



To:	AASB members	Date:	13 April 2011
From:	Jim Paul and Joanne Scott	Agenda Item:	3.4
Subject:	IVSC Exposure Draft TIP 2 <i>Depreciated Replacement Cost</i>	File:	

Actions

- Provide staff with directions for developing a Board submission on IVSC ED TIP 2 *Depreciated Replacement Cost*, based on the key issues identified in Agenda Paper 3.5
- Consider a process for finalising the Board's submission

Attachments

Agenda Papers	Title
3.5 ¹	Staff Paper: Key Issues Arising from IVSC Exposure Draft <i>Proposed Technical Information Paper 2 (TIP 2) 'Depreciated Replacement Cost'</i>
3.7	IVSC Exposure Draft TIP 2 <i>Depreciated Replacement Cost</i>

Overview of Agenda Paper 3.5

Staff consider that ED TIP 2 is generally consistent with what they expect to be in IFRS 13 *Fair Value Measurement* regarding the determination of an asset's depreciated replacement cost (DRC) and, in that context, should generally be supported.

The main staff recommendations for the submission in Agenda Paper 3.5 are:

- (a) it should propose that, because the TIP will not be limited to use of the cost approach for financial reporting purposes, any incompatibilities between the guidance in the TIP and the guidance on the cost approach to measuring fair value under IFRS 13 should be clearly identified by the IVSC; and
- (b) it should disagree with the comment that, in determining the DRC of assets within a group of assets, economic obsolescence should normally be allocated to intangible assets before tangible assets.

¹ There is no Agenda Paper 3.6. Planned Agenda Paper 3.6 was incorporated into Agenda Paper 3.5.

The main issues raised, without a staff recommendation being provided (because of mixed views), are:

- (a) whether the non-mandatory status of the proposed TIP should be challenged; and
- (b) whether, in measuring the interest component of the replacement cost of self-constructed assets, interest should be based on:
 - (i) the cost of debt and other factors for typical market participants; or
 - (ii) the cost of debt and other factors for the reporting entity.

Background

ED TIP 2 was issued in February 2011 with a due date for comments of 31 May 2011. The AASB and FRSB discussed ED TIP 2 at their joint meeting in March 2011 and decided that:

- (a) they would work jointly in developing separate submissions on ED TIP 2; and
- (b) the focus of their submissions would be on whether ED TIP 2 is consistent with the forthcoming IFRS 13 regarding the determination of DRC as an estimate of fair value.

The FRSB agenda papers on this topic will include a draft submission. Nevertheless, there are no major differences in the issues raised in the papers for the AASB and FRSB, and the staffs have similar views about how the 'Questions to Respondents' in ED TIP 2 should be answered.

Process to Finalise Submission

After receiving directions from the Board on the issues and views thereon, staff will draft a submission on ED TIP 2. Board members are requested to consider whether all Board members should consider out of session the draft submission, or whether they should be reviewed by a Subcommittee, before being cleared by the Chairman.