

Chapter A1

PURPOSES OF FOREST VALUATION

Purpose matters	A forest valuation is required for a particular purpose. There is a prospect that the same valuation may also be suitable for other purposes but this cannot be assured. Some forms of valuation are purpose-specific as the following review of applications explains:
Sale and purchase	A common reason for forest valuation is to assist in negotiations for the sale and purchase of a forest. The seller may wish to establish a reserve price and the buyer may wish to determine a reasonable price to pay for the asset.
Disclosure in the financial statements of business entities	<p>Forest valuations are commonly required for reporting of financial performance. There is a requirement for assets to be disclosed in the statement of financial position under the Companies Act 1993 and the Financial Reporting Act 1993. This may be achieved by either a formal fair valuation process or by observing other accounting conventions. IFRS 13 — Fair Value Measurement sets out in a framework for measuring fair value and became effective 1 January 2013. Other standards are specified by the NZ Stock Exchange and NZ Institute of Chartered Accountants.</p> <p>Financial statements for reporting entities are required to comply with New Zealand equivalents to International Financial Reporting Standards. A financial reporting standard of special relevance to forest valuation is NZ IAS 41 Agriculture. This prescribes the accounting treatment, financial statement presentation, and disclosure related to biological assets.</p> <p>The land component of forest value is subject to separate standards such as NZ IAS 16 Property, Plant and Equipment or NZ IAS 40 Investment Property.</p> <p>Currently, there is no specific standard for the recognition of units received under the Emissions Trading Scheme (ETS). In the absence of a specific standard, NZ IAS 20 Government Grants applies, as NZUs are issued by the New Zealand Government under applicable legislation.</p>
Prospectus promotion	Promoters may prepare prospectuses for ventures which involve the acquisition of forests. Where there is an existing tree crop, its estimated value will represent an important component underpinning the values of the shares or units in the entity. In other cases, a prospectus may be prepared for a forest venture on new land. In these cases the value of the future forest opportunity is fundamental in estimating the eventual return for an investor.



Compulsory sale or compensation, including insurance cover

In the cases of a compulsory sale or compensation for a loss, the owner will require fair compensation for the loss of the tree crop in addition to any loss associated with any limitations imposed on the use of the land. In compulsory sale or compensation situations the owner is not a willing seller. The owner requires to be put in the same financial position as they would have been in, assuming no loss and retained ownership of the tree crop. Tree crop values for compensation purposes include assessments of the appropriate level of tree crop insurance cover.

Acquisition subject to Public Works Act

In the event that the compulsory sale takes place in accordance with section 62 of the Public Works Act 1981, then no allowance can be made on account of the taking of an interest in the land being compulsory. The Act prescribes that the tree crop market value is assessed on a before and after basis. The process should consider all impacts on the tree crop affected. The difference between the before and after situation is the level of compensation required. This difference in value represents the market value of the tree crop on the land that is to be acquired plus the impact that the acquisition of this portion of the tree crop has on the market value of the tree crop in the remainder of the forest.

Examples of impacts on the market value of the remainder of the tree crop are the possible increase in roading costs and the possible increase in the risk of wind damage on the cut face.

Property division

This may include property division for business restructuring, partnership dissolution or a matrimonial property split. If land includes trees, the value of the trees may be very significant in the total value of the property.

Equity transfer (sales of shares)

The value of the shares of a forest owning entity may be significantly influenced by the value of the forest.

Collateral

A forest may provide the security for a loan. The lending institution needs reassurance that the realisable value of the forest asset is sufficient to repay the loan in the case of default.

Taxation

Different tax treatments apply to land and forest. The value attributable to the trees must be established, when trees and land are sold as one.

The purchaser of trees is entitled to deduct the cost of the trees from the eventual proceeds from their sale. It is therefore important to the purchaser to allocate the total purchase price of the forest into land and tree crop components and further to distribute the total value of the tree crop between croptypes and age classes.



Forest planning and management

Forest valuations prepared on a consistent basis over time provide a stable reference for comparison of alternative management options and investments.

Stewardship

Comparative forest valuations are a tool to measure the performance of management in their role as stewards.



Revision History

Original Standard

Released in May 1999

**Revision in August
2020**

Main changes are:

- updating section on disclosure in the financial statements to include reference to International Financial Reporting Standards;
 - inclusion of a section on acquisition subject to the Public Works Act; and
 - inclusion of insurance cover with compulsory sale or compensation.
-

