NZ 33.7. In determining depreciated replacement cost, the extent of any reduction in value for surplus capacity subject to optimisation depends on whether that surplus capacity subject to optimisation depends on whether that surplus capacity has an alternative use to the current use of the asset. Where there is no alternative use, the optimised value of the surplus capacity is zero. Where there is an alternative use, the optimised value of the surplus capacity is the value of the highest and best alternative use of that capacity.
- NZ 33.8. To illustrate the distinction described in paragraph NZ 33.7 between surplus capacity not having an alternative use to the current use of the asset and that which does, consider the following example. Assume depreciated replacement cost is to be determined for a network of water pipes where the pipe diameter is greater than currently required or ever expected to be required (including that necessary for stand-by or for safety purposes). There is also a discrete segment of the piping network that is similarly not required for the current use of the asset but which can be closed off and used for other purposes, such as a liquid storage facility. In this case, the surplus diameter of the piping would be disregarded for valuation purposes but the surplus segment of the piping network would be valued at its highest and best alternative use.
- NZ 33.9. In most cases, surplus capacity subject to optimisation is expected to be disregarded in determining the depreciated replacement cost of an asset. Such surplus capacity is unlikely to have an alternative use unless it is physically and operationally separable from the required capacity.
- NZ 33.10. In determining depreciated replacement cost, optimisation for obsolescence and relevant surplus capacity is applied only to the extent that it reflects the most probable use of the asset that is physically possible, appropriately justified, legally permissible and financially feasible.
- NZ 33.11. As evident from the definition of depreciated replacement cost, optimisation is applied only in determining the depreciated replacement cost of plant and equipment and in determining an estimate of the value of the improvements component of the depreciated replacement cost of property. Optimisation is not applied in determining the value of the land component of the depreciated replacement cost of property. The value of the land component will always reflect the fair value of the actual land held, in terms of both its size and location.
- NZ 33.12. In instances where the land is underutilised, the fair value of the land will be determined by reference to the highest and best use of such land. For example, in a case where specialised manufacturing facilities are located in a prime central business district site but the operation would be able to be run from a smaller sized and/or less valuable alternative site offering the same service potential, the fair value of the land would be the open market value of the entire central business district-located site.
- NZ 33.13. The fair value of land would normally be determined from market based-evidence. However, in the rare instances where extensive works have been carried out in order to prepare land for use in the entity's business, available market evidence will normally relate to land of the same size and in the same general vicinity but which is priced for uses that are sub-optimal relative to the use for which the works were carried out. In these rare instances the fair value of the land should be determined by having regard to the replacement cost of the land. For example, consider the case where an airport or port company acquires a section of seabed, fills it in and builds a seawall in order to produce flat land for use in the entity's business. The reclaimed land is in the precise location where the entity requires land. Market evidence may exist for other land of the same size and in the same general vicinity as the reclaimed land, but that other land is not suitable for the use intended by the entity. Thus, the market evidence on the fair value of that other land is not relevant to the reclaimed land, and the best indicator of the fair value of the reclaimed land would be the replacement cost of that land. Land resulting from extensive works by a local or central government body in constructing new roading provides a similar example.
- NZ 33.14. If an entity adopts the allowed alternative treatment in NZ IAS 23, an amount equal to the amount of borrowing costs that would be embodied in the fair value of the asset

# NZ VALUATION GUIDANCE NOTE 1

is included as a component of depreciated replacement cost. The inclusion of such an amount as a component of depreciated replacement cost is consistent with the principle underlying the inclusion in the initial cost of an asset of borrowing costs eligible for capitalisation as permitted by NZ IAS 23. The amount to be included as a component of depreciated replacement cost is determined on the basis of the average debt-to-equity ratio and average cost of debt applicable to entities undertaking the same activities as the entity reporting.

NZ 77.1. Public benefit entities are not required to disclose, for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model, as required by paragraph 77(e).

## NZ IAS 36: Impairment of Assets

### *Public Benefit Entities*

NZ 2.1. This Standard shall be applied in accounting for the impairment of all assets of public benefit entities, other than:

- (a) [assets excluded by paragraph 2;] and
- (b) assets whose future economic benefits are not directly related to their ability to generate net cash inflows.

## NZ IAS 38: Intangible Assets

### *Public Benefit Entities*

NZ 124.1. Public benefit entities are not required to comply with the requirement in paragraph 124(a)(iii) to disclose, in respect of intangible assets accounted for at revalued amounts, the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in paragraph 74.

## NZ IAS 40: Investment Property

### *All Entities*

30-32 [An entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

56 [An entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

53 There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity shall measure that investment property using the cost model in NZ IAS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply NZ IAS 16 until disposal of the investment property.

NZ 33.1. Valuations shall be conducted either:

- (a) by an independent valuer; or
- (b) where an entity has in its employ a person sufficiently experienced to conduct a valuation, by that person, so long as the basis of valuation has been subject to review by an independent valuer.

NZ 33.2. The fair value of investment property is determined or reviewed by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

NZ 75.1. An entity shall disclose in respect of each valuer employed:

- (a) the name of the valuer;
- (b) the total fair value of property valued by that valuer; and
- (c) the date(s) of such valuations.

### *Public Benefit Entities*

NZ 9.1. In respect of public benefit entities, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under NZ IAS 16, for example:

- (a) property held for strategic purposes; and

- (b) property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.

NZ 20.1. In respect of public benefit entities, notwithstanding paragraph 20, where an investment property is acquired at no cost or for nominal cost, its cost shall be deemed to be its fair value as at the date of acquisition.