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MEMORANDUM

FOR : All Regional Executive Directors

All Regional Directors
Mines and Geosciences Bureau Regional Offices

The Director
Biodiversity Management Bureau
Ecosystems Research and Development Bureau
Forest Management Bureau
Land Management Bureau
Mines and Geosciences Bureau

The Director
Legal Affairs Service
Financial and Management Service
Knowledge and Information Systems Service

FROM : The OIC Director
Policy and Planning Service

SUBJECT : **REQUEST FOR COMMENT/CONCURRENCE ON THE DRAFT ASSET MANAGEMENT MANUAL FOR CANCELLED/ TERMINATED, EXPIRING, AND EXPIRED TENURIAL INSTRUMENTS**

DATE : 05 DEC 2022

This refers to the draft Asset Management Manual for Cancelled/Terminated, Expiring, and Expired Tenurial Instruments, which was developed pursuant to Section 11 of DENR Administrative Order (DAO) No. 2020-09 dated June 5, 2020 entitled "Guidelines on the Management of Cancelled or Terminated, Expiring, and Expired Tenurial Instruments."

The draft Asset Management Manual prescribes the procedures on the creation of the Ad Hoc Asset Management Team (AMT), the inventory of all cancelled/terminated, expiring, and expired tenurial instruments, the maintenance of tenure registry, pre-takeover procedures, the approaches for valuation of improvements/assets, the management of improvements/assets, and regulation on tenured areas issued with Certificates of Ancestral Domain Title (CADT). It also prescribes the forms or templates to be used in the implementation of the activity.

MEMO NO. 2022 - 856

The vetting by the Regional Offices, Bureaus and other offices was agreed upon during the Consultative Workshop on the Development of the Asset Management Manual held on November 7-10, 2022 in Clark, Pampanga.

In this connection, may we request your comment/concurrence on the draft Manual on or before December 13, 2022. If we do not receive your written comment by the said date, we will consider it as your concurrence to the draft Manual.

MELINDA C. CAPISTRANO

Copy furnished:

The Undersecretary for Field Operations-
Luzon, Visayas and Environment

The Undersecretary for Field Operations-Mindanao

Republic of the Philippines
Department of Environment and Natural Resources
Visayas Avenue, Diliman, Quezon City

ASSET MANAGEMENT MANUAL FOR CANCELLED/TERMINATED, EXPIRING, AND EXPIRED TENURIAL INSTRUMENTS

Table of Contents

GLOSSARY

Assets

These are resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.

Asset Management

The management of fixed or non-current assets such as land, land improvements, equipment or machinery and infrastructure/building within a tenured area.

Cancelled or Terminated Tenurial Instruments

Those that were cancelled / terminated for cause such as gross violation of the terms and conditions, violation of laws, rules and regulations, and voluntary withdrawal of rights and obligations, among others, whose Order of Cancellation has become final and executory.

CENRO

Community Environment and Natural Resources Office/r

Expired Tenurial Instruments

Those whose terms have ended after twenty-five (25) years and no application for renewal has been filed by the holder within the prescribed period, and those that have expired after fifty (50) years wherein no further renewal is allowed under existing laws, rules and regulations.

Expiring Tenurial Instruments

Those that are still in operation within a year of the end of the validity of the term or duration.

Financial or Technical Assistance Agreement

An agreement involving financial or technical assistance for large-scale exploration, development and utilization of mineral resources.

Foreshore Lease Agreement (FLA)

An agreement executed by and between the DENR and the applicant (natural or juridical person) to occupy, develop, utilize, and manage the foreshore lands. It may also cover marshy lands or lands covered with water bordering upon the shores or banks of navigable lakes or rivers.

Forest Land Use Agreement (FLAg)

An agreement between the Government as first party represented by the Secretary or the Regional Executive Director concerned, and a second party or a person, authorizing the latter to temporarily occupy, manage and develop in consideration of a government share, any forestland of the public domain for specific use defined in Section 3 of DAO No. 2004-59, to undertake any authorized activity therein for a period of twenty-five (25) years and renewable for the same period upon mutual agreement by both parties.

Forest Land Use Agreement for Tourism Purposes (FLAgT)

An agreement between the DENR and a natural or juridical person, authorizing the latter to occupy, manage and develop, subject to government share, any forestland of the public domain for tourism purposes and to undertake any authorized activity therein for a period of twenty-five (25) years and renewable for the same period upon mutual agreement by both parties. It shall include special forest land uses such as Bathing Establishment, Camp Site, Ecotourism Destination, Hotel Site (inclusive of related resort facilities) and other tourism purposes.

Forest Land Grazing Management Agreement (FLGMA)

A production sharing agreement between a qualified person, association and/or corporation and the Government to develop, manage and utilize grazing lands.

Forfeiture

A loss of property to penalize a failure to act in accordance with a legal requirement.

Implementing PENRO

A Provincial Environment and Natural Resources Office without a CENRO, and which performs the roles and functions of the latter.

Implementing Unit/Office

The DENR unit/office mandated to undertake procedures for cancelled or terminated, expiring, and expired tenurial instruments. For lands and forestry tenures, responsibility is with the Regulation and Permitting Section (RPS) of the CENRO, Implementing PENRO and the PENRO, and the Licenses, Patents and Deeds Division (LPDD) of DENR-NCR. In the case of protected areas (PAs) under the NIPAS, the function rests with the Conservation and Development Section (CDS) of the PENRO/Implementing PENRO and the Conservation and Development Division (CDD) in the case of DENR-NCR, in coordination with the Protected Area Management Board (PAMB) through the Protected Area Management Office (PAMO). For mining tenements, the function shall be with the Mine Management Division (MMD) of the MGB Regional Office. For patrimonial properties managed by the LMB, the function shall be handled by the Land Management Division (LMD).

Improvement

A valuable addition made to a property or economic resource, or an amelioration in its condition, amounting to more than a mere repair or replacement of parts, involving capital expenditures and labor, which is intended to enhance its value, beauty or utility or to adopt it for new or other purposes. It may be permanent or temporary improvement.

Permanent Improvement - Includes those which are permanently annexed to the land under contract/agreement in such a manner that these cannot be separated therefrom without causing damage thereto.

Temporary improvement - Those which can be removed without causing any damage to the land under contract/agreement and to which the same has been attached.

Integrated Forest Management Agreement (IFMA)

A production sharing agreement entered into by and between the DENR and a qualified applicant wherein the DENR grants to the latter the exclusive right to develop, manage, protect and utilize a specified area of forestland and forest resource therein for a period of twenty-five (25) years and may be renewed for another 25-year period.

Mineral Agreement (MA)

An agreement between the Government and a Contractor, involving Mineral Production Sharing Agreement, Co-Production Agreement or Joint Venture Agreement.

Miscellaneous Lease Agreement (MLA)

An agreement issued in case the improvements over a foreshore area applied for falls within a dry land (part of the shore) or permanently underwater land.

Patrimonial Properties

Properties owned by the State in its private or proprietary capacity

PENRO

Provincial Environment and Natural Resource Office/r

Physical Takeover

The act of possessing or taking control of the tenured area by the DENR.

Special Use Agreement in Protected Areas (SAPA)

A binding instrument between the DENR, as the first party, and the project proponent as the second party, relating to the use and/or development of land, resources or facilities within protected areas, pursuant to the NIPAS Act, as amended.

Socialized Industrial Forest Management Agreement (SIFMA)

An agreement entered into by and between a natural or juridical person and the DENR wherein the latter grants to the former the right to develop, utilize and manage a small tract of forest land, consistent with the principles of sustainable development.

Tenurial Instruments

Are leases, permits, agreements, joint venture or production sharing agreements, and licenses concerning the development, exploration and utilization of the country's natural resources.

I. INTRODUCTION

Rationale

Pursuant to Section 2, Article XII of the 1987 Constitution, the State has the option to enter into co-production, joint venture, or production-sharing agreements with Filipino citizens or corporations or associations to explore, develop and utilize the natural resources. Such agreements may be for a period not exceeding twenty-five (25) years, renewable for not more than 25 years.

Under Executive Order No. 192 dated June 10, 1987, the DENR is mandated to regulate the development, disposition, extraction, exploration and use of the country's forest, land and mineral resources. The Department is granted the power to promulgate rules, regulations and guidelines on the issuance of co-production, joint venture or production sharing agreements, licenses, permits, concessions, leases and such other privileges and arrangements concerning the development, exploration and utilization of the country's natural resources and shall continue to oversee, supervise and police our natural resources; to cancel or cause to cancel such privileges and arrangements upon failure, non-compliance or violations of any regulations, orders, and for all other causes which are in furtherance of the conservation of natural resources and supportive of the national interest.

Based on these mandates and on various laws, rules and regulations, i.e., Commonwealth Act (CA) No. 141 or the Public Land Act, Act No. 3038 pertaining to the disposition of patrimonial properties, Presidential Decree (PD) No. 705 or the Revised Forestry Code, as amended, Republic Act (RA) No. 7586 or the National Integrated Protected Areas System (NIPAS) Act, as amended by RA 11038 or the Expanded NIPAS Act of 2018, and RA 7942 or the Philippine Mining Act, the DENR enters into agreements and issue permits, licenses, leases and other tenurial instruments for the development and utilization of the country's natural resources. While these laws, rules and regulations provide for processes on the management of cancelled or terminated and expired tenurial instruments, there is a need to establish unified/standard procedures on asset management to address implementation issues on the ground.

Thus, DENR Administrative Order (DAO) No. 2020-09 was issued on June 5, 2020 prescribing the guidelines on the management of cancelled or terminated, expiring, and expired tenurial instruments. Section 11 thereof provides for the development of an Asset Management Manual.

Objective

The Asset Management Manual shall serve as a guide or reference by all the DENR field offices in the administration of improvements/assets within their respective areas of jurisdiction that were relinquished/surrendered from cancelled/terminated, expiring, and expired tenurial instruments. It shall provide a systematic approach for asset management, with the objective of improving the Department's management practice and approach.

Scope and Coverage

The Asset Management Manual covers the following tenurial instruments that have been cancelled or terminated, expiring, and have expired:

1. Forest Land Use Agreement (FLAg)
2. Forest Land Use Agreement for Tourism Purposes (FLAgT)
3. Forest Land Grazing Management Agreement (FLGMA)
4. Integrated Forest Management Agreement (IFMA)
5. Socialized Industrial Forest Management Agreement (SIFMA)
6. Special Use Agreement in Protected Areas (SAPA)
7. Foreshore Lease Agreement (FLA)
8. Miscellaneous Lease Agreement (MLA)
9. Mineral Agreement (MA)
10. Financial or Technical Assistance Agreement (FTAA)

The Manual shall also apply to cancelled or terminated, expiring, and expired leases over patrimonial properties. For mining tenements, the procedures under the Mining Act shall apply. However, the process prescribed herein shall be observed for mined out areas within public lands, the control of which was turned over to the DENR. Abandoned tenured areas shall be treated as terminated tenures. Other tenures such as the Community Based Forest Management Agreement (CBFMA) and the Protected Area Community-Based Resource Management Agreement (PACBRMA) are not covered by this Manual.

For tenures issued which are required to be converted to other tenurial instruments such as the Memorandum of Agreement (MOA) for conversion to SAPA, the Special Land Use Permit (SLUP) for conversion to FLAg, and those that are no longer operative such as the Industrial Tree Plantation Lease Agreement (ITPLA), Other Lawful Purposes (OLP) – Grazing Lands, Timber License Agreement (TLA), Tree Farm Lease Agreement (TFLA), Agroforestry Farm Lease Agreement (AFLA), Special Land Use Lease Agreement (SPLULA), Pasture Lease Agreement (PLA), Joint Venture Agreement (JVA) under the Upland Agroforestry Program, and Lease Agreement for agricultural lands, the procedures for the takeover or management of the tenured area prescribed in this Manual may apply.

II. CREATION OF AN AD HOC ASSET MANAGEMENT TEAM (AMT)

An Ad Hoc Asset Management Team shall be created at each PENRO/Implementing PENRO, DENR-National Capital Region (NCR), the Mines and Geosciences Bureau Regional Office (MGB RO), and the [1]Land Management Bureau (LMB), as the case may be, to ensure proper management and monitoring of assets on the ground. It shall be headed by the Provincial Environment and Natural Resources Officer in the case PENROs/Implementing PENROs, by an Assistant Regional Director (ARD) in the case of DENR-NCR, by the Chief of the MMD in the case of MGB ROs, and the Assistant Director in the case of the LMB, with the members coming from the Technical Sections/Divisions concerned. In the case of PENROs/Implementing PENROs, representation from the Regional Office may be considered for special cases.

[1] For LMB-managed properties

The Ad Hoc AMT shall be created specifically for each subject tenurial instrument, and shall be formed through the issuance of a Special Order by the Regional Executive Director (RED), by the Regional Director of the MGB RO, or by the Director of LMB, as the case may be. For expiring tenurial instruments that will not be renewed, the AMT shall be established three (3) months prior to the expiration of the tenure. For cancelled/terminated tenurial instruments, it shall be formed upon the issuance of the Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory. As to expired tenurial instruments, the AMT shall be established upon submission by the implementing unit/office of a recommendation regarding expired tenures for takeover/appropriate management regime, based on the inventory.

It shall have the following functions:

1. Inventory and appraisal of all the improvements and possible damages within the area;

2. Initiate forfeiture proceedings and takeover of the area/s and improvements by putting up signages that it is a government property under the DENR, and conducting related activities in order to secure the area;

3. Conduct of comprehensive assessment to determine the best land use of the area covered by expiring tenurial instruments that will no longer be renewed;

4. Preparation and implementation of a protection and management plan while the area is not yet covered by a tenurial instrument; and

5. Submission of report and recommendation regarding the best land use of the area and the improvements therein. In the case of protected areas, the AMT shall ensure that prior coordination and consultation is undertaken with the Protected Area Management Board (PAMB) concerned relative to the appropriate land use and improvements therein.

The AMT shall constitute members with competence on the following:

a. Forest management;
b. Coastal and marine management;
c. Enforcement of ENR laws and policies;
d. Land management;
e. Mining management; and
f. Valuation/Asset management

The members of the AMT shall undergo capacity-building on valuation and asset management to further enhance their skills on the matter. As an approach to project management, the AMT shall also have the option to hire the services of personnel who have the expertise/skills on asset management. The funding for the hiring shall be sourced from the regular funds of the office concerned.

III. INVENTORY OF ALL CANCELLED/TERMINATED, EXPIRING, AND EXPIRED TENURIAL INSTRUMENTS

1. The implementing unit/office shall come up with an annual inventory/list of all cancelled/terminated expiring, and expired tenurial instruments within their areas of jurisdiction. The template for the inventory/list is attached as **Annex A**. For lands and forestry tenures, the responsibility shall be with the Regulation and Permitting Section (RPS) of the CENRO, Implementing PENRO and the PENRO, and the Licenses, Patents and Deeds Division (LPDD) of the DENR-National Capital Region (NCR). In the case of protected areas (PAs) under the NIPAS, the function rests with the Conservation and Development Section (CDS) of the PENRO/Implementing PENRO and the CDD in the case of DENR-NCR, in coordination with the Protected Area Management Board (PAMB) through the Protected Area Management Office (PAMO). Moreover, the Mine Management Division (MMD) of the MGB RO shall be responsible for mining tenements. For patrimonial properties managed by the LMB, the inventory shall be done by the Land Management Division (LMD).

2. The PENRO shall consolidate all the information/data and submit the list and status report to the Regional Office.

3. The LPDD of the Regional Office shall collate all the information/status of tenurial instruments and forward the same to the Bureau/s concerned. The Bureau/s concerned shall submit their consolidated data to the Knowledge and Information Systems Service (KISS) at the Central Office for integration in a database. In the case of DENR-NCR, a similar inventory shall be conducted by the LPDD, with the data submitted to the Bureau/s concerned. Similarly, the Bureau/s shall then submit the data to the KISS.

IV. MAINTENANCE OF TENURE REGISTRY

Level of Registry Maintenance

A registry of cancelled/terminated, expiring, and expired tenurial instruments shall be established at the PENRO/Implementing PENRO by the RPS, at the DENR Regional Office by the LPDD, at the MMD of the MGB RO, at the Bureaus, and at the Central Office by the KISS based on the inventory/list submitted by the implementing unit/office. The accountability for maintaining the registry shall be with the administrator of the office concerned.

Elements of the Registry

The registry shall contain the following information: type of tenurial instrument, tenure identification, name, address, and contact information of the tenurial instrument holder, location of the tenured area, annual rental or development fee, area/size, date of award/issuance, date of expiration or date of issuance of Certificate of Finality of the Order of Cancellation of the tenure, date of takeover of the tenured area and improvements, if applicable, relinquished/surrendered improvements, and status/remarks/documentation of the process involved in the determination and delineation of the areas. The registry shall be made available through the DENR websites, public notices at the LMB, DENR Regional Offices, MGB ROs,

PENROs/Implementing PENROs, City, Municipal, Barangay Offices and other National Government Agencies concerned. The template of the registry is attached as **Annex B.**

Updating of the Registry

The registry shall be updated by the offices concerned annually, depending on the inventory/list submitted by the implementing unit/office.

V. PRE-TAKEOVER PROCEDURES

Expiring Tenurial Instruments

1. For at least one (1) year prior to the expiration, the CENRO/Implementing PENRO/PENRO/DENR-NCR/MGB Regional Office/LMB, as the case may be, shall notify the tenurial instrument holder of the expiration of the tenurial instrument. Subsequently, the holder shall file his/her/its intention to terminate or renew the tenurial instrument with the DENR within the same period, but not later than six (6) months prior to the expiration period.

2. The expiring tenurial instruments shall be categorized according to those that are for renewal and for non-renewal.

    2.1. For tenurial instrument holders who will signify their intention to renew, a performance evaluation shall be conducted by the office concerned at least six (6) months prior to expiration, which shall be used as basis for further action.

    2.2. For tenurial instruments that will no longer be renewed, within one (1) month prior to expiration of the tenure, a notice shall be issued by the RED, upon recommendation of the PENRO/Implementing PENRO or ARD for Technical Services in the case of DENR-NCR, by the Regional Director in the case of the MGB RO, or by the Director of the LMB, to the tenurial instrument holder to vacate the area upon expiration. The template for the Notice to Vacate (For Expiring Tenurial Instruments) is attached as **Annex C**. The tenurial instrument holder is given a grace period of thirty (30) days from the date of expiration of the tenure to relinquish the area. The serving of the Notice to Vacate shall be done in coordination with the Environmental Law Enforcement and Protection Service (ELEPS), the local government unit (LGU), or the law enforcement agency/ies

3. Within a period of three (3) months prior to expiration, an Order of Inspection (**Annex D**) shall be issued by the official concerned to the AMT to conduct an inventory of all the improvements introduced and the state/condition of the subject improvement. A Notice of Inspection (**Annex E**) shall also be served by the AMT to the tenurial instrument holder prior to or during the conduct of inspection. The accompanying Form for the Description of the Area and Inventory of Improvements shall be acknowledged by the tenurial instrument holder or his/her duly authorized representative.

4. The Report on the conduct of inventory (**Annex F**) shall contain the description and general condition (physical, socioeconomic) of the area, inventory of the

improvements/assets, assessment and recommendation. Geotagged photos and approved map of the area shall be attached as supporting documents.

For areas that are not subject to renewal of the tenurial instrument, opening up of the same for new application/s shall be initiated prior to the date of expiration, if the AMT so recommends. Otherwise, the jurisdiction over the improvement shall be turned over to the DENR office concerned after the expiration of the tenurial instrument.

The report shall be submitted by the AMT to the head of office concerned not more than twenty (20) working days after the issuance of the Order of Inspection. In the case of PENROs/Implementing PENROs, the report shall be submitted to the RED. The head of office shall signify his/her approval or non-approval of the AMT's recommendation not more than seven (7) working days after submission of the report.

Table 1. Timetable of Activities for Expiring Tenurial Instruments

Activity	Timeline	Person/Office Responsible
Issuance of notice to the tenurial instrument holder regarding the expiration of the tenure	One (1) year prior to the expiration of tenure	CENRO/Implementing PENRO/PENRO/DENR-NCR/MGB Regional Office/ LMB
Expression of interest to renew or manifestation of non-renewal of tenure	Within six (6) months to one (1) year prior to the expiration of tenure	Tenurial Instrument Holder
Conduct of performance evaluation of the tenure	Six (6) months prior to the expiration of tenure	CENRO/Implementing PENRO/PENRO/DENR-NCR/MGB Regional Office/ LMB
Issuance of a Special Order creating the Asset Management Team	Three (3) months prior to the expiration of tenure	Regional Executive Director/MGB Regional Director /LMB Director
Issuance of Order of Inspection	Immediately upon issuance of the Special Order creating the AMT	Regional Executive Director/MGB Regional Director /LMB Director
Conduct of inspection of the tenured area and inventory of improvements	Within three (3) months prior to the expiration of tenure	Asset Management Team
Issuance of Notice to Vacate	One (1) month prior to the expiration of tenure	Regional Executive Director/MGB Regional Director /LMB Director
Submission of report on the conduct of inspection	Twenty (20) working days after the issuance of Order of Inspection	Asset Management Team
Relinquishment of the tenured area	Upon expiration of the tenure/grace period of thirty (30) days from the date of expiration of the tenure	Tenurial Instrument Holder

Cancelled / Terminated Tenurial Instruments

1. Upon determination of the cause for cancellation or termination, application of due process and issuance of Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory, a Notice to Vacate shall be immediately issued by the RED, upon recommendation of the PENRO/Implementing PENRO or ARD for Technical Services in the case of DENR-NCR, Regional Director in the case of the MGB RO, or Director of the LMB (refer to Annex C for the Notice to Vacate for Cancelled/Terminated Tenurial Instruments).

2. Upon the issuance of the Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory, and the issuance of the Special Order creating the AMT, an Order of Inspection (refer to Annex D) shall be issued to the AMT by the RED in the case of DENR-NCR and PENROs/Implementing PENROs, by the Regional Director in the case of MGB RO, or by the Director in the case of LMB, to conduct an inventory of all the improvements introduced and the state/condition of the subject improvement, as well as to initiate forfeiture procedures.

   The tenurial instrument holder is given a grace period of thirty (30) days from the date of issuance of the Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory, to relinquish the area. In case of refusal by the tenurial instrument holder to vacate and turnover to the DENR the premises, the AMT shall recommend referral of the case to the ELEPS, the LGU, or other law enforcement agencies for enforcement or administrative takeover proceedings.

3. The AMT shall conduct a comprehensive assessment to determine the best land use/appropriate management regime for the area. The report on the conduct of inventory (refer to Annex F) shall contain the description and general condition (physical, socioeconomic) of the area, inventory of the improvements/assets, assessment and the recommendation. Geotagged photos and approved map of the area shall be attached as supporting documents.

   The AMT may consult stakeholders such as local government units (LGUs), non-government organizations (NGOs), other government offices, academe, private sector, and the like in the development of the area.

   In case of rehabilitation of SAPA areas, the PAMB shall attest to the satisfactory rehabilitation of the area according to the zones and objectives of the management plan. All assets or plantations established shall be forfeited in favor of the Government.

   The report shall be submitted by the AMT to the head of office concerned not more than twenty (20) working days after the issuance of the Order of Inspection. In the case of PENROs/Implementing PENROs, the report shall be submitted to the RED. The head of office shall signify his/her approval or non-approval of the AMT's recommendation not more than seven (7) working days after submission of the report.

Table 2. Timetable of Activities for Cancelled/Terminated Tenurial Instruments

Activity	Timeline	Person/Office Responsible
Issuance of a Special Order creating the Asset Management Team	Immediately upon issuance of the Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory	Regional Executive Director/MGB Regional Director /LMB Director
Issuance of Order of Inspection	Upon issuance of the Special Order creating the AMT	Regional Executive Director/MGB Regional Director /LMB Director
Conduct of inspection of the tenured area and inventory of improvements	Immediately upon issuance of the Order of Inspection	Asset Management Team
Issuance of Notice to Vacate	Upon issuance of the Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory	Regional Executive Director/MGB Regional Director /LMB Director
Submission of report on the conduct of inspection	Twenty (20) working days after the issuance of Order of Inspection	Asset Management Team
Relinquishment of the tenured area	Upon issuance of the Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory/grace period of thirty (30) days from the date of issuance of the said Certificate.	Tenurial Instrument Holder

Expired Tenurial Instruments

1. Upon identification and recommendation by the implementing unit/office of expired tenurial instruments for takeover/appropriate management regime, an Order of Inspection (refer to Annex D) shall be issued to the AMT by the RED in the case of DENR-NCR and PENROs/Implementing PENROs, by the Regional Director in the case of MGB RO, or by the Director in the case of LMB, to conduct an inventory of all the improvements introduced and the state/condition of the subject improvement. For unauthorized occupation of the area after the expiration of the tenure, a notice (refer to Annex C regarding the Notice to Vacate for Expired Tenurial Instruments) shall be issued by the office concerned to the former tenurial instrument holder to immediately vacate the area.

   The former tenurial instrument holder is given a grace period of thirty (30) days from the date of the expiration of the tenure to relinquish the area. In case of refusal to vacate and turnover to the DENR the premises, the AMT shall recommend referral of the case to the ELEPS, the LGU, or other law enforcement agencies for enforcement or administrative takeover proceedings.

For areas covered with SAPA, forestry tenures, and mining tenements which require undertaking of activities based on the approved Rehabilitation/Management/Final Mine Rehabilitation or Decommissioning Plan and the contract, the tenurial instrument holder shall be allowed to remain in the tenured area to complete said activities after the expiration of the tenure, in accordance with the timeframe provided in the plan and the contract.

2. The report on the conduct of inventory (refer to Annex F) shall contain the description and general condition (physical, socioeconomic) of the area, inventory of the improvements/assets, assessment, and the recommendation. Geotagged photos and approved map of the area shall be attached as supporting documents.

   Additionally, for areas covered with SAPA, forestry tenures, and mining tenements, the report shall state the activities undertaken by the tenurial instrument holder in accordance with the approved Rehabilitation/Management/Final Mine Rehabilitation or Decommissioning Plan and the contract.

   The report shall be submitted by the AMT to the head of office concerned not more than twenty (20) working days after the issuance of the Order of Inspection. In the case of PENROs/Implementing PENROs, the report shall be submitted to the RED. The head of office shall signify his/her approval or non-approval of the AMT's recommendation not more than seven (7) working days after submission of the report.

3. The AMT shall secure the area covered, prepare and implement a protection and management plan, and conduct a comprehensive assessment to determine the best land use/appropriate management regime for the area. Only the permanent improvements shall be subject to mandatory takeover by the DENR office concerned. The AMT may consult stakeholders such as the LGUs, NGOs, other government offices, academe, private sector, and the like in the development of the area.

   In case of rehabilitation of SAPA areas, the PAMB shall attest to the satisfactory rehabilitation of the area according to the zones and objectives of the management plan. For forestry tenured areas, the tenurial instrument holder shall be required to submit a plan for the utilization of planted trees and similar products reaching harvestable age, and no further activities other than harvesting shall be allowed.

Table 3. Timetable of Activities for Expired Tenurial Instruments

Activity	**Timeline**	**Person/Office Responsible**
Inventory and identification of expired tenures for takeover/management	Annually	CENRO/Implementing PENRO/PENRO/DENR-NCR/MGB Regional Office/ LMB
Issuance of a Special Order creating the Asset Management Team	Immediately upon receipt of recommendation from the implementing unit/ office	Regional Executive Director/MGB Regional Director /LMB Director

	regarding expired tenures for takeover/management	
Issuance of Order of Inspection	Immediately upon issuance of the Special Order creating the AMT	Regional Executive Director/MGB Regional Director /LMB Director
Conduct of inspection of the tenured area and inventory of improvements	Immediately upon issuance of the Notice of Inspection	Asset Management Team
Issuance of Notice to Vacate (for unauthorized occupation of the area after the expiration of the tenure)	Immediately upon the conduct of inspection by the AMT	Regional Executive Director/MGB Regional Director /LMB Director
Submission of report on the conduct of inspection	Twenty (20) working days after the issuance of Order of Inspection	Asset Management Team
Relinquishment of the tenured area	Upon the expiration of the tenure/grace period of thirty (30) days from the date of the expiration of the tenure/ completion of undertakings or activities in accordance with the approved Rehabilitation/ Management/ Final Mine Rehabilitation or Decommissioning Plan and the contract.	Tenurial Instrument Holder

VI. VALUATION OF IMPROVEMENTS/ASSETS

Valuation of Property, Plant, and Equipment (PPE)

The valuation of improvements/properties shall be based on the Philippine Valuation Standards (2nd Edition) issued by the Department of Finance – Bureau of Local Government Finance (DOF-BLGF) **(Annex G).**

In the appraisal or assessment of the value of improvements, the principal valuation approaches to be applied shall be the following:

1. Market approach; and

2. Cost approach

The selection or application of the appropriate approach or method shall depend on the particular circumstance. The AMT or appraiser may consider the use of multiple approaches or methods and more than one valuation approach or method should be considered and may be used to determine the value.

Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available.

Comparable Transactions Method – This method, also known as the guideline transactions method, utilizes information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value.

Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. This approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

Replacement Cost Method – Replacement cost is the cost that is relevant to determining the price that a participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset. It is usually adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as depreciated replacement cost.

Valuation of Standing Commercial Trees

The AMT may apply the Joint DAR-LBP Memorandum Circular No. 11, series of 2003 for the valuation of standing commercial trees/stumpage that are considered land improvements. The value of stock shall be equivalent to the volume of standing trees multiplied by the stumpage price. On the other hand, the stumpage value shall be the market price less the cost of production **(Annex H).**

VII. MANAGEMENT OF IMPROVEMENTS/ASSETS

1. The formal takeover by the DENR of the tenured area and improvements shall commence on:

    1.1. Expired tenurial instruments – Upon expiration of the tenure, or after the thirty (30)-day grace period. However, this does not prevent the tenurial instrument holder from undertaking activities in the area consistent with the Management/Rehabilitation/Final Mine Rehabilitation or Decommissioning Plan, whichever is applicable, and the contractual obligations. In such cases, control by the DENR shall be constructive possession, but it shall continue to conduct monitoring activities in the area. Upon completion by the tenurial instrument holder of the activities based on the plan and the contract, the DENR shall commence actual/physical takeover of the tenured area. For areas covered with expired Miscellaneous and Foreshore Lease Agreements, actual takeover shall be immediately upon expiration of the tenure;

1.2. Cancelled/terminated tenurial instruments – upon the issuance of the Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory, or after the thirty (30)-day grace period; and

1.3. Expiring tenurial instruments that will not be renewed – upon expiration of the tenurial instrument, or after the thirty (30)-day grace period.

2. For abandoned tenured areas, automatic takeover shall be done after exhausting all legal means of notifying the tenurial instrument holder.

3. Upon takeover, the AMT shall institute measures to secure the area, such as putting up of signage/s to inform the public that the same is a government property under the DENR, conduct of patrolling activities to monitor the area, and the like.

4. The AMT shall formulate recommendations regarding the best use and modality of managing the area, such as, but not limited to:

4.1. Opening up of the area for disposition or potential investment, co-management, or operation by the government agency, in accordance with existing laws, rules, and regulations;

4.2. Subjecting the forestland under the Forest Protection Program or the protected area under a conservation and protection program; and

4.3. In case the recommendation is the reversion of the area to its former status, the jurisdiction thereof shall be turned over to the DENR office concerned for forward action.

VIII. TENURED AREAS ISSUED WITH CERTIFICATES OF ANCESTRAL DOMAIN TITLE

No inventory or further assessment shall be conducted by the AMT for areas covered with expiring tenurial instruments that are no longer for renewal and that have been issued with Certificate of Ancestral Domain Title (CADT) duly registered with the Register of Deeds (RoD).

ANNEX A
Asset Management Manual (AMM) Form 1

Republic of the Philippines
Department of Environment and Natural Resources

INVENTORY OF CANCELLED OR TERMINATED, EXPIRING, AND EXPIRED TENURIAL INSTRUMENTS

Type of Tenurial Instrument: _____
Status: ( ) Cancelled/Terminated ( ) Expired ( ) Expiring, at least one year before expiration
Name of Tenurial Instrument Holder: _____
Location: Province _____
Municipality/City_____
Barangay(s) _____
Sitio(s) _____
Area: _____ ha.
Annual Rental/Development Fee: _____
Improvement/s:

Kind of Improvement	Status of Improvement (Serviceable [S]/Non-Serviceable [NS])	Description of Improvement (Type of Structure/Actual Use)	Floor Area (square meters or square feet)/ Volume (cubic meters)	Year Constructed/ Acquired/ Planted	Assessed Value	Remarks
Permanent						

ANNEX A
Asset Management Manual (AMM) Form 1

Temporary						
TOTAL VALUE						

* Attach at least one high-resolution geotagged photograph and approved map.

Prepared by:

_____
Action Officer

Noted by:

_____
Chief, Implementing Unit/Office

ANNEX A
Asset Management Manual (AMM) Form 1

INSTRUCTIONS FOR THE INVENTORY:

Each field name of the Inventory is provided to guide users in filling out the form and help ensure the standardization of data collection in all implementing Offices.

Field Name	Instructions
Type of Tenurial Instrument	Indicate the type of tenurial instrument
Status	Check whichever is applicable pertaining to the status of the tenurial instrument.
Name of Tenurial Instrument Holder	Indicate the name of the tenurial instrument holder.
Location	Indicate the location (sitio, barangay, municipality/city, province) of the tenurial instrument.
Area	Indicate the approved total area covered by the tenurial instrument.
Annual Rental/ Development Fee	Indicate the annual rental/development fee paid to the DENR.
Kind of Improvement	Indicate the improvements under the categories Permanent or Temporary
Status of Improvement	Indicate S for Serviceable or N for Non-Serviceable

ANNEX A
Asset Management Manual (AMM) Form 1

Description of Improvement	Indicate the type of improvement and actual use.
Floor Area / Volume	For structures, indicate the floor area in square meters/feet, whichever is applicable; For trees planted, indicate the volume in cubic meters
Year Constructed / Acquired / Planted	Indicate the year when the structure was constructed; or when the equipment or machinery was acquired; or when the trees were planted.
Assessed Value	Indicate the assessed value of the improvement.
Total Value	Indicate the total assessed value of all the improvements.
Remarks	Indicate all actions undertaken relative to the tenurial instrument or the nature of improvement.
Prepared by	Indicate the name and signature of the personnel responsible for the inventory
Noted by	Indicate the name and signature of the Chief of the Implementing Unit/Office *For lands and forestry tenures, the responsibility shall be with the Regulation and Permitting Section (RPS) of the CENRO, Implementing PENRO and the PENRO, and the Licenses, Patents and Deeds Division (LPDD) of the DENR-National Capital Region (NCR). In the case of protected areas (PAs) under the NIPAS, the function rests with the Conservation and Development Section (CDS) of the PENRO/Implementing

ANNEX A
Asset Management Manual (AMM) Form 1

	PENRO and the Conservation and Development Division (CDD) in the case of DENR-NCR, in coordination with the Protected Area Management Board (PAMB) through the Protected Area Management Office (PAMO). For mining tenements, the function shall be with the Mine Management Division (MMD) of the MGB Regional Office. For patrimonial properties managed by the LMB, the inventory shall be done by the Land Management Division (LMD).

ANNEX B
Asset Management Manual (AMM) Form 2

Republic of the Philippines
Department of Environment and Natural Resources

TENURE REGISTRY

Table 1

ACTIVE TENURES										
Type	**Tenure ID**	**Name of Tenurial Instrument Holder**	**Address of Tenurial Instrument Holder**	**Contact Information (Phone No., Email Address, if any)**	**Location of the Tenure**	**Area (ha.)**	**Annual Rental/ Development Fee**	**Date of Award/ Issuance**	**Date of Expiration**	**Remarks**

Table 2

RELINQUISHED TENURES												
Type	**Tenure ID**	**Name of Tenurial Instrument Holder**	**Address of Tenurial Instrument Holder**	**Contact Information (Phone No., Email Address, if any)**	**Location of the Tenure**	**Area (ha.)**	**Annual Rental/ Development Fee**	**Date of Award/ Issuance**	**Date of Expiration/ Certificate of Finality of the Order of Cancellation**	**Date of Takeover of Tenured Area and Improvements**	**Relinquished/ Surrendered Improvements**	**Remarks**

ANNEX B
Asset Management Manual (AMM) Form 2

INSTRUCTIONS FOR FILLING-OUT THE TENURE REGISTRY:
Each field name of the Asset Registry is provided to guide users in filling out the form and help ensure the standardization of data collection in all implementing Offices.

Table 1

Field Name	Instructions
Table 1.	Data to be filled out in table 1 are for Active Tenures.
Type	Indicate the type of tenure.
Tenure ID	Indicate the tenure identification number.
Name of Tenurial Instrument Holder	Indicate the name of the tenurial instrument holder.
Address of Tenurial Instrument Holder	Indicate the address of the tenurial instrument holder.
Contact Information	Indicate the mobile and/or landline number, and email address of the tenurial instrument holder, if applicable.
Location	Indicate the location (sitio, barangay, municipality/city, province) of the tenurial instrument.
Area	Indicate the approved total area of the tenurial instrument.

ANNEX B
Asset Management Manual (AMM) Form 2

Annual Rental/ Development Fee	Indicate the annual rental/development fee paid to the DENR.
Date of Award/Issuance	Indicate the date of award/issuance of the tenurial instrument to the holder.
Date of Expiration	Indicate the date of expiration of the tenurial instrument.
Remarks	Indicate all actions undertaken relative to the tenurial instrument.

Table 2

Field Name	Instructions
Table 2.	Data to be filled out for table 2 are for Expired Tenures that were relinquished/surrendered/turned over to the DENR.
Type	Indicate the type of tenure.
Tenure ID	Indicate the tenure identification number.
Name of Tenurial Instrument Holder	Indicate the name of the tenurial instrument holder.
Address of the Tenurial Instrument Holder	Indicate the address of the tenurial instrument holder.

ANNEX B
Asset Management Manual (AMM) Form 2

Contact Information	Indicate the mobile and/or landline number, and email address of the tenurial instrument holder, if applicable.
Location	Indicate the location (sitio, barangay, municipality/city, province) of the tenurial instrument.
Area	Indicate the approved total area of the tenurial instrument.
Annual Rental/ Development Fee	Indicate the annual rental/development fee paid to the DENR.
Date of Award/Issuance	Indicate the date of award/issuance of the tenurial instrument to the holder.
Date of Expiration/ Certificate of Finality of Cancellation	Indicate the date of expiration of the tenurial instrument or the date of issuance of Certificate of Finality declaring the Order of Cancellation of the tenure as final and executory.
Date of Takeover of the Tenured Area and Improvements	Indicate the date of takeover of the tenured area and improvements, if any.
Relinquished/Surrendered/ Improvements	List down or indicate the improvements relinquished/surrendered or turned over to the DENR
Remarks	Indicate all actions undertaken relative to the tenurial instrument.

ANNEX C
Asset Management Manual (AMM) Form 3

Republic of the Philippines
Department of Environment and Natural Resources

NOTICE TO VACATE
(For Cancelled/Terminated Tenurial Instruments)

Date: _____

_____
_____
_____

In accordance with the Certificate of Finality of the Order of Cancellation of the tenurial instrument described hereunder, and all pertinent regulations on the matter, you are hereby served the notice to vacate and relinquish to the DENR possession of the premises, described as:

Type of Tenurial Instrument: _____
Area: _____ ha.
Location: Province_____
Municipality/City_____
Barangay(s) _____
Sitio(s) _____
Date of Award/Issuance
of Tenurial Instrument:_____
Date of Finality of Order of Cancellation:_____

The inventory shows that the total value of all the improvements (including the structure, equipment and machineries, if any) amounts to Php _____, and are hereby forfeited in favor of the government.

You have thirty (30) days from the date of the issuance of the Certificate of Finality of the Order of Cancellation to relinquish the premises.

_____
(RED in the case of DENR-NCR
and PENROs/Implementing PENROs/
Regional Director in the case of MGB RO/
Director in the case of LMB)

ANNEX C
Asset Management Manual (AMM) Form 3

Republic of the Philippines
Department of Environment and Natural Resources

NOTICE TO VACATE
(For Expiring Tenurial Instruments)

Date: _____

_____
_____
_____

In accordance with the terms of (_____Tenurial Instrument_____) and all pertinent regulations on the matter, you are hereby served the notice to vacate the premises upon expiration or thirty (30) days from the date of expiration of the tenurial instrument, described as:

Type of Tenurial Instrument: _____
Area: _____ ha.
Location: Province_____
Municipality/City_____
Barangay(s) _____
Sitio(s) _____
Date of Award/Issuance
of Tenurial Instrument:_____
Date of Expiration:_____

(Moreover, you are directed to settle all your unpaid obligations at the PENRO/Regional Office amounting to _____, covering the period _____).

_____
(RED in the case of DENR-NCR
and PENROs/Implementing PENROs/
Regional Director in the case of MGB RO/
Director in the case of LMB)

ANNEX C
Asset Management Manual (AMM) Form 3

Republic of the Philippines
Department of Environment and Natural Resources

NOTICE TO VACATE
(For Expired Tenurial Instruments)

Date: _____

_____
_____
_____

In accordance with the terms of (_____Tenurial Instrument_____) and all pertinent regulations on the matter, you are hereby served the notice to vacate and relinquish to the DENR possession of the premises, described as:

Type of Tenurial Instrument: _____
Area: _____ ha.
Location: Province_____
Municipality/City_____
Barangay(s) _____
Sitio(s) _____
Date of Award/Issuance of Tenurial Instrument:_____
Date of Expiration:_____

The inventory shows that the total value of all the improvements (including the structure, equipment and machineries, if any) amounts to Php _____, and are hereby forfeited in favor of the government.

You have thirty (30) days from the date of the expiration of the tenurial instrument to relinquish the premises.

_____
(RED in the case of DENR-NCR
and PENROs/Implementing PENROs/
Regional Director in the case of MGB RO/
Director in the case of LMB)

ANNEX D
Asset Management Manual (AMM) Form 4

Republic of the Philippines
Department of Environment and Natural Resources

ORDER OF INSPECTION

Date: _____

TO : _____
The Head/Members
Asset Management Team (for Tenurial Instrument No._____)

You are hereby directed to conduct an inspection of the area covered by the following tenurial instrument, described as:

Type of Tenurial Instrument: _____
Name of Tenurial Instrument Holder: _____
Area: _____ ha.
Location: Province _____
Municipality/City_____
Barangay(s) _____
Sitio(s) _____
Date of Award/Issuance of Tenurial Instrument:_____
Date of Expiration: _____

In the conduct of inspection, you are hereby directed to inventory all the improvements (structure, equipment, machinery/ies) introduced and the state/condition of the subject improvement. Thereafter, you shall submit your report to the undersigned not more than twenty (20) working days after the issuance of this Order. The report shall contain the description and general condition (physical, socioeconomic) of the area, inventory of the improvements/assets, undertakings of the tenurial instrument holder in accordance with the plan (Rehabilitation/Management/Final Mine Rehabilitation or Decommissioning Plan, whichever is applicable) and the contract, assessment and recommendation. The Form indicating the general description and inventory of the improvements should be duly acknowledged by the tenurial instrument holder or his/her authorized representative. Geotagged photos and approved map of the area inspected should be attached as supporting documents.

_____
(RED in the case of DENR-NCR and PENROs/Implementing PENROs/ Regional Director in the case of MGB RO/Director in the case of LMB)

ANNEX E
Asset Management Manual (AMM) Form 5

Republic of the Philippines
Department of Environment and Natural Resources

NOTICE OF INSPECTION

Date: _____

_____
_____
_____

Notice is hereby given that the PENRO/DENR-NCR/MGB RO/LMB Asset Management Team (AMT) created per Special Order No. _____ dated _____ will be conducting an inspection of the area covered by the tenurial instrument issued in your name, described as:

Type of Tenurial Instrument: _____
Name of Tenurial Instrument Holder: _____
Area: _____ ha.
Location: Province _____
Municipality/City_____
Barangay(s) _____
Sitio(s) _____
Date of Award/Issuance of Tenurial Instrument: _____
Date of Expiration:_____

The purpose of the inspection is to inventory all the improvements introduced and inspect the state/condition of the subject improvement/s prior to the tenurial instrument's expiration. The AMT will also be noting the description and general condition (physical, socioeconomic) of the area, the undertakings in accordance with the plan (Rehabilitation/Management/Final Mine Rehabilitation or Decommissioning Plan, whichever is applicable) and the contract, and will be taking geotagged photographs of the improvements and the area.

You or your duly authorized representative are hereby requested to be in the premises to assist the AMT in the identification of existing improvements, if any. Moreover, you are requested to sign the conforme form showing your concurrence with the result of inspection.

Failure to comply with the request will signify lack of interest and the AMT will be constrained to submit its report without further notice.

_____
(RED in the case of DENR-NCR, PENROs/Implementing PENROs/ Regional Director in the case of MGB RO/ Director in the case of LMB)

ANNEX E
Asset Management Manual (AMM) Form 5

Republic of the Philippines
Department of Environment and Natural Resources

DESCRIPTION OF THE AREA AND INVENTORY OF IMPROVEMENTS

Date: _____

Pursuant to Special Order No. _____ dated _____ regarding the creation of the AMT for _____, the AMT conducted an inspection of the area covered by tenurial instrument no. _____awarded/issued in the name of _____, located in _____, with an area of _____.

Herewith are the findings:

Description and General Condition of the Area and Undertakings in accordance with the Plan (Rehabilitation/Management/Final Mine Rehabilitation or Decommissioning Plan, whichever is applicable) and the Contract:

_____
_____
_____
_____
_____.

Inventory of Improvement/s, if any:

_____
_____
_____
_____.

Submitted by:

_____ Head, AMT

_____ Member, AMT

_____ Member, AMT

_____ Member, AMT

_____ Member, AMT

_____ Member, AMT

Conforme:

_____
Name of Tenurial Instrument Holder

ANNEX F
Asset Management Manual (AMM) Form 6

Republic of the Philippines
Department of Environment and Natural Resources

MEMORANDUM

FOR : (The RED in the case of PENROs/Implementing PENROs/DENR-NCR, Regional Director in the case of MGB RO, Director in the case of LMB)

FROM : The Asset Management Team (for Tenurial Instrument No._____)

SUBJECT : **INSPECTION REPORT FOR TENURIAL INSTRUMENT NO. _____ AWARDED/ISSUED IN THE NAME OF _____ ON _____, LOCATED IN _____**

DATE :

In accordance with the Order of Inspection issued to the Asset Management Team on _____(indicate the date), we conducted an inspection of the area covered by _____ (indicate the tenurial instrument no.) awarded/issued in the name of _____ (indicate the name of the tenurial instrument holder) on _____ (indicate the date of award/issuance), located in _____ (indicate the sitio, barangay, municipality/city, province), covering an area of _____(indicate the area/size), with the date of expiration on _____ (indicate the date of expiration), with the following details:

1. That the description and general condition (physical, socioeconomic) of the area, including the undertakings based on the Plan (Rehabilitation/Management/Final Mine Rehabilitation or Decommissioning Plan, whichever is applicable) and the Contract are as follows:

   _____
   _____
   _____
   _____.

2. That the improvements in the area consist of the following:

   _____
   _____
   _____
   _____.

ANNEX F
Asset Management Manual (AMM) Form 6

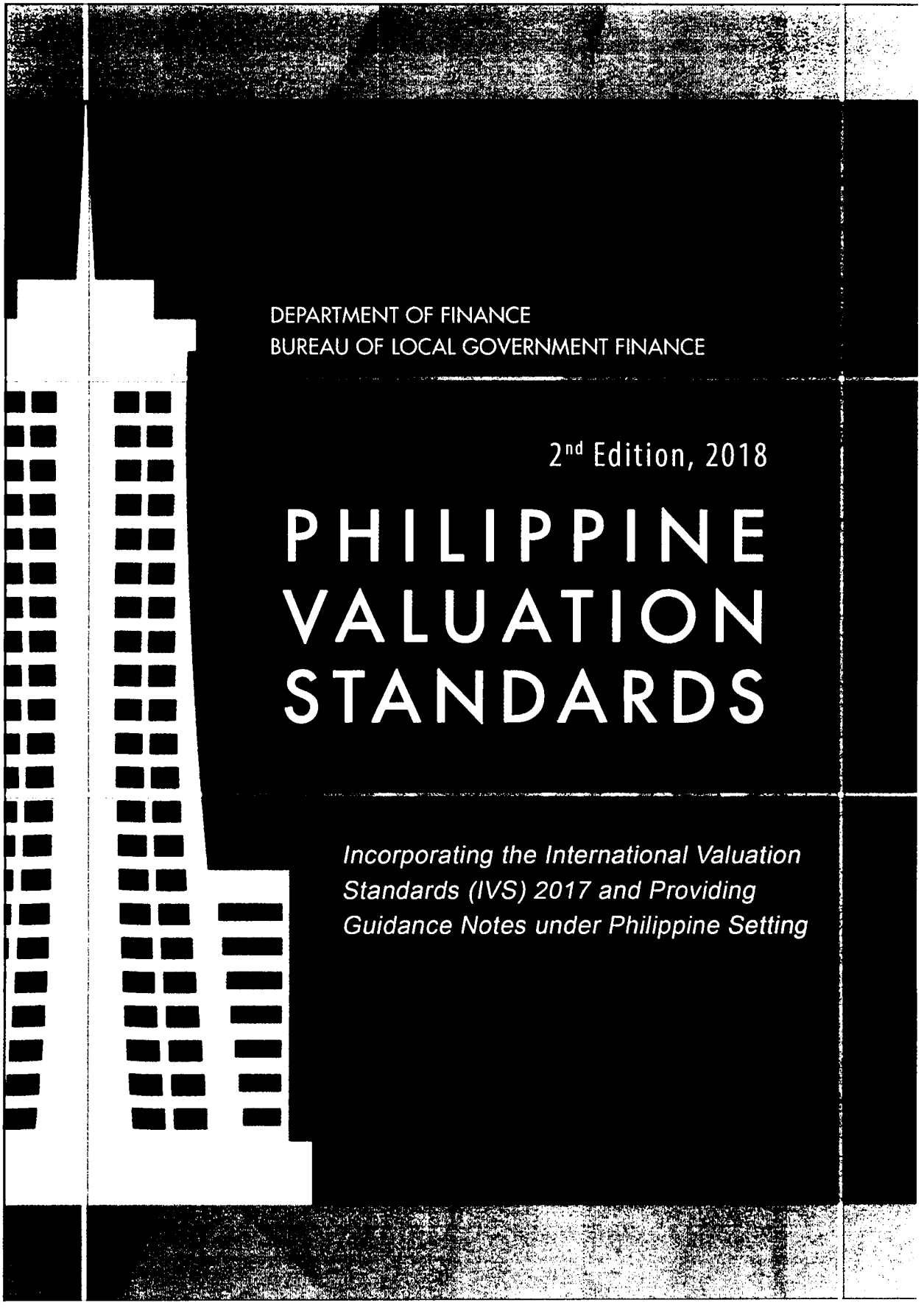
3. That our assessment and recommendations are as follows:

_____
_____
_____
_____.

Attached are the accomplished form for the description of the area and inventory of improvements duly acknowledged by the tenurial instrument holder/duly authorized representative, and geotagged photos and approved map of the area, for your reference.

_____	_____
Head, AMT	Member, AMT
_____	_____
Member, AMT	Member, AMT
_____	_____
Member, AMT	Member, AMT

ANNEX G



DEPARTMENT OF FINANCE
BUREAU OF LOCAL GOVERNMENT FINANCE

2nd Edition, 2018

PHILIPPINE VALUATION STANDARDS

Incorporating the International Valuation Standards (IVS) 2017 and Providing Guidance Notes under Philippine Setting

IVS 105 Valuation Approaches and Methods

Contents	Paragraphs
Introduction	10
Market Approach	20
Market Approach Methods	30
Income Approach	40
Income Approach Methods	50
Cost Approach	60
Cost Approach Methods	70
Depreciation/Obsolescence	80

10. Introduction

10.1. Consideration *must* be given to the relevant and appropriate valuation approaches. The three approaches described and defined below are the main approaches used in valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution. The principal valuation approaches are:

(a) market approach,

(b) income approach, and

(c) cost approach.

10.2. Each of these valuation approaches includes different, detailed methods of application.

10.3. The goal in selecting valuation approaches and methods for an *asset* is to find the most appropriate method under the particular circumstances. No one method is suitable in every possible situation. The selection process *should* consider, at a minimum:

(a) the appropriate basis(es) of value and premise(s) of value, determined by the terms and *purpose of the valuation* assignment,

(b) the respective strengths and weaknesses of the possible valuation approaches and methods,

(c) the appropriateness of each method in view of the nature of the *asset*, and the approaches or methods used by *participants* in the relevant market, and

(d) the availability of reliable information needed to apply the method(s).

10.4. *Valuers* are not required to use more than one method for the valuation of an *asset*, particularly when the *valuer* has a high degree of confidence in the accuracy and reliability of a single method, given the facts and circumstances of the valuation engagement. However, *valuers should* consider the use of multiple approaches and methods and more than one

valuation approach or method *should* be considered and *may* be used to arrive at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. Where more than one approach and method is used, or even multiple methods within a single approach, the conclusion of value based on those multiple approaches and/or methods *should* be reasonable and the process of analysing and reconciling the differing values into a single conclusion, without averaging, *should* be described by the *valuer* in the report.

10.5. While this standard includes discussion of certain methods within the Cost, Market and Income approaches, it does not provide a comprehensive list of all possible methods that *may* be appropriate. Some of the many methods not addressed in this standard include option pricing methods (OPMs), simulation/Monte Carlo methods and probability-*weighted* expected-return methods (PWERM). It is the *valuer's* responsibility to choose the appropriate method(s) for each valuation engagement. Compliance with IVS *may* require the *valuer* to use a method not defined or mentioned in the IVS.

10.6. When different approaches and/or methods result in widely divergent indications of value, a *valuer should* perform procedures to understand why the value indications differ, as it is generally not appropriate to simply *weight* two or more divergent indications of value. In such cases, *valuers should* reconsider the guidance in para 10.3 to determine whether one of the approaches/methods provides a better or more reliable indication of value.

10.7. *Valuers should* maximise the use of relevant observable market information in all three approaches. Regardless of the source of the inputs and assumptions used in a valuation, a *valuer must* perform appropriate analysis to evaluate those inputs and assumptions and their appropriateness for the *valuation purpose*.

10.8. Although no one approach or method is applicable in all circumstances, price information from an active market is generally considered to be the strongest evidence of value. Some bases of value *may* prohibit a *valuer* from making subjective adjustments to price information from an active market. Price information from an inactive market *may* still be good evidence of value, but subjective adjustments *may* be needed.

20. Market Approach

20.1. The market approach provides an indication of value by comparing the *asset* with identical or comparable (that is similar) *assets* for which price information is available.

20.2. The market approach *should* be applied and afforded *significant weight* under the following circumstances:

(a) the subject *asset* has recently been sold in a transaction appropriate for consideration under the basis of value,

(b) the subject *asset* or substantially similar *assets* are actively publicly traded, and/or

(c) there are frequent and/or recent observable transactions in substantially similar *assets*.

20.3. Although the above circumstances would indicate that the market approach *should* be applied and afforded *significant weight*, when the above criteria are not met, the following are additional circumstances where the market approach *may* be applied and afforded *significant weight*. When using the market approach under the following circumstances, a *valuer should* consider whether any other approaches can be applied and *weighted* to corroborate the value indication from the market approach:

(a) Transactions involving the subject *asset* or substantially similar *assets* are not recent enough considering the levels of volatility and activity in the market.

(b) The *asset* or substantially similar *assets* are publicly traded, but not actively.

(c) Information on market transactions is available, but the comparable *assets* have *significant* differences to the subject *asset*, potentially requiring subjective adjustments.

(d) Information on recent transactions is not reliable (ie, hearsay, missing information, synergistic purchaser, not arm's-length, distressed sale, etc).

(e) The critical element affecting the value of the *asset* is the price it would achieve in the market rather than the cost of reproduction or its income-producing ability.

20.4. The heterogeneous nature of many *assets* means that it is often not possible to find market evidence of transactions involving identical or similar *assets*. Even in circumstances where the market approach is not used, the use of market-based inputs *should* be maximised in the application of other approaches (eg, market-based valuation metrics such as effective yields and rates of return).

20.5. When comparable market information does not relate to the exact or substantially the same *asset*, the *valuer must* perform a comparative analysis of qualitative and quantitative similarities and differences between the comparable *assets* and the subject *asset*. It will often be necessary to make adjustments based on this comparative analysis. Those adjustments *must* be reasonable and *valuers must* document the reasons for the adjustments and how they were quantified.

20.6. The market approach often uses market multiples derived from a set of comparables, each with different multiples. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors.

30. Market Approach Methods

Comparable Transactions Method

30.1. The comparable transactions method, also known as the guideline transactions method, utilises information on transactions involving *assets* that are the same or similar to the subject *asset* to arrive at an indication of value.

30.2. When the comparable transactions considered involve the subject *asset*, this method is sometimes referred to as the prior transactions method.

30.3. If few recent transactions have occurred, the *valuer may* consider the prices of identical or similar *assets* that are listed or offered for sale, provided the relevance of this information is clearly established, critically analysed and documented. This is sometimes referred to as the comparable listings method and *should* not be used as the sole indication of value but can be appropriate for consideration together with other methods. When considering listings or offers to buy or sell, the *weight* afforded to the listings/ offer price *should* consider the level of commitment inherent in the price and how long the listing/offer has been on the market. For example, an offer that represents a binding commitment to purchase or sell an *asset* at a given price *may* be given more *weight* than a quoted price without such a binding commitment.

30.4. The comparable transaction method can use a variety of different comparable evidence, also known as units of comparison, which form the basis of the comparison. For example, a few of the many common units of comparison used for real property interests include price per square foot (or per square metre), rent per square foot (or per square metre) and capitalisation rates. A few of the many common units of comparison used in business valuation include EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) multiples, earnings multiples, revenue multiples and book value multiples. A few of the many common units of comparison used in financial instrument valuation include metrics such as yields and interest rate spreads. The units of comparison used by *participants* can differ between *asset* classes and across industries and geographies.

30.5. A subset of the comparable transactions method is matrix pricing, which is principally used to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities and their attributes (ie, yield).

30.6. The key steps in the comparable transactions method are:

(a) identify the units of comparison that are used by *participants* in the relevant market,

(b) identify the relevant comparable transactions and calculate the key valuation metrics for those transactions,

(c) perform a consistent comparative analysis of qualitative and quantitative similarities and differences between the comparable *assets* and the subject *asset*,

(d) make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject *asset* and the comparable *assets* (see para 30.12(d)),

(e) apply the adjusted valuation metrics to the subject *asset*, and

(f) if multiple valuation metrics were used, reconcile the indications of value.

30.7. A *valuer should* choose comparable transactions within the following context:

(a) evidence of several transactions is generally preferable to a single transaction or event,

(b) evidence from transactions of very similar *assets* (ideally identical) provides a better indication of value than *assets* where the transaction prices require *significant* adjustments,

(c) transactions that happen closer to the valuation date are more representative of the market at that date than older/dated transactions, particularly in volatile markets,

(d) for most bases of value, the transactions *should* be "arm's length" between unrelated parties,

(e) sufficient information on the transaction *should* be available to allow the *valuer* to develop a reasonable understanding of the comparable *asset* and assess the valuation metrics/comparable evidence,

(f) information on the comparable transactions *should* be from a reliable and trusted source, and

(g) actual transactions provide better valuation evidence than intended transactions.

30.8. A *valuer should* analyse and make adjustments for any material differences between the comparable transactions and the subject *asset*. Examples of common differences that could warrant adjustments *may* include, but are not limited to:

(a) material characteristics (age, size, specifications, etc),

(b) relevant restrictions on either the subject *asset* or the comparable *assets*,

(c) geographical location (location of the *asset* and/or location of where the *asset* is likely to be transacted/used) and the related economic and regulatory environments,

(d) profitability or profit-making capability of the *assets*,

(e) historical and expected growth,

(f) yields/coupon rates,

(g) types of collateral,

(h) unusual terms in the comparable transactions,

(i) differences related to marketability and control characteristics of the comparable and the subject *asset*, and

(j) ownership characteristics (eg, legal form of ownership, amount percentage held).

Guideline publicly-traded comparable method

30.9. The guideline publicly-traded method utilises information on publicly-traded comparables that are the same or similar to the subject *asset* to arrive at an indication of value.

30.10. This method is similar to the comparable transactions method. However, there are several differences due to the comparables being publicly traded, as follows:

(a) the valuation metrics/comparable evidence are available as of the valuation date,

(b) detailed information on the comparables are readily available in public filings, and

(c) the information contained in public filings is prepared under well understood accounting standards.

30.11. The method *should* be used only when the subject *asset* is sufficiently similar to the publicly-traded comparables to allow for meaningful comparison.

30.12. The key steps in the guideline publicly-traded comparable method are to:

(a) identify the valuation metrics/comparable evidence that are used by *participants* in the relevant market,

(b) identify the relevant guideline publicly-traded comparables and calculate the key valuation metrics for those transactions,

(c) perform a consistent comparative analysis of qualitative and quantitative similarities and differences between the publicly-traded comparables and the subject *asset*,

(d) make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject *asset* and the publicly-traded comparables,

(e) apply the adjusted valuation metrics to the subject *asset*, and

(f) if multiple valuation metrics were used, *weight* the indications of value.

30.13. A *valuer should* choose publicly-traded comparables within the following context:

(a) consideration of multiple publicly-traded comparables is preferred to the use of a single comparable,

(b) evidence from similar publicly-traded comparables (for example, with similar market segment, geographic area, size in revenue and/or *assets*, growth rates, profit margins, leverage, liquidity and diversification) provides a better indication of value than comparables that require *significant* adjustments, and

(c) securities that are actively traded provide more meaningful evidence than thinly-traded securities.

30.14. A *valuer should* analyse and make adjustments for any material differences between the guideline publicly-traded comparables and the subject *asset*. Examples of common differences that could warrant adjustments *may* include, but are not limited to:

(a) material characteristics (age, size, specifications, etc),

(b) relevant discounts and premiums (see para 30.17),

(c) relevant restrictions on either the subject *asset* or the comparable *assets*,

(d) geographical location of the underlying company and the related economic and regulatory environments,

(e) profitability or profit-making capability of the *assets*,

(f) historical and expected growth,

(g) differences related to marketability and control characteristics of the comparable and the subject *asset*, and

(h) type of ownership.

Other Market Approach Considerations

30.15. The following paragraphs address a non-exhaustive list of certain special considerations that *may* form part of a market approach valuation.

30.16. Anecdotal or "rule-of-thumb" valuation benchmarks are sometimes considered to be a market approach. However, value indications derived from the use of such rules *should* not be given substantial *weight* unless it can be shown that buyers and sellers place *significant* reliance on them.

30.17. In the market approach, the fundamental basis for making adjustments is to adjust for differences between the subject *asset* and the guideline transactions or publicly-traded securities. Some of the most common adjustments made in the market approach are known as discounts and premiums.

(a) Discounts for Lack of Marketability (DLOM) *should* be applied when the comparables are deemed to have superior marketability to the subject *asset*. A DLOM reflects the concept that when comparing otherwise identical *assets*, a readily marketable *asset* would have a higher value than an *asset* with a long marketing period or restrictions on the ability to sell the *asset*. For example, publicly-traded securities can be bought and sold nearly instantaneously while shares in a private company *may* require a *significant* amount of time to identify potential buyers and complete a transaction. Many bases of value allow the consideration of restrictions on marketability that are inherent in the subject *asset* but prohibit consideration of marketability restrictions that are specific to a particular owner. DLOMs *may* be quantified using any reasonable method, but are typically calculated using option pricing models, studies that compare the value of publicly-traded shares and restricted shares in the same company, or studies that compare the value of shares in a company before and after an initial public offering.

(b) Control Premiums (sometimes referred to as *Market Participant Acquisition Premiums* or *MPAPs*) and Discounts for Lack of Control (DLOC) are applied to reflect differences between the comparables and the subject *asset* with regard to the ability to make decisions and the changes that can be made as a result of exercising control. All

else being equal, *participants* would generally prefer to have control over a subject *asset* than not. However, *participants*' willingness to pay a Control Premium or DLOC will generally be a factor of whether the ability to exercise control enhances the economic benefits available to the owner of the subject *asset*. Control Premiums and DLOCs *may* be quantified using any reasonable method, but are typically calculated based on either an analysis of the specific cash flow enhancements or reductions in risk associated with control or by comparing observed prices paid for controlling interests in publicly-traded securities to the publicly-traded price before such a transaction is announced. Examples of circumstances where Control Premiums and DLOC *should* be considered include where:

1. shares of public companies generally do not have the ability to make decisions related to the operations of the company (they lack control). As such, when applying the guideline public comparable method to value a subject *asset* that reflects a controlling interest, a control premium *may* be appropriate, or

2. the guideline transactions in the guideline transaction method often reflect transactions of controlling interests. When using that method to value a subject *asset* that reflects a minority interest, a DLOC *may* be appropriate.

(c) Blockage discounts are sometimes applied when the subject *asset* represents a large block of shares in a publicly-traded security such that an owner would not be able to quickly sell the block in the public market without negatively influencing the publicly-traded price. Blockage discounts *may* be quantified using any reasonable method but typically a model is used that considers the length of time over which a *participant* could sell the subject shares without negatively impacting the publicly-traded price (ie, selling a relatively small portion of the security's typical daily trading volume each day). Under certain bases of value, particularly fair value for financial reporting *purposes*, blockage discounts are prohibited.

40. Income Approach

40.1. The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an *asset* is determined by reference to the value of income, cash flow or cost savings generated by the *asset*.

40.2. The income approach *should* be applied and afforded *significant weight* under the following circumstances:

(a) the income-producing ability of the *asset* is the critical element affecting value from a *participant* perspective, and/or

(b) reasonable projections of the amount and timing of future income are available for the subject *asset*, but there are few, if any, relevant market comparables.

40.3. Although the above circumstances would indicate that the income approach *should* be applied and afforded *significant weight*, the following are additional circumstances where the income approach *may* be applied and afforded *significant weight*. When using the income approach under the following circumstances, a *valuer should* consider whether any other approaches can be applied and *weighted* to corroborate the value indication from the income approach:

(a) the income-producing ability of the subject *asset* is only one of several factors affecting value from a *participant* perspective,

(b) there is *significant* uncertainty regarding the amount and timing of future income-related to the subject *asset*,

(c) there is a lack of access to information related to the subject *asset* (for example, a minority owner *may* have access to historical financial statements but not forecasts/budgets), and/or

(d) the subject *asset* has not yet begun generating income, but is projected to do so.

40.4. A fundamental basis for the income approach is that investors expect to receive a return on their investments and that such a return *should* reflect the perceived level of risk in the investment.

40.5. Generally, investors can only expect to be compensated for systematic risk (also known as "market risk" or "undiversifiable risk").

50. Income Approach Methods

50.1. Although there are many ways to implement the income approach, methods under the income approach are effectively based on discounting future amounts of cash flow to present value. They are variations of the Discounted Cash Flow (DCF) method and the concepts below apply in part or in full to all income approach methods.

Discounted Cash Flow (DCF) Method

50.2. Under the DCF method the forecasted cash flow is discounted back to the valuation date, resulting in a present value of the *asset*.

50.3. In some circumstances for long-lived or indefinite-lived *assets*, DCF *may* include a terminal value which represents the value of the *asset* at the end of the explicit projection period. In other circumstances, the value of an *asset may* be calculated solely using a terminal value with no explicit projection period. This is sometimes referred to as an income capitalisation method.

50.4. The key steps in the DCF method are:

(a) choose the most appropriate type of cash flow for the nature of the subject *asset* and the assignment (ie, pre-tax or post-tax, total cash flows or cash flows to equity, real or nominal, etc),

(b) determine the most appropriate explicit period, if any, over which the cash flow will be forecast,

(c) prepare cash flow forecasts for that period,

(d) determine whether a terminal value is appropriate for the subject *asset* at the end of the explicit forecast period (if any) and then determine the appropriate terminal value for the nature of the *asset*,

(e) determine the appropriate discount rate, and

(f) apply the discount rate to the forecasted future cash flow, including the terminal value, if any.

Type of Cash Flow

50.5. When selecting the appropriate type of cash flow for the nature of *asset* or assignment, *valuers must* consider the factors below. In addition, the discount rate and other inputs *must* be consistent with the type of cash flow chosen.

(a) Cash flow to whole *asset* or partial interest: Typically cash flow to the whole *asset* is used. However, occasionally other levels of income *may* be used as well, such as cash flow to equity (after payment of interest and principle on debt) or dividends (only the cash flow distributed to equity owners). Cash flow to the whole *asset* is most commonly used because an *asset should* theoretically have a single value that is independent of how it is financed or whether income is paid as dividends or reinvested.

(b) The cash flow can be pre-tax or post-tax: If a post-tax basis is used, the tax rate applied *should* be consistent with the basis of value and in many instances would be a *participant* tax rate rather than an owner-specific one.

(c) Nominal versus real: Real cash flow does not consider inflation whereas nominal cash flows include expectations regarding inflation. If expected cash flow incorporates an expected inflation rate, the discount rate has to include the same inflation rate.

(d) Currency: The choice of currency used *may* have an impact on assumptions related to inflation and risk. This is particularly true in emerging markets or in currencies with high inflation rates.

50.6. The type of cash flow chosen *should* be in accordance with *participant's* viewpoints. For example, cash flows and discount rates for real property are customarily developed on a pre-tax basis while cash flows and discount rates for businesses are normally developed on a post-tax basis. Adjusting between pre-tax and post-tax rates can be complex and prone to error and *should* be approached with caution.

50.7. When a valuation is being developed in a currency ("the valuation currency") that differs from the currency used in the cash flow projections ("the functional currency"), a *valuer should* use one of the following two currency translation methods:

(a) Discount the cash flows in the functional currency using a discount rate appropriate for that functional currency. Convert the present value of the cash flows to the valuation currency at the spot rate on the valuation date.

(b) Use a currency exchange forward curve to translate the functional currency projections into valuation currency projections and discount the projections using a discount rate appropriate for the valuation currency. When a reliable currency exchange forward curve is not available (for example, due to lack of liquidity in the relevant currency exchange markets), it *may* not be possible to use this method and only the method described in para 50.7(a) can be applied.

Explicit Forecast Period

50.8. The selection criteria will depend upon the *purpose of the valuation*, the nature of the *asset*, the information available and the required bases of value. For an *asset* with a short life, it is more likely to be both possible and relevant to project cash flow over its entire life.

50.9. *Valuers should* consider the following factors when selecting the explicit forecast period:

(a) the life of the *asset*,

(b) a reasonable period for which reliable data is available on which to base the projections,

(c) the minimum explicit forecast period which *should* be sufficient for an *asset* to achieve a stabilised level of growth and profits, after which a terminal value can be used,

(d) in the valuation of cyclical *assets*, the explicit forecast period *should* generally include an entire cycle, when possible, and

(e) for finite-lived *assets* such as most financial instruments, the cash flows will typically be forecast over the full life of the *asset*.

50.10. In some instances, particularly when the *asset* is operating at a stabilised level of growth and profits at the valuation date, it *may* not be necessary to consider an explicit forecast period and a terminal value *may* form the only basis for value (sometimes referred to as an income capitalisation method).

50.11. The intended holding period for one investor *should* not be the only consideration in selecting an explicit forecast period and *should* not impact the value of an *asset*. However, the period over which an *asset* is intended to be held *may* be considered in determining the explicit forecast period if the objective of the valuation is to determine its investment value.

Cash Flow Forecasts

50.12. Cash flow for the explicit forecast period is constructed using prospective financial information (PFI) (projected income/inflows and expenditure/outflows).

50.13. As required by para 50.12, regardless of the source of the PFI (eg, management forecast), a *valuer must* perform analysis to evaluate the PFI, the assumptions underlying the PFI and their appropriateness for the *valuation purpose*. The suitability of the PFI and the underlying assumptions will depend upon the *purpose of the valuation* and the required bases of value. For example, cash flow used to determine market value *should* reflect

PFI that would be anticipated by *participants*; in contrast, investment value can be measured using cash flow that is based on the reasonable forecasts from the perspective of a particular investor.

50.14. The cash flow is divided into suitable periodic intervals (eg, weekly, monthly, quarterly or annually) with the choice of interval depending upon the nature of the *asset*, the pattern of the cash flow, the data available, and the length of the forecast period.

50.15. The projected cash flow *should* capture the amount and timing of all future cash inflows and outflows associated with the subject *asset* from the perspective appropriate to the basis of value.

50.16. Typically, the projected cash flow will reflect one of the following:

(a) contractual or promised cash flow,

(b) the single most likely set of cash flow,

(c) the probability-*weighted* expected cash flow, or

(d) multiple scenarios of possible future cash flow.

50.17. Different types of cash flow often reflect different levels of risk and *may* require different discount rates. For example, probability-*weighted* expected cash flows incorporate expectations regarding all possible outcomes and are not dependent on any particular conditions or events (note that when a probability-*weighted* expected cash flow is used, it is not always necessary for *valuers* to take into account distributions of all possible cash flows using complex models and techniques. Rather, *valuers may* develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows). A single most likely set of cash flows *may* be conditional on certain future events and therefore could reflect different risks and warrant a different discount rate.

50.18. While *valuers* often receive PFI that reflects accounting income and expenses, it is generally preferable to use cash flow that would be anticipated by *participants* as the basis for valuations. For example, accounting non-cash expenses, such as depreciation and amortisation, *should* be added back, and expected cash outflows relating to capital expenditures or to changes in working capital *should* be deducted in calculating cash flow.

50.19. *Valuers must* ensure that seasonality and cyclicality in the subject has been appropriately considered in the cash flow forecasts.

Terminal Value

50.20. Where the *asset* is expected to continue beyond the explicit forecast period, *valuers must* estimate the value of the *asset* at the end of that period. The terminal value is then discounted back to the valuation date, normally using the same discount rate as applied to the forecast cash flow.

50.21. The terminal value *should* consider:

(a) whether the *asset* is deteriorating/finite-lived in nature or indefinite-lived, as this will influence the method used to calculate a terminal value,

(b) whether there is future growth potential for the *asset* beyond the explicit forecast period,

(c) whether there is a pre-determined fixed capital amount expected to be received at the end of the explicit forecast period,

(d) the expected risk level of the *asset* at the time the terminal value is calculated,

(e) for cyclical *assets*, the terminal value *should* consider the cyclical nature of the *asset* and *should* not be performed in a way that assumes "peak" or "trough" levels of cash flows in perpetuity, and

(f) the tax attributes inherent in the *asset* at the end of the explicit forecast period (if any) and whether those tax attributes would be expected to continue into perpetuity.

50.22. *Valuers may* apply any reasonable method for calculating a terminal value. While there are many different approaches to calculating a terminal value, the three most commonly used methods for calculating a terminal value are:

(a) Gordon growth model/constant growth model (appropriate only for indefinite-lived *assets*),

(b) market approach/exit value (appropriate for both deteriorating/finite-lived *assets* and indefinite-lived *assets*), and

(c) salvage value/disposal cost (appropriate only for deteriorating/ finite-lived *assets*).

Gordon Growth Model/Constant Growth Model

50.23. The constant growth model assumes that the *asset* grows (or declines) at a constant rate into perpetuity.

Market Approach/Exit Value

50.24. The market approach/exit value method can be performed in a number of ways, but the ultimate goal is to calculate the value of the *asset* at the end of the explicit cash flow forecast.

50.25. Common ways to calculate the terminal value under this method include application of a market-evidence based capitalisation factor or a market multiple.

50.26. When a market approach/exit value is used, *valuers should* comply with the requirements in the market approach and market approach methods section of this standard (sections 20 and 30). However, *valuers should* also consider the expected market conditions at the end of the explicit forecast period and make adjustments accordingly.

Salvage Value/Disposal Cost

50.27. The terminal value of some *assets may* have little or no relationship to the preceding cash flow. Examples of such *assets* include wasting *assets* such as a mine or an oil well.

50.28. In such cases, the terminal value is typically calculated as the salvage value of the *asset*, less costs to dispose of the *asset*. In circumstances where the costs exceed the salvage value, the terminal value is negative and referred to as a disposal cost or an *asset* retirement obligation.

Discount Rate

50.29. The rate at which the forecast cash flow is discounted *should* reflect not only the time value of money, but also the risks associated with the type of cash flow and the future operations of the *asset*.

50.30. *Valuers may* use any reasonable method for developing a discount rate. While there are many methods for developing or determining the reasonableness of a discount rate, a non-exhaustive list of common methods includes:

(a) the capital *asset* pricing model (CAPM),

(b) the *weighted* average cost of capital (WACC),

(c) the observed or inferred rates/yields,

(d) the internal rate of return (IRR),

(e) the *weighted* average return on *assets* (WARA), and

(f) the build-up method (generally used only in the absence of market inputs).

50.31. In developing a discount rate, a *valuer should* consider:

(a) the risk associated with the projections made in the cash flow used,

(b) the type of *asset* being valued. For example, discount rates used in valuing debt would be different to those used when valuing real property or a business,

(c) the rates implicit in transactions in the market,

(d) the geographic location of the *asset* and/or the location of the markets in which it would trade,

(e) the life/term of the *asset* and the consistency of inputs. For example, the risk-free rate considered would differ for an *asset* with a three-year life versus a 30-year life,

(f) the type of cash flow being used (see para 50.5), and

(g) the bases of value being applied. For most bases of value, the discount rate *should* be developed from the perspective of a *participant*.

60. Cost Approach

60.1. The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an *asset* than the cost to obtain an *asset* of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach

provides an indication of value by calculating the current replacement or reproduction cost of an *asset* and making deductions for physical deterioration and all other relevant forms of obsolescence.

60.2. The cost approach *should* be applied and afforded *significant weight* under the following circumstances:

(a) *participants* would be able to recreate an *asset* with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the *asset* could be recreated quickly enough that a *participant* would not be willing to pay a *significant* premium for the ability to use the subject *asset* immediately,

(b) the *asset* is not directly income-generating and the unique nature of the *asset* makes using an income approach or market approach unfeasible, and/or

(c) the basis of value being used is fundamentally based on replacement cost, such as replacement value.

60.3. Although the circumstances in para 60.2 would indicate that the cost approach *should* be applied and afforded *significant weight*, the following are additional circumstances where the cost approach *may* be applied and afforded *significant weight*. When using the cost approach under the following circumstances, a *valuer should* consider whether any other approaches can be applied and *weighted* to corroborate the value indication from the cost approach:

(a) *participants* might consider recreating an *asset* of similar utility, but there are potential legal or regulatory hurdles or *significant* time involved in recreating the *asset*,

(b) when the cost approach is being used as a reasonableness check to other approaches (for example, using the cost approach to confirm whether a business valued as a going-concern might be more valuable on a liquidation basis), and/or

(c) the *asset* was recently created, such that there is a high degree of reliability in the assumptions used in the cost approach.

60.4. The value of a partially completed *asset* will generally reflect the costs incurred to date in the creation of the *asset* (and whether those costs contributed to value) and the expectations of *participants* regarding the value of the property when complete, but consider the costs and time required to complete the *asset* and appropriate adjustments for profit and risk.

70. Cost Approach Methods

70.1. Broadly, there are three cost approach methods:

(a) replacement cost method: a method that indicates value by calculating the cost of a similar *asset* offering equivalent utility,

(b) reproduction cost method: a method under the cost that indicates value by calculating the cost to recreating a replica of an *asset*, and

(c) summation method: a method that calculates the value of an *asset* by the addition of the separate values of its component parts.

Replacement Cost Method

70.2. Generally, replacement cost is the cost that is relevant to determining the price that a *participant* would pay as it is based on replicating the utility of the *asset*, not the exact physical properties of the *asset*.

70.3. Usually replacement cost is adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as depreciated replacement cost.

70.4. The key steps in the replacement cost method are:

(a) calculate all of the costs that would be incurred by a typical *participant* seeking to create or obtain an *asset* providing equivalent utility,

(b) determine whether there is any deprecation related to physical, functional and external obsolescence associated with the subject *asset*, and

(c) deduct total deprecation from the total costs to arrive at a value for the subject *asset*.

70.5. The replacement cost is generally that of a modern equivalent *asset*, which is one that provides similar function and equivalent utility to the *asset* being valued, but which is of a current design and constructed or made using current cost-effective materials and techniques.

Reproduction Cost Method

70.6. Reproduction cost is appropriate in circumstances such as the following:

(a) the cost of a modern equivalent *asset* is greater than the cost of recreating a replica of the subject *asset*, or

(b) the utility offered by the subject *asset* could only be provided by a replica rather than a modern equivalent.

70.7. The key steps in the reproduction cost method are:

(a) calculate all of the costs that would be incurred by a typical *participant* seeking to create an exact replica of the subject *asset*,

(b) determine whether there is any deprecation related to physical, functional and external obsolescence associated with the subject *asset*, and

(c) deduct total deprecation from the total costs to arrive at a value for the subject *asset*.

Summation Method

70.8. The summation method, also referred to as the underlying *asset* method, is typically used for investment companies or other types of *assets* or entities for which value is primarily a factor of the values of their holdings.

70.9. The key steps in the summation method are:

(a) value each of the component *assets* that are part of the subject *asset* using the appropriate valuation approaches and methods, and

(b) add the value of the component *assets* together to reach the value of the subject *asset*.

Cost Considerations

70.10. The cost approach *should* capture all of the costs that would be incurred by a typical *participant*.

70.11. The cost elements *may* differ depending on the type of the *asset* and *should* include the direct and indirect costs that would be required to replace/ recreate the *asset* as of the valuation date. Some common items to consider include:

(a) direct costs:

1. materials, and
2. labour.

(b) indirect costs:

1. transport costs,
2. installation costs,
3. professional fees (design, permit, architectural, legal, etc),
4. other fees (commissions, etc),
5. overheads,
6. taxes,
7. finance costs (eg, interest on debt financing), and
8. profit margin/entrepreneurial profit to the creator of the *asset* (eg, return to investors).

70.12. An *asset* acquired from a third party would presumably reflect their costs associated with creating the *asset* as well as some form of profit margin to provide a return on their investment. As such, under bases of value that assume a hypothetical transaction, it *may* be appropriate to include an assumed profit margin on certain costs which can be expressed as a target profit, either a lump sum or a percentage return on cost or value. However, financing costs, if included, *may* already reflect *participants'* required return on capital deployed, so *valuers should* be cautious when including both financing costs and profit margins.

70.13. When costs are derived from actual, quoted or estimated prices by third party suppliers or contractors, these costs will already include a third parties' desired level of profit.

70.14. The actual costs incurred in creating the subject *asset* (or a comparable reference *asset*) *may* be available and provide a relevant indicator of the cost of the *asset*. However, adjustments *may* need to be made to reflect the following:

(a) cost fluctuations between the date on which this cost was incurred and the valuation date, and

(b) any atypical or exceptional costs, or savings, that are reflected in the cost data but that would not arise in creating an equivalent.

80. Depreciation/Obsolescence

80.1. In the context of the cost approach, "depreciation" refers to adjustments made to the estimated cost of creating an *asset* of equal utility to reflect the impact on value of any obsolescence affecting the subject *asset*. This meaning is different from the use of the word in financial reporting or tax law where it generally refers to a method for systematically expensing capital expenditure over time.

80.2. Depreciation adjustments are normally considered for the following types of obsolescence, which *may* be further divided into subcategories when making adjustments:

(a) Physical obsolescence: Any loss of utility due to the physical deterioration of the *asset* or its components resulting from its age and usage.

(b) Functional obsolescence: Any loss of utility resulting from inefficiencies in the subject *asset* compared to its replacement such as its design, specification or technology being outdated.

(c) External or economic obsolescence: Any loss of utility caused by economic or locational factors external to the *asset*. This type of obsolescence can be temporary or permanent.

80.3. Depreciation/obsolescence *should* consider the physical and economic lives of the *asset*:

(a) The physical life is how long the *asset* could be used before it would be worn out or beyond economic repair, assuming routine maintenance but disregarding any potential for refurbishment or reconstruction.

(b) The economic life is how long it is anticipated that the *asset* could generate financial returns or provide a non-financial benefit in its current use. It will be influenced by the degree of functional or economic obsolescence to which the *asset* is exposed.

80.4. Except for some types of economic or external obsolescence, most types of obsolescence are measured by making comparisons between the subject *asset* and the hypothetical *asset* on which the estimated replacement or reproduction cost is based. However, when market evidence of the effect of obsolescence on value is available, that evidence *should* be considered.

80.5. Physical obsolescence can be measured in two different ways:

(a) curable physical obsolescence, ie, the cost to fix/cure the obsolescence, or

(b) incurable physical obsolescence which considers the *asset*'s age, expected total and remaining life where the adjustment for physical obsolescence is equivalent to the proportion of the expected total life consumed. Total expected life *may* be expressed in any reasonable way, including expected life in years, mileage, units produced, etc.

80.6. There are two forms of functional obsolescence:

(a) excess capital cost, which can be caused by changes in design, materials of construction, technology or manufacturing techniques resulting in the availability of modern equivalent *assets* with lower capital costs than the subject *asset*, and

(b) excess operating cost, which can be caused by improvements in design or excess capacity resulting in the availability of modern equivalent *assets* with lower operating costs than the subject *asset*.

80.7. Economic obsolescence *may* arise when external factors affect an individual *asset* or all the *assets* employed in a business and *should* be deducted after physical deterioration and functional obsolescence. For real estate, examples of economic obsolescence include:

(a) adverse changes to demand for the products or services produced by the *asset*,

(b) oversupply in the market for the *asset*,

(c) a disruption or loss of a supply of labour or raw material, or

(d) the *asset* being used by a business that cannot afford to pay a market rent for the *assets* and still generate a market rate of return.

80.8. Cash or cash equivalents do not suffer obsolescence and are not adjusted. Marketable *assets* are not adjusted below their market value determined using the market approach.

ANNEX H

DEPARTMENT OF AGRARIAN REFORM – LAND BANK OF THE PHILIPPINES

JOINT DAR- LBP MEMORANDUM CIRCULAR NO. 11
Series of 2003

TO : ALL CONCERNED OFFICIALS AND EMPLOYEES OF DAR AND LBP

SUBJECT : GUIDELINES ON THE VALUATION OF STANDING COMMERCIAL TREES THAT ARE CONSIDERED AS IMPROVEMENT ON THE LAND

I. PREFATORY STATEMENT

The Capitalized Net Income (CNI) approach to land valuation assumes that there would be uniform streams of future income that would be realized in perpetuity from the seasonal/permanent crops planted to the land. In the case of commercial trees (hardwood and soft wood species), however, only a one-time income is realized when the trees are due for harvest. The regular CNI approach in the valuation of lands planted to commercial trees would therefore not apply.

Since commercial trees are considered as improvement/s on the land, they shall be valued using standard appraisal approach. The standing trees that are considered as "not yet harvestable" shall be valued using the "Cost Approach" while the "harvestable" trees shall be valued using the "Income Approach".

On the basis of the abovecited observations, the Department of Agrarian Reform (DAR) and the Land Bank of the Philippines (LBP), in collaboration with the Forest Management Bureau (FMB) of the Department of Environment and Natural Resources (DENR) conducted a study on the agronomic and economic aspects of commercial tree growing. This is in line with Item II.B.2 of DAR Administrative Order (A.O.) No. 05, Series of 1998, which provides that "DAR and LBP may conduct an industry study on specific crop which will be used in determining the production, cost and net income of the subject landholding.

In view of the foregoing, these valuation guidelines for lands planted to commercial trees are hereby issued.

II. COVERAGE

These guidelines shall cover all land transfer claims involving lands planted to commercial trees whose Memorandum of Valuation have not yet been forwarded to DAR as of the date of effectivity of this Joint Memorandum Circular (JMC).

III. DEFINITION OF TERMS

For the purpose of the these JMC, the following definitions shall be adopted:

A. **COMMERCIAL TREES** – trees that are naturally grown or planted which possess economic value.

B. **"COST APPROACH"** – is a valuation approach based on the Principle of Reimbursement where all the expenses incurred by the landowner (LO)/LESSEE in developing and maintaining commercial tree plantation is returned as compensation for the standing trees treated as improvement on the land.

C. **CUMULATIVE DEVELOPMENT COST (CDC)** – the total cost of development, maintenance and protection incurred by the LO/lessee reckoned from land preparation up to the date of Claim Folder (CF) receipt by LBP for processing.

D. **DIPTEROCARP TREES** – refers to those hardwood species such as apitong, tanguile, lauan, etc. belonging to family dipterocarpaceae.

E. **ESTIMATED MERCHANTABLE HEIGHT (EMH)** - refers to the length of the log reckoned from 0.5 meter above the ground up to the first major branch of the tree.

F. **"HARVESTABLE TREES"** - those trees that have reached their harvestable age for specific end use (e.g., sawlog, pole, fuel wood, etc.).

G. **"INCOME APPROACH"** – is a valuation approach where a value of a given commercial tree plantation is determined by the present worth of the anticipated net income that would be derived from the "harvestable trees".

H. **LAND** - refers to private agricultural lands voluntarily offered for sale or compulsorily acquired under Republic Act (R.A.) No. 6657

I. **LESSEE** – refers to a person, whether juridical or natural, other than the agrarian reform beneficiary, who leases the agricultural land belonging to or possessed by another with the latter's consent for purposes of establishing a commercial tree plantation for a certain amount of money or in produce, or both.

J. **NATURALLY GROWN TREE** – any naturally occurring or growing tree with woody stem, regardless of size and economic utility or

end-use, including the parts thereof such as stumps, tops and branches.

K. **NON-DIPTEROCARP TREES** – those trees not belonging to the family dipterocarpaceae.

L. **"NOT YET HARVESTABLE TREES"** – those trees that have not yet reached their harvestable age for specific end use (e.g., sawlog, pole, fuel wood, etc.).

M. **PLANTED TREE** – any artificially grown/planted tree with a woody stem, regardless of age, size and economic utility or end-use.

N. **PREVAILING SELLING PRICE (PSP)** – the available prevailing farm gate selling prices of round and square logs, pole and fuel wood in the specific area where the property is located as of the date of CF receipt by LBP for processing.

O. **ROUND LOG** – a piece of wood produced after felling and bucking with an average diameter of at least 15 centimeters and a length of at least 1.5 meters.

P. **SQUARE LOG** – a piece of wood produced from one round log using any mechanical tools, the conversion of which was done without the benefit of scaling the said round timber.

Q. **STUMPAGE VALUE** - appraisal of timber in unprocessed form as it is found in the forest.

R. **VALUE OF STANDING TREES (VST)** – value of standing commercial trees arrived at using the standard "Income Approach" to valuation.

IV. VALUATION PROCEDURES

A. VALUATION OF "NOT YET HARVESTABLE" TREES

1. The value of land with "not yet harvestable" commercial trees shall be computed in accordance with the formula prescribed under Item II.A.4 of DAR Administrative Order No. 5, Series of 1998, attached as appendix herein and shown below:

   LV = (MV x 2) + CDC

   Where:

LV = Land Value
MV = Market Value of the land which shall be based on the applicable Unit Market Value (UMV) classification of idle land

CDC = Cumulative Development Cost of "not yet harvestable" trees incurred by the LO from land preparation up to the date of receipt of CF by LBP for processing.

The MV is computed using the formula:

MV = UMV x LAF x RCPI

Where:

UMV = Unit Market Value

LAF = Location Adjustment Factor

RCPI = applicable Regional Consumer Price Index

The CDC of "not yet harvestable" commercial trees is determined using the following formula:

CDC = CDC per Tree x Number of Not Yet Harvestable Trees

2. The field personnel of the DAR and the LBP shall jointly secure the development, maintenance and protection records of the LO. The development cost data submitted by the LO shall be validated against his/her accounting records, (i.e., ledgers, receipts, etc.) and interview with farmworkers/laborers.

If the LO's records are not available or if they are available but could not be validated by the DARMO within fifteen (15) days upon receipt of notice thereof, the DAR and LBP shall secure the development, maintenance and protection cost data of each tree species from the Community Environment and Natural Resources Office (CENRO) or the Provincial Environment and Natural Resources Office (PENRO) of the Department Of Environment And Natural Resources (DENR).

3. In the absence of LO and CENRO/PENRO data in Item IV.A.2 above, the schedule of development, maintenance and protection cost for each tree species (for planted trees) provided in Annex "A" shall be used in the determination of CDC.

In cases where the actual tree spacing (row and plant distances) or tree density per hectare of the property under consideration differs with that of the plant spacing and tree density per hectare provided in Annex "A", a schedule of development, maintenance and protection cost per hectare could be generated by following the procedures in Annex "B".

If the LO's actual number of trees per hectare exceeds that of the standard tree density of 1,667 trees/hectare (2m x 3m), the LO's CDC shall be computed based on the CDC of 1,667 trees/hectare.

The CDC shall be grossed-up from December 31, 2000 (the schedule of development, maintenance and protection cost shown in Annex "A" is based on 2000 prices) up to the date of LBP CF receipt for processing.

The process of computing CDC up to the nearest date of LBP CF receipt for processing is shown in Annex "C".

4. The tree inventory shall be conducted by a team composed of the LO, farmer-beneficiaries (FBs), lessee (if the property is covered by an existing lease contract) and the representative/s of DAR and LBP. The team, whenever necessary, shall request the assistance of CENRO/PENRO in the conduct of said inventory. A pro-forma Tree Inventory Summary Report is shown in Annex "D".

The age of trees as of the date of processing of CF shall be reckoned on the actual date when the commercial tree plantation is established as verified against the LO's farm records. If the exact date of establishment is not available and only the year when the trees are actually planted is available, the trees shall be assumed to be planted as of 31 December of said year.

If the exact date or year when the trees are planted is not available, the DAR/LBP shall request the assistance of CENRO/PENRO in the determination of the estimated age of the trees.

5. In case of naturally grown trees which are "not yet harvestable", the LO is entitled to a share of about fifty percent (50%) of value of standing trees (as payment for protection and maintenance incurred by the LO) considering that the same are treated as government/state-owned resources. Expressed in equation form:

AMOUNT DUE LANDOWNER = 0.50 (RLV x PSP); or
= 0.50 (VST).

The procedures in determining the RLV and PSP are shown in Item IV.B.1.b of this JMC.

6. If the commercial trees planted are by the FBs or lessee and the same are "not yet harvestable", the value of the land shall be computed in accordance with Items II.A.5 and II.B.6 of DAR A.O. No. 5, Series of 1998, respectively.

If the land is covered by an existing lease contract, the LO shall be compensated for the land while the lessee shall be compensated for the value of standing commercial trees (VCST) treated as improvement on the land, as shown in the following equations:

AMOUNT DUE LANDOWNER:

$$LV_{(LAND)} = MV \times 2$$

AMOUNT DUE LESSEE:

$$VCST = CDC$$

7. In no case, however shall the resulting value of the land planted to "not yet harvestable" trees exceed the value of the land planted to "harvestable" trees similar in terms of species and density within the estate under consideration or within the same Barangay or Municipality (in that order) approved by LBP within one (1) year from receipt of CF.

B. VALUATION OF "HARVESTABLE" TREES

1. PLANTED BY LO

The value of land containing "harvestable" commercial trees shall be computed in accordance with the following formula:

LV = (MV x 2) + Value of Standing Trees (VST)

Where:

LV = Land Value

MV = Market Value of the land which shall be based on the applicable Unit Market Value (UMV) classification of idle land

VST= Value of Standing Trees

a. The "harvestable" age of the different tree species, depending on their intended end uses is shown in Annex "E".

For other tree species not included in Annex "E", the DAR/LBP shall request the CENRO/PENRO to determine the harvestable age of the tree under consideration based on known end use/s in the area.

b. The value of standing commercial tree/s shall be computed as follows:

i. If the commercial trees are sold as "round" log, the value of standing tree shall be determined using the formula:

VST = RLV x PSP

Where:

RLV = Round Log Volume (cubic-meters)

PSP = Prevailing Selling Price of Timber (P/cubic-meter)

The RLV is determined using the following formula:

$$\mathbf{RLV = RRF \times DBH^2 \times EMH}$$

Where:

RRF = Round Log Recovery Factor

DBH = Diameter of tree measured at breast height, in meters

EMH = Estimated merchantable height, in meters

The DBH and EMH shall also be determined by the team composed of the LO, FBs, and the representative/s of DAR and LBP (see Annex "D"). If the property is covered by an existing lease contract, the lessee shall participate in the conduct of the said inventory.

DAR and LBP shall be given proper training in the measurement of DBH and EMH, and in the identification of tree species.

The team, whenever necessary, shall request the assistance of CENRO/PENRO in the determination of DBH and EMB.

The applicable RRF, depending on the location of the property and the type of tree species (non-dipterocarp or dipterocarp), is provided in Annex "F". The list of tree species belonging to the non-dipterocarp and dipterocarp group is shown in Annex "G".

ii. If the commercial trees are sold as "square" log, the value of standing tree/s shall be computed using the formula:

VST = SLV x PSP

Where:

SLV = Square Log Volume (cubic-meters)

PSP = Prevailing Selling Price of Square Log (P/cubic-meter)

The SLV is determined using the following formula:

SLV = RLV x SRF

Where:

SRF = Square Log Recovery Factor or 70%

The 70% square log recovery factor refers to the net SLV that would be recovered from RLV after sawing or converting round log into square log.

Trees intended for pulp are commonly sold as round log, while trees that are intended for veneer are sold as round log or square log.

iii. If the commercial trees are sold on a per tree, per cord, per linear measure or per unit weight basis, the value of standing trees shall be determined using the applicable formula as shown below:

VST = No. of Trees x PSP per Tree or;

VST = No. of Cords x PSP per Cord or;

VST = No. of Trees x Linear Measure per Tree x PSP per Linear Measure

VST = Total Weight of Trees in kilograms X PSP per kilogram.

One cord is equivalent to a pile of one-meter length wood with a height of one (1) meter and a width of one (1) meter.

Commercial trees which are sold in other forms/measures shall be fully disclosed in the report on PSP of timber products to be prepared by DAR and LBP. (See Annex "H")

The PSP of the different timber products shall be secured by DAR/LBP from CENRO, duly conformed by the PENRO. In the absence of said PSP data, the DAR/LBP shall gather/monitor the PSP of timber, sawlog, pole, fuel wood and other known end uses in their area of coverage. A pro-forma table is shown in Annex "H".

If the PSPs of the different timber products are not available in the locality where the property is located, the PSP based on the stumpage value shall be used instead. The DAR/LBP

shall seek assistance from the CENRO/PENRO in the determination of the stumpage value.

2. NATURALLY GROWN TREES

In the case of naturally grown trees which are already "harvestable" planted in a private agricultural land, the LO is entitled to a share of about fifty percent (50%) of VST (as payment for protection and maintenance incurred by the LO) considering that the same are treated as government/state-owned resources. Expressed in equation form:

AMOUNT DUE LANDOWNER = 0.50 (RLV x PSP); or
= 0.50 (VST).

Where:

RLV = Round Log Volume (cubic-meters)

PSP = Prevailing Selling Price of Timber (P/cubic-meter)

The procedures in determining the RLV and PSP are shown in Item IV.B.1.b of this JMC.

3. PLANTED BY FBs

If the commercial trees are planted by the FBs and the same are already "harvestable", the value of the land shall be computed using the formula:

LV = (MV X 2) + 25%VST

4. PLANTED BY LESSEE

If the commercial trees are introduced by the lessee, the amount due to the LO and the lessee shall be determined as follows:

a) If the lease rental is a fixed amount paid annually:

i. In case the Comparable Sales (CS) is relevant or applicable, the amount due to the LO shall be computed in accordance with the formula

provided under II.A of DAR A.O. No. 5. Series of 1998 as shown below:

AMOUNT DUE LANDOWNER = **(CNI x 0.60) + (CS x 0.30) + (MV x 0.10)**

Where:

CNI = LRI (lease rental income /hectare)
0.12.

ii. If CS is not relevant or applicable, the amount due to the LO shall be computed in accordance with Item II.A.1 of DAR A.O. No. 5, Series of 1998 as shown by the following formula:

AMOUNT DUE LANDOWNER = **(CNI x 0.90) + (MV x 0.10)**

Where:

CNI = LRI

0.12.

iii. The amount due to the lessee, on the other hand, shall be equivalent to the VST. In equation form:

AMOUNT DUE LESSEE = VST.

b) If the lease rental is a fixed percentage of the gross income:

AMOUNT DUE LANDOWNER= (MV X 2) + % Share on VST (as stipulated under the contract)

AMOUNT DUE LESSEE = % Share on VST (as stipulated under the contract)

C. VALUATION OF TREES THAT ARE RANDOMLY PLANTED INSIDE OR ALONG THE PERIMETERS OF A PLANTATION

The "not yet harvestable" and "harvestable" trees that are randomly planted inside or along the perimeter of a given plantation or a given delineated area shall be valued in accordance with the applicable formula provided under Item Nos. IV.A and IV.B above. The value of these trees shall be added to the final value of the given plantation or given delineated area as additional improvements on the land.

D. CUTTING OF COMMERCIAL TREES WHILE THE LAND TRANSFER CLAIM IS IN PROCESS OR WHEN THE LANDHOLDING IS ALREADY AWARDED TO THE FBs

1. In cases where the LO had already cut and sold the commercial tree at the time of processing of CF or valuation of the subject property, the affected area of the property shall be considered as idle land. The value of the affected area shall be computed in accordance with the formula prescribed under Item II.A.3 of DAR A.O. No. 5, Series of 1998 as shown below:

LV = MV X 2

The MV to be used shall be the applicable Unit Market Value (UMV) classification of idle land.

2. The FBs, who have been installed on the subject property and would like to cut the trees, shall first secure a clearance from the LBP. The DAR/LBP shall inform CENRO/PENRO that only those FBs with LBP clearance shall be issued permit to cut/transport their timber products.

3. The DARMO shall monitor and immediately report to the LBP-Agrarian Operations Center (AOC) the following cases:

   a) Cutting of trees by LO/lessee/FBs while the land transfer claim is still being processed; and

   b) Cutting of trees by the installed FBs without the necessary permit from the CENRO/PENRO.

4. The DARMO shall conduct a field inspection of the land in the process of awarding to farmer-beneficiaries before the date of actual payment thereof. Any substantial changes in the number of recorded commercial trees shall be immediately reported to the filed personnel of LBP for the purpose of revaluation of the land value.

5. THE LBP-Agrarian Operations Center (AOC) shall secure an Affidavit of Compliance from the L.O./Lessee that no trees were cut/felled by him or he/she shall be rendered liable therein before actual payment thereof.

E. ILLUSTRATIVE EXAMPLE

Annex "C" illustrates the application of the valuation concepts/principles for "not yet harvestable" trees while Annex "I" illustrates the application of the valuation concepts/principles for "harvestable" trees.

V. REPEALING CLAUSE

All orders, circulars, rules and regulations inconsistent herewith are hereby revoked, amended, or modified as the case may be.

VI. EFFECTIVITY

This JMC shall take effect ten (10) days after its publication in two (2) national newspapers of general circulation, pursuant to Section 49 of Republic Act No. 6657.

Signed this 23rd day of May, 2003.

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Published in two (2) national newspapers of general circulation:

1. MANILA BULLETIN
2. MALAYA

Date of Publication - August 6, 2003