



<b>Project:</b>	<b>Fair Value Measurement in the Public Sector</b>	<b>Meeting</b>	AASB December 2017 (M161)
<b>Topic:</b>	<b>Project Plan</b>	<b>Agenda Item:</b>	7.1
<b>Contact(s):</b>	Janri Pretorius <a href="mailto:jpretorius@asb.gov.au">jpretorius@asb.gov.au</a> (03) 9617 7620  Theashen Vandiar <a href="mailto:tvandiar@asb.gov.au">tvandiar@asb.gov.au</a> (03) 9617 7640  Kala Kandiah <a href="mailto:kkandiah@asb.gov.au">kkandiah@asb.gov.au</a> (03) 9617 7626	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Planning

## Introduction and objective of this paper

- 1 The objective of this paper is to provide the Board with an overview of key practice issues experienced by public sector entities when applying AASB 13 *Fair Value Measurement* ('AASB 13' or the 'Standard'). Staff are requesting the Board to consider and make decisions on:
  - (a) the suitability and prioritisation of identified issues; and
  - (b) the proposed project plan and timeline
- 2 This paper is structured as follows:
  - (a) summary of staff recommendations;
  - (b) background;
  - (c) staff analysis;
  - (d) proposed project milestones and timeline; and
  - (e) attachments - Appendix A: Fair value project advisory panel meeting notes

## Summary of staff recommendations

- 3 Staff recommend the following:
  - (a) the Board agrees with the key issues identified as outlined below and their prioritisation (i.e. ranking) to help ensure project resources are allocated accordingly:

<b>Ranking</b>	<b>Issues</b>
1	Restrictions on assets
2	“Highest and best use” concept
3	Appropriate valuation techniques
4	Current Replacement Cost Model (CRC)
5	Obsolescence
6	Disclosures
7	Interaction of AASB 13 with other standards
8	Repurchased internally generated intangible assets

- (b) the Board agrees with the proposed project milestones and timeline as outlined in paragraph 9, with an estimated completion date of 31 December 2018.

## **Background**

- 4 At its August 2016 meeting, the Board considered feedback received from public sector constituents as part of ITC 34 *AASB Agenda Consultation 2017-2019*, to 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. The Board then 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.
- 5 In May 2017 the Board approved the addition of AASB 13 *Fair Value Measurement : Application to Public Sector Assets* to its 2017-2019 work program and agreed that the scope of the project would be to<sup>1</sup>:
- (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.
- 6 In line with the direction of the Board, a meeting with the AASB’s Fair Value Measurement Project Advisory Panel (the ‘Panel’) was held on 6 November 2017 to help identify and prioritise key issues in applying the requirements of AASB 13 to public sector assets measured at fair value. A summary of the Panel meeting discussion is attached as Appendix A to this paper. Staff have further analysed the

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1 [AASB 13 for Public Sector M157](#)

issues raised by the panel and provided the Board with recommendations on specific areas *where* standard setting activities may be required (refer to paragraph 8 below). Staff intend to perform further outreach and research in these particular areas in order to determine *what type* of standard setting action would be most appropriate, eg providing additional guidance, illustrative examples, or modifications to AASB 13, etc.

- 7 Staff note that the Panel observed that AASB 13 itself was not defective or ‘broken’ in the Australian context; rather, public sector constituents expressed a clear need for additional implementation guidance to address the difficulties of applying the requirements of AASB 13 to public sector assets that may have characteristics, functions or purposes that are unique to the sector. Staff also note that it was reiterated during the Panel meeting that the scope of this proposed project would be as outlined in paragraph 5 above and would not extend to whether fair value measurement should be required or not in accordance with other accounting Standards (eg when another Standard requires or permits fair value measurement).

### **Identification and prioritisation of key issues in applying AASB 13 in the public sector**

- 8 The table outlines the key fair value measurement areas/issues identified. These issues identified have been ranked in order of importance by staff based on feedback received from the Panel and other public sector constituents. Please refer to Appendix A – summary of Panel meeting discussion for more details.

<b>Ranking</b>	<b>AASB 13 Area/Issue</b>
1	Restrictions on assets – Restrictions on assets are more prevalent in the public sector and there is diversity in practice on how restrictions are considered in fair valuing public sector assets that have restrictions, for example heritage assets, land zoned for a particular use and leased assets in the public sector, which have restrictions on what they can be used for.
2	“Highest and best use” concept –the cost of applying this concept in the public sector often exceeds the benefits as most assets in the public sector are held for their service potential, which may not be their highest and best use. There is also the question of how to apply this concept to valuation of restricted assets.
3	Appropriate valuation techniques to measure fair value –implementation guidance is needed to help entities determine the appropriate fair value measurement approaches/techniques for assets with different characteristics.
4	Current replacement cost model (CRC) – additional guidance is needed on the application of CRC to different public sector assets as most public sector assets are valued using this approach (for eg due to their specialised nature or because they are held for their service potential rather than to generate cash flows/returns). There is also a need to clarify the difference between CRC, which is the cost approach in AASB 13, and depreciated replacement cost as most use these interchangeably.

Ranking	AASB 13 Area/Issue
5	Obsolescence – constituents expressed a need for illustrative examples on the consideration of obsolescence when determining fair value.
6	Disclosures – Consideration for greater disclosure relief for public sector assets valued using significant level 3 inputs..
7	Interaction of AASB 13 with other Standards – may potentially be addressed by doing a ‘frequently ask questions (FAQs)’ document illustrating the interaction of AASB 13 with AASB 1058 <i>Income of Not-for-Profit Entities</i> , AASB 16 <i>Leases</i> and AASB 136 <i>Impairment of Assets</i> .
8	Repurchased internally generated intangible assets – request for guidance on the measurement of internally generated intangible assets (eg licences) which have been repurchased by the issuing entity and held with no intention to be re-sold into the market. This could also be addressed by doing an FAQ.

#### Questions for Board members

- Q1 Do Board members agree with the list of identified key issues faced by the public sector when applying AASB 13?
- Q2 Do Board members agree with the ranking of these issues in order of importance?

#### Proposed project milestones and timeline

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

Meeting / Deliverable	Project Milestones	Status
<b>27 November 2017:</b> first mail out for December meeting	Staff to draft board paper and project plan for Board approval	Completed
<b>7 December 2017</b>	FV Panel to provide illustrative examples and specific facts of key issues identified as well as suggested guidance on how these issues can be addressed	Work in Progress
<b>12-13 December 2017:</b> Board meeting	Present detailed project plan	

<b>Meeting / Deliverable</b>	<b>Project Milestones</b>	<b>Status</b>
<b>December – January 2018</b>	<p>Conduct research into fair value measurement guidance, specifically focusing on the following:</p> <ul style="list-style-type: none"> <li>- IPSASB standards</li> <li>- IFRS 13 post implementation review</li> <li>- UK fair value measurement in the public sector</li> <li>- Detailed paragraph-by-paragraph assessment of AASB 13 to assess if there is any public sector specific guidance/examples/amendments needed</li> <li>- research into domestic guidance issued by professional bodies, audit offices and departments of state treasury (if any)</li> <li>- Targeted outreach to key stakeholders</li> </ul>	
<b>Mid-February 2018</b>	FV Panel meeting - present first draft of examples/guidance for feedback/comments	
<b>Mid-February – 9 March 2018</b>	Draft skeleton ED with examples and guidance based on feedback from Panel meeting in Feb 2018. Finalise board papers and skeleton ED for AASB meeting board papers mail-out deadline on 9 March	
<b>23 March 2018:</b> Board meeting	Present draft ED with proposed guidance, examples and amendments to AASB 13 (if applicable) for Board consideration	
<b>24 March – 6 April</b>	Update draft ED based on feedback from board and circulate to Panel for feedback	
<b>Week of 16 April 2018</b>	Panel meeting on updated draft ED	
<b>17 – 26 April 2018</b>	Update ED based on feedback from Panel meeting in April 2018. Finalise board papers and pre-ballot draft ED for AASB meeting board papers mail-out deadline on 26 April.	
<b>10-11 May 2018</b> Board meeting	Present pre-ballot draft ED for Board deliberation	
<b>25 May 2018</b>	Update pre-ballot ED based on feedback from board and circulate out-of-session ballot draft of ED for board voting. Give board 2 weeks to vote on ED till 8 June 2018.	
<b>11 – 15 June 2018</b>	Update ballot for any editorials and issue ED on 15 June for public comment for a period of 90 days. Comment period ends 14 September 2018.	
<b>mid-June – 14 September</b>	Organize outreach sessions, webinars, Panel meeting (possibly in August 2018) and have other social media initiatives (example questions on LinkedIn) to get feedback from constituents	
<b>17 September - – 9 October 2018</b>	Collate feedback on ED from Panel and public submissions, targeted outreach and social media, draft board papers and draft Standard with staff recommendations on how to address constituent comments, which could include changes to examples/guidance in ED and/or adding more examples/guidance in AASB 13. Circulate board papers and draft Standard to Panel for comments on 9 October.	

<b>Meeting / Deliverable</b>	<b>Project Milestones</b>	<b>Status</b>
<b>Week of 22 October 2018</b>	Panel meeting to discuss draft Standard with staff recommendations on examples, guidance based on feedback on ED	
<b>12-14 November 2018: Board meeting</b>	Board to consider feedback on ED, staff recommendations on how to address constituents' feedback and draft Standard with changes to examples/guidance	
<b>14 November – 30 November 2018</b>	Staff to update draft Standard based on board feedback	
<b>3 December 2018</b>	Circulate updated Standard to Board out-of-session for comments before issuing a fatal flaw draft for public comment (if board decides to issue a fatal flaw draft for comment). Board to come back with comments by 10 December 2018.	
<b>11 December – 20 December 2018</b>	Staff to update draft Standard for board comments and issue fatal flaw draft Standard for a one-month comment period on 20 December 2018 (if board proceeds with this option). Fatal-flaw draft also circulated to Panel members for comments.	
<b>20 Jan 2019 – early Feb 2019</b>	Staff to collate fatal flaw comments and conduct targeted outreach with constituents who made significant comments on fatal flaw draft of Standard and update draft Standard	
<b>February 2019: Board meeting</b>	Board to consider fatal flaw comments and draft Standard updated for those comments.	
<b>End-February 2019</b>	Update draft Standard for decisions made in February 2019 AASB meeting and issue ballot draft version of Standard for voting out-of-session	
<b>mid-March 2019</b>	Voting closes on ballot draft version of Standard	
<b>End-March 2019</b>	Final Standard issued. If board decides not to issue fatal flaw version for comment, then the timeline for finalising Standard would most likely be in January 2019.	
<b>Once final Standard is issued</b>	Conduct webinars and targeted education sessions on Standard.	

**Question for Board members**

Q3 Do Board members agree with the proposed project milestones and timeline?



**Subject:** Meeting notes of the Fair Value Project Advisory Panel  
**Venue:** Ken Spencer Room, AASB offices  
 Podium Level 14, 530 Collins St, Melbourne  
**Time(s):** Monday, 6 November 2017 from 11a.m. to 12p.m.

## Attendance

Members	David Edgerton Roy Farthing Todd Svanberg Sean Osborn Chitra Srinivasan John Stanley Alison White Chandi Saba Alison Gatt
Apologies	John Comrie David Hardidge Jonathan Kyvelidis Mel Yates
In Attendance:	
Staff	Kris Peach Kala Kandiah Janri Pretorius Theashen Vandiar
Board Members:	Mike Blake Carmen Ridley

The Panel briefly discussed public sector fair value measurement issues that were identified during previous AASB outreach activities. It was explicitly noted that AASB 13 *Fair Value Measurement* was not broken in any way, but constituents expressed a clear need for additional guidance. Panel members also presented additional fair value measurement issues.

The main outcome was the ranking of all significant issues in order of importance. Please refer to the table below:

Ranking	AASB 13 Issue	Comments from members	AASB 13 Reference
1	Restrictions on assets	<ul style="list-style-type: none"> <li>a. Inconsistent valuation practices for restricted assets.</li> <li>b. Key question to be answered is whether or not the restrictions are asset-specific or entity-specific – i.e. are the restrictions under the entity’s control or not?</li> <li>c. If the restrictions are under the control of the entity, then they should not be factored into the FV calculation. If not within the control of the entity, then the restrictions should be factored into the calculation. Illustrative guidance and examples would be helpful to show how this would be determined in practice.</li> <li>d. If restrictions are to be factored into the calculation, guidance and/or examples are needed to determine the appropriate discount rate to be applied.</li> <li>e. Guidance is needed in respect of the FV measurement of right-of-use assets (ROU) that are specialised under AASB 16 <i>Leases</i>. This is considered a subset to restrictions of assets.</li> </ul>	Para. 11(b); Para. 28(b) Para. 75
2	“Highest and best use” concept	<ul style="list-style-type: none"> <li>a. Consideration needs to be given to the cost of determining an alternative ‘highest and best’ use versus the benefits this would yield for users.</li> <li>b. Determining the highest and best use give rise to other issues like the consideration of restrictions in the asset valuation as well as valuing the appropriate unit of account.</li> </ul>	Para. 30  Para. 28(b)  Para. 32 and B3
3.	Appropriate valuation technique	<ul style="list-style-type: none"> <li>a. Difficulties in determining the correct valuation technique for assets with different characteristics (market approach vs cost approach vs income approach).</li> <li>b. Need for illustrative examples to demonstrate how to choose the most appropriate valuation technique in practice.</li> </ul>	Para. 62  B5 – B11



4	Current Replacement Cost Model (CRC)	<p>a. Need for guidance and/or illustrative examples on the application of CRC to different assets in the public sector. In particular, determining the fair value of public sector assets where there are few or no market participants and where inputs to a CRC may not be readily available.</p> <p>b. There is also a need for guidance on distinguishing between CRC and depreciated replacement cost.</p>	Para. B9
5	Obsolescence	<p>a. There is a need for illustrative examples on the determination of obsolescence. Specifically, guidance is sought in the following areas:</p> <ul style="list-style-type: none"> <li>• componentisation</li> <li>• indefinite useful life</li> <li>• different units of account</li> </ul> <p>b. A question was raised regarding the assessment and if it should focus on whether the entity is for-profit or not-for-profit, rather than whether the asset is cash-generating or not. The question becomes which approach should be given primacy. For example, a not-for-profit entity may own a cash-generating asset (e.g. a commercial office building). Alternatively a for-profit entity may own non-cash-generating assets or quasi-commercial cash-generating assets (e.g. Australia Post letter postal service assets). It was suggested that these situations be explored and guiding principles for finding the correct approach be determined.</p> <p>c. Examples are postal services and water and electricity public sector entities. These entities have two components: One that is commercial and one that is quasi-commercial. One of the issues to be addressed is whether to measure these two components together as a whole or separately as two individual components. Other issues and questions arise as to the most relevant measure of external/economic obsolescence when valuing quasi-commercial assets under the depreciated replacement cost approach.</p>	<p>Para. B9</p> <p>Para. B3</p>

6	Disclosures	Consideration for greater disclosure relief for public sector assets valued using significant level 3 inputs.	Para. 91(b) Para. 92-94
7	Interaction of AASB 13 with other standards	Consider possible FAQ guidance illustrating the interaction of AASB 13 with the following Standards: <ul style="list-style-type: none"> <li>• AASB 1058 <i>Income of Not-for-Profit Entities</i> and AASB 16 <i>Leases</i> as indicated in point 2 above.</li> <li>• AASB 136 <i>Impairment of Assets</i> which may be affected by issues covered in point 4 above.</li> </ul>	
8	Valuation of repurchased internally generated intangible assets	Guidance is needed for the measurement of internally generated intangible assets (eg licences) which have been repurchased by the issuing entity and held with no intention to be sold back into the market.	Para. 30

Other matters raised:

- A request was made for documents and papers to be distributed at least two weeks before meetings so that there is sufficient time to liaise with their constituents.
- The scope of the project should not be limited to assets only. Consideration for the fair value measurement of liabilities should also be addressed where necessary.
- Further clarification was requested in the following areas, however these were not considered key areas:
  - the link between fair value and depreciation expense
  - Greenfield versus Brownfield – these terms are not defined in accounting literature and guidance is needed to enable valuers and preparers to determine which costs should be included and how such costs should be adjusted to reflect the difference in utility between the existing asset and the modern equivalent.
  - Depreciation expense should reflect the pattern of consumption or use. Many entities are using the straight line approach by default, which is not always appropriate.
- A panel member raised the issue of whether or not government entities should be required to use fair value measurement when there is a choice of measurement models permitted by other Standards. However, it was clarified that this issue relates to AASB 1049, which is a FRC directive. This issue is also outside the scope of this project, which is focused on the application of fair value measurement under AASB 13.

Panel member action points:

Panel members were requested to provide the following information by 7 December 2017:

- Illustrative examples (ie facts and circumstances) of the issues identified;
- Proposals how to address these issues, eg publish illustrative examples; clarify existing guidance; provide additional guidance, etc.
- This information can be sent to Theashen Vandiar ([tvandiar@asb.gov.au](mailto:tvandiar@asb.gov.au)) and Janri Pretorius ([jpretorius@asb.gov.au](mailto:jpretorius@asb.gov.au)).

AASB staff next steps:

- Draft and present a project plan and Board papers at the next AASB Board meeting on 12 December 2017.
- Share proposed project plan and Board papers with the Panel when available.
- Share major outcomes from Board deliberations with the Panel after the Board meeting and schedule next meeting.