Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M184
Topic:	**Tier 3 – Investment property and Property, Plant and Equipment**	**Agenda Item:**	11.2
		Date:	7 February 2022
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		Decision-Making:	High
		Project Status:	Initial deliberations

The objective of this paper

1 The objective of this staff paper is for the Board to **decide** its preliminary views on Tier 3 reporting requirements for not-for-profit (NFP) private sector entity's investment property and property, plant and equipment (PP&E) as part of a discussion paper (DP).

Background and reasons for bringing this paper to the Board

2 At its 4 August 2021 meeting, the Board decided to consider the classification, recognition and measurement requirements concerning investment properties for NFP private sector entities at a future meeting. Staff note the Board has preliminarily decided that the drafting of PP&E will be primarily based on the New Zealand *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)* Accounting Standards.[1] However, staff consider that the issues identified with the measurement criteria for investment property are equally applicable to PP&E. As such, analysis of simplifications for PP&E will also be addressed in this paper.

3 Staff note that, anecdotally, it may not be common for Tier 3 sized NFP private sector entities to own investment property. However, feedback from NZASB Post Implementation Review of its Tier 3 and 4 reporting requirements, as well as feedback from the NFP Advisory panel members, suggested that there may be entities within the size thresholds contemplated by the Board that own and would measure investment property at fair value. Staff have also received feedback that there are some smaller NFP entities that elect to and find challenges in applying the revaluation measurement method in accounting for PP&E.

4 As such, addressing investment property and PP&E as part of a DP recognises these stakeholders' feedback for NFP entities that elected to revalue their investment property or PP&E. Developing

1 The Board agreed as presented in AP 4.1 at the 4th August 2021 Board meeting other possible future Tier 3 topics to be discussed in the DP that have not been identified as an area of significant interest by stakeholders beyond terminology and language including: intangible assets; property plant and equipment; inventory; associates and joint ventures; provisions; contingent liabilities and commitments; income taxes; fair value; foreign currency transactions; offsetting; expenses; borrowing costs; going concern; and events after reporting date. The drafting of these topics will be primarily based on the NZ External Reporting Board's *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) Accounting Standard* – for the Board's consideration as part of working draft of the DP.

preliminary views in this regard will enable the Board to obtain useful feedback to inform the Board whether its proposed views should be further developed as part of a future Exposure Draft.

5 Note, staff have not addressed related disclosures in any detail in this paper as this is contingent on the Board's preliminary view on Tier 3 investment property and PP&E recognition and measurement accounting policies. Staff will bring disclosure of key topics to be included in the DP at a future Board meeting. Staff have also not addressed investment property held by a lessee as a right-of-use asset under one or more operating leases as the Board has agreed that Tier 3 reporting requirements for leases (other than concessionary leases) should require a lessee (or lessor) to recognise only lease expenses (income), supplemented by disclosure of information about the entity's lease commitments.[2]

6 Note this paper will only cover the approach to the initial measurement of purchased investment property and PP&E, and the subsequent measurement of investment property and PP&E. However, staff note that the Board's decisions on subsequent measurement of investment property and PP&E will inform the staff analysis of the initial measurement of donated or granted non-financial assets. Staff will bring discussion of the approach to initial measurement of donated or granted non-financial assets as part of the Tier 3 reporting requirements for revenue and income, and impairment of non-current assets at a future meeting.

Structure of this paper

7 This paper is structured as follows:

(a) summary of staff recommendations (paragraphs 8 – 9);

(b) current requirements under Australian Accounting Standards (paragraphs. 10 – 17);

(c) Australian legislative requirements (paragraph 18);

(d) feedback from Australian stakeholders (paragraph 19);

(e) findings from academic research and other literature (paragraphs 20 – 23);

(f) findings from staff review of a sample of financial statements (paragraphs 24 – 26);

(g) options for simplification (paragraphs 27 –30);

(h) classification/recognition of investment property from PP&E (Table 1);

  (i) evaluation of options against Tier 3 principles (paragraph 31);

  (ii) staff recommendation (paragraph 32)

(i) measurement of investment property where separate classification is required (Table 2);

  (i) evaluation of options against Tier 3 principles (paragraphs 34 –35);

  (ii) staff recommendation (paragraph 36);

(j) measurement of PP&E (including where separate classification of investment property is not required) (paragraphs 37 –39); and

(k) staff analysis and recommendation – whether measurement requirements for fair value and borrowing cost should be simplified (paragraphs 40 –46).

2 Refer to Action Alert 211 of the AASB Board meeting on 10-11 November 2021.

Summary of staff recommendations

8 Staff recommend that the Tier 3 reporting requirements for investment property and PP&E should remain unchanged other than requiring all borrowing cost to be recognised in the profit or loss in the period which it was incurred. That is, Tier 3 reporting requirements will continue to require:

(a) investment property to be separately classified from PP&E and maintaining separate accounting requirements for investment property and PP&E;

(b) subsequent measurement for:

(i) investment property to be measured either using the cost model (that is, cost less accumulated depreciation based on a systemic basis over its useful life) or fair value model; and

(ii) PP&E to be measured at either the cost model or revaluation model.

9 Staff do not have a preferred view with respect to simplification to allow entities to measure fair value for investment property or PP&E using 'readily available data about recent market selling price of similar assets' to estimate current value, rather than applying fair value as required by AASB 13 *Fair Value Measurement*.

Current requirements under Australian Accounting Standards

AASB 140 Investment Property – *high-level summary*

10 AASB 140 requires an entity to classify property as investment property (land or a building, or part of a building – or both) held by the owner or by the lessee as a right-of-use (ROU) asset under one or more operating leases, where it is held to earn rentals or for capital appreciation or both.[3]

11 With respect of NFP entities, properties that are held to meet service delivery objectives rather than to earn rental or for capital appreciation will not meet the definition of investment property and will be accounted for under AASB 116 *Property, plant and equipment.*

12 Investment property will initially be measured at cost (comprising of its purchase price and any directly attributable expenditure). An entity is also required to capitalise borrowing cost where it meets the criteria for capitalisation under AASB 123 *Borrowing Costs.* For subsequent measurement, an entity can choose as its accounting policy either:

(a) **the fair value model** in accordance with AASB 13 with changes in fair value recognised in profit or loss in the period that they arise.[4] Lessees are required to measure the fair value of the ROU asset and not the underlying property; or

(b) **the cost model** measured by depreciated cost less any accumulated impairment losses in accordance with AASB 116*,* other than those that meet the criteria as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* or AASB 16 *Leases*.[5]

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3 Where a property comprises a portion that is held to earn rentals or for capital appreciation and another portion held for use in the production or supply of goods or services or for administrative purposes, an entity accounts for the portions separately if these portions could be sold separately (or leased out separately under a finance lease).

4 In exceptional cases where there is clear evidence that an entity determines the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity is required to measure that investment property using the cost model in accordance with AASB 116 or AASB 16 (for investment property held by lessee as a right-of-use asset) until disposal of the investment property.

5 Investment property held by a lessee as a ROU asset is measured at its cost in accordance with AASB 16.

13 NFP entities are required to measure the cost of investment property at fair value in accordance with AASB 13 where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives.

14 Transfers of a property to, or from, investment property to owner-occupied property (and subsequently accounted for under AASB 116) only occurs when there is a change in use, that is, when the property ceases to meet the definition of investment property and there is evidence of the change in use.

15 An investment property is derecognised on disposal (e.g. by sale) or when it is permanently withdrawn from use and no future economic benefits are expected from its disposals (e.g. by entering into a finance lease).

AASB 116 *Property, plant and equipment – high level overview*

16 AASB 116 requires PP&E to initially be measured at cost[6]. Similar to accounting for investment property an entity can choose either to measure PP&E subsequently using:

(a) **the cost model** – cost less any accumulated depreciation and any accumulated impairment losses. Depreciation methods include the straight-line method, the diminishing balance method, and the units of production method; or

(b) **the revaluation model** – fair value at the date of revaluation, less any subsequent accumulated depreciation and accumulated impairment losses.[7] Revaluation increases are recognised as other comprehensive income and accumulated in equity under the heading Revaluation Surplus (net revaluation increase shall be recognised in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in profit or loss)

AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities – Tier 2 disclosures for investment property and PP&E

17 AASB 1060 requires entities to disclose, amongst other information including restrictions and reconciliations between the carrying amount at the beginning and end of the reporting period, for investment property and PP&E that is:

(a) measured at revalued amounts (either fair value model for investment property and revaluation model for PP&E) the methods and assumptions applied in determining the revalued amounts and the extent revalued amounts is based on valuation by an independent valuer. If no such valuation occurred, that fact shall be disclosed. For revaluation of PP&E, the date of revaluation is required);

(b) measured at cost:

(i) the measurement basis used for determining gross amounts, depreciation method used and the gross carrying amount and the accumulated depreciation at the beginning and end of the reporting period; and

(ii) for investment property, the fact and why fair value cannot be measured reliably.

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6 Cost comprises its purchase price (including duties and taxes less trade discounts and rebates), cost directly attributable to bringing the asset to the location and condition for operation and initial estimates of the cost of dismantling and removing the items and restoring the site on which it is located. An NFP entity may also elect to recognise interest as a component of the carrying amount of a self-constructed item of PP&E where it meets the specified criteria in AASB 123.

7 Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from the value that would be determined using fair value at the end of the reporting period. For insignificant changes in fair value, revaluations may be carried out only every three or five years.

Australian legislation requirement

18 Staff reviewed Australian legislation governing NFP entities to understand the current reporting requirements for property held by NFP entities. From our review, there is some NFP legislation that:

(a) establishes the financial reporting obligations of the entity using gross assets as one of the size threshold determinants. For example, indigenous corporations under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* and co-operatives across all states and territories classify the size of an NFP entity depending on whether the entity meets at least two threshold criteria on an entity's consolidated gross assets, consolidated gross operating income or revenue and employee numbers;[8] or

(b) requires financial statements to provide information detailing any mortgages, charges and other securities affecting any property owned by the NFP entity.[9]

Feedback from Australian stakeholders

19 As part of the targeted outreach conducted by staff in 2020, staff received feedback that stakeholders supported the Board developing a 'simpler balance sheet'. Amongst other aspects, staff understood this to extend to stakeholder support for simpler recognition and measurement requirements. In addition, at the AASB NFP Project Advisory Panel meetings held on 18 May 2021, 18 October 2021 and 19 January 2022, panel members provided the following initial feedback in relation to possible Tier 3 accounting simplifications for investment property and PP&E:

(a) a few panel members agreed that there are some Tier 3 sized entities that own investment property however this is not common. Panel members also agreed that it is not uncommon for smaller NFP entities to apply the revaluation basis for measuring land and/or buildings. However, panel members considered that, for smaller entities that elected to measure their land and/or building at fair value, they are subsequently required to fair value their land/building even where it is costly or resources intensive to do so. They also considered that the requirement to depreciate buildings measured on the revaluation basis may require clarifications for smaller entities;

(b) a majority of panel members preferred to retain the choice to allow entities to either subsequently measure investment property and PP&E at the cost model or revaluation/fair value model within the Tier 3 Standards. However, a few panel members expressed that this consideration may be subject to whether the Board will permit Tier 3 entities to apply a higher-tier accounting policy for topics covered in the Tier 3 Standards, that is, if entities are permitted

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8 An indigenous corporation is classified as a medium or large corporation if it meets two of the following criteria: (1) consolidated gross operating income between $100,000 and $5 million (medium) or $5 million or more (large); (2) consolidated gross assets between $100,000 and $2.5 million (medium) or $2.5 million or more (large); (3) between five and 24 employees (medium) or more than 24 employees (large). A co-operative and the entities it control (if any) is a 'small co-operative if it meets specified conditions including any two of the following size criteria: (1) consolidated revenue of <$8 million for the financial year; (2) consolidated gross assets of <$4 million at the end of the financial year; or (3) fewer than 30 employees at the end of the financial year.

9 The Associations Incorporation Act for New South Wales, Victoria and Northern Territory that require financial statements to be prepared in accordance with the Australian Accounting Standards specifies that the financial statements must contain information of any mortgages, charges and other securities affecting any property owned by the NPF entity. Other instances where the governing legislation does not require financial statements to be prepared in accordance with the Australian Accounting Standards such as the Retirement Village Act for QLD and ACT also require NFP scheme operators to provide information including interests, mortgages and other charges affecting the retirement village's property in their financial statements.

to apply a higher tier accounting policy, then it may be appropriate to only include the cost model for investment property and PP&E in the Tier 3 Standards;

(c) a majority of panel members recognised that determining fair value in the NFP sector has always been a challenge and suggested that simplification options for Tier 3 reporting requirements should limit the extent to which fair value is referenced in the applicable measurement model. While some panel members supported including a simplification option to allow entities to use the current rateable or government valuation, with one member suggesting that insurance values can be considered as a valuation for readily available market information supported by disclosures, rather than referring to the requirements in AASB 13 to fair value investment property or PP&E. However, many panel members expressed concern for departing from fair value in accordance with AASB 13 as this may mislead users that the use of other values may be fair value when they are not, and many members did not support the use of insurance values as an alternate valuation for measuring investment property and PP&E. They also noted that rate notices may only provide valuation for land and may not provide valuation for buildings or other PP&E. The introduction of terms such as 'undue cost or effort' or 'readily observable', if introduced, in relation to an alternative fair value approach, will need to be defined and guidance to support the application; and

(d) some panel members supported not requiring borrowing cost to be capitalised, and to recognise all borrowing cost as an expense in the period incurred to be introduced for the Tier 3 Standards.

Findings from academic research and other literature

20 Staff noted the following findings from its review of AASB research reports and other academic research:

(a) *Factors affecting SME access to bank financing: an interview study with Turkish bankers* (Erdogan, A.I., 2008) as presented in Research Report 16 identified that bank managers for small and medium-sized entities (SME) find that information about SME's equity base including property holdings and cash generation power as important in decisions regarding loans for SMEs.

(b) *Decision Usefulness: A re-examination of information needs of nonprofit GPFR users* (Gilchrist, D., Furneaux. C., West, A., Zhang Y., 2021) identified that research participants of this study considered that having comparability between like entities is important. Factors identified as impairing comparability included: (1) having accounting choices and subjectivity in applying accounting requirements; and (2) users are unlikely to read the notes to the financial statements. The study also identified, amongst other accounting requirements, both preparers and auditors' concern regarding the complexity and cost associated with valuation of assets that were donated and the profit on sale of assets, and the concern of presenting a profitable outcome in the statement of profit or loss and the statement of financial position which may impact a users' donation decision making. This also led to auditors encouraging preparers to be conservative in valuations for these assets. Additional complexity in the valuation of "specific purpose assets" such as churches or nature reserves also represented challenges to preparers.

(c) Research Report 11 which examined 407 large and medium-sized charities that submitted special purpose financial statements for the 2016 financial year did not identify any charities that referenced compliance with AASB 140 in their accounting policies. Only six charities stated compliance with AASB 116 in their significant accounting policies.

IFR4NPO Consultation Paper – Measurement and financial reporting challenges of non-financial assets held for social benefit

21 In January 2021, The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the IFR4NPO Consultation Paper. The paper identified the following measurement issues of non-financial assets currently experienced by the NFP sector:

(a) The use of diverse assets such as community facilities, warehouses or hospital buildings and equipment, may be more difficult to measure than in the commercial sector as these assets are likely held for their service potential rather than for their economic or financial return.

(b) NFP entities may have assets which are rented out, such as for housing purpose, for social benefit or to generate financial returns and can present difficulties when determining whether the asset is held for operational purposes or for investment.

(c) Users, such as donors and other funders, may be interested in understanding the financial position and how effective the assets they have contributed towards have been used. However, where assets are donated, this may present challenges for NFP entities to measure and record the value of the donated assets reliably.

(d) Difficulties in determining whether the NFP entity have a right to the benefits in the assets which may lead to complexities in measurement where there are restrictions in use of the assets provided.

22 The following financial reporting issues for non-financial assets have been identified in the IFR4NPO Consultation Paper impacting the NFP sector:

(a) Assets purchased or constructed are required to be recognised at historical cost on initial recognition regardless of whether the asset generates revenue. For donated assets, an estimate of the value may be hard to derive.

(b) Judgement is required to determine whether the asset should be measured at historical cost or at revalued amounts which needs to reflect the stakeholders' needs of an NFP entity. While the cost model is easy to apply, it may not be appropriate for NFP entities to reflect the increase in value of an asset due to greater potential service provision. However, measuring assets using the revaluation model may be costly especially for smaller NFP entities where it requires substantial resources input of an NFP entity's staff who may not have the knowledge and expertise and are not valuation experts. An appropriate depreciation method and how impairment can be identified and measured can also be difficult when using the revaluation model, particularly where the overall value of an asset is increasing.

(c) Assets that might be measured at 'highest and best use' could exceed the operational value to an NFP entity where offices that may be converted into high value residential accommodation may not be within the purpose of an NFP entity.

IASB Review of IFRS for SMEs

23 As part of its second comprehensive review of the *IFRS for SMEs* Standard, the IASB is currently in the process of assessing whether to align the *IFRS for SMEs* Standard with IFRS Standards. As part of the review, the IASB received some feedback to consider allowing the application of the cost model for investment property as an accounting policy choice in the same way as is permitted in IAS 40 *Investment Property* and to allow an accounting policy for capitalisation of borrowing costs. At its 19 November 2021 Board meeting, the IASB has tentatively decided to:

(a) remain unchanged the existing measurement requirements to apply fair value without undue cost or effort on an ongoing basis for investment property in *IFRS for SMEs* as it was recognised, as part of its first comprehensive review of the *IFRS for SMEs* Standard in 2013, that the accounting requirements was said to be working in practice; and

(b) remain unchanged to not allow capitalisation of borrowing cost as it would maintain the simple application of the *IFRS for SMEs* Standard and this aligns with the IASB's previous decision in September 2019 to not seek views on whether to align the *IFRS for SMEs* Standards with IAS 23. The IASB however received mixed feedback relating to the capitalisation of development cost and borrowing cost, where some respondents consider borrowing costs and development cost are significant costs for start-up entities in certain industries and can affect users' evaluation on the liquidity of SMEs while others recommend retaining the Standard unchanged for cost-benefit reasons. As such, the IASB decided to explore possible changes to the recognition and measurement of development costs in the *IFRS for SMEs* Standard at a future meeting.

Findings from staff review of a sample of financial statements

24 Staff reviewed a random non-representative sample (20) of the 2020 financial statements of charities with reported revenue between $500,000 – $3 million to gain an understanding of the prevalence of NFP entities that have investment property or PP&E including the accounting policy choice in measuring these type of assets by entities of this size.[10] The financial statements reviewed included both those described as general purpose financial statements and those described as special purpose financial statements.

25 From the financial statements reviewed, there were:

(a) no entities that reported information on investment properties; and

(b) 17 of the 20 entities reported information on PP&E and one NFP entity measured PP&E based on the revaluation model.

26 The staff review suggests that smaller NFP private sector entities may be:

(a) unlikely to own or control investment properties (as supported by the observations from Research Report 11 in paragraph 20(c)20(b) above); and

(b) unlikely to measure PP&E using the revaluation model. Some of the reasons could be that:

(i) the cost model may be more cost effective and simpler than the revaluation model; and

(ii) the PP&E of these entities generally consist of motor vehicles or office equipment rather than land and/or buildings, where using the cost model would be more appropriate when measuring these types of assets.

Staff consider that this may also infer that smaller NFP entities may be unlikely to revalue their investment property or PP&E.

Options for simplification

27 With reference to the flowchart in Agenda Paper 11.1 (Appendix A) for this meeting on approaches to simplification, staff have identified the following aspects for simplification for Tier 3 reporting requirements. This analysis takes into consideration of current practices in Australia and international jurisdictions, and research findings summarised in paragraphs 18 –26 above:

(a) Classification/recognition simplification in respect of investment property; and

(b) measurement simplifications for investment property and PP&E.

28 With regard to the classification/recognition options, staff have analysed the following options for Tier 3 reporting requirements in **Table *1*** below:

(a) Option 1: separate accounting requirements should be developed for investment property and PP&E.

(b) Option 2: investment property and PP&E should apply the same accounting requirements.

29 With regard to the measurement simplification, staff have considered that initial measurement of purchased investment property and PP&E should be based on cost (i.e. the purchase price paid by the

10 The sample set is the same as that considered in the September 2021 staff paper on Tier 3 reporting requirements for changes in accounting policies, accounting estimates and errors.

entity) as staff have not identified widespread issues with difficulties in the initial measurement of purchased assets at cost. As such the simplification options focus on the subsequent measurement requirements as follows:

(a) Under the classification/recognition requirements for Option 1 in paragraph 28(a), subsequent measurement of an investment property as analysed in **Table *2*** could be:

(i) **Option 1A**: to apply the cost model (investment property is measured at cost less accumulated depreciation). Note the Board has not yet decided whether to allow an entity to apply higher-tier requirements for topics or transactions that are covered by Tier 3 requirements. As such, this option has been drafted as though entities are not permitted to apply higher tier requirements;[11] or

(ii) **Option 1B**: to apply fair value without undue cost or effort on an ongoing basis. All other investment property using the cost model;[12] or

(iii) **Option 1C**: to apply AASB 140, that is, an entity is permitted a choice to apply the fair value model or the cost model.

(b) Under the classification/recognition requirements for Option 2 in paragraph 28(b), subsequent measurement of an investment property would apply the same reporting requirements for PP&E, that is PP&E and investment property will both be measured at:

(i) the cost model only (that is, same as Option 1A and discussed further in paragraph 37); or

(ii) either at the cost model or revaluation model (i.e., maintain the same reporting requirements as per AASB 116 and discussed further in paragraphs 38 –39).

30 Further, staff analysis on further simplification options for measurement of investment property and PP&E focuses on:

(a) whether to allow entities (with reference to the fair value model in Options 1B and 1C or the revaluation model in paragraph 29(b)(ii)) to use 'readily available data about recent market selling price of similar assets' to estimate the current value of the non-financial asst, rather than fair value as required by AASB 13 (paragraphs 40 –44); and

(b) whether all borrowing cost should be recognised in profit or loss in the period which they are incurred (paragraphs 45 –46).[13]

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11 The Board decided at its 8-9 September 2021 meeting to include in the DP for stakeholder feedback on options on applying higher-tier requirements for topics or transactions that are covered by Tier 3 requirements. Refer to minutes of 183rd meeting of the AASB.

12 Note that accounting requirements for fair value measurement will not be addressed in this Paper. Staff will bring the analysis and recommendation to discuss with the Board in future Board meetings.

13 Staff observe other possible simplification alternatives that the Board could consider include: simplifying the language and terminology for Tier 3 entities to improve the clarity and understandability of the Standard; or developing application guidance to assist Tier 3 NFP private sector entities in applying AASB 140 and AASB 116. As this paper focuses on the possible simplification for the recognition and measurement requirements, staff have not adequately explored these options yet. Pending the Board's further deliberation of the broader NFP financial reporting framework project, staff will further analyse other possible simplification alternatives at a future meeting.

Table 1 *Summary of possible options and analysis for Tier 3 - classification*

Possible option for Tier 3 – classification	**Option 1: separate accounting requirements should be developed for Investment Property and PP&E**	**Option 2: Develop a single accounting requirements for investment property and PP&E**[14]
Jurisdiction adopting similar approaches (and pronouncement)	• **AASB 116** and **AAB 140** • **IFRS for SMEs** (Section 16 *Investment Property* and Section 17 *Property, Plant and Equipment*) • **Singapore –** *Charities Accounting Standards* (paras. 236 – 241 and paras. 178-202) • **UK –** *Charities SORP (FRS 102) Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland* (paras. 10.45 – 10.48B and paras. 10.25 – 10.40) • **NZ – PBE SFR-A (NFP) (**NZ Tier 3) (The NZ Tier 3 Standard does not include accounting requirements for investment property, as such entities may refer to the accounting requirements in NZ Tier 2 PBE Standard or use judgement to determine an appropriate method of accounting based on the principles and requirements in the NZ Tier 3 Standards)	• **HK** *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standards* (Section 3)[15] • **Canada –** (Section 3061 *Property, Plant and Equipment,* Part II of the CPA Handbook*)*[16] • **US ASC 360-10** Property*, Plant and Equipment* **-** (section 360)[17]
Support for the approach [18]	• The purpose of holding Investment property is different to the purpose of property held under PP&E, and arguably should require separate accounting requirements to reflect the economic circumstances of the land and/or building held by the entity for the purpose of capital appreciation or to earn rentals rather than for use in the production or supply of goods and services. As such, warranting different accounting requirements between investment property and PP&E.	• Provides simplification by removing judgement and less interpretation in determining whether land and/or building is in the scope of an accounting standard for investment property or PP&E. For example, situations where an entity holds a property for dual use may add to classification difficulties by management or an entity holding a residential rental property and changes the business model for its own use and operation. Difficulties may arise for entities to determine whether services provided to occupants are 'ancillary

14 If the Board considers that no separate classification and accounting requirements should be developed for investment property from PP&E (that is Option 2 in **Table *1***), then subsequent measurement simplification for investment property will apply the same reporting requirements as required by PP&E which is analysed in paragraphs 37 – 39.

15 The definition of PP&E in HK SME-FRF and SME-FRS includes property classified as investment property applying HKFRS or the HKFRS for Private Entities.

16 There are no separate accounting standards to account for investment property in Canada. NFP organisations are required to refer to the Accounting Standards for private enterprises in Handbook II on accounting requirements for PP&E.

17 Similar to Canada there is no separate accounting standard in US ASC 958 to account for investment property or not-for-profit accounting standards on PP&E.

18 Staff have not presented arguments against approaches in Table 1 because in the drafting, we observed the arguments against the options in Table 1 to be largely duplicative of the arguments supporting the alternative option (that is, in many cases, an argument against Option 1 was identified as an argument in support of Option 2)

Possible option for Tier 3 – classification	Option 1: separate accounting requirements should be developed for Investment Property and PP&E	Option 2: Develop a single accounting requirements for investment property and PP&E[14]
	• Maintains consistency with the requirements applying to other NFP entities and avoids possible issues arising from the consolidation of the entity into a parent entity preparing Tier 1 or Tier 2 financial statements. This approach also allows preparers and auditors to more easily move between entities given the consistency with the Tier 2 reporting requirements. • Provides transparent and relevant information in the financial statements as it may present a more faithful representation of the entities' intention for the use of the land and/or building held as investment property. • It provides NFP users with information about how an NFP entity is using its assets in generating its income and may allow users to make assessment of management's stewardship of the NFP entity's assets • Maintaining separate accounting requirements will arguably minimise any potential impact for entities that already apply the existing AASB 140 to classify investment property from PP&E. • If separate disclosures of investment property from PP&E is required, having separate accounting requirements may help smaller entities to appropriately classify and make appropriate disclosures of investment property from PP&E.	services' and incorrectly determine which accounting requirement is appropriate. • It is a proportionate response for a lower-level differential reporting tier as it simplifies the judgement required to determine the correct classification for majority of Tier 3 preparers who are not expected to own investment properties. Given the Board develops standards to meet 'common information needs', it is arguable that developing a single set of accounting requirements for investment property and PP&E is sufficient to meet the common needs of users. • 'Levels the playing field' for Australian NFP entities with that of similar-sized NFP entities reporting in some other jurisdictions where there is no separate accounting requirement for investment property from PP&E.

Evaluation of options against the Tier 3 development principles

31 With reference to the flowchart in Agenda Paper 11.1 (Appendix A) for this meeting, in addition to the analysis in the table above, staff also analysed each of the proposed options against the tentative Tier 3 principles previously agreed to by Board members. Staff consider that the proposed options are broadly equally aligned with the Tier 3 principles, except for the following listed below:

Principles	Staff assessment
The development of Tier 3 reporting requirements is subject to the AASB Not-for-profit Standard-Setting Framework Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful information to users of financial statements.	Combining the accounting requirements for both investment property and PP&E in Option 2 may be presumed to not provide relevant and reliable information for situations where these assets are held for different purposes. Consequently, the usefulness and relevance of the information provided in the financial statements would suffer.
Consistency with the accounting principles specified in Tier 2: Australian Accounting Standards – Simplified Disclosures is desirable but might not always be warranted since Tier 3 requirements are being developed as a proportionate response	Combining the accounting requirements for both investment and PP&E in Option 2 does not align with Tier 2 accounting principles as there is no separate accounting requirement for investment property and PP&E. However, staff think departure may be justified having regard to less well-resourced Tier 3 entities that may have difficulties in classifying land/building into the appropriate accounting standard and having regard that it is not prevalent for Tier 3 sized entities to hold investment property.

Staff recommendations

Maintaining separate accounting requirements for investment property and PP&E

32 On balance, staff support Option 1 (maintaining separate accounting requirements for investment property and PP&E). Staff think that there is not sufficient and compelling reason to warrant 'simplification' departure from the Tier 2 reporting requirements and are persuaded to their view on reflection that:

(a) investment property and PP&E are held by an entity for different purposes which would warrant different classification (and recognition and measurement) criteria. While disclosures of the purposes may substitute for the requirement to separately classify/recognise investment property or PP&E, staff considered that it may not provide simplified accounting in all cases as an entity will still be required to distinguish land and/or buildings acquired for different purposes to enable adequate disclosures to be provided in the financial statements;

(b) initial staff outreach with stakeholders did not identify the classification of investment properties from PP&E as being an area of difficulties that required proposals for simplification; and

(c) while it may not be common for Tier 3 entities to own investment property, requiring the classification of investment property from PP&E continues to benefit users in assessing the nature and purpose of an entity's assets.

Question to Board members

Q1 Do Board members support for the purpose of the DP, the staff recommendation that Tier 3 reporting requirements should require separate classification and accounting requirements of investment property from PP&E (Option 1)?

If not, what approach do Board members support?

33 If Board members supports staff recommendation that Tier 3 reporting requirements should maintain separate classification and accounting requirements for investment property and PP&E, the simplification for the subsequent measurement criteria of investment property is analysed in **Table *2*** below. If the Board does not support staff recommendation that Tier 3 reporting requirements should maintain separate classification and accounting requirements for investment property and PP&E, the simplification for the subsequent measurement criteria of investment property is analysed together with PP&E in paragraphs 37 – 39 below.

Table 2*: Summary of possible options for accounting requirements for investment property (only relevant if Option 1 is supported, that is, separate classification of investment property is required)*

Possible options	Jurisdictions adopting similar approaches (and pronouncements)	Support for the approach	Arguments against the approach

Option 1A: subsequent measurement at cost less any accumulated depreciation based on a systemic basis over its useful life.[19] (i.e. the cost model)
 	
This option requires investment property to be subsequently measured only using the cost model. An entity is not permitted to revalue their investment property at fair value.
	• Singapore CAS (paras. 237-238)
	• HK SME-FRF & SME-FRS (paras. 3.1 – 3.10)
	• Canada Accounting Handbook II (paras. 3061.04-3061.15)
	• US ASC 958 (section 360)
		• Simplest and least costly and simplifies the measurement criteria by not requiring entities to fair value their investment property, which may be more costly especially where a valuer is acquired to provide an accurate valuation compared to the cost method, and in keeping with the Board's objective of this project.
		• Removing accounting policy choice which has been identified as a factor of impeding comparability with entities. By reducing managerial discretion, this simplifies interpretation of the accounting requirements, including reduced cost of:
		  ○ preparation (by eliminating the need to determine the appropriate measurement method to be applied;
		  ○ education (by simplifying requirements); and
		  ○ ongoing maintenance if the investment property is valued at fair value
			• Can be viewed as less transparent as it may not faithfully represent the value of assets held/owned by the entity and may understate an entity's financial position.
			• Although it may not be common for entities of Tier 3 size to own investment property, it would appear to be a 'backward step' for entities that already value their investment property at fair value.
			• Does not reflect current market value and may compromise comparability against entities in other reporting tiers, for which arguably, entities holding similar investment properties measured at fair value would provide a more comparable asset base.
			• A Tier 3 subsidiary may be required to apply AASB 140 accounting for consolidation, resulting in a 'double cost' of preparation.
			• Information about an entity's asset (equity) base may be a means of assessing financing for smaller NFP entities. As such, the cost base of measurement may not provide the current market representation of the entity's asset base which may have a consequential impact on the entity's ability to obtain financing. .

19 As noted earlier in this paper, staff will bring discussion of the accounting requirements for impairment of non-current assets to a future meeting.

Possible options	Jurisdictions adopting similar approaches (and pronouncements)	Support for the approach	Arguments against the approach
Option 1B: Subsequent measurement for investment property at fair value[20] without undue cost or effort on an ongoing basis. All other investment property is accounted for using the cost model. This option requires investment property to be subsequently measured at fair value unless there is undue cost or effort in obtaining the fair value. Where an entity knows or cannot measure the fair value of an investment property reliably without incurring undue cost or effort, then it will apply the cost model.	• IFRS for SMES (para. 16.7) • FRS 102 (para. 16.7) • UK Charities SORP (para. 10.48)[21]	• Simplifies the measurement criteria for entities that apply the fair value model in AASB 140, by allowing a practical out for entities in fair valuing their investment property if there is undue cost or effort in doing so. • Improves comparability within Tier 3 entities and removes preparer' judgement where the accounting policy is based on circumstance rather than by accounting policy choice, that is, that investment property is measured at fair value unless there is undue cost or effort to obtain the fair value. This removes the need for management to exercise judgement in selecting an accounting policy and improves comparability amongst other Tier 3 NFP entities. • This option provides users with more relevant and faithful information about an entity's investment property valued at fair value compared to Option 1. • It maintains a level of consistency with the requirements applying to other NFP entities and allows auditors or preparers to more easily move between entities compared to Option 1A to only allow the cost model. • The financial reporting obligations of some NFP private sector entities are dependent on the quantum of the entity's assets. As such, maintaining largely consistent recognition and measurement requirements of investment property helps avoid confusion in determining the entity's financial reporting obligations.	• Preparers may inconsistently assess the notion of undue cost or effort to 'get out' from applying the fair value measurement which can consequently affect the financial reporting obligations where the size thresholds are dependent on the quantum of the entity's assets • Imposes more costs (e.g. valuation costs, education costs, effort required) on preparers compared to Option 1A as the fair value model is applied first unless there is undue cost or effort to obtain the fair value. • The reported earnings of any gains and losses arising from the change in fair value of the investment property in the statement of profit or loss may impact a users' donation decision making, which can represent a 'cost' to entities. • It may result in consolidation issues if a parent entity applying Tier 1 or 2 reporting requirements applies the cost model. • The reported earnings of any gains and losses arising from the change in fair value of the investment property in the statement of profit or loss may impact a users' donation decision making, which can represent a 'cost' to entities.

20 Note that accounting requirements for fair value measurement will not be addressed in this Paper. Staff will bring the analysis and recommendation to be discussed with the Board in future Board meetings.

21 UK Charity SORP requires investment properties to subsequently be measured at fair value, except where that property is rented to another group entity.

Possible options	Jurisdictions adopting similar approaches (and pronouncements)	Support for the approach	Arguments against the approach
Option 1C: Subsequent measurement where an entity can choose to apply the fair value model or the cost model, that is, remain unchanged the reporting requirements of AASB 140. Alternatively, the Board may decide to consider this option as an omitted topic from Tier 3 reporting requirements.[22]. This option requires investment property to be measured using either the fair value model or the cost model, that is, to apply the current AASB 140 requirements.	• AASB 140 (para. 30) • NZ Tier 3 (para. A113)[23]	• Provides an entity with the choice to either apply the fair value model or the cost model. This allows management to choose the appropriate accounting requirement that meets their needs. • Allows relevant and faithful information can still be provided to users when assessing the entity's financial position as the fair value method can be applied compared to Option 1A which only allows the cost model to be applied. • Less costly to apply compared to Option 1B as it allows entities the choice, rather than require, an entity to apply the fair value model. • Consistent with the requirements applying to other NFP entities is maintained and allow preparers and auditors to more easily move between entities given the consistency with the Tier 2 reporting requirements.	• Does not simplify the interpretation criteria as it requires an entity to exercise managerial discretion to determine whether to apply the fair value model or cost model for subsequent measurement of investment property. This can also impede comparability between Tier 3 entities. • Once the fair value model is chosen as the subsequent measurement basis upon initial recognition, entities must continue to measure the property at fair value, which can add to the preparation and valuation cost for smaller entities even where market prices become less readily available. • May lead to confusion when applying size threshold tests for determining an entity's financial reporting obligations where entities may apply different accounting requirements to measuring investment property. Additional costs may be incurred to amend legislation for clarity. • The reported earnings of any gains and losses arising from the change in fair value of the investment property in the statement of profit or loss may impact a users' donation decision making, which can represent a 'cost' to entities.

22 The Board has previously decided at its 8-9 September 2021 Board meeting to propose that entities in the scope of Tier 3 should apply the requirements of a higher tier of Australian Accounting Standards in full for transactions not covered by the Tier 3 reporting requirements. Refer to minutes of 183rd meeting of the AASB.

23 NZ Tier 3 standards do not include specific requirements on the accounting for investment property. Tier 3 entities account for assets that meet the definition of investment property (as defined by the Public Benefit Entity Standards (PBE Standards)) by opting up and applying PBE IPSAS 16 *Investment Property.* NZASB is also currently considering proposals to amend the NZ Tier 3 Standards to include simple requirements which will provide Tier 3 entities with the option to revalue PP&E, investment property and investment assets without the need for an entity to opt-up to NZ Tier 2 reporting requirements

Evaluation of options against the Tier 3 development principles

34 In addition to the analysis in **Table 2** above, and applying approach outlined in appendix A, staff also analysed each of the proposed options against the Tier 3 development principles.

35 Staff consider that Options 1B and 1C broadly align with the principles given they provide a similar approach as higher reporting tiers, Option 1A would not as it does not allow an entity to revalue their investment property. Staff noted the following considerations in particular:

Principles	Staff assessment
The development of Tier 3 reporting requirements is subject to the AASB Not-for-profit Standard-Setting Framework Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful information to users of financial statements.	Option 1A does not align with principles against which Tier 3 requirements are developed. Under this option, an entity is not allowed to revalue their investment property, which presumes to provide more relevant and reliable information for the value of the investment property and more accurate information about asset base of the entity. Consequently, the usefulness and relevance of the information provided in the financial statements would suffer.
Accounting requirements do not impose disproportionate costs to preparers when compared to benefits of the information	Although Option 1A may be the least costly to apply, it may be considered as not providing relevant information about an entity's assets that users of NFP financial statements may be interested in. Option 1B may impose more cost compared to Option 1C as preparers must fair value their investment property first, rather than by choice. However, preparers are able to access the notion of undue cost or effort, to apply the cost model if applying fair value imposes disproportionate cost to preparers when compared to the benefits of applying fair value to measuring investment property.

Staff recommendations

36 On balance, staff support Option 1C. That is, that the proposed Tier 3 reporting requirements should continue to allow an entity to choose whether to apply the fair value model or cost model when subsequently measuring investment property. Staff consider that this is an appropriate and proportionate response in recognition of the size of Tier 3 entities that may have resource constraints in applying fair value by continuing to allow Tier 3 entities the choice to apply the cost model. Staff were persuaded to their view by the following considerations:

(a) feedback from NZASB Post Implementation Review of its Tier 3 and 4 reporting requirements and panel members feedback suggested that there may be entities within the size thresholds contemplated by the Board that may revalue their investment property. As such, only allowing Tier 3 entities to apply the cost model will impair the information usefulness for entities that would prefer to revalue their investment property, and

(b) while requiring investment property to be subsequently measured at fair value only where there is no undue cost or effort on an ongoing basis provides an entity a 'practical out' to not apply fair value and will increase comparability amongst Tier 3 entities. However, requiring entities to apply the fair value first (unless there is undue cost or effort) is expected to lead to an increase in the cost of preparation for preparers that are currently applying the cost model. This is because the fair value model must be applied first which is more onerous compared to other reporting tiers where entities remain to be able to apply the cost model or revaluation model.

Questions for Board members
Q2 Do Board members support for the purpose of the DP, the staff recommendation that Tier 3 accounting requirements for subsequent measurement of investment property should continue to allow an entity the option to apply either the fair value model or the cost model (Option 1C)? If not, what approach do Board members support?

Staff analysis and recommendations –simplification options for PP&E and where no separate classification/recognition is required for investment property

37 Staff note that preliminary stakeholder feedback received regarding PP&E related to challenges in applying the revaluation model presented in paragraph 19, and as suggested by its review of a sample of financial statements. There was also feedback that smaller entities may require further guidance for the requirement to depreciate buildings measured on the revaluation basis. As such, staff observe that the Board could consider to only allow subsequent measurement of PP&E at cost with depreciation on a systemic basis over its useful life. This approach is similar to that adopted by Canada ASNFPO, US ASC NFP 928, Singapore CAS and HK SME-FRF & SME-FRS and may be regarded as an appropriate proportionate response by the Board on consideration of the following:

(a) this simplifies the measurement criteria by only allowing the cost basis which is simple and least costly to apply compared to the revaluation model which may require a qualified valuer that can be costly for smaller NFP entities;

(b) this improves comparability between Tier 3 entities by removing the need to exercise managerial discretion whether to apply the revaluation model or cost model for subsequent measurement of PP&E; and

(c) no further guidance is required to be developed to clarify depreciation requirements when the revaluation model is applied as only the cost model is permitted.

38 However, staff consider the current accounting policy choice to allow PP&E to be subsequently measured either using the cost model or the revaluation model to be appropriate and this is consistent with the approach adopted by NZ Tier 3 Standards, IFRS for SMEs, FRS 102, and the UK Charity SORP. Staff do not support requiring the cost basis as the only subsequent measurement basis for PP&E because:

(a) whilst the cost model may be simpler and least costly to apply, allowing entities to apply the revaluation model enables more relevant and reliable information to be provided to users where assets are revalued compared to the cost model, acknowledging that feedback from NZASB Post Implementation Review of its Tier 3 and 4 reporting requirements suggested that there are likely to be stakeholders that would prefer to apply the revaluation model when valuing PP&E;

(b) not allowing entities the ability to reflect the market value for their PP&E may be considered a 'backward step' for entities that already apply the revaluation model when measuring their PP&E and may compromise comparability against entities in other reporting tiers that hold similar PP&E and have applied the revaluation model;

(c) it provides management of an entity the choice to apply the appropriate accounting requirement that meets the needs of their users; and

(d) such action is consistent with the Board's decision at its 10-11 November 2021 Board meeting that Tier 3 primary financial statements would require presentation of other comprehensive income in the statement of profit or loss and other comprehensive income. Therefore, continuing to allow entities to apply the revaluation model is consistent with the accounting requirements that any revaluation of PP&E will be captured in other comprehensive income.

39 To assist smaller entities that apply the revaluation model, staff suggest developing guidance or education material to clarify the requirements for depreciation when applying the revaluation model.

Question to Board members

Q3 Do Board members support for the purpose of the DP, the staff recommendation that Tier 3 accounting requirements for subsequent measurement of PP&E (and for investment property if there is no requirement to classify investment property from PP&E) should apply AASB 116.

That is that PP&E is subsequently measured either at the cost model or revaluation model, including developing guidance or education material to clarify the requirements for depreciation when applying the revaluation model?

If not, what approach do Board members support?

Staff analysis and recommendations – Further simplifications to measurement of investment property and PP&E

40 Staff observed that the Board could, in acknowledging stakeholder concerns regarding the complexity in applying fair value being challenging for smaller NFP entities, allow entities the choice to use 'readily available data about recent market selling price of similar assets' to estimate the current value of the non-financial asset, rather than fair value as required by AASB 13. If a similar asset or where the recent market selling price is not available (e.g. no recent sales in the neighbourhood), an entity will need to refer to AASB 13 to obtain the fair value of the non-financial asset.

41 This approach is like the NZ Tier 3 requirements[24] but instead allow entities to use readily available data about recent market selling prices of similar assets such as market data available on internet property search applications rather than using the current rateable or government valuation. A similar asset would be an asset that is of the same nature as the asset subject to measurement, but may be of a different standard of finish or has a different service capacity level. Entities will not be required to adjust the market selling prices of similar assets to reflect any differences in the standard of finish or service capacity level of the asset. For example, a similar residential building in the same neighbourhood may have different interiors such as carpeted vs floorboards. An entity will not be required to make any adjustments to the selling price for these differences to derive the current value of the non-financial asset.

42 While disclosures are subject to discussion at a future Board meeting, staff would consider that disclosures about the source and date in obtaining the 'readily available data about recent market selling price of similar assets' will be required. This simplification to subsequent measurement will also impact on staff analysis when discussing the initial measurement of donated or granted non-financial assets.

24 NZ Tier 3 allows entities may use the current rateable or government valuation (rather than fair value as required by PBE IPSAS 17) when revaluing PP&E.

43 Staff have mixed views and as such, did not form a view about introducing the simplification to use values other than fair value in accordance with AASB 13. The staff who **support** the simplification to allow entities to use ‘readily available data about recent market selling price of similar assets’ to estimate the current value of the asset based their support on the following:

(a) This action provides simplification in the measurement criteria, by simplifying the valuation method for entities rather than requiring an entity to apply AASB 13 to remove potential complexity and cost involved with valuations which would generally involve a qualified valuer and can be costly.

(b) Readily available data about recent market selling price of similar assets such as market data available on internet property search applications are relatively easy to implement. Where a range of recent market selling prices of similar assets are available, the entity may use the median of that range to derive the current value of the asset subject to measurement.

(c) The use of readily available data about recent market selling price of similar assets to estimate current value can be applied to most land and/or buildings as well as other types of PP&E (such as motor vehicles or a photocopier) compared to only allowing government or rateable valuations which may only provide valuations for land. Staff also note there are differences in regard to how rateable values are calculated in different states and territories and may lead to inconsistency in valuations.[25] Therefore, the use of recent market selling price of similar assets would provide a closer estimate to current value than rateable valuations.

(d) This action recognises that management of smaller NFP entities have limited resources to engage a valuer to obtain the fair value of property, while still enabling more relevant information about the entity’s assets to be provided to users compared to property measured at cost.

While staff note that PP&E such as a school building would not have ‘readily available data from recent market selling prices of similar assets’, as such an entity that choose to apply fair value would likely engage a valuer. However, staff consider that the size of a school will most likely not fall within the size of a Tier 3 entity contemplated by the Board, as such these entities should have the financial capacity to engage a valuer to provide a valuation in accordance with AASB 13. Staff also note the feedback from panel members that guidance and or education material may be required to address any definitional issues (such as the definitions for ‘readily available’, ‘similar assets’ or ‘recent’ market selling price) should the Board introduce this simplification. Tier 3 standards will also have to make clear that the use of this simplification does not equate to fair value in accordance with AASB 13.

44 Staff who **do not support** introducing this simplification to estimate the fair value of investment property and PP&E based their view on the following reasons:

(a) It may lead to future challenges for entities transitioning from Tier 3, which applies a different valuation, to higher tier requirements which require fair value to be measured in accordance with AASB 13, as well as possible consolidation issues for Tier 3 entities where the parent entities currently apply Tier 1 or Tier 2 reporting requirements.

(b) Departure from AASB 13 to measure investment property and PP&E, which arguably would be the largest assets held by a Tier 3 entity, would not provide a faithful representation and may mislead users as readily available market selling price may not present an amount that an entity can obtain from the sale of the asset.

25 Rateable valuations in NSW are based on land values only and excluded the value of buildings or other structures and improvements while SA identifies a capital value which includes both buildings and structures.

45 The Board may also consider introducing the simplification adopted by *IFRS for SMEs* Standards to not allow any borrowing cost[26] to be capitalised when determining the initial cost of purchased investment property or PP&E. Rather, all borrowing costs are recognised as an expense in the profit or loss in the period which they are incurred.

46 On balance, staff **support** the view that all borrowing cost should be recognised as an expense in profit or loss in the period which they are incurred rather than allowing the capitalisation of borrowing cost for some qualifying assets as follows:

(a) it simplifies the measurement criteria by removing the need for an entity to determine which borrowing costs meet the criteria to be capitalised under AASB 123;

(b) the benefits of capitalising borrowing cost may not outweigh the costs where the borrowing cost is not materially significant from the purchase price of the asset; and

(c) it removes the need to apply judgement whether to capitalise borrowing cost for a self-constructed PP&E.

Question to Board members

Q4 Staff have not formed a preferred staff view whether to introduce a simplification option for Tier 3 reporting requirements to use 'readily available data about recent market selling price of similar assets' to estimate current value of the non-financial asset rather than applying AASB 13 *Fair Value Measurement*.

However, do Board members want to form a view now to introduce a simplification option for the subsequent measurement of investment property and PP&E prior to the Board's decision on initial measurement of donated or granted non-financial assets?

Q5 If yes, do Board members support, for the purpose of the DP, including a preliminary view for Tier 3 reporting requirements to:

a. allow entities to use 'readily available data about recent market selling price of similar assets' to estimate the current value of the non-financial asset, rather than fair value as required by AASB 13; or

b. require entities to measure fair value in accordance with AASB 13, that is, the current requirements remain unchanged.

Alternatively, would Board members prefer not to form a preliminary view and to seek feedback on the two approaches suggested above as part of its DP?

Q6 Do Board members support, for the purpose of the DP, the staff recommendation that Tier 3 accounting requirements for investment property and PP&E should require entities to recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred?

If not, what approach do Board members support?

26 Staff note that, in September 2014, the Board had previously discussed and decided that it would not be appropriate for the accounting for borrowing costs of NFP public sector entities to differ from that of for-profit entities merely because the Board may favour a different treatment. (Refer to paragraphs BC1 – BC7 of AASB 123)