CPA
Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically via email CommentLetters@ivsc.org

18 December 2012

International Valuation Standards Council
41 Moorgate
London EC2R 6PP
United Kingdom

Dear Sirs,

IVSC Discussion Paper of *the Valuation of Trade Related Property*

The Hong Kong Institute of Certified Public Accountants (the Institute) is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Discussion Paper (DP).

In the DP, a traded related property is defined as any type of real property designed for a specific type of business where the property value reflects the trading potential for that business. From a financial reporting perspective, the notion that properties being held for such a special purpose as this are not recognized under IFRS. Currently, there are well established financial reporting requirements in determining the value of property or a group of assets such as may be identified in a "cash generating unit". According to IAS 16 *Property, Plant and Equipment*, an entity can choose to measure an item of property, plant and equipment at cost less accumulated depreciation and impairment losses, or at fair value in accordance with IFRS 13 *Fair Value Measurement.* Under IAS 40 *Investment Property*, the fair value of an investment property shall reflect, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions. In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities.

It is also noted that the concept of trade related property is different from the concepts of a cash generating unit and value in use of an asset as applied under IAS 36 *Impairment of Assets*. Valuations of trade related properties are usually based on assumptions that there will be a continuation of trading by a "Reasonably Efficient Operator", with the benefit of existing licenses, trade inventory, fixtures, fittings and equipment, and with adequate working capital, while IAS 36 requires that future cash flows shall be estimated for the asset in its current condition. Given that different concepts are used in valuing cash generating units for financial reporting purposes as distinguished from business valuation purposes, to prevent confusion, it would be helpful if the IVSC can clarify the common usage and/or meaning of the valuation of trade related property and its interaction with general purpose external financial reporting (as within scope of the IFRS) in the final standard.

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603
Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

If you have any questions regarding the matters raised in our submission, please contact me at simonriley@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/WC/jn