



Staff Paper

Project:	AASB Work Plan 2017-2019	Meeting	AASB May 2017 (M157)
Topic:	AASB 13 for Public Sector – project plan	Agenda Item:	3.1
Contact(s):	James Barden jbarden@asb.gov.au 03 9617 7643 Shaun Steenkamp ssteenkamp@asb.gov.au 03 9617 7640 Kala Kandiah kkandiah@asb.gov.au 03 9617 7626	Project Priority:	High
		Decision-Making:	High
		Project Status:	Project planning

Introduction

- 1 As part of the feedback on ITC 34 *AASB Agenda Consultation 2017-2019* and during the development of *AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-profit Public Sector Entities*, some public sector constituents requested the Board provide guidance as to how the requirements in *AASB 13 Fair Value Measurement* would be applied to the fair value measurement of public sector assets. In particular, stakeholders suggested that the guidance should clarify:
 - (a) how obsolescence should be treated in the valuation of public sector assets; and
 - (b) the application of the fair value model to public sector assets held for long-term service potential.
- 2 In addition, some stakeholders suggested that the Board consider further disclosure relief in addition to those provided by *AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*.¹

¹ This disclosure relief is for not-for-profit public sector entities regarding certain disclosures required for fair value measures of property, plant and equipment categorised in Level 3 of the fair value hierarchy for assets held for their current service potential rather than to generate future net cash inflows.

- 3 At its August 2016 meeting, the Board considered the feedback received and directed staff to prepare a project plan to address how AASB 13 is to be applied to the fair value measurement of public sector assets. This agenda paper sets out the proposed project plan to assist the Board to form its views whether to add this project to the AASB work programme for 2017-2019 (addressed in Agenda Paper 3.0).²
- 4 Staff note that measurement issues were considered by the Board whilst creating AASB 2015-7, however the Board decided that they would be considered as part of a later project.

Project rationale, objective(s) and link to AASB strategy

Project rationale

(responds to RIS³ questions *What is the problem you are trying to solve?* and *Why is government action needed?*)

- 5 The Board has been considering public sector application issues of AASB 13, , since AASB 13 was made in 2011. A summary of Board's considerations and decisions in this regard can be found in Appendix A to this document.
- 6 Many constituents in the public sector argue that applying AASB 13 has been challenging and costly and commented that they would like guidance on how to measure public sector assets, in particular on (but not limited to):
 - (a) valuation techniques to use for a public sector asset where there are few or no market participants and where information about the inputs to a current replacement cost model may be scarce;
 - (b) the concept of obsolescence under the cost approach;
 - (c) how government-imposed restrictions on non-financial assets should be accounted for; and
 - (d) how to value public sector assets using the cost approach.
- 7 The measurement issues seem to be widespread across the public sector and is contributing to divergence in practice. Outreach indicated that all but one of the five auditors-general office wanted additional guidance on fair value measurement of public sector assets.
- 8 The IPSASB is in the beginning stages of its project on measurement, which aims to identify and evaluate the current measurement techniques in IPSAS Standards and make amendments where it is determined to be appropriate. In addition, the IPSASB is

2 The staff recommendation as to whether the project should be added to the 2017-2019 work programme is included in Agenda Paper 3.0.

3 Australian Government Regulation Impact Statement

commencing projects on heritage and infrastructure. Staff note that the existence of these projects further indicates issues pertaining to valuation of public sector assets.

Project objective(s)

(responds in part to RIS question *Why is government action needed?* through clear identification of the objectives, outcomes or goals of this project)

- 9 The objective of this project is to:
- (a) address diversity in practice on application of AASB 13 by public sector entities by clarifying, either through additional guidance or education materials, the application of AASB 13 to fair value measurement of public sector assets; and
 - (b) consider whether public sector specific amendments to AASB 13 are needed.

Link to AASB strategy

- 10 The Board's strategy for the period 2015-2019 identifies five strategic directions.⁴ This project is consistent with the following:
- (a) strategic direction 1 'use IFRS and transaction-neutrality as a starting point, taking into account cost/benefit considerations and user needs'. The project recognises that further guidance or amendments may be necessary to AASB 13 in response to user feedback to clarify the application of AASB 13 to fair value measurement of public sector assets; and
 - (b) strategic direction 3 'facilitate and encourage active stakeholder participation in developing standards'. Undertaking the project shows that the Board responds to stakeholder feedback; thereby providing support to the Board's strategy of encouraging active stakeholder participation.

Project scope

- 11 Having regard to the feedback received and the proposed project objective, staff recommend the scope of this project is to:
- (a) identify key issues in applying the requirements of AASB 13 to public sector assets measured at fair value and develop public sector specific requirements and/or guidance, if needed, in relation to identified issues;
 - (b) consider if further disclosure relief should be provided to not-for-profit public sector entities applying AASB 13; and
 - (c) conduct education sessions, if needed, to assist public sector entities to apply the requirements of AASB 13 in a consistent manner.

⁴ The AASB Strategy 2015-2019 is available on the AASB website at:
http://www.aasb.gov.au/admin/file/content102/c3/AASB_Strategy_2015-2019.pdf.

- 12 The progress of this project (albeit limited to public sector issues) would have regard to the developments in the IASB's IFRS 13 *Fair Value Measurement* PIR project.

Staff assessment

- 13 Having regard to the proposed project scope, and project path/milestones, overall staff assess the project as:

(a) Priority	Medium
(b) Timing	Not urgent
(c) Resource commitment	Moderate
(d) Project length	18 months
(e) Project scale	Implementation project

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Key stakeholders

(Identification of key stakeholders will assist in planning for the RIS question *Who will you consult and how will you consult them?*)

- 14 Staff have identified the following as key stakeholders of the project:

(a) not-for-profit public sector entities (local, state and federal)	(d) accounting advisors
(b) Heads of Treasuries Accounting and Advisory Committee (HoTARAC)	(e) users of public sector financial statements
(c) Australian Council of Auditors General (ACAG)	(f) valuers of public sector assets

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Project milestones

- 15 Staff have identified the following as key milestones of the project. These will be reassessed periodically and revised/extended to ensure the project path remains appropriate and the project can be adequately resourced.

Major project milestones	Staff comment
Present a project plan	Completed (this agenda paper)
Identifying the specific issues to be addressed by the project (refining project scope), and developing a proposal as to how remaining known concerns could be addressed	Fair value measurement is a pervasive issue in the public sector, some areas more challenging to apply than others. Staff think that identifying those areas that require attention versus those that do not would likely require a moderate level of staff effort.
Develop communications strategy, including	Staff think this project may require moderate level of effort with respect

Major project milestones	Staff comment
consideration of: <ul style="list-style-type: none"> • education activities (if any) to conduct after public issue of requirements / guidance; and • number and format of any outreach events (eg, roundtables and forums) to host during the consultation period. 	to communication with stakeholders
Research – accounting in other jurisdictions (eg New Zealand, United Kingdom and United States), in IPSAS Standards, and relevant academic research	Staff think this research activity is likely to require a moderate level of staff effort
Research – identify the different positions valuation experts and industry practitioners are taking (e.g. with respect to obsolescence)	Staff think this research activity is likely to require moderate level of staff effort
Research – impact of other existing AASB projects and Standards (e.g. Income of NFPs) and IPSASB projects and/or decisions	Staff think this research activity is likely to require a moderate level of staff effort
Analysis of approaches to addressing each specific measurement issue within project scope	Involve stakeholders and Fair Value Measurement Panel as necessary to obtain feedback on the approaches. Extent of staff effort required will depend on the issues to be addressed as part of this project
Based on research, outreach and analysis, develop alternative proposals that could address the issues identified. Alternatives would range from application guidance to NFP public sector specific modifications to AASB 13	Involve stakeholders and Project Advisory Panel as necessary to obtain feedback on the approaches. Extent of staff effort required will depend on the issues to be addressed as part of this project
Review of approaches for consistency with the Conceptual Framework, including identifying whether there is a case for departure	Extent of staff effort required will depend on the approaches under consideration
GAAP/GFS analysis completed	Assistance from the ABS and Department of Finance would be sought on this . Staff think that this would require low level of staff effort.
<i>Indicative milestones</i>	
Develop an Exposure Draft (ED)	Involve stakeholders to develop guidance that is useful for decision making and cost beneficial.
Board approves the ED	Board to determine an appropriate

Major project milestones	Staff comment
	comment period; this may be 60 days
Review of stakeholder feedback on the ED	Extent of staff effort will depend in part on the communications strategy
Redeliberations on the ED completed	Depending on the feedback received, this may take between 1 – 2 Board meetings
Pre-ballot draft circulated for Board comment	Staff effort will be dependent on Board decisions from redeliberations
Ballot draft issued for voting	Staff effort will be dependent on Board feedback
Amendments/guidance approved and issued	Minimal additional staff effort involved
Education (if any) completed	Extent of staff effort is dependent on Board decisions on the communications strategy

Resources required

16 The following resources will be required:

Resources	Expected contribution
(a) Staffing – standard-setting	Technical director/Assistant – Moderate Senior project manager –Moderate Project manager/APM ⁵ /Intern – High
(b) Staffing – research	Research director – Low Project manager/Assistant/Intern – Moderate Research for this project could be undertaken by standard setting staff with some support from research staff in identifying any academic research
(c) Project advisory panel	Staff recommend the Fair Value Measurement project advisory panel be involved in the project

Factors that might add to complexity and length of the project

- 17 The following factors may add to the complexity and length of the project:
- (a) the IASB’s PIR of IFRS 13 could lead to the IASB making amendments to the Standard, which may require staff to reconsider any guidance coming from this project;
 - (b) a broadened project scope to that contemplated (e.g. identification of issues specific for not-for-profit private sector entities to be encompassed in project scope); and
 - (c) change in staff managing the project.

Related AASB, IASB and IPSASB projects

18 Staff identified the following as current projects where the outcomes of which may affect, or could be affected by, this project:

Source	Project
AASB	<ul style="list-style-type: none">• Australian Reporting Framework• Reduced Disclosure Requirements
IASB	<ul style="list-style-type: none">• Post-implementation review of IFRS 13
IPSASB	<ul style="list-style-type: none">• Heritage• Measurement• Infrastructure

Questions for Board members

- Q1 Do Board members agree with the proposed project objective and project scope set out in paragraphs 9, 11 and 12?
- Q2 Do Board members have any other comments about the proposed project plan?

APPENDIX A

- 1 The Board initially considered the application of AASB 13 for not-for-profit and public sector entities at its March and June 2011 meetings, at which the Board decided not to include any modifications to IFRS 13 in AASB 13.
- 2 At its December 2014 meeting, the board considered a range of feedback from constituents regarding the application of AASB 13. The Board 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 for their current service potential rather than 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.
- 3 This project resulted in AASB 2015-7 *Amendments to Australian Accounting Standards - Fair Value Disclosures of Not-for-Profit Public Sector Entities*. The basis for conclusions (BC) to AASB 2015-7 states in paragraph BC7 that “constituents also had concerns with applying AASB 13, including various measurement concerns. The Board noted that these issues were beyond the scope of the current narrow-scope project, but would be considered as part of a broader future Board project”. In addition, the Board noted in the BC to AASB 2015-7 that the disclosure relief is of an interim nature, to be reconsidered after the completion of projects such as Reduced Disclosure Requirements, the Conceptual Framework and the Australian Reporting Framework.
- 4 Measurement concerns were identified in agenda paper 9.2 to the AASB’s December 2014 meeting, as follows:
 - (a) various respondents expressed concern about the lack of guidance on how the requirement to fair value an asset is applied when there is no market for the asset or where the asset cannot be sold, who “market participants” are, or how “highest and best use” applies to certain public sector assets;
 - (b) some respondents questioned whether AASB 13 provides an appropriate basis for measuring the fair value of assets that have community value rather than commercial value;
 - (c) some respondents were concerned with the amount of guidance on whether restrictions were entity-specific rather than asset-specific; and
 - (d) some respondents expressed a view that there is a lack of understanding/consistency about the appropriateness of inputs in valuations models, especially a depreciated replacement cost model, and whether those inputs are observable or unobservable.
- 5 At the time of analysis, staff noted that the issues in the NFP public sector highlighted concern with the operationality of AASB 13. Staff considered that the issues raised were indicative of guidance, measurement, transition and education issues prevalent in the NFP public-sector, and expected that once addressed, much of the additional costs and grievance experienced should be alleviated. Accordingly, staff did not believe there was a sufficient case under the Process for modification.

- 6 Staff proposed to the Board in December 2014 that Australian Guidance be developed to address concerns of NFP public sector entities, however noted that this may not be a viable option given that certain GBEs fair value infrastructure assets, and the AASB's sector neutrality policy would therefore be undermined.
- 7 At this stage (December 2014), the Board decided only to proceed with the narrow-scope amendments described earlier in paragraph 24 of this document, and to address the further issues regarding measurement in a future Board project.
- 8 The Board, in consideration of its *Service Concession Arrangements: Grantors* project decided at its February 2016 meeting that as a service concession asset is a specialised asset that the grantor uses for its service potential to achieve public service objectives, only the cost approach to measuring fair value is relevant, and where the operator has been granted the right to future cash flows, this need not be considered in the valuation of the service concession asset.
- 9 In the [draft] Basis for Conclusions to AASB 10XY *Service Concession Arrangements*, the Board notes that it has not provided guidance on the measurement of public sector assets on the grounds that this would best be developed in a future project on the measurement of public sector assets.