



21 November 2012

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IVSC EXPOSURE DRAFT *THE VALUATION OF FORESTS*

Responses to be received by 11 January 2013

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments from constituents to the International Valuation Standards Council (IVSC) Exposure Draft *The Valuation of Forests* which can be downloaded from the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>.

The exposure draft deals with valuation guidance for commercial forests. As stated in the IVSC's press release, accompanying the Exposure Draft, over recent years there has been increasing interest in forestry as an investment class not only because of the enduring demand for timber but also because it meets the ethical and sustainability criteria of many investors. Governments have also been keen to ensure investment in forests and many have encouraged this through tax incentives.

However, unlike other asset classes that have long been traded across borders until comparatively recently most forestry investment was localised. This has led to a wide variation in valuation practices being developed in different countries and sectors. Concerns have also been expressed by some financial regulators about the lack of recognised standards for valuation in the sector and the risk this represents to investors.

Another consideration indicating the need for international valuation guidance has been the adoption of the International Financial Reporting Standards around the world. An ever increasing number of entities involved in forestry are required to account for their interest under IAS 41 *Agriculture*, which requires the 'fair value' of the 'biological asset', represented by the tree crop, to be estimated. Because the trees cannot exist without the land on which they are growing this can create some conceptual difficulties in allocating the value of the complete forest to its different components.

Comments are invited from any interested party, which should be supported by specific reasoning and should be submitted in written form.

The FRSC invites your comments on the proposal. Comments should be supported by specific reasoning and should be submitted in written form. To allow your comments to be considered, in developing its response to the IVSC, the FRSC requests your comments to be received by the Institute on or before **11 January 2013**.



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

Comments may be sent by mail, fax or e-mail to:

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Comments may be made available for public review unless otherwise requested by the contributor.