

VALUATION CASE STUDY

IFRS

The Challenge

The replacement of Canadian GAAP with the International Financial Reporting Standards (IFRS) was made mandatory on January 1st 2011 for all of the country's 4,500 Publicly Accountable Enterprises [PAE] (publicly traded companies, credit unions, insurance companies, trusts, REITs). This afforded them the opportunity to declare assets, such as real estate, at "Fair Value" on their balance sheet each year instead of booking them at cost. This "mark to market" is a more relevant metric since it properly reflects the value of the asset. Our client, a life assurance company, wanted to take advantage and so required yearly valuations of their "Investment Property [IAS 40]": our Valuation Division answered the call.

Turner Drake's Approach

Under IFRS, Investment Property [IAS 40] comprises assets held to earn rental income, or for capital appreciation, and excludes owner-occupied property used for production, or supply of goods and services (Property, Plant and Equipment [IAS 16]). Both have to be valued at their "Fair Value", a term broadly synonymous with "Market Value" but Investment Property has to be valued at its "Highest and Best Use", while Property, Plant and Equipment has to be valued on the basis of its "Value in Use". Our client was primarily interested in their "Investment property" i.e. the office building they had purchased as a real estate investment. Since the property was to be valued every year, we determined that the most cost effective way of doing so without sacrificing accuracy was to prepare a comprehensive valuation report in Year 1, with update reports thereafter. All of our valuation assignments comply with the Royal Institution of Chartered Surveyors' Global Valuation Standards (RICS Red Book), the International Valuation Standards (IVS), the Uniform Standards of Professional Appraisal Practice (USPAP) and the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP), but we provide seven distinct valuation products each tailored to a specific client requirement. Our Valuation Report is a *complete* report issued in *summary* format. It is suitable for all real estate purposes other than litigation and conduit financing, including the International Financial Reporting Standards. Its use is *unrestricted*, meaning that it can be relied upon by any named party. We prepared a Valuation Report for Year 1. For subsequent years we prepared an Update Report. This is a *complete* valuation issued in *restricted* format: it can only be completely understood if it is read in conjunction with the founding Valuation Report. Its use is therefore *restricted to the client* or to parties in *possession of both reports*. Each yearly Update Report references the fiscal, physical and legal changes in the property, and its value, since the prior Update Report, and includes a clear audit trail and full supporting data.

Winning Results

In Year 1 we furnished our client with a Valuation Report. Each subsequent year we provide an Update Report. Every report contains a detailed logic path to the Fair Value conclusion anchored by market data, for use by our client's Auditors for IFRS purposes.

