



Treasury

Ms K Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
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Dear Ms Peach

#### **Fair Value Measurement in the Public Sector**

Thank you for the valuable conversation at the HoTARAC meeting last Friday on this topic. HoTARAC would like to acknowledge the considerable work of the AASB and its Staff to date on this project, given that consistent and meaningful measurement of the fair value of physical assets is particularly important to the public sector. HoTARAC have long supported additional guidance on fair value being provided for the not-for-profit and public sectors as beneficial to ensuring a consistent and conceptually sound approach. Our members appreciate the AASB's outreach, including through the AASB Project Advisory Panel and attendance at HoTARAC meetings.

I understand the views of most individual HoTARAC jurisdictions around the current draft proposals for the fair value of assets not held primarily to generate net cash inflows have been previously communicated to the AASB. Notwithstanding this, there remains significant concern around the current draft proposals and the members of HoTARAC believe summarising our current views would assist our ongoing collaboration on this topic.

The overwhelming majority of HoTARAC members strongly believe the current draft proposals will not result in consistent, useful information for users of public sector financial statements – and in particular - the currently proposed Board mandate to apply current replacement cost, without in many instances, adjustments for restrictions.

Generally, HoTARAC members are concerned the draft proposals:

- Would lead, in many instances, to assets being 'overvalued' with reference to the specific asset in question. The resultant values will have questionable meaning or use in the context of public sector financial reports;

- Are not consistent with the 'Exit Price' requirement in IFRS/AASB 13. While Exit Price poses challenges for the public sector, it provides a meaningful conceptual basis for estimating fair value in any circumstances;
- Could lead to inconsistent values for similar assets; and
- In practice, may not be consistent with how professional valuers would consider the value of an asset with restrictions.

At least one jurisdiction acknowledges the conceptual arguments by the AASB underpinning the current draft proposals to be logical and consistent in their development. However, they are desirous of thoroughly testing them first against a broader number of public sector scenarios to ensure their suitability in practice.

Information from HoTARAC members indicates the draft proposals would lead to significant financial reporting impacts. Such substantial changes to financial reports could detract from users' decision making abilities.

Given current practice across Australia is supported by preparers, valuers and auditors (noting that the Australasian Council of Auditors General has already written to the AASB in September 2019 on this matter), it is important the costs and benefits of major changes can be explained to all stakeholders and in the context of no currently voiced significant stakeholder concerns with the current valuation approach. Information from HoTARAC suggests the costs of implementation will be significant.

Our members are currently preparing case studies to facilitate the next stage of engagement. HoTARAC supports the AASB's current focus on this important topic and remains committed to continuing to work with the AASB towards a meaningful outcome.

If you have any queries regarding HoTARAC's comments, please contact Sean Osborn from the New South Wales Treasury on (02) 9228 5932 or by email to [sean.osborn@treasury.nsw.gov.au](mailto:sean.osborn@treasury.nsw.gov.au).

Yours sincerely



Stewart Walters  
Acting Chair  
Heads of Treasuries Accounting and Reporting Advisory Committee  
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