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## **CIRCULAR 11/2016**

To : All Registered Valuers and Probationary Valuers  
Date : 21 July 2016

Dear Sir/Madam

### **REPLACEMENT OF STANDARD 10 (VALUATION FOR FINANCIAL REPORTING) OF THE MALAYSIAN VALUATION STANDARDS**

Please be informed that the Valuation Practice Committee of the Board had studied the captioned standard and has decided to amend same in the light of the current climate pertaining to valuations for financial reporting. In particular for properties that are used by an entity as an asset in connection with their continuing business operations, they should be valued based on the market value for the existing use.

Towards this end, the Board has produced the new Standard 10 incorporating the above amendment and advises registrants to refer to **10.2.7** and its explanation at **10.3.4**. Registered Valuers are requested to adopt this Standard which is attached herewith and shall come into effect on 1 August 2016.

Kindly be guided accordingly.

  
Yours faithfully

**R. MAHALETCHUMI**  
Registrar  
LEMBAGA PENILAI, PENTAKSIR DAN  
EJEN HARTA TANAH MALAYSIA  
RM/ad

## **MALAYSIAN VALUATION STANDARDS**

### **STANDARD 10**

#### **VALUATIONS FOR FINANCIAL REPORTING**

##### **10.1.0 INTRODUCTION**

- 10.1.1 With the adoption of "mark to market" or fair value accounting, both internationally and in Malaysia, companies and entities would increasingly require valuations of their assets at more regular intervals as under these standards, the companies or entities are required to show these assets (held for use in their business, or as investments or surplus to their requirements) in their balance sheets at their "fair value".
- 10.1.2 The regulatory authority on the manner in which company accounts should be prepared in Malaysia is the Malaysian Accounting Standards Board which develops and issues Financial Reporting Standards which has the force of law and is mandatory for public listed companies under the Securities Commission Malaysia, financial institutions under Bank Negara Malaysia and private companies registered with the Companies Commission of Malaysia. The Malaysian Accounting Standards Board has issued two (2) sets of financial reporting standards, i.e. Malaysian Financial Reporting Standards which are mandatory for public listed companies and financial institutions but optional for private companies and the Malaysian Private Entity Reporting Standards which are again optional for private companies. For example Malaysian Financial Reporting Standard 116 relates to Property, Plant and Equipment which prescribes the manner in which property, plant and equipment should be treated in company accounts.

##### **10.2.0 STATEMENTS OF STANDARD**

- 10.2.1 Valuers who prepare valuations for inclusion in financial statements must have a basic understanding of accounting concepts and principles. In particular Valuers must have a working knowledge of how property, plant and equipment are recognised in the accounts both initially at acquisition/ purchase and subsequently (i.e. whether the company or entity has adopted the Cost or Revaluation Model) and how they are carried in and its impact on the accounts of the company or business entity. Valuers shall also be familiar with the various terminologies used in those MFRS.
- 10.2.2 Valuers must have knowledge and understanding of the requirements of the accounting standards which are issued by MASB from time to time especially those which relate to the treatment and measurement of the assets in the accounts, more particularly MFRS 116 (Property, Plant and Equipment), MFRS 117 (Leases) and MFRS 140 (Investment Property). Valuers shall also be familiar with other Standards which have an impact on valuations such as MFRS 102 (Inventories), MFRS 136 (Impairment of Assets), MFRS 3 (Business Combinations) and MFRS 5 (Non-Current Assets held for Sale and Discontinued Operations). Where cross border valuations are concerned, Valuers shall also be knowledgeable about the standards as well as the International Valuation Standards (IVS) and other relevant standards that may be applicable in that particular state/ country/ jurisdiction.
- 10.2.3 The fundamental basis for the valuation of properties, plant and equipment for inclusion in Financial Statements, as stated in the Malaysian Accounting Standards is "fair value" which is defined as "the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction". For all intents and purposes and insofar as property, plant and equipment valuations for MFRS are concerned, fair value as defined above is taken to be synonymous with "market value" as defined by the IVS.
- 10.2.4 Valuers must ascertain and confirm with the company or entity the appropriate asset class to which the item of property, plant and equipment belong so that the valuation is valued in accordance with the requirements of the appropriate MFRS.
- 10.2.5 Valuers must also state in the valuation reports their valuation methodology used in arriving at the market value of the property, plant and equipment, bearing in mind the

requirements of the accounting standards which favours "market-based evidence". Appropriate valuation approaches are to be used.

- 10.2.6 For specialised properties by virtue of the fact that they are rarely, if ever, sold in the open market i.e. there may be "no market-based evidence of fair value", other valuation approaches such as the Cost Approach or the Income Approach may be used.
- 10.2.7 For properties that are used by an entity as an asset in connection with their continuing business operations, they should be valued based on the Market Value for the Existing Use.

### **10.3.0 EXPLANATIONS**

- 10.3.1 Paragraph 32 of the MFRS 116 states that "The fair value of land and building is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified Valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal."
- 10.3.2 Paragraph 33 of the MFRS 116 states that "If there is no market based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the items is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach."
- 10.3.3 The International Valuation Standards Council has valuation standards that are developed to enable Valuers worldwide to harmonise principles and practices particularly with regard to valuations for financial reporting, thus ensuring that financial reporting standards have a harmonised basis. Valuers are required to acquire an in-depth knowledge of the International Valuation Standards, in particular the International Valuations Application 1 – Valuation for Financial Reporting. Any deviation from the requirements of those standards must also be clearly disclosed in the Valuation Report.
- 10.3.4 Instances where properties would fall under 10.2.7 include oil palm plantations or rubber plantations and industrial properties that are owned by plantation entities or industrial entities respectively. Thus, for example, an oil palm plantation owned by an entity that is set up and is in operation as a plantation entity, would not, under this Standard be allowed to carry in their accounts, values that reflect development potential of the property over and above the pure agricultural value of the property. Similarly an operational industrial concern should not be allowed to carry in their accounts a value of a potentially higher order user than the existing use as an industrial property.

Standard 10.2.7 and this, related, 10.3.4 explanatory note, is also in line with Standard 11 Valuation of Biological Assets.

- 10.3.5 A Fair Value measurement has three Levels as follows:
- (a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
  - (b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
  - (c) Level 3 inputs are unobservable inputs for the asset or liability.

IFRS/MFRS 13 requires the level in the hierarchy of any asset or liability measured at fair value to be disclosed in the financial statements. There are additional accounting requirements in relation to valuations produced using Level 3 inputs. It is therefore appropriate for a Valuation Report provided for use in financial statements prepared under MFRS to include sufficient information on the valuation inputs used to enable the reporting entity to correctly categorise assets within the hierarchy.