This Agenda Paper contains staff's proposed amendments to AASB 13 *Fair Value Measurement*, which have been drafted based on the staff recommendations in paragraphs 22, 36, 37, 44, 50 and 54 of Agenda Paper 7.1.

Amendments to AASB 13

Commented [PA1]:
Note to the Board

Staff have amended paragraph Aus93.1 and drafted paragraphs Aus93.2 and Aus93.3, as indicated in underlined text.

Paragraphs 91–93 and 94 have not been amended but have been included for ease of reference.

…

Disclosure

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

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

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

92 To meet the objectives in paragraph 91, an entity shall consider all the following:

(a) the level of detail necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the various requirements;

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this Standard and other Australian Accounting Standards are insufficient to meet the objectives in paragraph 91, an entity shall disclose additional information necessary to meet those objectives.

93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Standard) in the statement of financial position after initial recognition:

…

(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

…

(f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.

(g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).

(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

   (i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).

   (ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

(i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

Aus93.1 Notwithstanding paragraph 93, but subject to paragraphs Aus93.2 – Aus93.3, in respect of not-for-profit public sector entities, for assets within the scope of AASB 116 *Property, Plant and Equipment* for which the future economic benefits are not primarily dependent on the asset's ability to generate net cash inflows, the following requirements do not apply:

   (a) in paragraph 93(d), the text "For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.";

   (b) paragraph 93(f); and

   (c) paragraph 93(h)(i).

Aus93.2 In relation to each class of land (or land and other assets) within the scope of AASB 116 *Property, Plant and Equipment* and measured at fair value, not-for-profit public sector entities shall disclose the following information if the land is held primarily for its service capacity and any portion of that separately disclosed balance includes a deducted adjustment to the current market buying price of equivalent unrestricted land because the land is restricted for a public-sector-specific purpose:

   (a) the total carrying amount of the class;

   (b) the adjustment deducted (implicitly or explicitly) from the current market buying price of equivalent unrestricted land to reflect the restricted public-sector-specific purpose for holding the land; and

   (c) quantitative information about the significant unobservable inputs used in the fair value measurement and giving rise to the adjustment referred to in (b).

Aus93.3 The requirements of paragraph Aus93.2 do not apply to a parcel of land of a not-for-profit public sector entity held primarily for its service capacity if it is measured at fair value and the fair value estimate is based on the value of equivalent restricted land obtainable in the marketplace for a price supported by observable market evidence.

94 An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

(a) the nature, characteristics and risks of the asset or liability; and

(b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements

Question 1 to the Board

Do Board members agree with the drafting of paragraphs Aus93.2 and Aus93.3?

should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another Standard specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

Appendix F [FOR AASB 13]
Australian implementation guidance for not-for-profit entities

Disclosures about adjustments deducted from the current market buying price of equivalent unrestricted land in fair value measurements of land restricted for a public-sector-specific purpose

F27 In relation to each class of land (or land and other assets) within the scope of AASB 116 *Property, Plant and Equipment* and measured at fair value, paragraph Aus93.2 requires not-for-profit public sector entities to disclose the following information if the land is held primarily for its service capacity and any portion of that separately disclosed balance includes a deducted adjustment to the current market buying price of equivalent unrestricted land because the land is restricted for a public-sector-specific purpose:

(a) the total carrying amount of the class;

(b) the adjustment deducted (implicitly or explicitly) from the current market buying price of equivalent unrestricted land to reflect the restricted public-sector-specific purpose for holding the land; and

(c) quantitative information about the significant unobservable inputs used in the fair value measurement and giving rise to the adjustment referred to in (b).

Note to the Board

The drafting of paragraph F27(b) was based on the staff recommendation in paragraph 37 of Agenda Paper 7.1

F28 The requirements of paragraph Aus93.2:

(a) remove the disclosure exemption in paragraph Aus93.1(a) only in respect of land restricted for a public-sector-specific purpose and including a deducted adjustment to the current market buying price of equivalent unrestricted land; and

(b) apply in addition to the requirements in paragraph 93(d) to describe the valuation technique(s) and inputs used in the fair value measurement. Meeting those requirements in paragraph 93(d) would include disclosing whether the market approach, income approach or cost approach was used to measure the fair value of the land. If either the market approach or cost approach is used to measure the fair value of restricted land, the entity also discloses the following in accordance with paragraph 93(d):

(i) whether the equivalent unrestricted land used to develop each fair value estimate is in the same area as the parcel of land being valued;

(ii) the fact that an adjustment has been deducted for the risk that the restriction affecting the parcel of land being valued (but not the equivalent unrestricted land) will not be able to be removed, if that valuation technique has been used; and

(iii) if the fair value estimate includes adjustments for the cost to adapt the property to a higher and better use, the time value of the estimated period until the restriction is removed, and legal and other costs of the process of removing the restriction, the nature of those inputs to the fair value estimate.

Note to the Board

Staff have assumed that public sector NFP entities would apply either the market approach or the cost approach in measuring the fair value of restricted land held primarily for its service capacity.

However, if the income approach was used, the proposed requirement in paragraph Aus93.2(c) to disclose quantitative information about significant unobservable inputs to the fair value estimate would not apply. This is because the entire fair value measurement of that parcel of land would be based on unobservable forecast cash flows and this would be conveyed to users of the financial statements by disclosing the use of the income approach in accordance with paragraph 93(d).

F29 For the purposes of applying paragraphs Aus93.2 and F27:

(a) a restriction of an asset for a public-sector-specific purpose includes a restriction over the asset's use and a restriction over the prices that may be charged for using the asset;

(b) equivalent unrestricted land is land that is:

(i) in the same proximity as the parcel of land being valued;

(ii) capable of providing the same services (or utility) as the parcel of land being measured (although not necessarily of the same dimensions: if the other parcel of land has different dimensions to the parcel of land being measured, market comparison techniques are used

Note to the Board

The drafting of paragraph F29(b) was based on staff recommendation in paragraph 36 of Agenda Paper 7.1

to adjust for the difference between the capacity of the parcel of land being measured and the capacity of the other parcel of land); and

(iii) not restricted for the public-sector-specific purpose for holding the parcel of land being valued. However, equivalent unrestricted land might be restricted in use by zoning otherwise than for a public-sector-specific purpose (eg it might be zoned for residential, commercial or light industrial use) or by an easement providing access to other services; and

(c) the adjustment disclosed excludes any amounts deducted from the current market buying price of equivalent unrestricted land to reflect adverse physical characteristics that are specific to the entity's parcel of land (eg contamination, being flood-prone or having restricted access), which are not effects of restrictions to hold the land for a public-sector-specific purpose.

F30 Quantitative information about the significant unobservable inputs used in the fair value measurement and giving rise to the adjustment deducted from the current market buying price of equivalent unrestricted land, required by paragraphs Aus93.2(c) and F27(c), includes the amount of the adjustment attributable to the unobservable input and the range of the percentages of the adjustment compared with the current market buying price of the equivalent unrestricted land. For example, if an adjustment deducted for the risk that the restriction affecting the parcel of land being valued will not be able to be removed is a significant unobservable input, the amount of that risk adjustment is disclosed in terms of amount and the percentage of the current market buying price of equivalent unrestricted land that it represents.

F31 Paragraph Aus93.3 excludes a parcel of land from the disclosure requirements of paragraph Aus93.2 if the fair value estimate is based on the value of equivalent restricted land obtainable in the marketplace for a price supported by observable market evidence. An example is where a not-for-profit public sector entity measures the fair value of a parcel of land restricted for use as a school by reference to the price of a parcel of land at an adjacent or nearby site that is also restricted for use as a school and available for purchase for a price supported by observable market evidence. In such a case, the fair value of the parcel of land does not embody an adjustment to its current market buying price because replacing the parcel of land would not require the entity to acquire land that is 'unrestricted' (ie not restricted for a public-sector-specific purpose).

Note to the Board

The drafting of paragraph F29(c) was based on staff recommendation in paragraph 22 of Agenda Paper 7.1

Note to the Board

The drafting of paragraph F30 was based on staff recommendation in paragraph 44 of Agenda Paper 7.1

Note to the Board

The drafting of paragraph F31 was based on staff recommendation in paragraphs 54 of Agenda Paper 7.1

Question 2 to the Board

Do Board members have any comments on Appendix F as currently drafted?

Illustrative examples

Disclosures about adjustments deducted from the current market buying price of equivalent unrestricted land in fair value measurements of land restricted for a public-sector-specific purpose

IE11 Example 12 and Example 13 illustrate how to disclose information about adjustments to the current market buying price of equivalent unrestricted land in fair value measurement of land restricted for a public-sector-specific purpose, when equivalent restricted land is not obtainable in the marketplace for a price supported by observable market evidence, as required by paragraphs Aus93.2 – Aus93.3. They also illustrate application of the disclosure requirements for fair value measurements categorised within Level 2 or Level 3 of the fair value hierarchy in paragraph 93(d) that are not currently scoped out from application to public sector not-for-profit entities (i.e. a description of the valuation technique(s) and inputs used).

IE12 Example 12 and Example 13 assume a government department with the same name and identical assets exists in each of two States. The fair values of the land holdings of those government departments are measured at identical amounts. However, those fair value measurements are calculated using different methodologies in the two jurisdictions. The Examples illustrate, among other things:

(a) the disclosures about the amounts of adjustments deducted for restrictions on land for a public-sector-specific purpose, and the total carrying amounts of each class of land (or land and other assets), required by paragraphs Aus93.2(a) and (b); and

(b) the effect of adopting different valuation techniques and using different inputs on the disclosures made in accordance with paragraphs 93(d) and Aus93.2(c).

IE13 Because the scope of this [proposed] Standard excludes evaluating the respective merits of different valuation methodologies, Example 12 and Example 13 do not comment on those valuation methodologies. For simplicity, comparative information for prior periods is not disclosed.

Note to the Board

Examples 12 and 13 aim to illustrate the disclosure requirements in Aus93.2 when restricted land is measured under the implicit discount method and explicit discount method.

Example 12 – Disclosure of adjustments for restrictions on land

As at 30 June 20X0, the Community Services and Environment Department in State A holds land that it identifies under paragraph 37 of AASB 116 *Property, Plant and Equipment* as belonging to three classes of property, plant and equipment. Each of those classes is measured at fair value under the revaluation model in AASB 116. Those separate categories of land are:

- unrestricted land under office buildings;
- land under public housing (which is zoned for public use); and
- land zoned for community use as a park.

The three classes of property, plant and equipment including those categories of land are, respectively:

- land and buildings – offices;
- land and buildings – public housing; and
- parkland.

The unrestricted land under office buildings and the buildings (office buildings and public housing buildings) are measured at Level 2 of the fair value hierarchy, using observable inputs without adjustment for significant unobservable inputs, in accordance with paragraphs 81 – 85 of this Standard. The land restricted for use for a public-sector-specific purpose (land under public housing and parkland) is classified as being measured at Level 3 of the fair value hierarchy, in accordance with paragraph 84, because the land values measured using observable market inputs are adjusted for the restrictions using unobservable inputs that are significant to the entire measurement of each of those assets.

It is assumed that the classes of the Department's land determined on the basis of their nature, characteristics and risk (in applying paragraph 94(a) of this Standard) are the same as the classes based on nature and use (as determined under paragraph 37 of AASB 116).

The measurement of the fair value of each above-mentioned class of property, plant and equipment is composed of the following amounts.

	Level of Fair Value Hierarchy	
	Level 2	*Level 3*
	$'000	*$'000*
Land and buildings – offices (unrestricted)		
Fair value of land	172,000	
Fair value of buildings	145,000	
Land and buildings – public housing		
Fair value of land		822,500
Fair value of buildings	455,600	
Parkland		
Fair value of land		99,750
Total	**772,600**	**922,250**

The land value based on unrestricted land (and the adjustment deducted for restrictions) for the land under public housing and parkland are $1,175 million ($352.5 million) and $285 million ($185.25 million) respectively.

Valuation techniques and inputs for classes of land restricted for a public-sector-specific purpose

In State A, the Department applies the market approach as follows:

- initially estimating the market price of the land as if it were unrestricted for a public-sector-specific purpose (based on observable market data for adjacent land); and
- subsequently deducting a 30% adjustment from the 'unrestricted' value of land under public housing and a 65% adjustment from the 'unrestricted' value of parkland based on the range of percentage adjustments recommended in Valuation Guidelines issued by the Office of the Valuer-General in the Department's State.

The discount percentage represents:

- the risk that the market participant buyer of the land would be unable to achieve rezoning from, or otherwise remove the current restriction of the land for, a public-sector-specific purpose to achieve the market potential of the adjacent 'unrestricted' land; and
- without separate identification, the costs of achieving the higher and better use of the adjacent 'unrestricted' land.

Disclosures of amounts of adjustments deducted

Based on the information above, in accordance with paragraph Aus93.2(a) and (b), the Department in State A provides the following information for each class of asset that includes land:

- the carrying amount (fair value); and
- the amount of the adjustment for any restriction for a public-sector-specific purpose (for the purposes of this example, it is assumed that the amount of the adjustment is material for each class disclosed).

	Adjustment deducted for restrictions on land	*Level of Fair Value Hierarchy*	
		Level 2	*Level 3*
	$'000	*$'000*	*$'000*
Land and buildings – offices (unrestricted)	-	317,000	-
Land and buildings – public housing	(352,500)	455,600	822,500
Parkland	(185,250)	-	99,750
Total	**(537,750)**	**772,600**	**922,250**

Description of valuation techniques and inputs used, and amount of significant unobservable inputs

Based on the information above, the Department in State A discloses the following description of the valuation techniques and inputs used, in accordance with paragraph 93(d):

> The Department uses the market approach to measure the fair value of its land, including land restricted for use for a public-sector-specific purpose. In relation to the latter category of land, the Department estimates the market price of the land if it were unrestricted for a public-sector-specific purpose (based on observable market data for adjacent land) and deducting a percentage adjustment within a range recommended in Valuation Guidelines issued by the Office of the Valuer-General in the Department's State. The discount percentage represents the risk that the market participant buyer of the land would be unable to achieve rezoning from, or otherwise remove the current restriction of the land for, a public-sector-specific purpose to achieve the market potential of the adjacent 'unrestricted' land. It also impounds, without separate identification, the costs of achieving the higher and better use of the adjacent 'unrestricted' land.

In accordance with paragraph Aus93.2(c), the Department in State A discloses that:

> There were no significant unobservable inputs to the measurement of the fair value of land and buildings – offices.
>
> The only significant unobservable input to the measurement of the fair value of land and buildings – public housing was a deduction of 30% from the unrestricted market price of land to reflect the risk of being unable to remove the land's restriction for use in public housing. This deduction amounted to $352.5 million.
>
> The only significant unobservable input to the measurement of the fair value of parkland was a deduction of 65% from the unrestricted market price of land to reflect the risk of being unable to remove the land's restriction for use as a park. This deduction amounted to $182.25 million.

Example 13 – Disclosure of adjustments for restrictions on land

The fact pattern about the Department is the same as in Example 12, except that the Department in State B uses different detailed valuation techniques according to the severity of the public-sector-specific restriction on the land's use.

Land under public housing

For land under public housing, the restriction is considered low-level. Consequently, the Department calculates the fair value of the restricted land under public housing by commencing with the land's fair value assuming its existing restricted use is its only possible use and then adding the product of:

- the net increase (if any) in the price that market participants would be prepared to pay for the land if it ceased to be restricted for use for a public-sector-specific purpose, after deducting the costs of achieving any higher and better use; and
- the probability of the land ceasing to be restricted for use for a public-sector-specific purpose.

The costs of achieving a higher and better use include:

- the cost of removing contamination or any other impediment to using the land for the higher and better use;
- the time value of the estimated period between the measurement date and the date on which the restriction will be removed (if it is removed); and
- the 'process' costs directly associated with removing the restriction (eg rezoning application fees, costs of publicising the proposed change in the land's use and any legal costs in advising on the conduct of the rezoning or other removal of restriction and in responding to any legal challenges to the change in legally permitted use).

The percentage adjustment (expressed as a reduction from 100%) represents the risk that the market participant buyer of the land would be unable to achieve rezoning from, or otherwise remove the current restriction of the land for, a public-sector-specific purpose. The land's fair value is calculated as follows:

	$'000	$'000
Market value of land in its existing use, assuming no higher and better use exists		400,000
Increase in the price that market participants would be prepared to pay for the asset if it ceased to be restricted for use for a public-sector-specific purpose ('enhancement of value')	775,000	
Less: Costs of obtaining enhancement of value:		
• Cost of removing existing buildings/ improvements to land	(70,000)	
• Time value of estimated period until the restriction is removed	(45,000)	
• Cost of applying for rezoning and legal fees	(10,000)	
Total costs of enhancement	(125,000)	
Net increase in the price that market participants would be prepared to pay for the asset if it ceased to be restricted for use for a public-sector-specific purpose	650,000	
Probability of removing restriction for use for a public-sector-specific purpose	65%	
Risk-adjusted enhancement of value		422,500
Total (fair value)		**822,500**
Compare with: The current market buying price of equivalent land without a restriction for a public-sector-specific purpose		1,175,000
Adjustment deducted for a public-sector-specific purpose		**352,500**

The adjustment deducted for a public-sector-specific purpose ($352.5 million) represents 30% of the current market buying price of the land if it were not restricted for a public-sector-specific purpose ($1,175 million).

Significant observable and unobservable inputs used to calculate the adjustment deducted from the current market buying price of the land if it were not restricted for a public-sector-specific purpose (calculated separately to identify any material unobservable inputs required to be disclosed under paragraph Aus93.2(c))

	$'000	$'000
Current market buying price of equivalent land without a restriction for a public-sector-specific purpose		1,175,000
Adjustment for the risk that the public-sector-specific restriction will not be removed		
Enhancement of value if public-sector-specific restriction is removed	(775,000)	
Multiplied by risk of inability to remove restriction	35%	
Amount of adjustment for risk	(271,250)	
Adjustment for costs of obtaining enhancement of value		
Total of those costs	(125,000)	
Extent to which those costs were deducted in the calculation of the land's fair value (ie probability of removing restriction for use for a public-sector-specific purpose)	65%	
Total probability-weighted costs of enhancement deducted	(81,250)	
Total amount of adjustments deducted for the restriction of the land for a public-sector-specific purpose		
= ($271.25 million) + ($81.25 million) =		(352,500)
Total (fair value)		**$822,500**

Note to the Board

It would be more intuitive to simply start with the current market buying price of an unrestricted parcel of equivalent land and then deduct a percentage discount for the risk of being unable to remove the restriction on the land's use. However, where each input to the fair value measurement is quantified separately, this would give rise to the problem that, if the net increase in value from removing the restriction were lower in percentage terms than the percentage risk of being unable to remove the restriction, taking into account the possibility of a higher and better use would result in a lower estimate of the land's fair value than if its existing restricted use were assumed to be its only possible use.

This would be inconsistent with market participants' pricing behaviour (ie they would bid a higher amount because of a reasonably foreseeable higher and better use) and the fact that the value of a real option is never negative. Accordingly, the risk factor must be applied to the net increase in value from removing the restriction, and not to the total amount of the land's current market buying price if it were unrestricted for a public-sector-specific purpose.

Parkland

In contrast, in respect of its parkland, the Department in State B identifies the land's restriction for use as parkland as a high-level restriction. Consequently, it estimates the fair value of land restricted for use as parkland by applying the per-hectare price of grazing land on the urban fringe of the metropolitan area with no economic farming potential or foreseeable development/redevelopment potential at the measurement date. Under this methodology, the Department does not start its calculation of a parcel of restricted parkland with the current market buying price of equivalent land that is not restricted for a public-sector-specific purpose. The Department measures the fair value of its parkland as $99.75 million.

<u>Disclosures of amounts of adjustments deducted</u>

- The Department in State B would make the same disclosures as the Department in State A for "Land and buildings – offices (unrestricted)" and "Land and buildings – public housing".
- No amount of adjustment would be disclosed in respect of parkland, because the adjustment is merely implicit in the fair value measurement.

<u>Note to the Board</u>

If Board members agree with staff recommendation in paragraph 37 in Agenda Paper 7.1 to require disclosure of any material adjustments to the current market buying price of equivalent unrestricted land regardless of whether the adjustment is explicit or implicit in the fair value measurement, the Department in State B would make the same disclosures as the Department in State A, as illustrated in Example 12.

<u>Description of valuation techniques and inputs used, and amount of significant unobservable inputs</u>

Based on the information above, the Department in State B discloses the following description of the valuation techniques and inputs used, in accordance with paragraph 93(d):

> The Department uses the market approach to measure the fair value of its land, including land restricted for use for a public-sector-specific purpose. In relation to the latter category of land, the Department estimates its fair value assuming its existing restricted use is its only possible use and then adds the product of:
>
> - the net increase (if any) in the price that market participants would be prepared to pay for the land if it ceased to be restricted for use for a public-sector-specific purpose, after deducting the costs of achieving any higher and better use; and
> - the probability of the land ceasing to be restricted for use for a public-sector-specific purpose.
>
> The costs of achieving a higher and better use (inputs to the fair value measurement) include the cost of removing any estimating buildings/other improvements; the time value of the estimated period until the restriction is removed, the costs of rezoning applications and legal fees.

In accordance with paragraph Aus93.2(c), the Department in State B discloses that:

> There were no significant unobservable inputs to the measurement of the fair value of land and buildings – offices.
>
> The only significant unobservable input to the measurement of the fair value of land and buildings – public housing was a deduction of 35% from the excess of the unrestricted market price of land over its existing-use value to reflect the risk of being unable to remove the land's restriction for use in public housing. This deduction amounted to $271.25 million.

<u>Note to the Board</u>

The Department in State A, with an identical fair value measurement but a different technique, measured this deduction (significant unobservable input) at $352.5 million. This difference illustrates the difficulty of obtaining comparability of disclosures when different valuation techniques are used. However, it should also be borne in mind that the total adjustment deducted for the public-sector-specific restriction would be the same for the Departments in States A and B.

If the Board decided not to require disclosure of implicit adjustments deducted from the current market buying price of equivalent unrestricted land, the Department in State B would not disclose any significant unobservable input to the measurement of the fair value of parkland. If the Board decided to require disclosure of implicit adjustments deducted from the current market buying price of equivalent unrestricted land, the amount of the significant unobservable input to the measurement of the fair value of parkland would depend on which methodology the Department in State B uses to adjust the value of adjoining land.

The fact pattern in this example does not assume any costs would need to be incurred to rectify adverse physical characteristics specific to the Department's parcels of land, such as physical contamination. Such costs would be unrelated to the effect of the restriction for a public-sector-specific purpose and therefore would need to be excluded from the adjustments disclosed in accordance with paragraph Aus93.2. Isolating these costs would seem straightforward under the more explicit valuation technique of the Department in State B, but would seem likely to give rise to extra work for the Department in State A.

Basis for Conclusions

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Exposure Draft (ED). It sets out the reasons why the Board developed the ED, the approach taken to developing the ED and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Note to the Board

Paragraphs BC1–BC13 are largely the same as the Basis for Conclusions included in the working draft Exposure Draft presented to the Board at the March 2020 meeting.

Reasons for undertaking the 'Fair Value Measurement for Public Sector Entities' Project

Majority of non-financial assets in the public sector are measured at fair value

BC2 The Financial Reporting Council (FRC) issued a direction to the AASB to require the Whole of Government (WoG) and the General Government Sector (GGS) to harmonise with Government Finance Statistics (GFS) requirements. Consequently, AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requires WoG and GGS to elect an accounting treatment that aligns with GFS principles and requirements where an accounting standard permits a choice (AASB 1049 paragraph 13). As GFS requires assets and liabilities to be measured at current market value, this has resulted in WoG and GGS electing the revaluation model as their accounting policy and measure their non-financial assets, such as property, plant and equipment, at fair value.

Question 3 to the Board

Do Board members have any comments on Basis for Conclusions as currently drafted?

BC3 Although AASB 1049 requires only WoG and GGS to align with GFS principles, some stakeholders from the public sector have informed the AASB that the Treasury or Finance Department (or other authority) in each jurisdiction has issued instructions to require public sector entities in their jurisdiction to also elect the accounting treatments that align with GFS principles, which has led to majority of non-financial assets of public sector entities being measured at fair value.

Diversity and inconsistency in applying the requirements in AASB 13

BC4 The Board initially considered the application of AASB 13 *Fair Value Measurement* for not-for-profit and public sector entities in 2011 when IFRS 13 *Fair Value Measurement* was issued. At its March and June 2011 meetings, the Board decided not to include any not-for-profit entity modifications to IFRS 13 in AASB 13. At that time, the Board considered that even though many non-financial assets in the public sector might have a specialised nature or that observable market inputs might not be readily available, a public sector entity would be able to measure the fair value of such assets at current replacement cost, under the cost approach in IFRS 13.

BC5 At its December 2014 meeting, the Board considered feedback from constituents regarding the application of AASB 13. The AASB decided to undertake a narrow-scope project to give relief from certain AASB 13 disclosures, limited to property, plant and equipment within the scope of AASB 116 *Property, Plant and Equipment* that are held primarily for their current service capacity rather than primarily to generate future cash inflows, and relief from disclosure of quantitative and qualitative information about the significant unobservable inputs in the fair value measurement of such assets. This project resulted in AASB 2015-7 *Amendments to Australian Accounting Standards ─ Fair Value Disclosures of Not-for-Profit Public Sector Entities*.

BC6 The AASB stated it intends to revisit the disclosure relief, based on the extent to which the outcomes of related projects, such as review of the Reduced Disclosure Regime (Tier 2), Australian Reporting Framework, and Conceptual Framework, address the AASB's reasons for granting this relief (paragraph BC7 of AASB 13).

BC7 During the due process of developing AASB 2015-7 and consideration of ITC 34 *AASB Agenda Consultation 2017-2019* (in which the Board sought views on the AASB's priorities for its work program for the period 2017–2019), some constituents in the public sector requested the Board to provide guidance clarifying how the requirements in AASB 13 would be applied to the fair value measurement of public sector entity assets.

BC8 Many constituents in the public sector commented that applying AASB 13 has been challenging and costly and would like guidance on how to measure the fair value of non-financial assets of public sector entities, in particular (but not limited to):

- valuation techniques to use for a public sector entity asset where there are few or no market participants (other than the entity) and where information about the inputs to a current replacement cost model may be scarce;
- the concept of obsolescence under the cost approach;
- how government-imposed restrictions on non-financial assets should be accounted for; and
- how to measure the fair value of public sector entity assets using the cost approach.

BC9 The Board noted that the measurement issues seem to be widespread across the not-for-profit public sector and involve divergence in practice. One of the major inconsistencies is how the principles in AASB 13 have been applied in measuring the fair value of a non-financial asset held primarily for its service capacity, which is also subject to legal restrictions on its use and on the prices that a not-for-profit entity may charge others for using the asset. In particular, it seems that many public sector entities measure the fair value of land that has been restricted in use (eg to build a hospital on it and not to be sold) at a discount to the market value of adjoining unrestricted land, while the building on the land (eg hospital building) is measured at unadjusted current replacement cost. This means that component assets of a composite asset (eg hospital) are being measured using different assumptions and approaches, resulting in some parcels of land in these composite assets being measured at a very low values and, in the Board's view, not reflecting their service potential. It is also often unclear how the discount factor was computed or the assumptions made in coming up with the discount; specifically, it is often unclear how much of the discount was attributable to the restriction on the use of the asset and how much was attributable to the restriction on the prices that may be charged for using the asset.

Consistent with the Board's strategy

BC10 Having considered the issues involving widespread divergence in applying AASB 13 in the not-for profit public sector, the Board decided to undertake the *Fair Value Measurement for Public Sector Entities Project* (the Project) to address the interpretative issues regarding applying the requirements of AASB 13 to non-financial assets of not-for-profit public sector entities measured at fair value.

BC11 The Board's strategy for the period 2017-2021 identifies seven strategic objectives. The Project is consistent with the following strategic objectives:

- strategic objective 1 'Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For 'publicly accountable' entities maintain IFRS compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.' The Project recognises that modifications in the form of amendments or further guidance may be necessary to AASB 13 in response to user feedback to clarify the application of AASB 13 in measuring the fair value of assets held by not-for-profit public sector entities; and
- strategic objective 4 'Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.' Undertaking the Project, and the consultative manner in which the Project has been conducted (see paragraphs BC17–BC18) show that the Board seeks and responds to stakeholder feedback; thereby providing support to the Board's strategy of encouraging active stakeholder participation.

Right-of-use assets arising under concessionary leases

BC12 Additionally, the Board received feedback from some not-for-profit entities in both the private sector and public sector that they are encountering difficulties in applying the principles of AASB 13 in determining the fair value of right-of-use assets arising as lessees under concessionary leases, particularly if restrictions are imposed on the use of the underlying leased asset. Concessionary leases in this context are leases with significantly below-market terms and conditions principally to enable the entity to further its objectives, as referred to in AASB 16 *Leases* and AASB 1058 *Income of Not-for-Profit Entities.*

BC13 The Board considered the prevalence and magnitude of concessionary leases in the not-for-profit sector, and the significance of restrictions on rights of use of the underlying leased assets in many cases, and decided to extend the scope of the Project to address the interpretative issues regarding the fair value measurement of right-of-use assets arising under concessionary leases.

AASB's tentative decision regarding fair value measurement of restricted assets primarily held for their service capacity and right-of-use assets arising under concessionary leases

BC14 Many non-financial assets of not-for-profit entities are held primarily for their service capacity, and some of those assets have legal restrictions imposed on their use or the prices that can be charged for using them. Constituents asked the AASB to clarify how to apply the principle in paragraph 28(b) of AASB 13 that the highest and best use of a non-financial asset takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property). Paragraph IE29 of the Illustrative Examples accompanying IFRS 13 indicates that legal restrictions on the use of an asset that would not transfer to market participant buyers of the asset would not be taken into account in the asset's fair value measurement.

BC15 The AASB has been informed that uncertainty and diverse interpretation have arisen regarding how to identify whether particular legal restrictions transferable to market participant buyers would affect pricing decisions made by those buyers. In particular, as mentioned in paragraph BC9, it seems that many public sector entities measure the fair value of land with a restricted use at a discount to the market value of adjoining unrestricted land, although the building on the land, which is subject to the same restrictions, is measured at current replacement cost without a discount to reflect restrictions.

BC16 During the outreach to some valuers, the AASB noted that it is often unclear how the discount factor was computed or the assumptions made in determining the discount to reflect restrictions; specifically, it is often unclear how much of the discount was attributable to the restriction on the use of the asset and how much was attributable to the restriction on the prices that may be charged for using the asset.

Inconsistent with the Conceptual Framework and misrepresentation of public sector assets

BC17 The Board is of the view that an asset of a not-for-profit entity not held primarily to generate cash inflows provides service potential to the entity by having the capacity to satisfy the wants and needs of members of the community (beneficiaries) without necessarily receiving cash in exchange from those beneficiaries. Consistent with paragraphs Aus49.1, Aus54.1 and Aus54.2 of the AASB's Conceptual Framework, the AASB considers that those assets should be measured at amounts faithfully representing their service potential (i.e. measured at their service capacity). By reducing the measured value of a restricted non-financial asset because it has restrictions on the price that can be charged for using it, which would diminish the net cash inflows the asset can generate directly but would not diminish the asset's service potential would not be consistent with the principles of the Conceptual Framework.

BC18 As mentioned in paragraph BC4, the Board originally considered that IFRS 13 had sufficient guidance and that the fair value of restricted land and restricted improvements would be measured at current replacement cost to reflect the service capacity of these assets. Measuring these types of non-financial assets using the market approach or income approach, which only reflects the price a for-profit market participant might be willing to pay, would not reflect the asset's service capacity.

BC19 Concerns have been expressed to the Board that significant non-financial assets with ongoing service capacity might be written off due to restrictions imposed on the use of the asset and/or on the prices that can be charged for using the asset. There is a risk that users of public sector financial statements would not receive a faithful representation of the financial position of public sector entities from the financial statements. In particular, users would not be able to gauge from the financial statements the assets being managed by the public sector entity and the extent of those assets' remaining service capacity. It would also be difficult for users to identify the costs currently required to replace the service capacity (and the periodic consumption of those costs), which would make assessments of intergenerational equity difficult.

BC20 The AASB also considers that applying different measurement methods in measuring land and other assets that are subject to the same restrictions would also conflict with the Framework's qualitative characteristic of comparability (because it would apply inconsistent accounting treatments to similar items).

Tentative decision

BC21 Based on the above, at its November 2019 meeting, the AASB made a tentative decision to propose modifying AASB 13 to require the fair value of a non-financial asset held primarily for its service capacity and subject to legal restrictions, in the absence of observable market evidence, to be measured as its current replacement cost without a discount for the effect of the restriction(s). The AASB noted the resulting measurement should be deemed to be the asset's fair value—this would not necessarily achieve conformity with IFRS 13 *Fair Value Measurement*, because the market and income approaches would not be permitted.

BC22 The AASB made this tentative decision because it is of the view that when such assets are legally restricted as to their use or the prices that can be charged for goods or services derived from them, their fair values should not be written down to a market selling price or present value of net cash inflows that is less than their current replacement cost. When such assets can be bought and sold for prices incorporating the effect of the restriction, their current replacement cost would reflect the observable market selling price. Adopting this proposed modification would be expected to reduce uncertainty and diversity in practice regarding how to apply the principles in AASB 13 and would not necessarily change practice for some not-for-profit public sector entities.

BC23 The Board also tentatively decided that the proposed modification in paragraph BC21 should be applied also to a not-for-profit lessee's right-of-use asset arising under a concessionary lease.

Feedback on the AASB's tentative decision from the Fair Value Measurement Project Advisory Panel and other stakeholders

BC24 At the inception of this project, the AASB established the Fair Value Measurement Project Advisory Panel (the Panel) to provide a forum for the AASB to consult on specific fair value measurement issues. The Panel consists of industry experts that have experience in dealing with fair value measurement issues, including professional asset valuers and financial statement preparers and auditors. Some AASB Board and staff members have held several meetings with the Panel over the course of the Project. The Project has also been assisted considerably by extensive background research performed by two Panel members. Some of that work is reflected in this Exposure Draft as well as Board agenda papers.

BC25 As part of the Project, the AASB has also consulted professional asset valuers from the Australian Valuation Standards Committee and some accounting firms to seek understanding of how asset valuations are performed, and whether (and, if so, in what manner) the principles in AASB 13 differ from these practices.

BC26 The majority of feedback received from these stakeholders indicated that more research is required for the Board to assess:

- the methodologies currently applied in measuring the fair value of restricted land and buildings and how those methodologies relate to the concept of 'service potential' adopted in the AASB Conceptual Framework, AASB 136 *Impairment of Assets* and AASB 1059 *Service Concession Arrangements: Grantors*;
- when measuring the fair value of restricted land, what the discount to the current market buying price of equivalent (e.g. adjoining) land is intended to represent, and why the same discount is not applied to the current market buying price of any restricted buildings and other improvements on that land;
- users' needs in respect of how fair value is measured in the financial statements of public sector not-for-profit entities;
- the extent of change and associated cost that would be involved in implementing the Board's current tentative proposals; and
- the methodologies applied in measuring the current value of restricted assets by public sector entities in other jurisdictions (e.g. in New Zealand and the United Kingdom), and their differences from the methodologies currently applied in Australia.

Reasons for developing this Exposure Draft – Requiring disclosures of discounts on restricted land as an interim step

BC27 The AASB considered that it would take considerable time to obtain the information listed in paragraph BC26 and then complete its deliberations regarding the fair value measurement of restricted assets and right-of-use assets arising under concessionary leases. The AASB decided, as an interim step (while it continues its deliberations about these fair value measurement issues), to develop a limited-scope Exposure Draft for application by public sector not-for-profit entities.

BC28 In respect of not-for-profit entities, this Exposure Draft proposes adding:

(a) a public sector entity requirement, in respect of land subject to restrictions for a public-sector-specific purpose, to disclose the amounts of any material discounts deducted from the current market buying price of equivalent unrestricted land; and

(b) additional guidance in respect of application issues regarding measuring current replacement cost under the cost approach used to measure the fair value of some non-financial assets.

Reasons for proposing disclosures about discounts for restrictions on land for a public-sector-specific purpose

BC29 IFRS 13 paragraph 93 (which is adopted in AASB 13) requires disclosure of quantitative information about unobservable inputs that are significant to the fair value measurements if these unobservable inputs are reasonably available to the entity. As noted in paragraph BC5, the AASB issued AASB 2015-7 to provide temporary relief to public sector not-for-profit entities from having to disclose quantitative information about the significant unobservable inputs to fair value measurements of certain items of property, plant and equipment (AASB 13 paragraph Aus93.1).

BC30 This Exposure Draft would remove some of the temporary disclosure relief granted in AASB 2015-7 in respect of land subject to restrictions. It proposes a requirement to disclose the amounts of any material discounts (ie an unobservable input) deducted from the current market buying price of equivalent unrestricted land, which would have been required to be disclosed if the temporary relief in AASB 2015-7 had not been issued.

BC31 The AASB decided to propose requiring disclosures of discounts on restricted land because feedback from stakeholders indicated discounts for restrictions on land might be significant for public sector not-for-profit entities. Quantitative disclosures about the amounts of any material discounts being applied to restricted land would help the AASB and users assess the significance of discounts to fair value measurements of restricted land.

BC32 In addition, the AASB observed that it previously was unaware of the inconsistency between treatment of land and buildings/other improvements regarding the deduction of discounts for land alone when granting the disclosure relief in AASB 2015-7. Moreover, the 'cost-benefit' and 'impracticality' rationales for the temporary disclosure relief seem not to apply to these discounts for restrictions on land, because consultation with some valuers gave preliminary indications that public sector entities could obtain the necessary information at a reasonable cost since this information would be an input valuers use in estimating the fair value of a parcel of land.

BC33 However, given the Project's limited scope, the AASB consider it is unnecessary to revisit all the disclosure reliefs granted in AASB 2015-7 at this stage. The AASB decided to require disclosures about discounts only in respect of restricted land, because research to date indicates land is generally the only asset type for which discounts are widely deducted (compared with the current market buying price of equivalent unrestricted land).

BC34 The AASB also decided to propose in the Exposure Draft additional not-for-profit entity guidance in respect of assets measured at current replacement cost when a valuer, using judgement in selecting an appropriate valuation technique (either singularly or in combination with other valuation techniques), applies the cost approach to measure the fair value of a non-financial asset. Issues addressed by that proposed guidance are:

- the nature of costs included in an asset's current replacement cost;
- the assumed location of land forming part of a facility; and
- identifying and measuring economic obsolescence.

BC35 Guidance on these issues does not depend on the resolution of other fair value measurement issues in this project; that is, the proposed guidance does not pertain to determining *when* to apply the cost approach to measure the fair value of a non-financial asset. The guidance would apply when an entity, using its judgement, applies the cost approach to measure the fair value of a non-financial asset—the proposed amendments would not affect the exercise of that discretion.

Specific aspects of the proposed disclosures about restricted assets primarily held for their service capacity

Classes of assets including land measured at fair value

BC36 The proposed disclosures about the total carrying amount of land measured at fair value (or land and other assets, eg land and buildings) and the adjustment deducted from the current market buying price of equivalent unrestricted land in arriving at that fair value carrying amount would be required for each class of land (or land and other assets) determined in accordance with either paragraph 37 of AASB 116 *Property, Plant and Equipment* or paragraph 94 of AASB 13. The disclosure of information about those adjustments at a class-of-assets level reflects the principle that the rationale for disclosures of adjustments to the current market buying price of restricted land applies to whichever level of disaggregations of carrying amounts of land are presented in the financial statements. This is because the objective of the disclosure is to enable users of financial statements to gauge the relationship between the fair values disclosed for restricted land (or a class of assets including restricted land) and a current measure of the land's service potential. The proposed disclosures apply when information about them is material.

BC37 This Exposure Draft does not propose specifying how classes of assets that include land measured at fair value should be determined; nor does it propose disaggregating further classes of assets in relation to discounts. To disclose meaningful information about the range of percentage adjustments to the current market buying price of land, an entity might choose to disaggregate further some classes of assets including restricted land; however, this would not be required by the proposed amendments. The Board considered proposing to require land to be separated from any other assets presented within a single class of assets, to provide further insight into the percentage adjustments made for restrictions over land. The Board rejected that idea because:

(a) the primary focus of the disclosures is to enable users of financial statements to identify the amount by which the carrying amounts of land reflect an adjustment to the current market buying price of equivalent unrestricted land; and

(b) any changes to requirements for identifying separate classes of assets, albeit for a limited-purpose objective, would be beyond the purpose of the proposed amendments.

Meaning of 'restrictions'

BC38 The proposed disclosure requirements apply to land restricted for a public-sector-specific purpose, without stipulating that the restrictions concerned must only be restrictions referred to in paragraph 28(b) of AASB 13 (which are "legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property)"). This is because:

(a) the purpose of the proposed disclosure requirements is to provide information about adjustments made to the current market buying price of equivalent unrestricted land because of 'restrictions', regardless of how reporting entities concluded that particular parcels of land are 'restricted'. Some commentators have argued that public-sector-specific restrictions affect the price that market participant buyers would bid for a restricted asset, regardless of whether those restrictions are legally binding; and

(b) from consultations with stakeholders during earlier stages of this Project, it has become apparent that views can differ widely regarding whether a particular restriction would be taken into account by market participants when pricing the restricted asset. Stipulating that the 'restrictions' to which the proposed disclosure applies must be those referred to in paragraph 28(b) of AASB 13 would give rise to the potential for confusion in determining the scope of the disclosure.

Equivalent 'unrestricted' land and restrictions for a 'public-sector-specific purpose'

BC39 The reference measure for the proposed disclosure requirements is the current market buying price of equivalent unrestricted land, which the Board concluded represents most faithfully the current service capacity of the restricted land. However, it would seldom, if ever, be the case that the reference land for a parcel of restricted land would itself be entirely unrestricted. This is because land would be subject to zoning requirements. In addition, reference land might be subject to easements providing rights of access for the purpose of repairing utilities such as stormwater pipes. Neither of those types of restrictions reduce fair value measurements below the current value of the service capacity embodied in a parcel of land, because they also affect the current market buying price of that land. The proposed disclosure requirements focus on the effect of public-sector-specific restrictions on the fair value measurement, which can cause a difference between fair value measurements of a parcel of land and its current market buying price.

Amounts deducted for physical characteristics that are specific to the parcel of land being valued

BC40 The adjustment covered by the proposed disclosure requirements excludes any amounts deducted from the current market buying price of equivalent unrestricted land to reflect adverse physical characteristics specific to the parcel of land being valued (eg contamination, being flood-prone or having restricted access). This is because those deductions do not arise from restrictions to hold the land for a public-sector-specific purpose.

BC41 If a parcel of land is contaminated or flood-prone, or has restricted access, and the reference parcel of land considered by the valuer does not have those physical characteristics, the valuer would adjust for those adverse physical characteristics regardless of the nature of the entity holding the parcel of land or the purpose for which it is held. The objective of the proposed disclosures does not encompass showing the amounts of all inputs to a fair value estimate; it is limited to the effects of restrictions for a public-sector-specific purpose.

BC42 The Board seeks feedback from interested parties on whether the exclusion of amounts deducted to reflect adverse physical characteristics from the amounts disclosed for the effects of restrictions for a public-sector-specific purpose would cause any significant additional cost and effort.

Effect of valuation techniques used on the requirement to disclose the amount of the adjustment deducted from the current market buying price of equivalent unrestricted land

BC43 The proposed requirement in paragraph Aus93.2(b) to disclose the amount of the adjustment deducted from the current market buying price of equivalent unrestricted land for the effects of restrictions on land for a public-sector-specific purpose applies regardless of the valuation technique used to measure the fair value of that land. For example, two valuation techniques used in different valuations of the fair value of land restricted for a public-sector-specific purpose are the 'explicit adjustment method' and the 'implicit adjustment method', as described below:

(a) when measuring the fair value of restricted land using the 'explicit adjustment method', a valuer would start with a hypothetical assessment of the 'underlying zoning' of the land being valued (ie assessing what the zoning of the land would be if it were not zoned for a public-sector-specific purpose) and then adjust the measurement based on that hypothetical assessment to reflect the effect of the restriction for the public-sector-specific purpose; and

(b) when measuring the fair value of restricted land using the 'implicit adjustment method', a valuer would base the valuation on comparison with 'reference land' that is usually a parcel of land with a low-level utility in a different location (eg when the parcel of land being valued is in an urban area but is severely restricted in its use, the 'reference land' might be grazing land on the urban fringe of the metropolitan area with no foreseeable development or redevelopment potential at the measurement date). In this case, the adjustment to the current market buying price of equivalent unrestricted land to reflect the restriction for a public-sector-specific purpose would be implicit in the market value of the reference land.

Regardless of whether the 'explicit adjustment method' or 'implicit adjustment method' is used, the amount of the adjustment deducted from the current market buying price of equivalent unrestricted land would need to be disclosed in accordance with paragraph Aus93.2(b).

BC44 In reaching its conclusion in paragraph BC43, the Board weighed up the benefits of requiring the disclosure to be made even when the 'implicit adjustment method' is used with the cost and effort of disclosing amounts that are not an explicit component of valuations. The Board observed that requiring the disclosure proposed in paragraph Aus93.2(b) regardless of the valuation method used would achieve greater consistency in the disclosure of the adjustments made (and, thus neutrality between the incidence of disclosure requirements for different public sector not-for-profit entities) and, consequently, would provide a more comprehensive overview of the extent of those adjustments made by public sector not-for-profit entities. The Board has been advised by some stakeholders that the information required for the disclosure in paragraph Aus93.2(b) should normally be readily available at a reasonable cost, even if it is not formally part of the valuation process. In addition, the Board has been advised that, under the 'implicit adjustment method', valuers would typically have regard to the current market buying price of equivalent unrestricted land as an informal cross-check on the fair value estimate made. Therefore, the Board decided to propose that the disclosure in paragraph Aus93.2(b) is required regardless of which valuation technique is used.

BC45 The Board seeks feedback from interested parties on the costs and benefits of disclosing the adjustment deducted from the current market buying price of equivalent unrestricted land when the adjustment is implicit in the valuation technique applied.

Exclusion from the disclosure requirements in respect of land that is restricted for a public-sector-specific purpose and obtainable with the restriction

BC46 Paragraph F31 of the Exposure Draft states that a parcel of land restricted for a public-sector-specific purpose is excluded from the disclosure requirements of paragraph Aus93.2 if its fair value estimate is based on the value of equivalent restricted land obtainable in the marketplace for a price supported by observable market evidence. An example is where a not-for-profit public sector entity measures the fair value of a parcel of land restricted for use as a school by reference to the price of a parcel of land at an adjacent or nearby site that is also restricted for use as a school and available for purchase for a price supported by observable market evidence. In such a case, the fair value of the parcel of land does not embody an adjustment to its current market buying price because replacing the parcel of land would not require the entity to acquire land that is 'unrestricted' (ie not restricted for a public-sector-specific purpose). Therefore, it would be inconsistent with the objective of the disclosure in paragraph Aus93.2 to use unrestricted land as the reference point for showing differences between the fair value measurement of parcels of land and the current value of their service capacity.

Additional disclosures related to disclosure of adjustments deducted from the current market buying price of equivalent unrestricted land

BC47 The existing disclosure requirements in paragraph 93(d) applicable to public sector not-for-profit entities include requirements to describe the valuation technique(s) and inputs used in the fair value measurement.

This would include disclosing whether the market approach, income approach or cost approach was used to measure the fair value of the land. The Board considered whether to require additional disclosures to those currently required by paragraph 93(d) and those proposed to be required by paragraph Aus93.2(a) and (b) (ie disclosures about adjustments deducted from the current market buying prices of equivalent unrestricted land in respect of restrictions for a public-sector-specific purpose).

BC48 The Board considered whether it would be useful to users if financial statements were to disclose all material components of, or assumptions made in the calculation of, the adjustments disclosed in accordance with paragraph Aus93.2(b) (eg a material cost to remove improvements on land in order to achieve a higher and better use than the land's existing use). The Board observed that requiring quantitative disclosure of all significant inputs to, and assumptions made in the calculation of, fair values would seem to have an objective of helping users to develop their own estimates of fair value. Such an objective would go beyond the disclosure objective in paragraph 91 of AASB 13 (which refers to helping users of financial statements to *assess* the valuation techniques and inputs used—which is more related to helping users assess the quality and robustness of the fair value estimates). The Board observed that the IASB's Basis for Conclusions on IFRS 13 states the following in respect of disclosing quantitative information about unobservable inputs used in a fair value measurement (see paragraph BC49), but the points are applicable more generally to the objective of disclosures about fair value measurements:

> "(for) a measurement categorised within Level 3 of the fair value hierarchy … disclosures about such information help users to understand the measurement uncertainty inherent in the fair value measurement. … the objective of the disclosure is not to enable users of financial statements to replicate the entity's pricing models, but to provide enough information for users to assess whether the entity's views about individual inputs differed from their own and, if so, to decide how to incorporate the entity's fair value measurement in their decisions. …" (paragraphs BC190 – BC192)

BC49 Accordingly, the Board limited its consideration of the additional disclosures to quantitative information about unobservable inputs used in a fair value measurement. Such information is required of for-profit entities and private sector not-for-profit entities, but is excluded from the scope of the disclosure requirements for public sector not-for-profit entities by paragraph Aus93.1 of the Standard. The Board decided to propose reversing this scope exclusion in paragraph Aus93.1, but only in respect of land restricted for use for a public-sector-specific purpose—in particular, in respect of the adjustments deducted from the current market buying price of equivalent unrestricted land. The Board considers that two key reasons why it provided a scope exclusion for public sector not-for-profit entities in relation to quantitative information about unobservable inputs used in a fair value measurement (namely, cost-benefit and impracticality) do not apply to land restricted for use for a public-sector-specific purpose. This is because of the importance of information about adjustments to current measures of service capacity (which are pervasive in the public sector) and because initial stakeholder consultations have indicated that valuers incorporate quantitative information about unobservable inputs (eg the risk that the public-sector-specific restriction will not be lifted) in their fair value estimation process. The Board seeks feedback from interested parties on whether they agree with this reasoning.