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FAIR VALUE - PLANT, MACHINERY AND EQUIPMENT APPRAISALS/VALUATIONS FOR IFRS PURPOSES

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Introduction

The concept of fair value has behind it the notion of an exchange between unrelated, knowledgeable and willing parties leading to a clearer and objective measurement of value. In addition the values convey an air of being contemporaneous thereby enhancing the relevance of the values stipulated in financial reports.

The measurement of values for financial report purposes borrows heavily from the Valuation profession – utilizing terminologies, concepts and techniques such as cost, market, income, present value techniques.

The advancement of standards for the measurement of fair values of plant, machinery and equipment has spanned over many years dispersed in a number of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) developed by both the International Accounting Standards Board (IASB) and its predecessor International Accounting Standards Committee (IASC). The dispersion made the measurement of fair value and informational disclosures for financial reporting anything but standardized. As a result whiles some IAS' and IFRS' contained a paucity of information regarding how to measure fair value others contained extensive information. There was no consistency across the standards until the advent of IFRS 13- Fair Value Measurement in May 2011 which is to provide a consistent framework for measurement and disclosures and also to enhance comparability with the United States generally accepted accounting principles (US GAAP).

What is IFRS?

It is the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). In a more general use it refers to the body of IASB pronouncements, including standards, and interpretations from the Standing Interpretations Committee (SIC) -

interpretations approved by the predecessor International Accounting Standards Committee, the International Financial Reporting Standards Interpretations Committee (IFRIC).[1]

What is the IAS?

It is the International Accounting Standards. These are a series of standards originally issued by the now defunct International Accounting Standards Committee (IASC).

Brief Institutional History

The International Accounting Standards Committee (IASC) was formed in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. The IASC spent lots of efforts in promoting uniformity of accounting principles and consistency of accounting practices by businesses and other organizations around the world until the comprehensive reorganization in 2001, when IASC was replaced by the International Accounting Standards Board (IASB), which is an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) and continues its mission to improve and harmonize financial reporting around the world.[2]

The globalization of business and finance has led more than 12,000 companies in more than 100 countries to adopt IFRS including all of Europe, Canada and Australia —have replaced their country-specific accounting rules in favor of International Financial Reporting Standards (IFRS).

Where is the United States as regards IFRS?

There is a growing acceptance of International Financial Reporting Standards (IFRS) as a basis for U.S. financial reporting. This represents a fundamental change for the U.S. accounting profession. In a statement approved on February 24, 2010 the Securities and Exchange Commission, SEC has said it is not pursing the [previously announced] 2014 roadmap. Though much remains uncertain, the SEC made clear that it envisions 2015 as the earliest possible date for the required use of IFRS by U.S. public companies. The SEC, however, makes it unambiguous that it continues to support the move towards adopting IFRS for US Public companies.[3] Following through with this is the collaborations of the Financial Accounting

Standards Board, FASB, and the IASB opening the way for a much wider application of fair value accounting to non-financial assets in the United States. FASB is the accounting standards setting body in the United States.

The SEC roadmap applies only to publicly traded companies. Non-publicly traded firms in the United States do not fall under the jurisdiction of the SEC and so are not required to issue any financial statements, unless mandated by industry regulations or contractual agreement. The private firms which choose to issue financial statements usually follow USGAAP to facilitate competitive comparisons with public companies in the same industry, augment the perception of reliability of their financial reports and to ease negotiations and transactions. So if the United States stock exchanges move away from USGAAP, most non-publicly traded firms will likely follow suit.

The official status of IFRS in the United States notwithstanding, an increasing number of companies elect to draw up financial statements in accordance with IFRS. They do so for a myriad of reason; comparative purposes as mentioned in the previous paragraph; to present financial statements for consolidation purposes with parent companies located in countries that have formally adopted IFRS; anticipation of the eventual adoption of IFRS by the United States and so are accordingly acquiring and implementing accounting information systems to get a head start. As a result of this trend some elements of change in financial reporting have become imperative.

From the point of view of the plant, machinery and equipment appraiser/valuer, valuation is an important element in the change in the reporting of the corporate entities' plant, machinery and equipment. The base reasons are;

- IFRS requires that the assets shall be reported at their fair value.
- The IFRS and IAS require valuation techniques to be used to determine the fair value of reporting entities' assets.

Fair value

Behind the concept of fair value measurement is the notion of providing users of financial statements with relevant information to facilitate accurate investment decisions and to allow decision makers to formulate appropriate risk management strategies. Since the late eighties there has been the drive by accounting standards setters to shift from the traditional accounting for assets by historical cost to providing much more current information which is relevant for contemporaneous decision making. This effort has largely been for financial assets and financial instruments. Accounting standards issued in the last few years have sought to provide guidance for relevant reporting of non-financial assets. As an added dimension the global financial crises of 2008 and 2011 go to emphasize the importance of a common and consistent fair market measurement and disclosure requirements.

To this end fair value has been defined in IFRS 13 – Fair Value Measurement, 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. The asset or liability measured at fair value might be either of the following:

(a) a stand-alone asset or liability (e.g. a financial instrument or a non-financial asset); or

(b) a group of assets, a group of liabilities or a group of assets and liabilities (e.g. a cash-generating unit or a business).[4]

Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. The collective indications of market participants are considered to be more relevant to decision making than historical cost information.

When is appraisal/valuation of plant, machinery and equipment for IFRS purposes needed?

We take guidance from the relevant standards namely; IFRS1 - First Time Adoption of International Financial Reporting Standards; IFRS 3 - Business Combinations; IAS 16 - Property, Plant and Equipment; IAS 36 - Impairment of Assets in determining the fair value of plant, machinery and equipment; IFRS 13 – Fair Value Measurement (the most recent standard released in May 2011).

Valuation for IFRS 1 purposes - First-time Adoption of International Financial Reporting Standards

It is submitted that the appraisal/valuation is needed to report the fair value of plant, machinery and equipment of a company making its first statement in accordance with IFRS requirements.

IFRS-1 (*First-time Adoption of International Financial Reporting Standards*) has the following provisions;

> An entity may choose, at the date of transition to IFRS, for valuing an item of tangible fixed assets at fair value, and use this fair value as deemed cost at that date.
>
> The entity to take first IFRS may use the amount of tangible fixed assets revalued under previous GAAP, either at the date of transition or earlier, as deemed cost in revaluation date, provided that it was, when performed, broadly comparable:
>
> (a) at fair value, or
>
> (b) the cost or the cost depreciated according to IFRS, adjusted to reflect, for example, changes in a general price index. [5]

Valuation for IFRS 3 purposes - Business Combinations

IFRS 3 defines a business combination as the bringing together of separate entities into one reporting entity; oftentimes a merger. To recognize the assets and liabilities in such transaction…..

IFRS 3 requires that the acquirer in a business combination transaction recognize the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the fair values, as of the date of acquisition. Furthermore whether the acquirer intends to use the assets acquired in a way that is different from the way other market participants will use it the standard requires the asset be measured at fair value determined in accordance with its use by other market participants. In other words the market participants, being informed acquirers, will pay no more for the assets than the cost of acquiring a comparable property with similar utility.[6]

The valuation process is a major step in the post merger transaction integration. As a result of the difference between the purchase price and the sum of the fair value measurements of the identifiable assets, liabilities, contingent liabilities and intangible assets of the acquired entity goodwill is recognized. As regards plant, machinery and equipment the services of the trained appraiser/valuer are required to provide the appropriate valuation. The failure to provide appropriate valuation for these assets may result in the over/under statement of goodwill. The importance of the allocation of the purchase price of the acquired entity lies in the cognizance of the effects of each of these identifiable units on future earnings and potential of failed impairment tests of the residual goodwill.

The IASB has issued accounting standards which are to guide accountants in the measurement methods to be used in arriving at values of physical assets. IAS 16, International Accounting Standards for Property, Plant and Equipment and IAS 36 for Impairment of Assets, both provide accountants with guidance for measuring values of physical assets. As a practical matter these remain as guidance and it takes the trained appraiser/valuer to assist the accountant to meet the goals of the standards.

Valuation for the purpose of IAS 16 - Property, Plant and Equipment

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.

Property, plant and equipment are 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 period.

Subsequent recognition

Paragraph 29: The entity may select as the accounting policy the cost model (paragraph 30) or the revaluation model (paragraph 31), and apply that policy to all the elements making up a class of property, plant and equipment.[7]

Cost model

Paragraph 30: Since its recognition as an asset, an item of property, plant and equipment is accounted for at cost less accumulated depreciation and the cumulative amount of losses from the impairment of value.[8]

Revaluation Model

Paragraph 31: Since its recognition as an asset, an item of tangible fixed assets whose value can be measured with reasonable reliability is accounted for using its revalued amount, which is its fair value at the time of the revaluation, less accumulated depreciation and the aggregate amount of losses from the impairment of value suffered.

The revaluation will be made with sufficient regularity to ensure that the carrying amount, at any time, does not differ significantly from that which could be determined using the fair value at the balance sheet date.[9]

Paragraph 32: Normally, the fair value of land and buildings will be determined from the evidence based on the market that offers valuation, usually done by professionally qualified independent experts. The fair value of the items of property, plant and equipment, for example, plant and equipment is usually their market value, as determined by a valuation.[10]

Valuation for the purpose of IAS 36 - Impairment of Assets

IAS 36 was released to address the issue of impairment of the values of assets including plant, machinery and equipment. Impairment may be ascertained for an individual asset or cash generating unit (group of assets such as manufacturing or processing plants). In assessing impairment the entity compares the carrying amount of the plant, machinery or equipment to the recoverable amount which is defined as the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use.[11] If either fair value less cost to sell or value in use exceeds the carrying amount the asset is not impaired. On the other hand if the carrying amount exceeds the fair value less cost to sell or value in use impairment needs to be recognized.

Valuation/appraisal techniques are used to determine the amount of impairment of a plant, machinery or equipment particularly in case of worsening of economic conditions.

The Framework for Fair Value Measurement

The framework for measuring the fair value of plant, machinery and equipment is provided in IFRS 13 – Fair Value Measurement released in May 2011. As a framework the purpose is to provide a consistent definition and basis for the measurement and reporting of fair value. Prior to IFRS 13 because different IFRSs were developed over many years, the requirements for measuring fair value and for disclosing information about fair value measurements were dispersed and in many cases did not articulate a clear measurement or disclosure objective. (cite IFRS1, IFRS3, IAS16, IAS36). Inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurements have contributed to diversity in practice and have reduced the comparability of information reported in financial statements. IFRS 13 seeks to remedy this situation. The IFRS is to be applied for annual periods beginning on or after 1 January, 2013. Earlier application is permitted.[12]

Valuation for IFRS 13 purposes – Fair Value Measurement

The creation of IFRS 13 is tied to the existence of all other IFRSs. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements except for specified exceptions. It also applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.[13] This reporting standard, more than any other, brings into sharp focus the space shared by appraisers/valuers, accountants and auditors. This reporting standard, purporting to be a framework, leans heavily on the appraisal/valuation profession in the matters of the measuring fair values and disclosures about fair value measurements.

It is submitted that the appraiser/valuation professional is best placed to support the accountant and the auditor in meeting the letter and the spirit of the reporting standard. This position is confirmed in the standard in paragraph 61 of IFRS 13 where it is stated … An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.[14]

In the measurement and disclosure requirements of IFRS 13 the accountant or the auditor will be hard pressed to faithfully represent the fair value of complex assets such as manufacturing or processing plants on the financial statements without the input of the trained plant, machinery and equipment appraiser/valuer.

Measurement

IFRS 13 defines fair value 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 (i.e. an exit price). Fair value is a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement of plant, machinery and equipment is to estimate the price at which an orderly transaction to sell the plant, machinery or equipment would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset…).[15]

A fair value measurement is for a particular asset. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset if market participants would take those characteristics into account when pricing the asset at the measurement date. Such characteristics include, for example, the following:

(a) the condition and location of the asset; and

(b) restrictions, if any, on the sale or use of the asset.

The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants.

The asset measured at fair value might be either of the following:

(a) a stand-alone asset or

(b) a group of assets[16]

Disclosures

An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) for assets …… measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.[17]

(b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.[18]

IFRS 13 has the following provisions in the respective paragraphs regarding valuation of physical assets;

61. An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs

91. The company shall **disclose** information that helps the users of its financial statements assess both of the following:

(a) for assets and liabilities that are measured at fair value at a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop these measurements

(b) for recurring fair value measurements using significant unobservable inputs (level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.[19]

Clearly the CPAs have to plan on engaging the services of the valuation professional whether the employer or client company chooses to value its assets on a recurring or non-recurring basis. The standard urges CPAs while maximizing the use of relevant observable input to minimize the use of unobservable inputs. The goal of the standard is for the financial statements to report as close as can be done the values of the physical assets as reflected by market participants. Unless the reporting CPA is trained in valuation he/she will require the input of the qualified appraiser/valuer to fulfill the letter and the spirit of this reporting standard.

For purposes of transitioning to IFRS the CPAs on their part are studying the reporting changes that are going to occur and evaluating valuation professionals to be used.

Demands of valuation for IFRS purposes

Planning

There is the need for planning on the part of appraisers/valuers to gain an understanding and be ready for the demands of IFRS related work. More and more companies are embracing IFRS. There is considerable promise and opportunity for the valuation profession and also challenges to their expertise. The demand for the services of appraisers/valuers is set to increase exponentially. In the United States the appraisal profession will not have to wait until 2015 or thereabout to witness an increase in demand for their services. In fact, demand for IFRS-prompted services is on-going. For example international companies with operational interests in the United States are requesting appraisers to revalue these acquisitions to conform to IFRS which is being used by the parent companies.

The appraiser/valuer, if he/she has not done so already, needs to gain an understanding of IFRS. The appraiser/valuer encountering IFRS for the first time may take heart in knowing that they may not be too far behind in being prepared for IFRS. An understanding of the events and changes of the prior six to twelve months quickly brings one up to speed. The appraiser/valuer could start with some of the summaries prepared by the International Accounting Standards Committee (IASC) Foundation staff.

The starter reading may include summaries for: IFRS 1 - First-time Adoption of International Financial Reporting Standards; IFRS 3 - Business Combination; IFRS 5- Non-Current Assets held for Sale or Discontinued Operations; IAS 16- Property, Plant and Equipment; IAS 17- Leases; IAS 36 - Impairment of Assets; IAS 41 - Agricultural Property.

Caution: this is a suggested introduction and is not sufficient to make the appraiser/valuer the all in all expert in IFRS/valuation issues.

To be of service in this regard an IFRS-ready appraiser/valuer will have to particularly keep an updated record of clients' property and the factors that affect their value. This is because IFRS impacts the valuation profession the most in terms of the information which reporting clients will need to include in disclosures to the financial statements. For example the appraiser/valuer should be able to maintain records for revaluation and impairment measurement in response to market changes.

However in this new regime the work of the appraiser/valuer will be reviewed and audited if management and auditors are to attest to the faithful representation of the fair values of the plant, machinery and equipment as reported.

Recognize the Subtle Differences in Valuation

When engaged to value plant, machinery and equipment for IFRS purposes the valuation professional must necessarily think of the approach to such assignments as unique and not the routine. Until official guidance is provided by the professional valuation/appraisal bodies or the IASB the valuation professional needs to be aware of the subtle differences between IFRS 13 assignments and other appraisal/valuation assignments.

<u>Fair Value v Fair Market Value</u>

Conceptually there is not much of a difference between the premise of value as stipulated in IFRS 13 – Fair Value and Fair Market Value as used commonly in valuation. The goal of IFRS 13 as indicated earlier is to establish a frame work for the consistent measurement and reporting of assets and liabilities. To apply the premise of Fair Value the valuation professional has to observe certain definitions within the financial reporting standard because valuing plant, machinery and equipment under the premises of Fair Value and Fair Market Value will not necessarily yield the same result. However, for IFRS 13 purposes the opinion of value is still a Fair Value measurement.

Market

Paragraph 16 of IFRS 13 assumes the market source of the fair value measure to be the *principal market* or if there isn't one the *most advantageous market.* This alludes to a specific market as from the point of view of the entity which may not necessarily be open to all market participants (refer to paragraph 19 - The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and businesses within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and businesses within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.). On the other hand, in "regular" valuations, the appraiser/valuer looks to the market in which the plant, machinery or equipment would normally exchange to which all participants, including the owning entity have access. The position of the IFRS sets it apart from the principle of substitution which underpins the analysis of the appraiser/valuer.

Paragraph 18 of IFRS 13 underscores this position as follows "If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date."

Paragraph 22 of the IFRS requires appraisers/valuers to assume market participants to be acting in their best economic interest (which one would reasonably include the advantageous prices in a market other than the *principal* or *most advantageous* market) yet paragraph 18 forbids the use of a value from a different market in the valuation however advantageous the value may be. In addition what is considered the "best economic interest" may be outside of the norms of open market in that paragraph 18 acknowledges that the price may not be directly observable or may be estimated using another valuation technique. Therefore appraisers/valuers have to specifically define the market of the client and carefully evaluate the evidence which constitutes a transaction in the market – the market is as defined by the client and not by the wider buyers and sellers of those assets.

Furthermore given the limited nature of the market the appraiser/valuer has to also evaluate the motivation of the market participants; do the participants have full knowledge of the market; is the client under any coercion, for example by way of relationship with related entities, to participate in the particular market; was the seller in this context compelled to sell; was the transaction at arm's length; was the purchase classified as "special purchase". These questions need to be addressed in the appraisal/valuation report.

Transaction Cost

Fair value of an asset is defined as the price that will be received to sell the asset in an orderly transaction in the principal (or *most advantageous*) market at the measurement date under current market conditions……………The fair value shall not be adjusted for transaction cost. IFRS 13 defines transaction cost as the cost to sell the asset in the principal (or most advantageous) market that is directly attributable to the disposal of the asset.

The appraiser/valuer has to investigate whether the assets on the market have been priced with the respective cost to sell. The cost to sell has to be taken out of the price to arrive at fair value. For purposes of financial reporting the transaction cost is hypothetical. With the market being limited or exclusive the components of transaction cost could change from time to time and may be radically different on the occasion of an actual sale of assets. In the valuation of plant, machinery or equipment for financial reporting purposes the appraiser/valuer is challenged to make this investigation as efficiently as possible whiles getting access to the supporting documentation which could be the subject of review by management and auditors if they are to attest to the financial statements. It will be even more challenging in the case of a group of assets. The appraiser/valuer has to discern whether the assets are typically sold as a group or piecemeal. The quantum of transaction costs will differ with the disposal method, physical location, market location, etc. With the market being limited or exclusive, participants may not be inclined to reveal the underlying details of these transactions.

These issues may be noted as difficult but not impossible hurdles in the path of the appraiser/valuer but the professional has to be cognizant of them.

Highest and Best Use

In Appendix A of IFRS 13 the concept of Highest and Best Use is defined as the use of a non-financial asset by market participants that will maximize the value of the asset or group of assets and liabilities (e.g. Business) within which the asset would be used.

When considered in the light of the afore discussion on Market the plant, machinery and equipment appraiser/valuer may be hard pressed to objectively identify the highest and best use of the assets being appraised because the analysis from the stand-point of comparing to a market open to all users may be lacking. However, if the analysis is from the narrow perspective of opportunity cost then one may be inclined to identify the current use to which the assets are being put as the highest and best use. This may well fit in when the appraiser/valuer is using the *most advantageous market* in the light of the limitations discussed above. Taken a step farther if the subject assets are used, and are idle or mothballed for reasons of reduced capacity with the intention of activating in future as economic turns dictate, then under the *most advantageous market* concept there would be a struggle to between identifying the highest and best use as when the assets were not idle or as scrap because the assets are used and currently mothballed. Either of these choices does not truly identify the highest and best use of such assets and this may be a constraint that the valuation and the accounting standard setters need to address.

Frequency of revaluation

After initial recognition, the asset should be measured at cost less accumulated depreciation and impairment losses or at a revalued amount, which is its fair value less subsequent depreciation and impairment losses. The services of the valuation professional will be required for revaluation and impairment analyses. Revaluations must be made with sufficient regularity to ensure that the carrying amount is not materially different from fair value. Moreover, if an asset is revalued, then the entire class of asset must be revalued. The fair value of property is its market value. The valuation professional would normally undertake the appraisal/valuation.

However, the valuation professional's work, as indicated earlier will have the additional scrutiny of auditors and management, attestors to the audited financial statements.

Parties to the fair value assertion – the appraiser/valuer, the accountant, the auditors, management, users

The CPA has a duty to represent faithfully the plant, machinery and equipment of his client or employer in the financial statements. The duty is guided by the accounting and reporting standards. IFRS 13 is the overarching standard for fair value measurement and applies whenever another IFRS requires or permits fair value measurements or disclosures about fair value measurements except for specified exceptions.[20] To faithfully represent the physical assets the accountants' role is to report these at fair value.

The auditors' and management's roles are to attest to the representational faithfulness of the fair values reported. However, auditors and management may not be trained in valuation of plant, machinery and equipment. To uphold their attestation of the representational faithfulness of the fair values auditors may need to plan on hiring valuation review experts to evaluate opinions of value which the clients/management have ordered from third parties.

Users including analysts, investors, management depend on the fair value assertions in the financial statements to make informed decisions regarding respective entities vis-á-vis industry. The purpose of IFRS 13 as the framework for reporting fair values is to provide a consistent definition and basis for the measurement and reporting of such fair value.

As alluded to earlier a shift has been made from the hither to historical cost representation of physical assets to fair value which is being emphasized because its relevance. This represents the on-going changes of the face of financial reporting.

Conclusion

IFRS 13 is a welcome framework for developing fair value. However it is also vital that the valuation rules emanating from this framework provide consistency in the measurement of fair values both within and outside the accounting realm. The reason being the value of the plant, machinery or equipment should be seen in a context of market forces, which an entity operating within the economy cannot be independent of. The Accounting profession, in providing the framework for the valuation of plant, machinery and equipment may have inadvertently muddied the waters of clarity. With the market premise set up in IFRS 13 the risk of material misstatement of the fair value of plant, machinery and equipment cannot be over-looked. As it stands, and understandably so, the standard for determining fair value appears to convey the perspective of the accounting profession. It comes across as though the development of the standard started from the perspective of the valuation of securities and shares and then extended to physical assets. The concept of market appears to be a hangover from the concept of markets for shares and securities in either listed and closed companies and then extended to plant, machinery and equipment. Appraising/valuing plant, machinery and equipment using the concept of a narrow "company defined" market (as would be the case, for example, for the shares of a closed company) can be disconcerting considering the many things that could be missed yet may have impacted the valuation. It is submitted that financial statements would be more useful if the values of plant, machinery and equipment reflect the wider market (and the economy) and not the narrow "company defined" market (which could be made up of just related parties as per the definition in paragraph 19). From the stand point of physical assets the next few years in the application of IFRS 13 will be in the conversion US GAAP to IFRS. Until the valuation profession develops a consensus position on valuation of plant, machinery and equipment for IFRS purposes the plant, machinery and equipment appraiser/valuer has to be alert to the subtle differences in methodology between IFRS and non-IFRS work as there is an ever increasing scrutiny and expectation of fair representation of the financial statements.

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