



Project:	Fair Value Measurement for Not-for-Profit Entities	Meeting:	AASB November 2020 (M178)
Topic:	Future direction of the project	Date of this paper:	28 October 2020
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		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Consider options to progress the project in light of feedback and cross-cutting projects and decide on next step

Objective of this agenda item

- The objective of this agenda item is for the Board to:
 - note** additional feedback from users of public sector entities' financial statements regarding the current value measurement perspective most useful to them, and on the tentatively proposed disclosures as interim step; and
 - decide** on the next steps of the project considering staff's recommendations in light of stakeholders' feedback on the proposed interim step and cross-cutting projects.

Summary of options for how to progress the project

- The options for how to progress the *Fair Value Measurement for Not-for-Profit Entities* project (the FVM project) are set out in the Table below.

Option	Key deliverables
Option 1	Finalise development of an Exposure Draft (ED) based on the working draft ED considered by the Board in March 2020 (which includes how to measure the fair value of restricted land and fair value measurement of not-for-profit (NFP) lessees' right-of-use (ROU) assets under concessionary leases).
Option 2	Defer issuing an ED on any components of the FVM project, while considering the impacts of cross-cutting projects.

Option	Key deliverables	
Option 3	Defer issuing an ED on all other components of the project, and progress to:	An ED on the two issues largely independent of how restricted land is measured, and for which NFP guidance would not potentially affect application of AASB 13 by for-profit entities: (a) nature of component costs to include in an asset's current replacement cost; and (b) how to identify and measure economic obsolescence.
Option 4		An ED on proposed additional disclosures regarding the fair value of restricted land (including the historical cost of revalued restricted land).
Option 5		An ED on proposed additional disclosures regarding the historical cost of revalued restricted land.

Summary of staff recommendations

3. Staff recommend adopting Option 2 (see paragraphs 71–72) to defer issuing an Exposure Draft in order to fully consider the following cross-cutting projects of the AASB and international standard-setters:
 - (a) the Board's project to adapt its Revised Conceptual Framework for application by NFP entities (stage 2 of which aims to address fundamental measurement considerations);
 - (b) the IPSASB's project to develop an IPSAS on Measurement; and
 - (c) the IASB's Disclosure Initiative project.

Background

4. For ease of reference in this paper, land held by a NFP public sector entity primarily for its service capacity and restricted for a public-sector-specific purpose is referred to as 'restricted land'.
5. [Appendix D](#) provides an overview of the project history for the Board's information. The FVM project was initiated by the Board based on responses to the Board's *Agenda Consultation 2017-2019* that requested guidance to assist application of AASB 13 *Fair Value Measurement* in the NFP public sector. The Board confirmed the most important issues to be addressed based on inputs from the Project Advisory Panel. The Board has made tentative decisions on most of these issues (listed in [Table 1](#) below).
6. In 2019–2020, the Board considered three drafts of a AASB Exposure Draft of possible amendments to AASB 13 and a Basis for Conclusions reflecting the tentative decisions made by the Board on the FVM project (the latest draft was included in [Agenda Paper 11.2](#) of the March 2020 meeting).
7. At the time, the Board tentatively decided that the fair value of restricted assets held primarily for their service capacity, including restricted land and NFP lessees' ROU assets under concessionary leases, should be measured at current replacement cost without an adjustment

deducted for the public-sector-specific restricted use. The Board considered this measurement should be deemed to be fair value (paragraph Aus66.1 of the [March 2020 draft ED](#)).

8. [Table 1](#) below summarises the issues discussed by the Board on which the working draft ED was developed. It also indicates whether each issue is largely interdependent with, or largely independent of, the Board’s decisions about the measurement of the fair value of restricted land.

Table 1: Summary of the issues discussed by the Board

Issues the Board has deliberated	Interdependent/ independent
1. How to measure the fair value of restricted land	Interdependent
2. Fair value measurement of restricted right-of-use (ROU) assets arising under concessionary leases	Interdependent
3. How to apply the concept of ‘highest and best use’ to assets held primarily for their service capacity	Interdependent
4. Treatment of restrictions affecting controlled entities but not their parent entities	Interdependent
5. Assumed location of land forming part of a facility measured at current replacement cost	Interdependent
6. Nature of component costs to include in an asset’s current replacement cost	Independent
7. Consider whether to develop guidance on whether the current replacement cost of a self-constructed asset should include borrowing costs	Independent
8. How to identify and measure economic obsolescence	Independent

9. Each issue identified by the Panel has been raised as being the subject of diverse practice and uncertainty, which impairs the comparability of the information reported and gives rise to costs of debates among preparers and auditors concerning how AASB 13 should be complied with in fair value measurements. However, from stakeholder outreach and perusal of financial statements, the primary issue raised—namely, how to measure the fair value of restricted land—it would appear that the extent of diversity in practice and impact on users of the financial statements is less significant than initially expected (notwithstanding that widespread diversity exists in practice between the treatment of land and improvements on land in relation to whether the existence of restrictions should affect their fair value measurements). This is because, although different techniques are being used to measure the fair value of restricted land, it appears there is consistency amongst public sector entities to measure land at a lower value – compared with the current market buying price of equivalent unrestricted land – to reflect a public-sector-specific restricted use.
10. The stakeholders’ feedback received on the tentative proposals to measure restricted assets at an amount deemed to be fair value when AASB 13 is applied (as explained in paragraph 7), to address the inconsistency in the measurement, indicates that the proposals:
 - have been controversial in stakeholder outreach in respect of applying the proposal to measure restricted land at an amount deemed to be fair value (stakeholders generally agreed with the proposal to measure other restricted assets at an amount deemed to be

fair value). Many stakeholders disagree that measuring land at current replacement cost without an adjustment deducted for the public-sector-specific restricted use would reflect the service capacity of restricted land; and

- would, if implemented, be likely to cause significant transition costs to preparers and auditors of financial statements of public sector entities because feedback indicates current practice of most public sector entities with restricted land differs from the Board's preferred views.
11. At its April 2020 meeting, the Board tentatively decided, as an interim step while it continues its deliberations about the 'measurement of restricted land' issue, to issue a limited-scope Exposure Draft to propose possible additional disclosure requirements relating to fair value measurement of restricted land. This tentative decision was subject to further Board consideration in light of feedback from stakeholders during targeted outreach activities conducted by staff. At its June and September 2020 meetings, the Board considered feedback from the Panel, valuers, preparers and some users about the proposed disclosures.
12. The flowchart in [Appendix C](#) is provided (for Board members' background information only) as a brief summary of the key technical issues regarding the measurement of restricted land being addressed in this project. It shows the relationships between the questions on those issues and the possible outcomes of those questions. At the November 2020 Board meeting, Board members are asked to consider the staging of the steps to complete this project, to identify what information the Board needs to make/review decisions on the key technical issues; Appendix C summarises what those key technical issues are. Board members are not requested to make/review decisions on those key technical issues at the November 2020 meeting.

Reasons for bringing this agenda item to the Board at this meeting

13. At its September 2020 meeting, the Board asked staff to:
- continue consultation with users of public sector entities' financial statements regarding the current value measurement perspective most useful to them; and
 - present, at this meeting, possible options to progress the project.
14. Accordingly, this paper includes discussions of these two matters and asks the Board to decide on the next step (see [Questions for Board members](#)).

Structure of this paper

15. This paper is structured as follows:
- (a) [Section 1](#): Consideration of stakeholder feedback (paragraphs 16–29)
 - (b) [Section 2](#): Cross-cutting projects (paragraphs 30–49)
 - (c) [Section 3](#): Options for progressing the FVM project and next steps (paragraphs 50–78)
 - (d) [Questions for Board members](#)
 - (e) [Appendix A](#): Summary of how cross-cutting projects potentially affect the timing of components of the project (for noting)

- (f) [Appendix B](#): High-level summary of IPSASB's Measurement project (for information only)
- (g) [Appendix C](#): Key technical issues – measurement of restricted land (for information only)
- (h) [Appendix D](#): Overview of project history (for information only)

Attachment

Agenda Paper 4.2: Summary of feedback from users of public sector entities' financial statement

Section 1: Consideration of stakeholder feedback

Feedback from valuers and preparers of public sector entities' financial statements

16. At its September 2020 meeting (see [Agenda Paper 7.2](#) of that meeting), the Board considered feedback received from the Panel, valuers, preparers and some users of public sector financial statements about the impact on current valuation practice (including cost and operationalisation considerations) in respect of the Board's tentative decision to, as an interim step, propose possible additional disclosure requirements relating to fair value measurement of restricted land.
17. The tentatively proposed disclosures included:
 - (a) additional quantitative disclosures about restricted land (disclose the amounts of any material adjustment deducted from the current market buying price of equivalent unrestricted land and the basis for such adjustments); and
 - (b) disclosure of the acquisition cost for a parcel of land subject to a material adjustment to reflect its restricted public-sector-specific use.
18. Stakeholders were concerned with the implementation cost to prepare the proposed disclosures, in particular, when assets are measured using the 'implicit adjustment method'. It would also be difficult to identify the value of reference land, especially if a parcel of land has adverse physical characteristics.
19. Concerns were also expressed about incurring costs to change systems and processes to implement the proposed disclosures before other possible future changes in disclosure requirements emanating from the forthcoming IASB's Disclosure Initiative project (see paragraph 37 below). Some stakeholders requested that all proposed amendments to disclosures by NFP entities about their fair value measurements be exposed as a single integrated set of proposals, enabling a holistic view of their implications.

Feedback from users of public sector entities' financial statements/ financial data

20. At its September 2020 meeting, the Board also asked staff to continue consulting with users of public sector entities' financial statements, including users of local governments' financial statements, regarding:
 - the current value measurement perspective most useful to them in respect of restricted assets; and
 - whether the proposed disclosures mentioned in paragraph 17 would be useful to them.

21. Staff have consulted with 17 (of 49 contacted) users of financial statements (some responses were developed in consultation with preparers, auditors and valuers). Some of these respondents are users of financial data rather than users of financial statements, that is, they focus on aggregated data at the Whole of Government level. The entities include:
- Users of local government entities' financial statements – Offices of Local Government, Local Government Grant Commissions, Local Government Associations;
 - Users of State, Territory and Commonwealth Government entities' financial statements – Parliamentary Public Accounts Committees and the Productivity Commission; and
 - Other users of public sector financial data, including public policy advisers, macroeconomic analysts, a credit rating agency and the Australian Bureau of Statistics (ABS).
22. Agenda Paper 4.2 is a copy of the discussion questions on which staff consulted with users of financial statements, annotated to summarise the feedback received on the discussion questions.
23. Of the 17 respondents, 11 would prefer financial statements to reflect the amount of net cash inflows that restricted land currently is able to generate under its restricted use, rather than reflecting the restricted land's current service potential.
24. A majority of the 11 respondents consider that most restricted land has a low likelihood of being allowed to be sold (e.g. until identified as a surplus asset); and, therefore, think financial statements should not be overstated by reflecting asset values that cannot be realised while the land remains restricted. Some of these respondents commented that, when using financial data, they focus on cash flows and expenditure rather than balance sheet information. They are interested in knowing the value of assets that could be sold to support budget outcomes and debt repayment.
25. In contrast, five of the 17 respondents commented that financial statements should reflect the current service potential of assets in some way. Additional comments provided include:
- any self-imposed restrictions or restrictions that can be removed through rezoning are irrelevant when reporting the land's value most useful to users of the financial statements;
 - information about the current service potential of assets might be useful for asset management and planning purposes; however, they also consider that many restricted assets cannot be liquidated by a local government and reporting an asset at an unrealisable amount might not be of particular public value; and
 - instead of assuming fair value is the appropriate value for public sector assets, it might be more useful for the AASB to consider more broadly how public sector assets should be measured, because historical cost represents a more reliable and verifiable measurement of cost to the Government when compared with fair value, which relies on valuation techniques that incorporate assumptions.
26. In respect of the proposed quantitative disclosures mentioned in paragraph 17(a), nine of the 17 respondents expressed a view and the feedback was mixed:
- two respondents commented that quantitative information about restricted land would be more useful if disclosed for each subclass of land. One of these respondents qualified its

support to limiting the proposed disclosure to parcels of land above a certain material monetary threshold;

- one respondent commented that quantitative information about restricted land would be useful if disclosed at an aggregated level;
- one respondent commented that quantitative information would not be useful, but qualitative information about the methods used in fair value measurement for each subclass of land would be useful;
- two respondents commented that narrative information about the range of adjustments in the aggregated level would be preferable;
- two respondents consider that the proposed disclosures would only be of very minor interests for users and that disclosures either for each class or sub-class of land would add unwarranted complexity to financial statements; and
- One respondent commented that these disclosures are not useful to them because they are not interested in movements in non-financial assets.

27. In respect of the proposed historical cost disclosures mentioned in paragraph 17(b), seven of the 17 respondents expressed a view and the feedback was mixed:

- four respondents commented that disclosures about historical cost in the period in which an adjustment is first deducted would be useful, but two of the respondents were concerned that the disclosures could be onerous to prepare;
- one respondent commented that disclosure of historical cost also in each subsequent reporting period would be more useful; and
- two respondents commented that historical cost disclosures would only be mildly useful.

Staff recommendation

28. Based on feedback from the Panel, preparers, valuers and users, staff recommend not pursuing the proposed disclosures as an interim step in this project. This is because the feedback indicates that it might be costly to prepare the proposed disclosures and the feedback from users, based on the limited number of responses received, does not indicate the proposed disclosures would be particularly useful to them. Staff propose to reconsider disclosures after the IASB's Disclosure Initiative ED is issued and the measurement proposals affecting the scope of disclosures are developed in light of the IPSASB Measurement ED.

29. [Questions for Board members](#), which are asked after the Board has considered Section 3: Options for progressing the FVM project and next steps, incorporate the recommendation above.

Section 2: Cross-cutting projects

30. Before discussing possible options to progress the FVM project, it is important to consider the following cross-cutting AASB projects and projects of international standard-setting boards.

AASB's NFP Conceptual Framework project

31. Stage 2 of the NFP Conceptual Framework project would include consideration of the 'Measurement' chapter of the Revised Conceptual Framework (RCF). Whether NFP modifications should be made to this chapter, and the nature of any of those modifications (e.g. consideration of an asset's service potential), could affect the Board's decisions in this project.
32. Staff are expected to commence Stage 2 of the NFP Conceptual Framework project in the first half of 2021. Decision making on this topic (which will consider staff research into Conceptual Frameworks of other standard setters and academic literature, consultation with the Project Advisory Panel and relevant overseas bodies, and analysis of the IPSASB's limited-scope review of its Conceptual Framework (including submissions received by the IPSASB) would be likely to take more than 18 months.

IPSASB's Measurement project

33. The IPSASB's project aims to develop an IPSAS that would identify and define the measurement bases used in IPSAS. An Exposure Draft is expected to be issued in the first quarter of 2021.
34. The current proposal is that IPSAS would have two measurement models: 'historical cost model' and 'current value model'. Within the 'current value model', the fair value measurement basis would be inappropriate for measuring the current value of public sector assets held primarily to provide services and not to generate net cash inflows (i.e. held for their operational capacity). The IPSASB is currently proposing a 'current service value' measurement basis to measurement the current value of such assets. [Appendix B](#) provides further information about the proposed current service value measurement basis for the Board's information.
35. At the Board's March 2020 meeting, staff were requested to research options outside the fair value model to address the current value measurement issues regarding certain assets held primarily for their service capacity that are restricted for a public-sector-specific use. Therefore, staff consider there is merit in considering the IPSASB's proposed 'current service value' measurement basis.
36. Additionally, staff note that the current views of the IPSASB differ from the tentative views the Board previously expressed on some fair value measurement issues. [Table 8](#) in [Appendix B](#) provides a high-level summary of the differences in views for the Board's information. Therefore, regardless of whether the Board defers issuing an Exposure Draft in the FVM project, staff work would continue on the IPSASB Measurement project. This is reflected in the indicative timelines in paragraph 78.

IASB Disclosure Initiative project

37. The IASB has tentatively decided to propose amendments to IFRS 13 *Fair Value* Measurement that would replace the current prescriptive disclosure requirements with a more objectives-based approach. Changes to IFRS 13 could affect the Board's decision about any additional disclosure requirements about restricted land. An IASB Exposure Draft is expected to be issued in the first half of 2021.

Analysis of cross-cutting projects

38. Staff have categorised the issues considered by the Board on the FVM project to date, including issues outlined in [Table 1](#) in paragraph 8, into the following four categories:
- (a) Fair value measurement of restricted land, and interdependent issues (i.e. issues that are interdependent with the Board’s decision on the ‘measurement of restricted assets’ issue);
 - (b) ‘Independent’ issues, which are issues substantially unaffected by how the fair value of restricted assets is measured;
 - (c) Disclosures of qualitative/quantitative information about restricted land measured at fair value; and
 - (d) Disclosures of the historical cost of restricted land.
39. [Table 2](#) below provides an overview (by shading the cell in orange) of whether one or more cross-cutting AASB projects or international projects would potentially affect a category of issues to be addressed in the FVM project.
40. [Appendix A](#) and [Appendix B](#) complement this Section of the paper. [Appendix A](#) includes an expanded version of [Table 2](#) below that includes a listing of the issues to be addressed in this project (some of which the Board has not yet discussed) for the Board’s reference.
41. [Appendix B](#) provides a high-level summary of the IPSASB Measurement project for the Board’s information. It includes a brief explanation (in [Table 8](#)) of certain areas where staff considers that the current views of the IPSASB differ from the Board’s tentative views.

Table 2: Categories of issues to be addressed in the FVM project and cross-cutting projects

Issues to be addressed in the FVM project	NFP Conceptual Framework project	IPSASB Measurement	IASB Disclosure Initiative
<i>Stage and indicative timing:</i>	<i>Stage 2 - 1H 2021</i>	<i>ED - 1H 2021</i>	<i>ED - 1H 2021</i>
(a) Fair value measurement of restricted assets and interdependent issues	The Board’s rationale for any proposed NFP modifications to the Measurement Chapter of the RCF potentially would affect the Board’s decisions about FVM	IPSASB’s project also seeks to address these measurement issues. See Appendix B for further details.	NA
(b) Independent issues, which are issues substantially unaffected by how restricted assets are measured	NA		NA
(c) Disclosures of qualitative/quantitative information about restricted land measured at fair value	NA	NA	Changes to IFRS 13 could affect the Board’s decisions about additional disclosures for restricted land

Issues to be addressed in the FVM project	NFP Conceptual Framework project	IPSASB Measurement	IASB Disclosure Initiative
<i>Stage and indicative timing:</i>	<i>Stage 2 - 1H 2021</i>	<i>ED - 1H 2021</i>	<i>ED - 1H 2021</i>
(d) Disclosures of historical cost of restricted land	NA	NA	NA

Staff's observations

42. Other than disclosures of historical cost of restricted land, the abovementioned AASB projects and International projects would likely have cross-cutting issues with the FVM project.
43. In particular, staff consider that developments in the Board's NFP Conceptual Framework project and the IPSASB Measurement project are key considerations to inform the Board's deliberations about how to measure the fair value (or other current value) of land with public-sector-specific restrictions on its use, in particular:
- (a) whether public-sector-specific restrictions over the use of land reduce the land's service potential; and
 - (b) the circumstances (if any) in which the revalued amount of restricted land should be measured otherwise than at fair value—and, if so, how that non-fair value measure should be determined.
44. The developments in the IPSASB Measurement project would also be indirectly vital to the Board's decisions about fair value measurement issues in this project that are interdependent with how to measure the fair value of restricted land, including:
- (a) how to measure restricted ROU assets arising under concessionary leases; and
 - (b) the assumed location of land forming part of a facility measured at current replacement cost under the cost approach to measuring the land's fair value.
45. The Board and the IPSASB appear to have tentatively reached different views on the issues listed in paragraph 44 as well as other fair value measurement issues (see [Table 8](#) in [Appendix B](#) for details). Therefore, regardless of whether the Board defers issuing an Exposure Draft in the FVM project, staff work would continue on the IPSASB Measurement project. This is because it would be important for the Board to consider the IPSASB's rationale on these cross-cutting issues and, if appropriate, incorporate its analysis of that rationale in the Basis of Conclusions of the Board's Exposure Draft on the FVM project.
46. The NFP Conceptual Framework project and the IPSASB project would not be considered significant cross-cutting projects in earlier stages of the project, as until the March 2020 AASB meeting, the FVM project was confined to developing guidance within the fair value model for measuring the fair value of restricted assets held by NFP public sector entities, including restricted land. Also, the argument that public-sector-specific restrictions on the use of land might reduce the land's service potential (as well as its cash-generating ability) was not raised in the early stage of the project.

- 47. Since March 2020, the Board has focused on whether to develop, as an interim step, additional disclosure requirements that could generate additional information for assessing the extent to which public-sector-specific restrictions affect the fair value measurement of restricted land.
- 48. Therefore, it would be important for the Board to consider the IASB’s proposed changes to IFRS 13 before proposing any additional disclosures about restricted land. It would not be appropriate for the Board to propose changes to disclosure requirements when changes to disclosure requirements are likely to be proposed by the IASB in the near future. Staff note that the Board has not obtained evidence from users of public sector financial statements indicating a general view that additional disclosures about restricted land are needed urgently.
- 49. [Questions for Board members](#), which are asked after the Board has considered Section 3: Options for progressing the FVM project and next steps, incorporate the considerations above.

Section 3: Options for progressing the FVM project and next steps

- 50. In light of the matters noted in [Section 1](#) and [Section 2](#) (about stakeholders’ feedback and cross-cutting projects), staff consider that there are five options for future work on the FVM project. The options are outlined in Table 3 below.

Table 3: Options to progress the FVM project

Option	Key deliverables	
Option 1	Finalise development of an Exposure Draft (ED) based on the working draft ED considered by the Board in March 2020 (which includes how to measure the fair value of restricted land and fair value measurement of not-for-profit (NFP) lessees’ right-of-use (ROU) assets under concessionary leases).	
Option 2	Defer issuing an ED on any components of the FVM project, while considering the impacts of cross-cutting projects.	
Option 3	Defer issuing an ED on all other components of the project, and progress to:	An ED on the two issues largely independent of how restricted land is measured, and for which NFP guidance would not potentially affect application of AASB 13 by for-profit entities: (c) Nature of component costs to include in an asset’s current replacement cost; and (d) How to identify and measure economic obsolescence.
Option 4		An ED on proposed additional disclosures regarding the fair value of restricted land (including the historical cost of revalued restricted land).
Option 5		An ED on proposed additional disclosures regarding the historical cost of revalued restricted land.

51. The outline of arguments for and against each of the five options is structured as follows:
- (a) the discussion of Options 1 and 2 addresses the two extremes of the spectrum of options: either proceeding without deferral to the issue of an Exposure Draft on all issues deliberated in this project, or deferring the issue for all such issues; and
 - (b) the discussion of Options 3 – 5 (which involve deferring issue of an ED for some issues in the project) notes arguments for and against them in comparison with Option 2 (the ‘full deferral’ option).

52. Table 4 below summaries the arguments for and against Option1 and Option 2.

Table 4: Arguments for and against Option 1 and Option 2

Key considerations	Arguments for Option 1 (against Option 2)	Arguments against Option 1 (for Option 2)
Timing	<i>Prima facie</i> , Option 1 is the most timely approach to issuing guidance on the issues raised.	Option 1 might not be more timely than other Options if the Board ultimately decided to propose a measurement basis other than fair value for restricted land.
Ability to receive feedback on the Board’s proposals, including about the independent issues outlined in Option 3	<p>Option 1 would enable the Board, as soon as possible, to receive views on its proposals from all interested stakeholders through public consultation. This would help the Board to proceed with a more complete understanding of the range of views held by its stakeholders.</p> <p>Despite the Board’s best efforts to obtain the views of users of financial statements through its targeted outreach conducted by staff, it is difficult to identify the particular users who might hold views on the information provided under various measurement approaches discussed in this project.</p>	<p>Another way for the Board to obtain input from stakeholders is to expose IPSASB’s forthcoming ED 77 <i>Measurement</i> for public comment.</p> <p>The Board could add Australian Specific Matters for Comment to ask for feedback on the cross-cutting issues mentioned in Table 8 of Appendix B.</p>

Key considerations	Arguments for Option 1 (against Option 2)	Arguments against Option 1 (for Option 2)
Addressing the measurement of restricted land and interdependent issues	<p>The presumption that the Board might need to consider an alternative current value measurement basis to fair value might be unjustified. Therefore, it would be preferable to first go through a due process to obtain feedback on the tentatively decided “deemed to be fair value” measurement approach for restricted assets.</p>	<p>In view of the complexity of the guidance in AASB 13 and the difficulty of obtaining consensus on how it should be interpreted in a NFP context, there is a significant chance that the Board will need to develop proposals for a non-fair value measurement basis, at least for restricted assets. However, such decision making should not occur independently of the Board’s consideration of measurement concepts as part of its NFP Conceptual Framework project.</p> <p>Waiting for the IPSAS on Measurement to be finalised would provide clearer insights into the extent of guidance issued by the IPSASB on the issues considered by this project. This would provide the Board with international context for the decision it makes about the extent of guidance appropriate to be included in AASB Standards.</p>
Other	<p>Option 1 would maintain the most continuity of decision-making and consultation in the FVM project. Adopting Option 2 could lead to disengagement of some interested parties because of the pause in outreach activities.</p>	<p>Also see arguments against Option 3 –5 below.</p>

53. In addition, in respect of arguments for Option 2, staff are unaware that the demand for guidance on the issues in this project is urgent, because:
- (a) the approach to the measurement of restricted land adopted by a majority of public sector entities appears to differ from the approach tentatively decided by the Board (as reflected in the [March 2020 working draft ED](#)); and
 - (b) the project has been underway for almost three years, and the Board has not received comment that guidance is urgent.
54. Paragraphs 77–78 contain indicative timelines to assist the Board in identifying the timing implications amongst the Options.

Option 3—progressing development of guidance on ‘independent’ issues, and deferring the issue of an ED on all other components of this project

55. The two main ‘independent’ issues on which the Board tentatively decided proposed guidance are:
- (a) the nature of component costs to include in an asset’s current replacement cost (Agenda Paper [6.2](#) for the Board meeting in June 2019 notes that a majority of Panel members supported the approach tentatively decided by the Board); and
 - (b) how to identify and measure economic obsolescence (Agenda Paper [8.1](#) for the Board meeting in April 2019 noted mixed views of Panel members regarding the overall issue, but no strong disagreement with the approach tentatively decided by the Board—the main subject of debate was clarifying misconceptions about whether temporary, but illusory, overcapacity (i.e. standby capacity) is an indication of economic obsolescence: Panel members strongly supported the Board’s draft clarification).
56. The Board tentatively decided at its [June 2019 meeting](#) not to issue guidance on whether the current replacement cost of a self-constructed asset should include borrowing costs because that guidance could not be quarantined to the NFP sector (there are no significant aspects of that issue that are specific to the NFP sector) and therefore the criteria in paragraph 28 of the *AASB’s Not-for-Profit Entity Standard-Setting Framework* for issuing NFP-specific guidance would not be met. Consequently, this issue is not a factor in deciding which Option to adopt in relation to the future conduct of this project.

Arguments for Option 3

57. The arguments for pressing ahead with developing an Exposure Draft including the Board’s tentative proposals on the independent issues (with or without proposed additional disclosures) are that, for the two main independent issues explained in 55 on which the Board tentatively decided proposed guidance:
- (a) panel members did not strongly object to the tentative decisions made by the Board on those issues—therefore, there seem to be good prospects that the proposed guidance would be supported on public exposure; and
 - (b) issuing an ED on those issues without delay would maintain continuity of decision-making and consultation in relation to those issues, avoiding the risk of disengagement with some stakeholders because of the pause in outreach activities on those issues.

Arguments against Option 3

58. These independent issues represent a minority of the issues raised by the Panel. Arguably, if the Board decides not to propose guidance on how to measure the fair value of restricted land, and interdependent issues, proposing guidance on the remaining (independent) issues would be unlikely to significantly improve financial reporting by NFP entities.
59. In addition, as noted in [Appendix B](#), the current views of the IPSASB differ from the tentative views the Board previously expressed on these independent issues. Therefore, it would be important for the Board to consider the IPSASB’s rationale on these cross-cutting issues, and if appropriate, incorporate its analysis of that rationale in the Basis of Conclusions on the Board’s Exposure Draft.

60. Furthermore, staff are unaware of demand for guidance to be issued on these ‘independent’ issues as a matter of urgency. In respect of the two main ‘independent’ issues explained in paragraph 55, the process of articulating those issues through the Panel discussions and in working drafts of an ED has clarified some uncertainties/ misunderstandings—and potentially has reduced the demand for prompt publication of guidance on those issues.

Option 4—progressing development of proposed additional disclosures regarding the fair value of revalued restricted land, and deferring the issue of an ED on all other components of this project

Arguments for Option 4

61. Requiring qualitative and quantitative disclosures about the fair value of restricted land (including disclosure of the amounts of adjustments deducted from the current market buying price of equivalent unrestricted land because of public-sector-specific restrictions over the use of the land), in advance of the other components of the project, should have the following benefits:
- (a) the requirements should enable users of financial statements of NFP entities to gain a more informed view of the current value of the service capacity of non-financial assets held primarily for their service capacity (including restricted land) and measured at fair value, without waiting for the resolution of the protracted debate about how to measure the fair value of restricted land; and
 - (b) the requirements should enable the Board to obtain further detailed information about the aggregate amount deducted from the current market buying price of equivalent unrestricted land, to gain additional insights into the practical significance of the debate about how to measure the fair value of restricted land before deciding further steps for the project.
62. The argument in paragraph 61(a) also generally applies to staff issuing a Frequently Asked Questions providing examples of particular qualitative disclosures about the measurement techniques applied in measuring the fair value of restricted land. That possible step is discussed separately in paragraphs 66 – 67.

Arguments against Option 4

63. As noted in paragraph 23, feedback from user outreach suggests that more users of public sector financial statements would prefer financial statements to reflect the amount of net cash inflows that restricted land currently is able to generate under its restricted use, rather than reflecting the restricted land’s current service potential. This calls into question the relevance to users of the proposed quantitative disclosures providing insights into the current service potential of restricted land, and, in the context of this paper, suggests there is little advantage to users of financial statements if disclosure requirements were to be exposed for public comment in advance of an exposure draft on the other components of this project.
64. In addition, as was noted in Agenda Papers [7.1](#) and [7.2](#) for the Board’s September 2020 meeting, significant practical issues were raised about the implementation of the tentatively proposed quantitative disclosures about restricted land.
65. Furthermore, the IASB’s Disclosure Initiative project would propose amendments to the disclosures required in IFRS 13. As mentioned in paragraph 19, Board stakeholders have requested that all proposed amendments to disclosures by NFP entities about their fair value

measurements be exposed as a single integrated set of proposals, enabling an holistic view of their implications.

Variation of Option 4—Frequently Asked Questions (FAQ)

66. Regardless of whether the Board were to adopt Option 4, a Staff FAQ could be issued to provide examples of particular qualitative disclosures about the measurement techniques and nature of assumptions used in estimating the fair value of restricted land. Staff regard the decision on whether to issue an FAQ on that topic as not a key consideration for deciding the future direction of this project. This is because an FAQ does not establish new requirements.
67. Staff observe that the publication of a Staff FAQ in time to affect the preparation of financial statements for periods ending on 30 June 2020 would not be feasible. Therefore, staff recommend the Board considers the resource implications of developing a Staff FAQ at the Board's February 2021 meeting, in light of the decisions the Board makes on the direction of this project at its November 2020 meeting.

Option 5—progressing development of proposed additional disclosures regarding the historical cost of revalued restricted land, and deferring the issue of an ED on all other components of this project

Arguments for Option 5

68. Issuing proposed requirements to disclose the historical cost of revalued land restricted for a public-sector-specific purpose in advance of developing proposals for the measurement of such restricted land would have the purpose of enabling users of financial statements to identify the amount originally invested in the land's service potential.
69. These proposals do not need to await the Board's proposals regarding how to measure the fair value of restricted land, and regarding issues interdependent with that measurement issue, because the merits of disclosing historical cost information are unaffected by how revalued assets are measured.

Arguments against Option 5

70. Arguments against separately exposing proposed historical cost disclosures are:
 - (a) user feedback has not indicated strong demand for that information to be disclosed;
 - (b) even for those who would find that disclosure useful, there is not an urgent need for those disclosures;
 - (c) feedback from some stakeholders indicates that changes to disclosures are considered and applied holistically for particular classes of assets. This indicates stakeholders could analyse and comment on proposed changes to disclosure requirements applying to restricted land in a more informed manner if they have an overall view of all possible changes to disclosures. In addition, it would be less disruptive to preparers of financial statements if all possible changes to disclosures affecting a particular class of assets coincided; and
 - (d) as an extension of the argument in (c), arguably a more informed debate about disclosing the historical cost of restricted land would occur if that disclosure were not considered until the Board reviews for all revalued assets the exemption in AASB 116 *Property, Plant*

and Equipment (paragraph Aus77.1) for NFP entities to disclose the historical cost of items of revalued property, plant and equipment.

Staff recommendation

71. In view of the significant possibility that the Board might need to consider a non-fair value current value measurement basis for restricted land, and because it appears that the resolution of the issues in this project is not urgently sought, staff consider that the arguments for Option 2 are more convincing than the arguments for Option 1. In addition, staff consider there is insufficient demand for separate proposed guidance on the issues independent of the issues related to how to measure the fair value of restricted land, and the draft guidance on those 'independent' issues would seem unlikely to result in a significant improvement to financial reporting. Furthermore, there appears to be insufficient demand for additional disclosures to warrant developing disclosure requirements as a separate step in this project.
72. Accordingly, staff recommend that Option 2 is adopted. That is, staff recommend that the Board defers issuing an Exposure Draft on any components of this project, and focuses first on developments in cross-cutting projects of the AASB and international standard-setters.

Indicative timeline for Option 1 and Option 2

73. Before discussing the proposed milestones and timeline, staff consider that it might be useful for Board members to take note of the following:
 - (a) Post-Implementation Review (PIR) of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*; and
 - (b) Staff's suggested work to be done on IPSASB Measurement project.

PIR of AASB 1049

74. The Board has planned to undertake a PIR of AASB 1049. The result of the PIR could potentially lead to fewer public sector assets being required to be measured at fair value for financial reporting purposes; and thus reducing the demand for public-sector-specific guidance on fair value measurement. However, staff do not consider this project to have significant cross-cutting issues with the FVM project because if accounting standards retain an option to measure assets restricted for a public-sector-specific use at fair value, then it is likely that stakeholders might still require guidance to measure the fair value of such assets.

Work to be done on IPSASB's Measurement project

75. The IPSASB is expected to issue in early 2021 Exposure Drafts ED 77 *Measurement* and ED 76 *Conceptual Framework – Limited-Scope Update* (proposed consequential amendments to the IPSASB Conceptual Framework as a result of ED 77). Regardless of whether the Board decides any components of the FVM project should be deferred, Staff recommend that the Board, in line with paragraph 20 of *The AASB's Approach to International Public Sector Accounting Standards*, formally submits comments to the IPSASB on its proposals once exposed.
76. To inform the development of the Board's submission, staff also recommend:
 - (a) exposing the IPSASB Exposure Draft in Australia for public comment;
 - (b) performing targeted outreach on the IPSASB's proposals; and

- (c) if the Board decides to defer issuing its own Exposure Draft on the FVM project (i.e. Options 2 –5), including Australian Specific Matters for Comment (SMCs) in the cover page over the IPSASB EDs to take the opportunity to ask feedback on:
- i. the likely level of constituents’ acceptance of a measurement model outside of fair value for measuring restricted assets; and
 - ii. the Board’s tentative decisions on the cross-cutting measurement issues outlined in [Table 8](#) of [Appendix B](#).

77. The following table contains indicative timelines to assist the Board in identifying the timing implications of choosing between Option 1 and Option 2. The timing implications are illustrated for these particular Options:

- (a) to avoid the complexity of illustrating five different timelines; and
- (b) because they represent the two extremes of the range of five Options identified by the staff. The timelines for Options 3 – 5 would fall within the range of indicative completion dates set out for Options 1 and 2.

78. The table provides draft milestones including a considerable difference between indicative completion date under the two Options.

Table 5: Indicative timelines

Meeting	Project Milestones if adopting Option 1	Project Milestones if adopting Option 2
24–25 February 2021: Board meeting	<ul style="list-style-type: none"> • Board to revisit tentative leanings in expressed in March 2020 meeting regarding fair value measurement of right-of-use (ROU) assets and provide direction to staff • Board to consider the tasks required to progress the March 2020 draft ED into a pre-ballot version 	<ul style="list-style-type: none"> • Board to consider a project plan for work to be done on the IPSASB Measurement project • Board to consider staff’s draft Australian SMCs to be included in the exposure of IPSASB ED 77 in Australia (if the Board agrees)
20–21 April 2021: Board meeting	<ul style="list-style-type: none"> • Staff to present revised guidance on fair value measurement of ROU assets based on decisions in February 2021 meeting • Board to consider options for guidance on identifying equivalent unrestricted land • Board to consider staff’s analysis of IPSASB’s proposals in ED 77 to consider any resulting changes to the Basis of Conclusions of the draft ED for the FVM project 	<ul style="list-style-type: none"> • Board to consider staff’s analysis of IPSASB’s proposals in ED 77 and commence drafting of the submission letter to the IPSASB

Meeting	Project Milestones if adopting Option 1	Project Milestones if adopting Option 2
21-22 June 2021: Board meeting	<ul style="list-style-type: none"> Board to consider comments received on IPSASB ED 77 from submissions and targeted consultation Board to consider draft submission letter (depending on timing, Board to finalise submission out of session) 	<ul style="list-style-type: none"> Board to consider comments received on IPSASB ED 77 from submissions and targeted consultation Board to consider draft submission letter (depending on timing, Board to finalise submission out of session)
8-9 September 2021: Board meeting	<ul style="list-style-type: none"> Board to consider additional draft Illustrative Examples of fair value measurement of ROU assets Board to consider a pre-ballot draft ED with the aim to finalise it out of session shortly after the meeting for exposure (expose the ED for 90 days) 	<ul style="list-style-type: none"> Staff to provide update to Board on comments received on the IPSASB's proposals Board to revisit discussions made in March 2020 regarding fair value measurement of right-of-use assets and provide direction to staff
10-11 November 2021: Board meeting	<ul style="list-style-type: none"> Board to note comments received from outreach activities 	<ul style="list-style-type: none"> Board to consider additional draft Illustrative Examples of fair value measurement of ROU assets Staff to provide update to Board on IPSASB's initial consideration of comment letters on its proposals
2022-2023	<ul style="list-style-type: none"> Issue Standard by Q3 2022 	<ul style="list-style-type: none"> Issue ED in 2022-2023 after IPSASB Measurement project is finalised and AASB's NFP Conceptual Framework Project Stage 2 is significantly progressed. Timing would be informed further by responses to the Board's upcoming Agenda Consultation.

Questions for Board members

Q1: Do Board members agree with staff recommendations in paragraphs 71–72 to adopt Option 2 to defer issuing an Exposure Draft on any components of the FVM project and focus first on developments in cross-cutting projects? If Board members disagree with adopting Option 2, which Option would Board members prefer and what are the reasons for that view.

Q2: Do Board members agree with the staff recommendation in paragraph 75 to formally submit comments to the IPSASB on its upcoming two linked Measurement Exposure Drafts (ED 77 and ED 76)?

Q3: Do Board members agree with staff recommendations in paragraphs 76(a)– 76(b) to expose the IPSASB Exposure Drafts in Australia and perform targeted consultations?

Q4: If the Board decides to defer issuing its own Exposure Draft on the FVM project, do Board members agree with the staff recommendation in paragraph 76(c) to include Australian SMCs to ask for specific feedback when exposing the IPSASB Exposure Drafts in Australia?

Appendix A: Summary of how cross-cutting projects potentially affect the timing of components of the project

- A1. This Appendix provides further information of the discussion in [Section 2](#) of the paper. [Table 6](#) below is an expanded detailed version of [Table 2](#) in [Section 2](#) and provides a high-level summary of how cross-cutting projects potentially affect the timing of components of the project.
- A2. Column A of the table summarises issues to be addressed in the FVM project, classifying them as either those that the Board has, or has not, deliberated. They include:
- issues the Board decided to address in the FVM project, which were identified by the Panel¹ in 2017 after the Board received requests from constituents for clarifying guidance on AASB 13; and
 - other issues identified by the Board: fair value measurement of ROU assets and additional disclosures about restricted land held by NFP public sector entities.
- A3. Each issue is further classified in Column B as either an:
- interdependent issue – the issue is interdependent with the Board’s decision on the ‘measurement of restricted land’ issue (shaded in [green](#)); or
 - independent issue – the issue is not affected by the Board’s decision on the ‘measurement of restricted land’ issue (shaded in [purple](#)).
- A4. Columns C – E highlight, by shading the cells in [orange](#), whether the cross-cutting AASB projects or international projects discussed in Section 1 of the paper would potentially affect the issues to be addressed in the FVM project. The crosscutting projects are:
- Column C: AASB’s NFP Conceptual Framework project;
 - Column D: IPSASB’s Measurement project. Please also see [Appendix B](#) for further information about this project; and
 - Column E: IASB Disclosure Initiative project.

¹ The Panel asked the Board to consider providing guidance on “determining appropriate valuation techniques for measuring the fair value of assets with different characteristics”. This has been subsumed within other issues in Table 6 that have been discussed by the Board.

Table 6: Issues to be addressed in the FVM project and cross-cutting projects

A Issues to be addressed in the FVM project	B Interdependent/ independent	C NFP Conceptual Framework project	D IPSASB Measurement (Also see Appendix B)	E IASB Disclosure Initiative
Issues the Board has deliberated				
1. How to measure restricted land: whether at fair value or other current value	Interdependent	The Board’s rationale for any proposed NFP modifications to the Measurement Chapter of the RCF potentially would affect the Board’s decisions about FVM	See explanation in Table 8 of Appendix B	NA
2. Fair value measurement of restricted right-of-use (ROU) assets arising under concessionary leases	Interdependent			NA
3. How to apply the concept of ‘highest and best use’ to assets held primarily for their service capacity	Interdependent	NA (likely too specific to be addressed in the RCF)	See explanation in Table 8 of Appendix B	NA
4. Treatment of restrictions affecting controlled entities but not their parent entities	Interdependent	NA		NA
5. Assumed location of land forming part of a facility measured at current replacement cost	Interdependent	As above		NA
6. Nature of component costs to include in an asset’s current replacement cost	Independent	NA	See explanation in Table 8 of Appendix B	NA
7. Consider whether to develop guidance on whether the current replacement cost of a self-constructed asset should include borrowing costs	Independent	NA		NA
8. How to identify and measure economic obsolescence	Independent	NA		NA
9. Disclosures: Qualitative/quantitative disclosures about restricted land measured at fair value	Interdependent	NA	NA	Changes to IFRS 13 could affect the Board’s decisions about additional disclosures for restricted land

A Issues to be addressed in the FVM project	B Interdependent/ independent	C NFP Conceptual Framework project	D IPSASB Measurement (Also see Appendix B)	E IASB Disclosure Initiative
10. Disclosures: Historical cost of restricted land	Interdependent ¹	NA	NA	NA
Issues not yet deliberated by the Board				
11. Whether to measure restricted land at cost model only under AASB 116	Interdependent	The Board's decision on whether to mandate the use of the cost model in measuring restricted land is potentially affected by the Board's rationale for any proposed NFP modifications to the Measurement Chapter of the RCF		NA
12. Disclosures: Greater disclosure relief for public sector entity assets measured at fair value using significant Level 3 inputs ²	Independent	NA	NA	Proposed changes to IFRS 13 could affect the Board's decisions about any additional disclosure relief
13. Measurement of internally generated intangible assets (e.g. licences) repurchased by the issuer and held without intention of resale	Independent	NA	NA	NA

Issues raised by individual Panel members

A5. There are other issues raised by individual members of the Panel that the Board has not yet considered. Regardless of which Option in [Section 3](#) is adopted, at a future meeting the Board will be asked to consider whether any standard-setting actions would be required to address any of these issues. These issues are included here for the Board's information only.

A6. Issues raised by individual Panel members include:

¹ This disclosure has been suggested mainly in relation to fair value measurements of restricted land that include a deduction for the effects of the restriction. However, some Board members have raised it as a possible disclosure for any restricted land measured at fair value.

² Members of the Project Advisory Panel did not specify which particular disclosure reliefs would be desirable, in addition to the reliefs previously included in AASB 13 for public sector NFP entities (paragraph Aus93.1). The staff proposes to include a Specific Matter for Comment in an Exposure Draft for this project, to elicit comments on which specific changes to the disclosures should be made.

- (a) how to determine a depreciation method that reflects the entity's pattern of consuming the asset's economic benefits;
 - (b) how to adjust for physical obsolescence in fair value measurements;
 - (c) whether a public sector entity (e.g. a local government) has control of an asset when another entity (e.g. a State Government) has the power to sell the asset;
 - (d) whether and how an adjustment for deferred maintenance should be made when measuring an asset's fair value;
 - (e) when measuring the fair value of an asset using the cost approach and thus looking at the cost of a modern equivalent asset, how to measure the adjustment for the difference between the cost of the service levels provided by a recently constructed (modern equivalent) asset and the service levels provided by the older generation asset held by the reporting entity; and
 - (f) guidance on the unit of account, including how to allocate the fair value of a group of assets to individual components of the group in order to determine depreciation of each unit of account.
- A7. Staff have not heard from other stakeholders that additional guidance is needed urgently to address these issues. Therefore, staff recommend that any work to analyse these issues should not precede addressing the issues listed in [Table 6](#).

Appendix B: High-level summary of IPSASB’s Measurement project

B1. The objective of the IPSASB’s Measurement project is to establish a single comprehensive Standard that identifies and defines the measurement bases used in IPSAS. The project would:

- provide generic application guidance on the derivation of these measurement bases in the Measurement Standard; and
- consequentially amend the IPSASB’s Conceptual Framework and other applicable IPSAS.

B2. The current proposal is that IPSAS would have two measurement models: ‘historical cost model’ and ‘current value model’. Within the ‘current value model’, there would be four measurement bases:

- fair value, which aligns with IFRS 13 – for measuring assets held primarily for their financial capacity (i.e. are cash generating), and for measuring some liabilities;
- current service value – for measuring assets held primarily for their operational capacity (i.e. are non-cash generating);
- cost of fulfilment – for measuring liabilities the entity intends to settle in the normal course of operations; and
- value in use – for determining impairment of assets.

B3. Based on the agenda papers for the October 2020 IPSASB meeting ([Agenda Item 1](#)), the current draft proposed approach is that the relevant measurement basis under the current value model would be:

- fair value – for assets primarily held for their financial capacity. Fair value aligns with the concepts in IFRS 13 as a market-participants-based exit value. It reflects the price that would be received to sell an asset; and
- current service value – for assets primarily held for their operational capacity (i.e. non-cash generating). Current service value is an entity-specific entry value measurement that reflects prices in the market in which the entity would acquire a modern equivalent asset.

B4. The following table has been adapted from pages 20 and 34–35 of the papers for [Agenda Item 1](#) of the October 2020 IPSASB meeting, which explains the key differences between the proposed ‘fair value’ measurement basis and the ‘current service value’ measurement basis under the proposed ‘current value model’.

Table 7: The IPSASB’s proposed ‘fair value’ and ‘current service value’ measurement bases

	Fair value (aligns with IFRS 13)	Current service value
Entity’s primarily objective of holding the asset	For financial capacity – hold the asset to sell, or to use to generate financial return (i.e. cash generating).	For operational capacity – hold the asset to provide services (i.e. non-cash generating).

	Fair value (aligns with IFRS 13)	Current service value
Definition of 'fair value' and 'current service value'	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	Current service value is the cost to <u>replace the service potential requirement</u> of a modern equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date.
Measurement perspective	<p>Measures an asset from the perspective of a market participant.</p> <p>Considers the highest and best use of the asset.</p> <p>An exit value, which measures how much an entity would receive to <u>sell</u> an asset.</p>	<p>Measures an asset from the perspective of the entity that holds the asset.</p> <p>An entry value, which measures how much an entity would pay to <u>replace</u> an asset.</p>
Techniques available to measure fair value/current service value		
Market approach	Market approach is used to measure the market price of an identical asset. Therefore, market approach is only used when a market for an identical or similar asset exists.	
	The market price represents the amount an entity would be able to receive for the asset (or pay to transfer the liability).	<p>Market approach is often used to measure assets that are not specialised.</p> <p>The market price represents the amount an entity would have to incur to replace the asset.</p>
Cost approach (used when no market for the asset exists)	Measure the cost to replace the <u>asset</u> .	<p>Measure the cost to replace the <u>service</u> of an asset. It measures the cost to replace the asset using inputs other than identical assets.</p> <p>The cost approach is likely to be used when measuring specialised assets (where a market is unlikely to exist).</p>
Income approach (used when no market for the asset exists)	Expected cash flows would approximate the amount an entity would receive to sell an asset (or pay to transfer a liability).	Expected cash flows of the asset would approximate the amount an entity would be willing to pay to replace the asset.

Implications for the Board's FVM project

- B5. When the Board deliberated the FVM project at the AASB meetings held in 2018–2019, it tentatively decided that, in respect of restricted assets held by a NFP public sector entity primarily for their service capacity, the hypothetical market participant buyer of such a restricted asset under AASB 13 would be another NFP public sector entity with similar service delivery objectives.
- B6. Therefore, in respect of those restricted assets mentioned in paragraph B5, staff consider that the asset value measured under the fair value concept of a “market-participants-based exit value” should, in principle, be similar to the value measured under IPSASB’s proposed current service value basis. That is, an “entity-specific entry value” would likely to be aligned to a “market-participants-based exit value”. Accordingly, staff consider that the IPSASB’s rationale and decisions about the proposed “current service value” measurement basis is relevant to the Board’s deliberation about the fair value measurement of such restricted assets.
- B7. Additionally, the IPSASB is currently deliberating several issues listed in [Table 6](#) in [Appendix A](#) that the Board has deliberated. It appears that the current views of the IPSASB differ from the tentative views the Board previously expressed on some of these issues. [Table 8](#) below summarises these differences.
- B8. The content in [Table 8](#) is primarily based on:
- [Agenda Paper 11.2 of the March 2020 AASB meeting](#), which is a working draft of a possible AASB Exposure Draft that includes staff’s drafting of possible amendments to AASB 13 and Basis for Conclusions reflecting the tentative decisions made by the Board on the FVM project up to then; and
 - agenda papers for [Agenda Item 1](#) of the October 2020 IPSASB meeting, which includes a draft version of an Exposure Draft ED 77 *Measurement*.
- B9. [Table 8](#) below is set out as follows:
- Column A lists the relevant issues outlined in [Table 6](#) in [Appendix A](#);
 - Column B summarises the Board’s tentative decisions on the issue, in the context of fair value measurement;
 - Column C summarises the IPSASB’s tentative decisions on the issue based on its draft “current service value” measurement basis, which would apply when an asset is not measured under the fair value basis; and
 - Column D notes the staff assessment of whether the tentative decisions made by the Board and the IPSASB are different (albeit within the context of different measurement bases).

Table 8: AASB’s and IPSASB’s tentative decisions on certain measurement issues

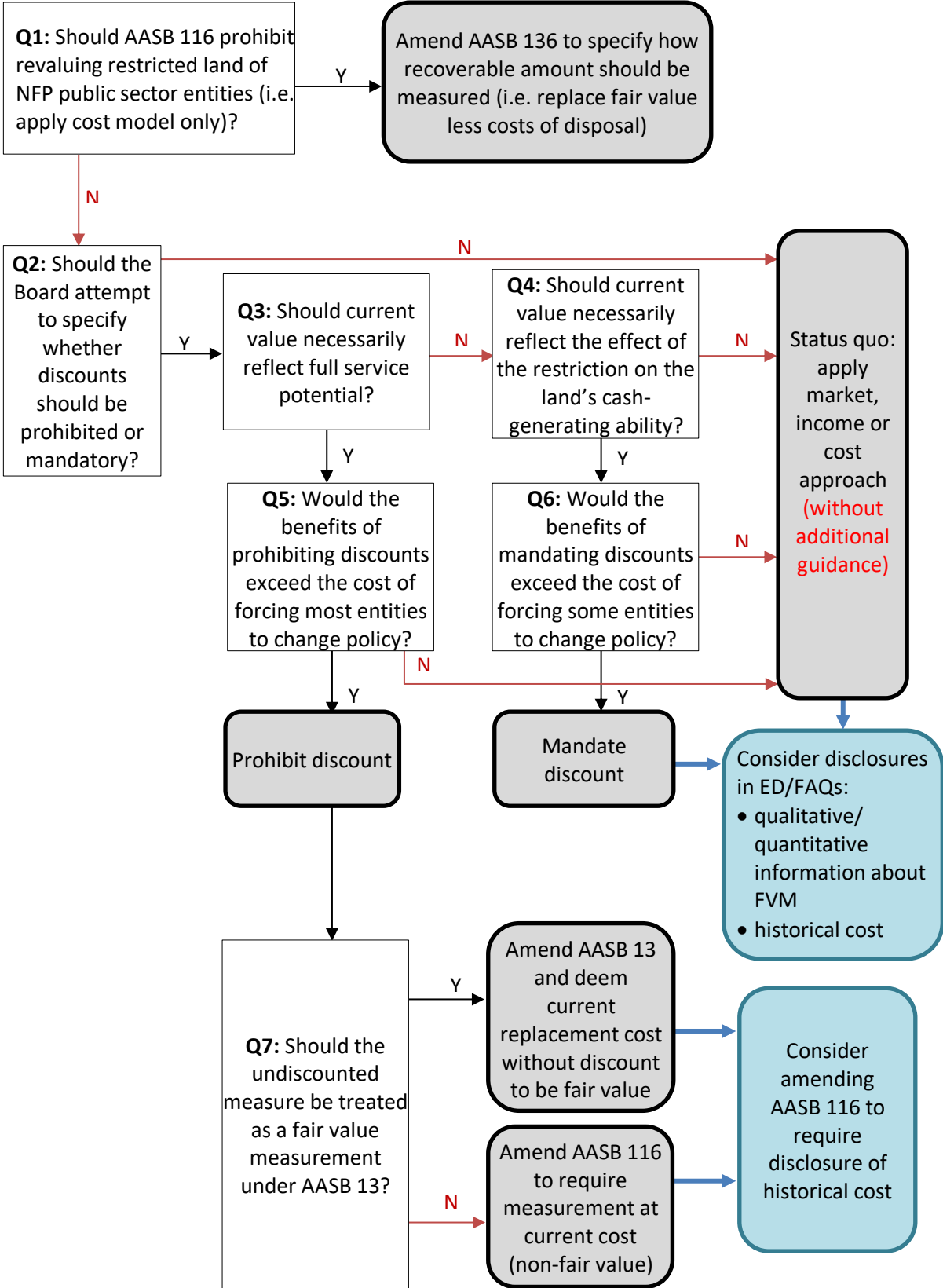
<p>A Issues (The numbering of the issues below corresponds to the numbering in Table 6 in Appendix A)</p>	<p>B AASB’s tentative decisions (References relate the working draft ED in Agenda Paper 11.2 of the March 2020 AASB meeting)</p>	<p>C IPSASB’s tentative decisions (References relate to papers for Agenda Item 1 of the October 2020 IPSASB meeting)</p>	<p>D Consistent/ Different</p>
<p>1. How to measure restricted land: whether at fair value or other current value</p>	<p>Measure restricted assets held primary for their service capacity, including restricted land, at current replacement cost without an adjustment deducted for the public-sector-specific restricted use. This measurement is deemed to be fair value. [Paragraph Aus66.1 of draft ED]</p>	<p>Paragraph B6 of the draft ED 77 states “The entity should also consider any factors that might affect the cost of replacing the service potential of the existing asset ... existing restrictions on the use of the land and/or buildings; any restrictions on the sale or use of the land and/or buildings...”</p>	<p>Apparently different, although draft IPSASB ED 77 is very vague about how the restrictions should be taken into account</p>
<p>3. How to apply the concept of ‘highest and best use’ to assets held primarily for their service capacity</p>	<p>The highest and best use concept in AASB 13 should continue be applicable to NFP entities. However, the ‘financially feasible’ use’ aspect of a non-financial asset’s highest and best use (as described in paragraph 28(c) of AASB 13) should not be applicable to restricted assets of NFP entities that are held primarily for their service capacity. [Paragraph Aus28.1 of draft ED]</p>	<p>Paragraph B6 of the draft ED 77 states “... The <u>existing use of the asset</u> will be considered in the light of environmental issues such as the present and future characteristics of the location ...” [emphasis added] Paragraph B13 of the draft ED 77 states “An entity shall measure the current cost of an asset using the assumptions from the entity’s perspective ... include (b) the <u>intended use of the asset</u>” [emphasis added]</p>	<p>Different, unless the asset is required to remain in its current location</p>
<p>6. Assumed location of land forming part of a facility measured at current replacement cost</p>	<p>Service capacity of an asset includes ‘reinvestment potential’ i.e. the ability to sell an asset and reinvest the proceeds in other stores of service capacity. Therefore, replacement of an asset is always assumed to occur in its present location.</p>	<p>Paragraph B7 of the draft ED 77 states “If there is no locational requirement for the asset, the asset’s current cost may assume that the notional replacement will be situated on an alternative site which can provide the same service potential in a more cost effective way. However, the location of an</p>	<p>Different</p>

<p style="text-align: center;">A</p> <p style="text-align: center;">Issues</p> <p>(The numbering of the issues below corresponds to the numbering in Table 6 in Appendix A)</p>	<p style="text-align: center;">B</p> <p style="text-align: center;">AASB’s tentative decisions</p> <p>(References relate the working draft ED in Agenda Paper 11.2 of the March 2020 AASB meeting)</p>	<p style="text-align: center;">C</p> <p style="text-align: center;">IPSASB’s tentative decisions</p> <p>(References relate to papers for Agenda Item 1 of the October 2020 IPSASB meeting)</p>	<p style="text-align: center;">D</p> <p style="text-align: center;">Consistent/ Different</p>
	<p>[Paragraphs F26 and BC107–BC111 of draft ED]</p>	<p>asset may impact its current cost in situations where a social policy decision has been made requiring the asset to be located in a specific location.”</p>	
<p>7. Nature of component costs to include in an asset’s current replacement cost</p>	<p>The current replacement cost of assets composing a self-constructed facility includes all necessary costs intrinsically linked to acquiring the facility at the measurement date.</p> <p>An NFP public sector entity should assume that the facility presently does not exist and should take into account any make-good costs that must be incurred for surrounding facilities of another entity disturbed when the entity’s facility is replaced.</p> <p>[Paragraph BC84 of draft ED]</p>	<p>An entity might assume that the site being valued is level and serviced and ready for development because work that may have been undertaken to prepare the actual site for occupation might not need to be carried out on an assumed equivalent site.</p> <p>[Paragraphs B5(a) and B5(e) of draft ED 77]</p>	<p style="text-align: center;">Different</p>
<p>8. Consider whether to develop guidance on whether the current replacement cost of a self-constructed asset should include borrowing costs</p>	<p>No guidance is proposed for AASB 13. The draft Basis for Conclusions states that:</p> <p>In deciding whether borrowing costs should be included in the current replacement cost of a self-constructed asset, an NFP entity should consider whether a market participant buyer of the asset would include borrowing costs in its pricing decisions about the asset.</p>	<p>IPSASB proposes that borrowing costs are to be excluded in the current cost because there is an assumption that a public entity cannot identify borrowing costs (the cost of capital) that relate to the construction of a specific asset.</p> <p>[Paragraph B5(b) of draft ED 77]</p>	<p style="text-align: center;">Different</p>

<p style="text-align: center;">A</p> <p style="text-align: center;">Issues</p> <p>(The numbering of the issues below corresponds to the numbering in Table 6 in Appendix A)</p>	<p style="text-align: center;">B</p> <p style="text-align: center;">AASB’s tentative decisions</p> <p>(References relate the working draft ED in Agenda Paper 11.2 of the March 2020 AASB meeting)</p>	<p style="text-align: center;">C</p> <p style="text-align: center;">IPSASB’s tentative decisions</p> <p>(References relate to papers for Agenda Item 1 of the October 2020 IPSASB meeting)</p>	<p style="text-align: center;">D</p> <p style="text-align: center;">Consistent/ Different</p>
	<p>The Board took the view that, in light of AASB 13 not specifying the treatment of borrowing costs for fair value measurements by for-profit entities, it would be inappropriate to mandate a particular treatment for NFP entities applying AASB 13.</p> <p>[Paragraphs BC113–BC114 of draft ED]</p>		
<p>9. How to identify and measure economic obsolescence</p>	<p>If an asset has suffered a reduction in demand for its services, the identification of its economic obsolescence does not require a formal decision to have been made to reduce the physical capacity of that asset.</p> <p>However, if an asset has apparent overcapacity in view of current demand for its services, economic obsolescence shall not be identified for that asset if there is more than an insignificant chance that future increases in the demand for its services will largely eliminate that overcapacity within the foreseeable future.</p> <p>[Paragraphs F24–F25 and IE5 of draft ED]</p>	<p>Paragraph B4(c) of draft ED 77 states “Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. The loss of service capacity might be temporary or permanent. For example, a school might have been built in a residential area and designed to take 500 pupils but demographic changes have resulted in the need for only 300 school places. The determination of replacement cost will need to reflect this reduction in required service capacity.”</p>	<p>Consistent</p>

Appendix C: Key technical issues – measurement of restricted land

Legend: Questions to consider Outcome Disclosure considerations



Appendix D: Overview of project history

The following table provides a high-level overview of the Board's key activities undertaken in the FVM project.

Date/AASB meeting	Key activities
2015/2016	<ul style="list-style-type: none"> In 2015, as an interim measure, amended AASB 13 to provide disclosure relief to NFP public sector entities (exemption from disclosing quantitative information about inputs used in FVM) In 2016, respondents to the Board's <i>Agenda Consultation 2017-2019</i> requested guidance to assist application of AASB 13 in NFP public sector
2017	<ul style="list-style-type: none"> The Project Advisory Panel identified the most important issues to be addressed, and these issues were confirmed by the Board as the focus of the FVM project Focus on other priority projects in 2018
April 2019 meeting	<ul style="list-style-type: none"> Tentatively decided that restricted assets of NFP public sector entities should be measured at current replacement cost without a discount for the effect of the restrictions
June 2019 meeting	<ul style="list-style-type: none"> The Board received correspondence from stakeholders expressing concerns about the Board's tentative decision on FVM of restricted assets, and considered an initial draft of an ED
Nov 2019 meeting	<ul style="list-style-type: none"> Project's scope extended to include guidance on FVM of ROU assets arising under concessionary leases (private and public sector). Tentatively decided that the same fundamental principles for fair valuing owned assets should apply to the FVM of ROU assets Considered a revised draft ED
March 2020 meeting	<ul style="list-style-type: none"> Board started deliberating the FVM of ROU assets, but found overlapping issues with how the fair value of restricted assets should be measured Considered another revised draft ED Decided to consult further to understand the measurement of current values of public sector restricted assets in other jurisdictions
April 2020 meeting	<ul style="list-style-type: none"> Tentatively decided to take an interim step to require quantitative disclosures of the amount of adjustments being deducted to reflect restrictions on land
June 2020 meeting	<ul style="list-style-type: none"> Board discussed the possible proposed quantitative disclosures about restricted land and considered whether qualitative disclosures or historical cost of restricted land might be more appropriate
Sep 2020 meeting	<ul style="list-style-type: none"> Board considered feedback from staff's consultation with stakeholders on the proposed quantitative/qualitative and historical cost disclosures. Feedback from most users and preparers indicated it would be costly to prepare the proposed quantitative/qualitative disclosures and be unlikely to be very useful to users